

**Citizens Financial Group, Inc.**  
**Dodd-Frank Act Mid-Cycle Company-Run Stress Test**  
**Disclosure**

**September 15, 2014**



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# 1. Introduction

Citizens Financial Group, Inc. (CFG) is a bank holding company headquartered in Providence, Rhode Island. The primary subsidiaries of CFG are its two insured depository institutions, Citizens, 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 1,230 branches 3,215 branded ATMs and 18,050 employees.

This document outlines the estimated impacts of economic stress on CFG, consistent with requirements for the 2014 Mid-Cycle Dodd-Frank Act Stress Test (Mid-Cycle DFAST 2014). The Stress Test Final Rule<sup>1</sup> published by the Board of Governors of the Federal Reserve System (Federal Reserve) defines this requirement in accordance with the Dodd-Frank Act of 2010<sup>2</sup>. CFG must disclose the following information for a CFG-designed severely adverse stress scenario and associated set of capital actions over the 9-quarter planning horizon beginning Q2 2014 and ending Q2 2016:

- A. A description of the types of risk included in the stress tests.
- B. A general 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.
- C. The estimates of projected revenue, losses and net income before taxes; loan losses in aggregate and by sub-portfolio; pro forma regulatory capital ratios along with the Tier 1 Common ratio; 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 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 enclosed outcomes are not a forecast and do not represent CFG’s expected performance under current business strategies.

The projected outcomes published in this disclosure are the result of a “company-run” assessment of the CFG severely adverse stress scenario reflecting:

- CFG-designed scenario inputs created to stress CFG’s unique vulnerabilities in a severely adverse macroeconomic environment, using internally-developed models and methodologies;
- Specific characteristics of CFG’s risk profile, products and activities;

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<sup>1</sup> Board of Governors of the Federal Reserve System, 12 CFR Part 252, Final Rule: Supervisory and Company-Run Stress Test Requirements for Covered Companies.

<sup>2</sup> Dodd-Frank Wall Street Reform and Consumer Protection Act, Section 165(i)(2).

- DFAST capital actions defined by the Federal Reserve; and
- Where necessary, management's interpretation of regulatory requirements and guidance.

Exhibit 1 summarizes the Federal Reserve-defined DFAST capital action assumptions.

**Exhibit 1: Supervisory Capital Action Assumptions for DFAST Mid-Cycle Assessment**

DFAST Capital Action Assumptions	Q2 2014	Q3 2014 - Q2 2016
Quarterly Common Dividends	Actual	Equal to the quarterly average dollar amount of common stock dividends that the company paid in the previous year
Payments on Tier 1 and Tier 2 Capital Instruments <sup>1</sup>	Actual	Equal to the stated dividend, interest, or principal due on such instrument
Redemption / Repurchase of Capital Instruments	Actual	None
Issuance of Capital Instruments	Actual	None except for common stock issuances associated with expensed employee compensation
<sup>1</sup> <i>Tier 1 and Tier 2 Capital Instruments include non-cumulative preferred, trust preferred, qualifying sub-debt</i>		

Estimated impacts of stress are one of many inputs to CFG's capital planning and management process. The Treasury and Risk organizations lead the capital planning and management process with participation from the lines of business, Finance and Audit. The CFG capital planning and management process is 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 standards.

## 1.1 Risks Considered by CFG

CFG is subject to a number of risks potentially affecting its business, financial condition, results of operations and cash flows. As a financial services organization, certain elements of risk are inherent in its transactions and operations and are present in the business decisions made. CFG, therefore, encounters risk as part of the normal course of business and it has designed risk management processes to help manage these risks. CFG's success is dependent on its ability to identify, understand and manage the risks presented by its business activities so that it can appropriately balance revenue generation and profitability.

In order to ensure that CFG's idiosyncratic scenarios test the specific vulnerabilities of the company, stakeholders considered the risks across the business activities of the company during the development of the scenario and the execution of the capital planning and management process. CFG has designed its idiosyncratic scenario to account for the following key vulnerabilities:

- CFG has a concentration in residential real estate lending in the form of mortgage and home equity lending, mortgage banking and mortgage-backed securities. The performance of these portfolios deteriorates when increasing **unemployment** rates lead to increased defaults and when decreasing **housing prices** result in increased losses in the event of default.

