

Citizens Financial Group, Inc.

**Dodd-Frank Act Stress Test 2015 (DFAST 2015)
Company-Run Stress Test Disclosure**

March 11, 2015

I. Introduction	3
I.A Risks Considered by CFG	5
I.B CFG Methodologies	6
I.B.1 Pre-provision Net Revenue	6
I.B.2 Losses	7
I.B.3 Provision for Loan and Lease Losses	7
I.B.4 Changes in Capital Position	7
I.C CFG Performance under the Supervisory Severely Adverse Stress Scenario	8
I.C.1 DFAST Capital Actions Applied by CFG	8
I.C.2 Impacts of Stress on Financial Performance, Loan Portfolios and Balance Sheet	9
I.C.3 Impacts of Stress and Assumed Capital Actions on Capital Ratios	11
I.C.4 Most Significant Drivers of Change in Regulatory Capital Ratios	12
I.D CBNA Performance under the Supervisory Severely Adverse Stress Scenario	14
I.D.1 DFAST Capital Actions Applied by CBNA	14
I.D.2 Impacts of Stress on Financial Performance, Loan Portfolios and Balance Sheet	14
I.D.3 Impacts of Stress and Assumed Capital Actions on Capital Ratios	16
I.D.4 Most Significant Drivers of Change in Regulatory Capital Ratios	16

I. Introduction

Citizens Financial Group, Inc. (CFG) is a financial and bank holding company headquartered in Providence, Rhode Island. The primary subsidiaries of CFG are its two insured depository institutions, Citizens Bank, N.A. (CBNA), a national banking association, and Citizens Bank of Pennsylvania (CBPA), a Pennsylvania-chartered savings bank. Through its subsidiaries, CFG provides traditional banking products and services to consumer and commercial customers across an eleven-state footprint in New England, the Mid-Atlantic and the Midwest. CFG has approximately 1,225 branches, 3,200 branded ATMs and 17,900 employees (as of September 30, 2014). CFG operates under the Citizens brand in Connecticut, Delaware, Massachusetts, New Hampshire, New Jersey, New York, Pennsylvania, Rhode Island and Vermont. CFG operates under the Charter One brand in Ohio and Michigan (in process of being rebranded to Citizens). CFG began transitioning to its goal of becoming a stand-alone publicly traded company with the sale of 161 million of CFG common shares by RBS during an initial public offering (IPO) on September 24, 2014. As of October 9, 2014, RBS owned 70.5% of CFG's common stock and had committed to fully divest of its ownership of CFG by the end of 2016.

This document outlines the estimated impacts of economic stress on CFG and on its primary banking subsidiary, CBNA¹, consistent with requirements for the 2015 Dodd-Frank Act Stress Test (DFAST 2015). The Stress Test Final Rule², published by the Board of Governors of the Federal Reserve System (Federal Reserve), defines this disclosure requirement in accordance with the Dodd-Frank Act of 2010³. CFG must disclose the following information for a prescribed supervisory severely adverse stress scenario⁴ using a specified set of capital actions over the nine-quarter planning horizon beginning with the fourth quarter 2014 and ending with the fourth quarter 2016 (October 1, 2014 – December 31, 2016):

- A description of the types of risk included in the stress tests.
- A description of the methodologies used in the stress test, including those used to estimate losses, revenues, provision for loan and lease losses, and changes in capital positions over the planning horizon.
- The estimates of projected revenue, losses and net income before taxes; loan losses in aggregate and by sub-portfolio; pro forma regulatory capital ratios; and an explanation of the most significant causes for the changes in regulatory capital ratios.

The Federal Reserve Board defines a stress test as “a process to assess the potential impact of a scenario (hypothetical economic conditions) on the consolidated earnings, losses, and capital

¹ Under 12 CFR 46.7(b), the Office of the Comptroller of the Currency allows CBNA, being controlled by a bank holding company required to conduct an annual company-run stress test under applicable regulations of the Board of Governors of the Federal Reserve System, to fulfill its DFAST publication requirement by following the same disclosure procedures followed by CFG.

² Board of Governors of the Federal Reserve System, 12 CFR Part 252, Final Rule: Supervisory and Company-Run Stress Test Requirements for Covered Companies.

³ Dodd-Frank Wall Street Reform and Consumer Protection Act, Section 165(i)(2).

⁴ For details of the supervisory severely adverse stress scenario defined for DFAST 2015, see Board of Governors of the Federal Reserve System, 2015 Supervisory Scenarios for Annual Stress Tests Required under the Dodd-Frank Act Stress Testing Rules and the Capital Plan Rule, October 23, 2014.

of a covered company over the planning horizon (a set period of time), taking into account its current condition, risks, exposures, strategies, and activities.” The CFG DFAST disclosure reflects management’s interpretation of the possible outcomes of one hypothetical, severely adverse stress scenario, as defined by the U.S. banking supervisors⁵. The enclosed outcomes represent a hypothetical estimate and do not represent CFG’s expected performance under current business strategies.