- CFG has consumer and small business lending portfolios. The performance of these portfolios deteriorates when increasing **unemployment** rates lead to increased defaults and reduced business activity.
- CFG has a commercial lending portfolio. The performance of the entire commercial portfolio deteriorates when declining **GDP** leads to increased default rates and reduced business activities.
- CFG has a reliance on net interest income for revenue and is asset sensitive. Therefore, extended periods of very low short- and long-term **interest rates** result in reduced spreads and a compressed net interest margin.

The integrated stress testing process directly covers credit risk, business risk, operational risk, pension risk and interest rate risk.

- **Credit risk** is the risk associated with the failure of a customer to meet obligations to settle outstanding amounts. The adverse effects of a recession on loan loss, credit valuation adjustments and other than temporary impairment (OTTI) are reflected directly in provision expense and in contra revenues. Models are the primary driver of estimated changes in loan loss, although some expert judgment is applied.
- **Business risk** is the risk associated with adverse impacts of the business cycle. The adverse effects of a recession on business activity are reflected in pre-provision net revenue (PPNR) via reduced net interest income and fee income partially offset by reduced expenses.
- **Operational risk** is the risk associated with inadequate or failed internal processes, people and systems, or from external events. The adverse effects of a recession on expected operational loss are captured directly. Models are the primary driver of changes in expected operational loss. Potential unexpected operational risk loss is captured through operational risk scenario events for which the loss amounts are determined using expert judgment. The CFG Severely Adverse stress scenario includes two operational risk scenario events, know your customer (KYC) and unfair, deceptive or abusive acts or practices (UDAAP).
- **Pension risk** is the risk associated with the financial performance of plan assets not being sufficient to meet contractual pension obligations to CFG's employees. The adverse effects of a recession on pension asset performance and resultant pension expense are captured. Models are the primary driver of changes in pension expense.
- **Interest rate risk** is the risk of loss in earnings or in the economic value of non-traded assets, liabilities or financial investments because of movements in interest rates. The adverse effects of lower interest rates on PPNR are reflected directly in net interest income and indirectly in provision expense.

Credit risk is the largest driver of stress results. Reduced business activity is the second largest contributor to earnings reductions directly through fee revenue related to various loan products and indirectly in the form of a smaller balance sheet that reduces net interest income.

Risks not directly covered in the integrated stress testing include model risk, strategic risk, reputational risk, capital adequacy risk, traded market risk and funding and liquidity risk. Senior management evaluates these risks to determine the estimated exposure for each risk type and the associated capital requirements based on either calculations or expert judgment.

- **Model risk** is the risk associated with model errors or misapplication/misuse of models through a failure to understand or apply the model within specified limitations.
- **Strategic risk** is the risk associated with adverse business decisions, poor implementation of business decisions or lack of responsiveness to changes in the industry and operating environment.
- **Reputational risk** is the risk associated with negative public opinion of CFG or its subsidiaries that may arise from actions taken or by the failure to take actions.
- **Traded market risk** is the risk associated with fluctuations in interest rates, foreign currency, credit spreads, equity prices and commodity prices. These are immaterial for CFG and are not specifically modeled.
- **Funding and liquidity risk** is the risk associated with not being able to meet financial obligations due to insufficient capital or inability to transfer risk effectively through the secured funding of assets. The resulting balance sheet was assessed to ensure that funding and liquidity metrics are within operational guidelines.

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## 1.2 The CFG Severely Adverse Scenario

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The CFG severely adverse scenario was developed by CFG to test the strength and resiliency of the banking organization in a severely adverse economic environment. Using historical data series, the macro-economic variables that stress CFG's risk profile were stressed to match historical downturns observed in the last 75 years. By stressing all variables in this manner, the scenario ignores historical correlations between macro-variables. The resulting scenarios are more severe and do not assume that the next crisis will unfold in the same manner as the last. For example, a scenario that assumed housing prices would decline materially in all U.S. markets simultaneously would have been inconsistent with housing price data prior to 2007.

The scenario features a substantial weakening of the U.S. economy through the scenario horizon. This scenario shows severe weakness in the U.S. economy with high levels of unemployment, falling house prices and low interest rates. The onset of the recession in Q2 2014 is extremely fast. Unique vulnerabilities affected include:

- High unemployment levels and fast and prolonged declines in House Price Index, which lead to increased default levels and higher loss in the event of default in CFG's residential real estate lending portfolio (in the form of mortgage and home equity lending, mortgage banking and mortgage-backed securities).
- Unemployment rates that peak early in the forecast horizon and remain at high levels, resulting in high default rates and decreased business activity in CFG's material consumer and small business lending portfolios.
- A rapid decline and slow recovery in GDP, which further increases default rates and reduces business activity, negatively affecting CFG's commercial lending portfolio.

In the CFG severely adverse scenario, real GDP falls 3.3% in the first year, followed by a return to slow growth during the second year. Home prices decline 18.4% during the first year of the scenario, with a further decline in year two of 5.7%. The unemployment rate increases from 7.6% in Q2 2014 to a peak of 11.4% in Q2 2015. Exhibit 2 details the variables used for the CFG severely adverse scenarios and the projected values for each.

**Exhibit 2: Projected Variables for the CFG Severely Adverse Scenario**

Quarter	Q2 2014	Q3 2014	Q4 2014	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016
Period	P1	P2	P3	P4	P5	P6	P7	P8	P9
Key Macro Variables	%	%	%	%	%	%	%	%	%
Real GDP - QoQ Annualized	(2.1)	(4.9)	(4.5)	(1.9)	0.3	1.0	1.2	1.5	1.7
HPI - QoQ Annualized	(12.4)	(18.1)	(25.2)	(20.2)	(10.2)	(8.4)	(6.3)	(3.2)	(1.4)
Unemployment	7.6	8.5	9.9	11.4	11.4	11.3	11.1	10.9	10.8
CRE Index- QoQ Annualized	(13.6)	(26.0)	(30.8)	(29.4)	(18.2)	(15.3)	(8.7)	(6.1)	1.6
S&P 500 - Quarterly Change	(19.0)	(10.0)	(4.0)	3.0	3.0	3.0	4.0	3.0	4.0
Key Interest Rates									
Fed Funds	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
3M Libor	0.2	0.4	0.5	0.2	0.2	0.2	0.2	0.2	0.2
10Y Treasury	1.0	1.0	1.1	1.1	1.2	1.2	1.3	1.4	1.5
30Y Primary Mortgage	3.3	3.3	3.3	3.4	3.5	3.5	3.6	3.8	3.8

Interest rates remain low through the horizon. Through Q2 2016, the Fed funds effective rate remains at 0.2%, the 10-Year Treasury falls to 1.0% in 2014 and primary mortgage rates are flat at 3.3% in 2014. The 10-Year Treasury increases slightly in 2015, to a range of 1.1% to 1.3%, while primary mortgage rates increase slightly to a range of 3.4% to 3.6%.

CFG has exposure to operational risk loss events that occur independently of the macro-economic environment. During the CFG severely adverse scenario, CFG includes two operational loss events—a KYC-related event with a total loss of \$165 million and a UDAAP event with a \$121 million loss. These events were selected from scenarios developed in the operational risk scenario analysis process and were selected for their size.

CFG makes the following structural industry assumptions for the CFG severely adverse scenario:

- Government-sponsored entities continue to purchase qualifying mortgages.
- FHLBs continue to provide collateralized funding.
- No major in footprint competitors fail.
- RBS Group continues to operate as a going concern.
- CFG and peers suffer a two-notch ratings downgrade.

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## 1.3 CFG Methodologies

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CFG's integrated stress testing process measures the impact of macroeconomic factors on the material risks and estimated financial performance of CFG. 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 a number of quantitative and qualitative methodologies to generate a projected balance sheet, income statement and pro forma capital ratios for a specific scenario. This section provides details about the methodologies used for PPNR, losses, provisions and changes in capital position.

### 1.3.1 Pre-provision Net Revenue

CFG develops projected balances and yield 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 use various combinations of internal calculations, business activity macroeconomic models, historical data and prior stress test results with business unit expert judgment to develop the projections.

#### **1.3.1.1 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. Business line subject matter experts provide pricing characteristics associated with new business and renewals.

#### **1.3.1.2 Non-Interest Income**

CFG captures fees and other income in order to create a complete income statement. The businesses provide forecast fees and other income generally based on the level of business activity for a given scenario using expert judgment supported by calculations and historical data.

#### **1.3.1.3 Non-Interest Expenses**

Businesses and support functions use calculations and expert judgment 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 expected operational risk losses for a scenario using an internally developed model and also includes the effects of two operational risk scenario events. CFG also projects expected pension expenses for each scenario.

### **1.3.2 Losses**

This section provides a high-level description of the expected loss projection methodologies for credit and other than temporary impairment (OTTI) losses used for the CFG severely adverse stress scenario.

#### **1.3.2.1 Credit Losses**

CFG uses retail and wholesale credit loss forecasting models to project charge-offs for a given scenario. The credit loss forecasting models use 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 forecast balances generated as part of the pre-provision net revenue methodology, described above, to forecast charge-offs through the scenario horizon.