Modeled outcomes published in this disclosure are the result of a company-run assessment of the supervisory severely adverse stress scenario reflecting the following: supervisory scenario inputs that define the severely adverse macroeconomic environment, internally-developed models and methodologies, specific knowledge of CFG’s business portfolios, DFAST capital actions defined by the Federal Reserve and, where necessary, management’s interpretation of regulatory requirements and guidance. Details of scenario-specific macroeconomic inputs defined by the U.S. banking supervisors for the Supervisory Severely Adverse Stress are available in the 2015 Supervisory Scenarios for Annual Stress Tests required under the Dodd-Frank Act Stress Testing Rules and the Capital Plan Rule. *Exhibit 1* summarizes the DFAST capital action requirements defined by Federal Reserve regulation.

Exhibit 1: Supervisory Capital Action Requirements for DFAST Assessment

DFAST Capital Action	Q4 2014	Each Quarter Q1 2015 - Q4 2016
Quarterly common dividends	Actual	Equal to the quarterly average dollar amount of common dividends paid in 2014
Payments on additional tier 1 and on tier 2 capital instruments ¹	Actual	Equal to the stated dividend, interest or principal due on such instrument
Redemption / repurchase of capital instruments	Actual	None
Issuance of common or preferred stock	Actual	None, except for common share issuances related to expensed employee compensation
¹ <i>Additional tier 1 and tier 2 capital instruments include non-cumulative preferred equity and qualifying subordinated-debt.</i>		

In conjunction with the 2015 Comprehensive Capital Analysis and Review (CCAR) process and DFAST 2015, the Federal Reserve has also published pro forma financials and capital ratios for CFG. Projections under these supervisory stress tests will not align with CFG’s internal estimates due to differences in underlying methodologies and assumptions as demonstrated by the range of input factors noted in *Exhibit 2*.

⁵ Federal Reserve Board of Governors, Office of the Comptroller of the Currency, Federal Deposit Insurance Corporation.

Exhibit 2: Factors Impacting Projected Outcomes under Stress

	CFG-Published DFAST Results	FRB-Published DFAST Results	FRB-Published CCAR Results
Scenario defined by	Supervisors	Supervisors	Supervisors
Portfolio details provided by	CFG	CFG	CFG
Projection and Loss Models developed by	CFG	Supervisors	Supervisors
Assumed capital actions defined by	Supervisors	Supervisors	CFG

Estimated impacts of stress are one of many inputs to CFG’s capital adequacy process. CFG is committed to an ongoing, comprehensive and continuously-improving capital adequacy process that incorporates an end-to-end view of risk-taking, risk management, risk-based capital adequacy assessment and capital planning. The Capital Planning and Management and Risk organizations lead this capital adequacy process with participation from the lines of business, Finance, Treasury, Strategy and Audit. The CFG capital adequacy process is fully supported by internal policies and practices used by CFG to ensure that the amount and composition of capital is adequate given the company’s risk exposures and the regulatory requirements and expectations.

I.A Risks Considered by CFG

In its capital adequacy assessment process, CFG considers all risks identified and managed by CFG’s Risk Management Framework and determines the material risks. These include the following:

- **Credit Risk:** The risk of loss from the failure of a customer to meet obligations to settle outstanding amounts.
- **Operational Risk:** The risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events.
- **Pension Risk:** The risk associated with not meeting contractual pension obligations to employees.
- **Traded Market Risk:** Risk associated with fluctuations in interest rates, foreign currency, currency credit spreads, equity prices, commodity prices and risk-related factors such as market volatilities.
- **Non-Traded Market Risk:** Risk associated with non-traded assets, liabilities, and financial investments designated as available-for-sale and held-to-maturity.
- **Reputational Risk:** The risk to current or anticipated earnings, capital franchise/enterprise value, or the exit of key employees arising from negative employee opinion.
- **Strategic Risk:** Strategic risk, which includes business risk, is the risk to current or anticipated earnings, capital or franchise or enterprise value arising from adverse business decisions, poor implementation of business decisions or lack of responsiveness to changes in the banking industry and operating environment.
- **Model Risk:** The occurrence of errors in models from design through to implementation and use including the quality of data used to build the model and input into the model.

I.B CFG Methodologies

CFG's integrated stress testing process measures the impact of macroeconomic factors on the material risks and estimated financial performance of CFG and its subsidiaries. The goal of the stress testing process is to ensure that CFG and its subsidiaries have sufficient capital to absorb potential losses and to support operations under severely adverse economic conditions. CFG uses quantitative and qualitative methodologies to generate a projected balance sheet and income statement and to assess pro forma capital ratios for specific scenarios. This section provides details about the methodologies used to estimate pre-provision net revenue, losses, provisions and changes in capital position under hypothetical stress.

I.B.1 Pre-provision Net Revenue

CFG develops projected balances and yields under hypothetical stress by rolling the balance sheet forward through the planning horizon. CFG starts with the current portfolio position and adds or subtracts the estimated business activity (e.g., originations, prepayment, scheduled payments, losses, re-pricing, etc.) to project the ending balance and yield for each product or portfolio. Dedicated teams within the lines of business and central business functions develop and document these business activity assumptions. These teams combine internal analytics, business activity macroeconomic models, historical data and prior stress test results with business unit expert judgment to develop the possible outcome under assumed stress conditions.

I.B.1.1 Net Interest Income

CFG determines the net interest income for a given period based on the pricing characteristics of starting position balances and the pricing characteristics of any new asset or liability balance. More specifically, CFG calculates net interest income as the yield on performing assets less the yield on liabilities based upon the scenario-specific interest rates. Projections are derived from a combination of macroeconomic models and pricing characteristics associated with new business and renewals provided by business line subject matter experts.