### **1.3.2.2 Other Than Temporary Impairment Losses**

CFG uses a model to project OTTI exposures for the residential mortgage-backed securities and commercial mortgage-backed securities in a given scenario. The projected OTTI is included in the credit loss portion of the income statement for the period the impairment is expected to be realized.

### **1.3.3 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). CFG forecasts the ALLL stress reserve based on a forward loss coverage ratio. For all scenarios, CFG uses a rolling one-year net charge-off multiplier to calculate the reserve. The provisions process starts with the Q1 2014 beginning reserve balance. Each quarter's subsequent reserve is forecast by taking the next four quarters of estimated net charge-offs multiplied by the reserve ratio. Once each quarter's reserves are calculated, CFG performs a subsequent calculation to determine the quarterly provision expense for each quarter of the scenario.

### **1.3.4 Changes in Capital Position**

CFG is subject to the general risk-based capital rules under Basel I and will transition to the U.S. Basel III Standardized Approach beginning Q1 2015.

Within this disclosure, CFG uses the outputs of the integrated stress testing process to assess pro forma capital ratios for the CFG severely adverse stress scenario. 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 risk-weighted asset requirement at the end of each quarter in the scenario horizon. These projected sources and uses of capital are the drivers of change for CFG's capital ratios.

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## **1.4 CFG Performance Under the CFG Severely Adverse Scenario**

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### **1.4.1 DFAST Capital Actions Applied by CFG**

During 2013 and Q1 2014, CFG made common dividend payments for two reasons: 1) to return a portion of prior-quarter net earnings to shareholders, and 2) to bring CFG's capital structure more in line with industry norms through paired "exchange transactions" that reduce common equity while issuing a like amount of subordinated debt. In 2013, CFG executed three such exchanges with its parent, The Royal Bank of Scotland plc, paying special dividends of \$1 billion, offset by the issuance of \$1 billion of new sub-debt.<sup>3</sup>

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<sup>3</sup> At year-end 2013, after executing \$1 billion of exchange transactions, Tier 1 Common Equity was still 84% of Total Risk-Based Capital for CFG, compared with a mean of 73% for comparable US banks. Additionally, CFG's Tier 1 Common Equity ratio was 13.5 %, highest among a group of peers, whose mean ratio was 10.5%.

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 only on a transaction-by-transaction basis and only when the special dividend matched the issuance of a like amount of lower-tier capital. Given these clear distinctions, CFG has defined DFAST 2014 actions for 2014 – 2016 that meet the Federal Reserve’s intent of reducing capital based on a steady flow of quarterly common dividends but also remains consistent with the Federal Reserve instructions that no special redemption or issuance transactions should be assumed to occur during 2014 – 2016, as summarized in Exhibit 3.

**Exhibit 3: DFAST Capital Actions as Interpreted by CFG**

Capital Action	FRB Instruction		CFG Interpretation (\$ millions)		
	Q2 2014	Q3 2014 - Q2 2016	Q2 2014	Q3 2014 - Q2 2016	Nine-Quarter Total
Quarterly Common Dividends	Actual	25% of actual common dividends paid in previous four quarters	\$10	\$31.250 / quarter = 25% of "recurring" common dividends paid	\$260
Exchange Transaction: Return of Common Equity	Actual	No redemptions / returns	\$333	\$0	\$333
Exchange Transaction: Issuance of Capital Instruments	Actual	No issuance	\$333	\$0	\$333
Obligations on Non-Common Instruments Qualifying as Regulatory Capital	Actual	Stated dividend, interest, principal due	\$17	Estimated pre-tax interest on qualifying Tier 2 sub-debt, expensed and accrued quarterly	\$176

**1.4.2 Impacts of Stress on Overall Financial Performance and Loan Portfolios**

Exhibit 4 and Exhibit 5 outline the pro forma impact of the CFG severely adverse scenario on CFG’s cumulative financial performance for Q1 2014 through Q2 2016.

The net income before taxes under the CFG severely adverse scenario as shown in Exhibit 4 below is primarily impacted by:

- An increase to provision expense in anticipation of projected future charge-offs;
- A reduction in net interest income due to a combination of lower interest rates and a declining balance sheet size, consistent with CFG’s historical experience;
- A reduction in non-interest income due to reduced business activity in the stressed economic environment.