I.B.1.2 Non-Interest Income

CFG captures fees and other income in order to create a complete income statement. The lines of business provide estimated fees and other income generally based on the level of business activity for a given scenario using modeled and non-modeled approaches supported by expert judgment and historical data.

I.B.1.3 Non-Interest Expenses

Businesses and support functions use modeled and non-modeled approaches supported by expert judgment and historical data to project expenses. Starting with the most recent expense structure, the stress forecast takes into account the economic conditions defined in the scenario and the planned levels of business activity to determine the projected expenses over the planning horizon. In addition, the Operational Risk Management team projects expenses for operational risk expected losses for a scenario using an internally developed model. CFG's external pension actuaries calculate the expected pension expenses for a given scenario.

I.B.2 Losses

This section provides a summary of methodologies used to model credit and other than temporary impairment (OTTI) losses used for the supervisory severely adverse stress scenario.

I.B.2.1 Credit Losses

CFG and its subsidiaries use retail and wholesale credit loss models to project charge-offs for a given scenario. The credit loss models utilize historically observed losses from CFG's portfolios and take into account the macroeconomic conditions and interest rate environment defined in the scenario. The credit modeling team uses projected balances generated as part of the pre-provision net revenue methodology, as described above, to model charge-offs under stress throughout the scenario horizon.

I.B.2.2 Other Than Temporary Impairment Losses

CFG and its subsidiaries use a modeled approach to project OTTI exposures for the non-agency residential mortgage-backed securities portfolio in a given scenario. The projected OTTI is included in the credit loss portion of the income statement for the period in which the impairment is estimated to be realized under stress.

I.B.3 Provision for Loan and Lease Losses

CFG generates provisions based on net charge-offs and change in the allowance for loan and lease losses (ALLL). The calculation of estimated ALLL under stress is similar to the methodology used for the quarterly ALLL calculation. The ALLL reserve for a stressed scenario is based on outputs from the credit stress testing models on a product-by-product basis. The Commercial reserves are calculated as a function of expected loan balance and required reserve coverage rates. The Commercial loss models provide loan balances by risk categories on a quarterly basis. A reserve coverage rate, generated from the loss probabilities and the loss severities, is applied to each quarter's projected loan balance. The final component of calculating the reserve coverage rate is the application of an adjustment for the appropriate loss time horizon, (also called the incurred loss period), given the credit environment. The incurred loss period for the reserves under stress are similar to the normal quarterly reserve process: they will cover a longer time horizon for incurred but unrealized losses in good times, and conversely cover a shorter time horizon for incurred but unrealized losses in a weak credit environment. The Consumer process is based on each quarter's net charge-off amount. Similar to the Commercial reserves, stressed Consumer reserves for each product are adjusted for the appropriate loss time horizon. As mentioned above, the incurred loss periods change for both Commercial and Consumer based on the economic and credit environment and therefore the severity of the stress scenarios. The provision expense is a function of the change in the reserve each quarter plus the net charge-offs for that quarter.

I.B.4 Changes in Capital Position

CFG assesses and manages regulatory capital ratios as a "non-advanced" banking organization. This designation means that the Federal Reserve does not require CFG or its subsidiary banks to assess credit and operational risk using the Federal Reserve's more complex advanced approach modeling methodologies to calculate risk-weighted asset (RWA) requirements. Through December 31, 2014, CFG and its subsidiary banks were accountable for

capital ratios using only general regulatory capital and risk-weight definitions. Beginning on January 1, 2015, CFG must assess and report regulatory capital and capital ratios based on a new standardized RWA methodology and on new Basel III capital definitions⁶ and requirements that will phase in by 2019.

Within this disclosure, CFG uses the outputs of the integrated stress testing process to assess pro forma capital ratios for the supervisory severely stress scenarios required of a non-advanced bank holding company. CFG's estimated financial performance and changes in the size and credit characteristics of CFG's underlying risk portfolios under stress are the key drivers in determining both its projected level of capital and projected RWA requirement at the end of each quarter in the scenario horizon. These projected sources and uses of capital under stress are the drivers of change for capital ratios under the supervisory severely adverse stress scenario.

I.C CFG Performance under the Supervisory Severely Adverse Stress Scenario

I.C.1 DFAST Capital Actions Applied by CFG

In 2014, CFG made common dividend payments for two reasons: 1) to return a portion of current earnings to common shareholders, and 2) to improve overall shareholder return by bringing CFG's regulatory capital structure more in line with industry norms. Special actions executed to align CFG's regulatory capital structure with industry norms have reduced common equity but increased subordinated debt. During 2014, CFG executed three such paired transactions, totaling \$1 billion in which CFG paid special dividends to/bought common shares from RBS, while issuing to RBS a like amount of new sub-debt.

The first of the common dividend types noted above is comparable to a recurring quarterly dividend. CFG has planned and executed the second type of common dividend/repurchase of common equity only on a transaction-by-transaction basis and only when the special dividend or share repurchase matched the issuance of a like amount of lower-tier capital. Given these clear distinctions between recurring quarterly dividends and special actions to reduce common equity, CFG defines its DFAST 2015 actions for 2015 – 2016 to remain consistent with the Federal Reserve's instruction that no special redemptions/repurchases should occur during 2015 – 2016. As summarized in *Exhibit 3*, CFG models anticipated quarterly common dividends for DFAST only on the level of quarterly common dividends that were declared during 2014 for purposes of returning a portion of current earnings to common shareholders.