Provision expense increases as higher unemployment rates reduce many customers’ ability to pay, increasing loss rates across all retail and small business portfolios. Declining home prices deflate the value of the collateral CFG is holding against losses experienced, further affecting the provision expense. At the same time, revenue declines. The balance sheet is materially smaller as expected business activity and increased losses reduce the loan balance. Net interest margin remains compressed as a result of the low rate environment. Non-interest income also declines due to reduced loan origination and customer payment activity.

**Exhibit 4: CFG Projected Net Income Under CFG Severely Adverse Scenario**

	Q2 2014 - Q2 2016 (\$ in billions)	Percent of Average Assets <sup>1</sup>
<b>Pre-provision net revenue<sup>2</sup></b>	\$2.6	2.1%
<b>Other revenue<sup>3</sup></b>	0.0	0.0
<i>less</i>		
<b>Provisions</b>	3.4	2.7
<b>Realized gains (losses) on securities (AFS/HTM)</b>	(0.1)	(0.1)
<b>Trading and counterparty losses<sup>4</sup></b>	0.0	0.0
<b>Other gains (losses)<sup>5</sup></b>	0.0	0.0
<i>equals</i>		
<b>Net income (loss) before taxes<sup>6</sup></b>	(0.9)	(0.7)

<sup>1</sup> Average assets is the nine-quarter average of total assets.

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

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

<sup>4</sup> 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.

<sup>5</sup> Other gains (losses) includes 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.

<sup>6</sup> Numbers may not sum due to rounding.

The macroeconomic variables under the CFG severely adverse scenario negatively affect 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 affect the first-lien mortgage and HELOC losses. In addition to the drop in commercial real estate prices, the rise in unemployment and drop in gross domestic product are the primary drivers that affect the commercial real estate losses. As reduced loan originations in the weaker macroeconomic environments are not sufficient to offset large increases in losses and expected prepayment activity during the CFG severely adverse scenario, the size of the loan book declines.

**Exhibit 5: CFG Projected Loan Losses Under CFG Severely Adverse Stress Scenario**

	Q2 2014 - Q2 2016 (\$ in billions)	Portfolio loss rates (%) <sup>1</sup>
<b>Loan losses<sup>2</sup></b>	\$2.6	3.0%
First-lien mortgages, domestic	0.2	1.8
Junior-liens and HELOCs, domestic	0.8	4.8
Commercial and industrial <sup>3</sup>	0.5	1.9
Commercial real estate, domestic	0.3	2.9
Credit cards	0.2	14.0
Other consumer <sup>4</sup>	0.5	3.5
Other loans <sup>5</sup>	0.1	1.7

<sup>1</sup> 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.

<sup>2</sup> Numbers may not sum due to rounding.

<sup>3</sup> Commercial and industrial loans include small- and medium-enterprise loans and corporate cards.

<sup>4</sup> Other consumer loans include student loans, automobile loans and other personal loans.

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

**1.4.3 Impacts of Stress and Assumed Capital Actions on Capital Ratios**

Exhibit 6 summarizes CFG's estimated capital ratios under the CFG severely adverse scenario with DFAST capital actions. All ratios end the scenario 80 to 165 basis points lower than where they began; however, both the ending level and the minimum level for each ratio exceed the Federal Reserve's required minimum for DFAST 2014 by at least 570 basis points. For all ratios except the Tier 1 Common Ratio, this required minimum ratio is the Basel III minimum that will be in place through 2015.

**Exhibit 6: CFG Projected Capital Ratios Under CFG Severely Adverse Scenario**

	Actual Q1 2014	Stressed Capital Ratios <sup>1</sup>		Regulatory 2015 Required Minimum Capital Ratios
		Ending Q2 2016	Minimum Through Q2 2016	
<b>Tier 1 common ratio (%)</b>	13.4%	12.0%	11.9%	5.0%
<b>Common equity tier 1 capital ratio (%)<sup>2</sup></b>	n/a	11.8	11.7	4.5
<b>Tier 1 risk-based capital ratio (%)</b>	13.4	11.8	11.7	6.0
<b>Total risk-based capital ratio (%)</b>	16.0	14.6	14.6	8.0
<b>Tier 1 leverage ratio (%)</b>	11.4	10.6	10.3	4.0

<sup>1</sup> 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 Q2 2014 to Q2 2016.