⁶ As a non-advanced banking organization, CFG plans to exercise its right to "opt-out" of the Basel III requirement to include in Common Equity Tier 1 Capital all components of Accumulated Other Comprehensive Income ("AOCI") except net gains and losses on cash flow hedges related to items that are not fair-valued on the balance sheet. Consistent with this "AOCI opt-out," CFG calculates Basel III ratios in which its regulatory capital position is not impacted by certain transactions that are otherwise included in AOCI under GAAP accounting, such as the mark-to-market of securities held as available for sale or any amount recorded in AOCI in relation to defined benefit pension plan assets.

Exhibit 3: DFAST Capital Actions as Interpreted for CFG

Capital Action	Federal Reserve DFAST Instruction		CFG Interpretation (\$ millions)	
	Q4 2014	Q1 2015 - Q4 2016	Q4 2014	Q1 2015 - Q4 2016
Quarterly Common Dividends	Actual	Each quarter equal to 25% of actual common dividends paid in full year 2014	\$55	\$35.0 / quarter = 25% of "recurring" common dividends paid in full year 2014
Rebalancing Transaction: Reduction of Common Equity	Actual	None	\$334	\$0
Rebalancing Transaction: Issuance of Tier 2 Sub-debt	Actual	Not restricted	\$334	\$0

I.C.2 Impacts of Stress on Financial Performance, Loan Portfolios and Balance Sheet

Exhibit 4 and *Exhibit 5* outline the pro forma impact of the supervisory severely adverse stress scenario on CFG's cumulative financial performance for Q4 2014 through Q4 2016 (October 1, 2014 through December 31, 2016).

The net income (loss) before taxes under the supervisory severely adverse stress scenario, as shown in *Exhibit 4* below, is primarily impacted by: higher provision expense in anticipation of an increase in expected future charge-offs; lower net interest income largely reflecting lower interest rates and a reduction in earning assets reflecting both reduced business activity and higher loan losses; and a decrease in non-interest income driven by reduced business activity in the stressed economic environment. Net interest margin remains compressed as a result of the low rate environment.

The increase in provision expense is largely driven by the effect of higher unemployment rates and reduction in real estate values. Higher unemployment reduces many customers' ability to repay, resulting in higher loss rates across all retail and small business portfolios. The increase in unemployment also causes reduced demand in the Commercial portfolios, and along with the decrease in GDP, results in higher losses and higher provisions in the Commercial portfolios. Additionally, the reduction in real estate values lowers the collateral value, further increasing loss rates on charge-offs in the real estate-secured portfolios due to an increase in loss severities.

Exhibit 4: CFG-Modeled Net Income under Supervisory Severely Adverse Stress Scenario

	Q4 2014 - Q4 2016 (\$ billions)	Percent of Average Assets ¹
Pre-provision net revenue ²	\$2.6	2.0%
Other revenue ³	0.0	0.0
<i>less</i>		
Provisions	3.9	3.1
Realized losses/gains on securities (AFS/HTM)	(0.1)	(0.1)
Trading and counterparty losses ⁴	0.0	0.0
Other losses/gains ⁵	0.0	0.0
<i>equals</i>		
Net income (loss) before taxes ⁶	\$(1.4)	(1.1)%

¹ Average assets is the nine-quarter average of total assets.

² Pre-provision net revenue includes losses from operational-risk events, mortgage repurchase expenses and other real estate owned (OREO) costs.

³ Other revenue includes one-time income and (expense) items not included in pre-provision net revenue.

⁴ Trading and counterparty losses include mark-to-market and credit valuation adjustments (CVA) losses and losses from counterparty default scenario component applied to derivatives, securities lending and repurchase agreement activities.

⁵ Other losses/gains include projected change in fair value of loans held for sale and loans held for investment measured under the fair-value option and goodwill impairment losses.

⁶ Numbers may not sum due to rounding.

Hypothetical macroeconomic variables under the supervisory severely adverse stress scenario negatively impact the portfolio performance across all loan types as shown in *Exhibit 5*. The rise in unemployment and drop in home prices are the primary drivers that impact the first lien mortgage and HELOC losses. The rise in unemployment and drop in gross domestic product are the primary drivers that impact the commercial and industrial (C&I) losses. The drop in commercial real estate prices is the primary driver that impacts the commercial real estate (CRE) losses. As reduced loan originations in the weaker macroeconomic environment are not sufficient to offset large increases in losses and expected prepayment activity during the supervisory severely adverse stress scenario, the size of the loan book declines.

Exhibit 5: CFG-Modeled Loan Losses under Supervisory Severely Adverse Stress Scenario

	Q4 2014 - Q4 2016 (\$ billions)	Portfolio loss rates (%) ¹
Loan losses²	\$3.1	3.4%
First-lien mortgages, domestic	0.2	1.8
Junior-liens and HELOCs, domestic	0.9	4.7
Commercial and industrial³	0.6	2.5
Commercial real estate, domestic	0.3	2.4
Credit cards	0.2	15.8
Other consumer⁴	0.6	3.8
Other loans⁵	0.3	3.7

¹ Average loan balances used to calculate portfolio loss rates exclude loans held for sale and loans held for investment under the fair-value option, and are calculated over nine quarters.

² Numbers may not sum due to rounding.

³ Commercial and industrial loans include small- and medium-enterprise loans and corporate cards.

⁴ Other consumer loans include student loans, automobile loans and other personal loans.

⁵ Other loans include lending to not-for-profit, municipals, depository and other financial institutions, commercial leases and loans denominated in foreign currency.

As noted in *Exhibit 6* below, CFG's total balance sheet shrinks over the nine quarters of stress, as measured by the change between actual balances on September 31, 2014 and modeled balances on December 31, 2016. This decline in the total balance sheet reflects credit losses, asset maturities and weaker demand for new credit. Nonetheless, RWAs, which define regulatory capital requirements, increase over the same period. This increase is driven by a higher proportion of non-performing/higher risk-weighted assets in residual loan and investment portfolios and by the transition to U.S. standardized risk-weight methodologies, which takes effect on January 1, 2015 for Q1 2015 regulatory reporting.

Exhibit 6: CFG-Modeled Balance Sheet and RWAs under Supervisory Severely Adverse Stress Scenario

(\$ billions)	Actual Q3 2014	Projected Q4 2016	
		General Approach	Standardized Approach
Risk-weighted assets¹	\$103.2	\$106.5	\$109.2
Balance sheet assets	\$131.3	\$126.2	

¹ For each quarter in 2015, risk-weighted assets for all ratios except the tier 1 common ratio are calculated under the Basel III standardized approach. The tier 1 common ratio uses the general risk-based capital approach for all quarters.

I.C.3 Impacts of Stress and Assumed Capital Actions on Capital Ratios

CFG is well-positioned to withstand stress due to the strength of its capital base.

Exhibit 7 summarizes CFG's pro forma regulatory capital ratios under the supervisory severely adverse stress scenario with DFAST capital actions. CFG's estimated tier 1 risk-based ratio, which experiences the largest decline during the scenario window, ends the scenario on December 31, 2016 at approximately 11.1%, 183 basis points lower than it began on September 31, 2014. Nonetheless, even at its lowest point across the window, the tier 1 risk-based ratio exceeds the required regulatory minimum under stress by 505 basis points. Other

ratios end the scenario 89 to 160 basis points lower. The minimum and ending levels for all ratios, including the tier 1 risk-based ratio, exceed the ratio's applicable regulatory minimum under stress by at least 505 basis points.

Exhibit 7: CFG-Modeled Capital Ratios under Supervisory Severely Adverse Stress Scenario

(%)	Actual Q3 2014	Stressed Capital Ratios ¹		Required Regulatory Minimum under Stress
		Ending Q4 2016	Minimum through Q4 2016	
Tier 1 common ratio	12.9%	11.4%	11.3%	5.0%
Common equity tier 1 capital ratio²	n/a	11.1%	11.0%	4.5%
Tier 1 risk-based capital ratio	12.9%	11.1%	11.0%	6.0%
Total risk-based capital ratio	16.1%	14.5%	14.5%	8.0%
Tier 1 leverage ratio	10.9%	10.0%	9.7%	4.0%

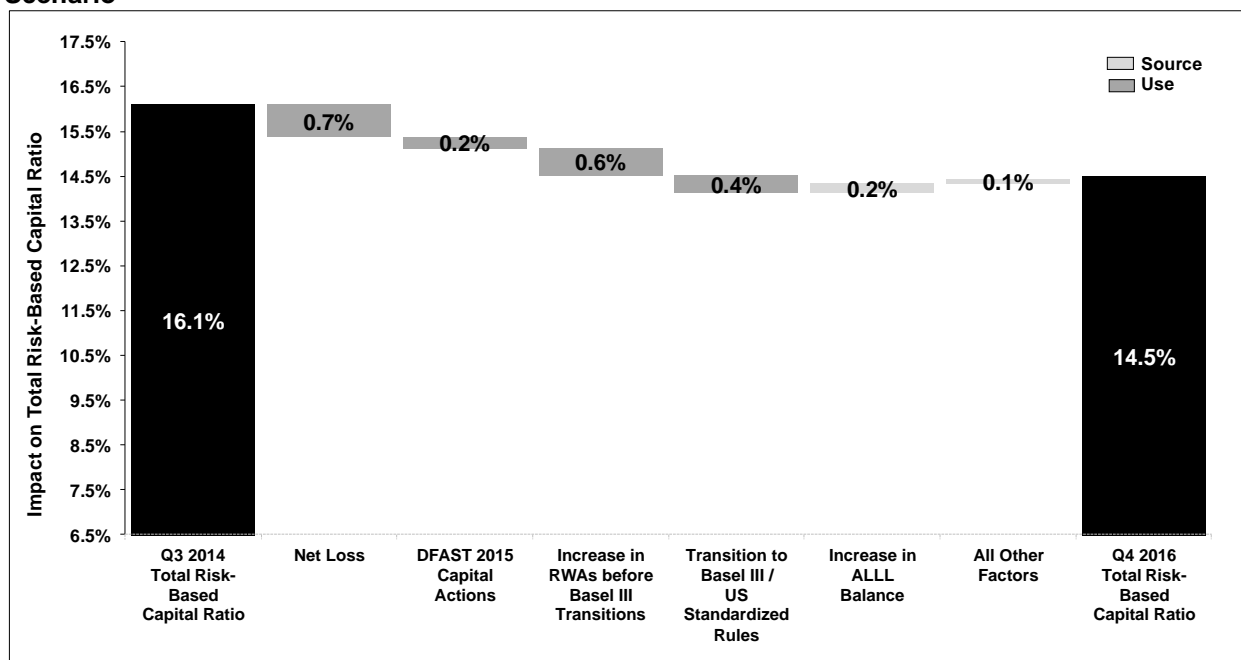
¹ The capital ratios are calculated using capital action assumptions provided within the Dodd-Frank Act stress testing rule. These projections represent hypothetical estimates that involve an economic outcome that is more adverse than expected. These estimates are not forecasts of expected losses, revenues, net income before taxes or capital ratios. The minimum capital ratio presented is for the period Q4 2014 to Q4 2016.

² CFG becomes subject to the common equity tier 1 (CET1) ratio at the end of Q1 2015. See 12 CFR 217.100(b)(1); 12 CFR part 225, appendix G, section 1(b), in which CFG qualifies as an "Other BHC" that is subject to 12 CFR 225.8 but not an advanced approach BHC.

I.C.4 Most Significant Drivers of Change in Regulatory Capital Ratios

Pro forma changes in the total risk-based capital ratio demonstrate the key drivers of ratio change as modeled in stress. Over nine quarters of the supervisory severely adverse stress scenario with DFAST capital actions, CFG estimates that its total risk-based capital ratio declines approximately 160 basis points, from 16.1% to 14.5%, as demonstrated in *Exhibit 8* below.

Exhibit 8: CFG Total Risk-Based Capital Ratio Change under Supervisory Severely Adverse Stress Scenario



This decline in the total risk-based capital ratio between its actual level as of September 30, 2014 and the end of the stress scenario on December 31, 2016 reflects four primary uses of capital:

- Projected net losses approaching \$0.8 billion (-0.7%).
- DFAST capital actions, which include common dividends partially offset by recognition of share-based compensation awards, reduce capital by almost \$0.3 billion (-0.2%).
- A \$4.1 billion increase (-0.6%) in business-driven RWAs calculated under the Basel I methodology.
- The transition to Basel III capital definition and RWA methodologies (-0.4%).

Remaining factors increase capital and benefit the ratio:

- An approximate \$0.9 billion increase in the allowance for loan and lease losses (ALLL) (+0.2%).
- All other factors, primarily ongoing tax amortization of goodwill (+0.1%).

The factors noted above affect all ratios. Assuming that paired rebalancing transactions executed with RBS in Q4 2014 would occur as planned despite modeled losses under stress, has an additional impact on ratios that rely only on common equity/tier 1 capital. The repurchase of \$334 million of common shares lowered the tier 1 common, common equity tier 1, and tier 1 risk-based ratios by 31 basis points and the leverage ratio by 28 bps. Pairing this repurchase with issuance of \$334 million of tier 2 subordinated debt makes it neutral to the total risk-based capital ratio.

Supervisory DFAST capital actions do not reflect CFG's planned capital actions for 2015 and 2016, nor do they necessarily reflect the capital actions that CFG would execute in a stressed environment. CFG's internal policy controls would halt most planned capital distributions if losses such as those implied by the supervisory severely adverse stress scenario were to occur. CFG would not reconvene normal distributions until it returned to profitability and could meet the full range of internal and regulatory requirements governing the distributions.

I.D CBNA Performance under the Supervisory Severely Adverse Stress Scenario

Citizens Bank, N.A. is CFG's primary subsidiary bank. CBNA's primary regulator, the Office of the Comptroller of the Currency, authorizes CBNA to disclose the pro forma results of its DFAST 2015 assessment under the Federal Reserve's BHC rule, 12 CFR 252.148 (FRB BHC rule). All estimated outcomes in this disclosure are made pursuant to the same Federal Reserve rule and process that governs the above CFG disclosure.

I.D.1 DFAST Capital Actions Applied by CBNA

In 2014, CBNA paid total common dividends of \$160 million to CFG and also executed \$660 million of paired transactions designed to normalize the bank's capital structure versus peer capital levels and to align the bank's overall regulatory capital with projected business requirements. In Q4 2014, CBNA paid a \$45 million recurring common dividend and also executed an exchange of \$220 million of common equity for \$220 million of new subordinated debt that is now held by CFG, as shown in *Exhibit 9* below. Consistent with the logic applied to DFAST capital actions defined for CFG, CBNA's DFAST capital actions reflect a recurring quarterly dividend of \$40 million in each of the eight quarters from Q1 2015 through Q4 2016 and no paired transactions except the single rebalancing action in Q4 2014.

Exhibit 9: DFAST Capital Actions as Interpreted for CBNA

Capital Action	Federal Reserve DFAST Instruction Accepted by OCC		CBNA Interpretation (\$ millions)	
	Q4 2014	Q1 2015 - Q4 2016	Q4 2014	Q1 2015 - Q4 2016
Quarterly Common Dividends	Actual	Each quarter equal to 25% of actual common dividends paid in full year 2014	\$45	\$40.0 / quarter = 25% of "recurring" common dividends paid in full year 2014
Rebalancing Transaction: Reduction of Common Equity	Actual	None	\$220	\$0
Rebalancing Transaction: Issuance of Tier 2 Sub-debt	Actual	Not restricted	\$220	\$0

I.D.2 Impacts of Stress on Financial Performance, Loan Portfolios and Balance Sheet

Exhibit 10 and *Exhibit 11* outline the pro forma impact of the supervisory severely adverse stress scenario on CBNA's cumulative financial performance for Q4 2014 through Q4 2016 (October 1, 2014 – December 31, 2016). As CBNA represents approximately 78% of CFG's total assets and shares a similar business and risk structure, the drivers of net income before taxes and projected loan losses are the same as outlined in the CFG findings provided above.

Exhibit 10: CBNA-Modeled Net Income under Supervisory Severely Adverse Stress Scenario

	Q4 2014 - Q4 2016 (\$ billions)	Percent of Average Assets ¹
Pre-provision net revenue ²	\$2.3	2.3%
Other revenue ³	0.0	0.0
<i>less</i>		
Provisions	3.2	3.2
Realized losses/gains on securities (AFS/HTM)	(0.1)	(0.1)
Trading and counterparty losses ⁴	0.0	0.0
Other losses/gains ⁵	0.0	0.0
<i>equals</i>		
Net income (loss) before taxes ⁶	\$(1.0)	(1.0)%

¹ Average assets is the nine-quarter average of total assets.

² Pre-provision net revenue includes losses from operational-risk events, mortgage repurchase expenses and other real estate owned (OREO) costs.

³ Other revenue includes one-time income and (expense) items not included in pre-provision net revenue.

⁴ Trading and counterparty losses include mark-to-market and credit valuation adjustments (CVA) losses and losses from counterparty default scenario component applied to derivatives, securities lending and repurchase agreement activities.

⁵ Other losses/gains include projected change in fair value of loans held for sale and loans held for investment measured under the fair-value option and goodwill impairment losses.

⁶ Numbers may not sum due to rounding.

Exhibit 11: CBNA-Modeled Loan Losses under Supervisory Severely Adverse Stress Scenario

	Q4 2014 - Q4 2016 (\$ billions)	Portfolio loss rates (%) ¹
Loan losses ²	\$2.5	3.4%
First-lien mortgages, domestic	0.2	2.1
Junior-liens and HELOCs, domestic	0.8	5.3
Commercial and industrial ³	0.5	2.4
Commercial real estate, domestic	0.2	2.1
Credit cards	0.2	15.8
Other consumer ⁴	0.4	3.0
Other loans ⁵	0.2	3.7

¹ Average loan balances used to calculate portfolio loss rates exclude loans held for sale and loans held for investment under the fair-value option, and are calculated over nine quarters.

² Numbers may not sum due to rounding.

³ Commercial and industrial loans include small- and medium-enterprise loans and corporate cards.

⁴ Other consumer loans include student loans, automobile loans and other personal loans.

⁵ Other loans include lending to not-for-profit, municipals, depository and other financial institutions, commercial leases and loans denominated in foreign currency.

As noted, CBNA is CFG's primary subsidiary bank, holding the majority of consolidated CFG assets.

Exhibit 12 shows CBNA's balance sheet shrinking over the nine quarters, while RWAs increase, reflecting the same factors that drive these changes at the consolidated CFG level.

Exhibit 12: CNBA-Modeled Balance Sheet and RWAs under Supervisory Severely Adverse Stress

(\$ billions)	Actual Q3 2014	Projected Q4 2016	
		General Approach	Standardized Approach
Risk-weighted assets ¹	\$83.0	\$86.6	\$88.0
Balance sheet assets	\$101.7	\$99.0	

¹ For each quarter in 2015, risk-weighted assets for all ratios except the tier 1 common ratio are calculated under the Basel III standardized approach. The tier 1 common ratio uses the general risk-based capital approach for all quarters.

I.D.3 Impacts of Stress and Assumed Capital Actions on Capital Ratios

Like CFG, CBNA benefits from a strong capital base. Exhibit 13 summarizes CBNA's pro forma capital ratios under the supervisory severely adverse stress scenario with DFAST capital actions. CBNA's estimated tier 1 risk-based ratio, which experiences the largest decline during the scenario window, ends the scenario on December 31, 2016 at approximately 10.7%, 194 basis points lower than it began on September 31, 2014. Nonetheless, even at its lowest point across the window, this ratio exceeds its required regulatory minimum under stress by 467 basis points. Other ratios end the scenario 111 to 175 basis points lower. The minimum and ending levels for all ratios, including the tier 1 risk-based ratio, exceed the ratio's applicable regulatory minimum under stress by at least 467 basis points.

Exhibit 13: CBNA-Modeled Capital Ratios under Supervisory Severely Adverse Stress Scenario

(%)	Actual Q3 2014	Stressed Capital Ratios ¹		Required Regulatory Minimum under Stress
		Ending Q4 2016	Minimum through Q4 2016	
Tier 1 common ratio	12.6%	10.9%	10.9%	5.0%
Common equity tier 1 capital ratio ²	n/a	10.7%	10.7%	4.5%
Tier 1 risk-based capital ratio	12.6%	10.7%	10.7%	6.0%
Total risk-based capital ratio	15.0%	13.3%	13.3%	8.0%
Tier 1 leverage ratio	11.2%	10.0%	9.9%	4.0%

¹ The capital ratios are calculated using capital action assumptions provided within the Dodd-Frank Act stress testing rule. These projections represent hypothetical estimates that involve an economic outcome that is more adverse than expected. These estimates are not forecasts of expected losses, revenues, net income before taxes or capital ratios. The minimum capital ratio presented is for the period Q4 2014 to Q4 2016.

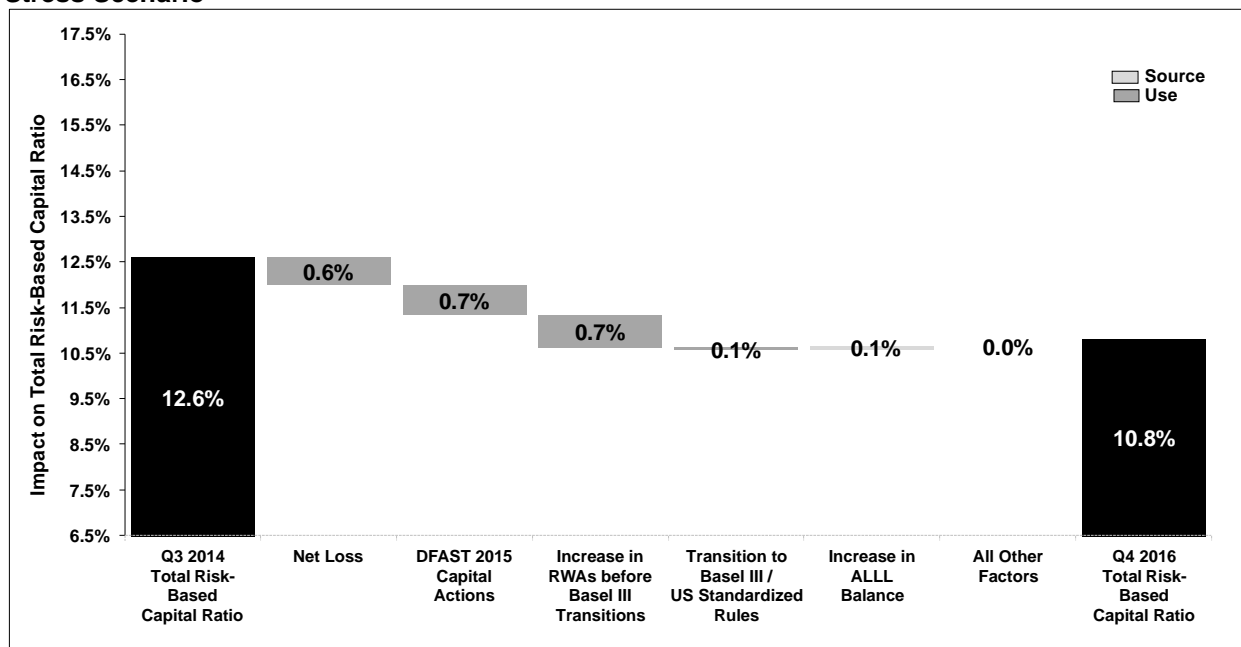
² CBNA becomes subject to the common equity tier 1 (CET1) ratio at the end of Q1 2015. See 12 CFR 217.100(b)(1); 12 CFR part 225, appendix G, section 1(b), in which CBNA's parent, CFG, qualifies as an "Other BHC" that is subject to 12 CFR 225.8 but not an advanced approach BHC.

I.D.4 Most Significant Drivers of Change in Regulatory Capital Ratios

Pro forma changes in the total risk-based capital ratio demonstrate the key drivers of ratio change as modeled in stress. Over nine quarters of the supervisory severely adverse stress

scenario with DFAST capital actions, CBNA estimates that its total risk-based capital ratio declines approximately 170 basis points, from 15.0% to 13.3%, as demonstrated in *Exhibit 14*.

Exhibit 14: CBNA Total Risk-Based Capital Ratio Change under Supervisory Severely Adverse Stress Scenario



Sources and uses of capital that drive the decline in CBNA's ratio between its actual level as of September 30, 2014 and the end of the stress scenario on December 31, 2016 fall into the same categories as for CFG. Primary uses include:

- Net losses exceeding \$0.5 billion (-0.6%).
- DFAST capital actions, primarily the impact of quarterly common dividends, which reduce capital by almost \$0.4 billion (-0.4%).
- An estimated \$4.2 billion increase (-0.7%) in business-driven RWAs calculated under the Basel I methodology.
- The transition to Basel III capital definition and RWA methodologies (-0.2%).

All other factors benefit the ratio, primarily due to a \$0.7 billion increase in CBNA's ALLL balance (+0.2%).

Like CFG, CBNA would experience a larger decline for ratios that rely only on common equity/tier 1 capital as a result of its paired rebalancing transactions executed with CFG in Q4 2014. The return of \$220 million of equity capital in exchange for issuing \$220 million of tier 2 subordinated debt results in a 22 basis point decrease in CBNA's common equity and tier 1 risk-based ratios and a 24 basis point decrease in leverage, with no impact to CBNA's total risk-based capital ratio.