<sup>2</sup> Advanced approaches bank holding companies (BHCs) are subject to the Common Equity Tier 1 ratio for each quarter of 2014. All bank holding companies are subject to the Common Equity Tier 1 ratio for each quarter of 2015. For purposes of this stress test cycle, an advanced approaches BHC includes any BHC that has consolidated assets greater than or equal to \$250 billion or total consolidated on-balance sheet foreign exposure of at least \$10 billion as of December 31, 2013. See 12 CFR 217.100(b)(1); 12 CFR part 225, appendix G, section 1(b). Other BHCs include any BHC that is subject to 12 CFR 225.8 and is not an advanced approach BHC.

Pro forma capital ratios also benefit from a reduction in CFG's risk-weighted asset requirement. Risk-weighted assets decline due to projected credit losses and anticipated weak loan demand under stress. Partly offsetting this reduction in loan balances is the impact of the transition to Basel III "standardized" risk-weighting methodology in 2015 as shown in Exhibit 7.

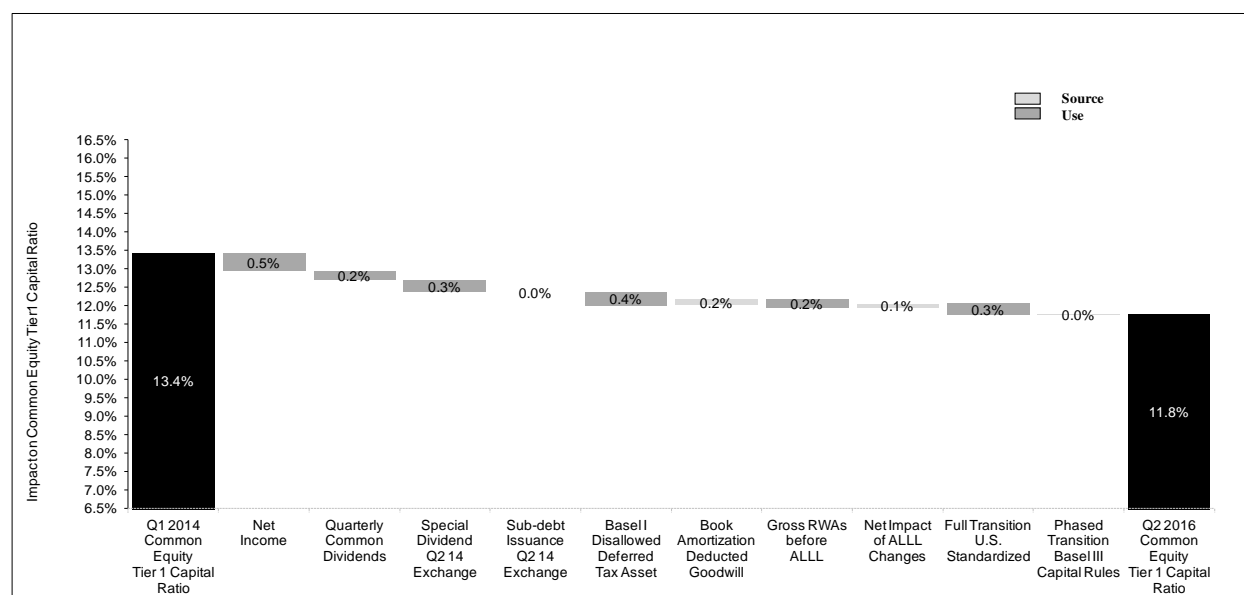
**Exhibit 7: CFG Projected Risk-Weighted Assets Under CFG Severely Adverse Scenario**

	Actual Q1 2014	Projected Q2 2016	
		Current general approach	Basel III standardized approach
<b>Risk-weighted assets (\$ in billions)<sup>1</sup></b>	\$100.4	\$101.4	\$104.3
<sup>1</sup> For each quarter in 2014, risk-weighted assets are calculated using the current general risk-based capital approach. For each quarter in 2015, risk-weighted assets are calculated under the Basel III standardized capital risk-based approach, except for the Tier 1 Common ratio which uses the general risk-based capital approach for all quarters.			

#### 1.4.4 Most Significant Drivers of Change in Regulatory Capital Ratios

Over nine quarters of the mid-cycle CFG severely adverse scenario with DFAST capital actions, CFG estimates that its Tier 1 Common risk-based capital ratio declines approximately 140 basis points, from 13.4% to 11.8%, as demonstrated in Exhibit 8. The assumption that redemptions and issuances undertaken in Q2 2014 would occur as planned, irrespective of stress losses in that quarter, is the primary driver of the incremental decrease for Tier 1 Common ratios. In Q2 2014, CFG exchanged \$333 million of common equity for Tier 2 subordinated-debt now held by its parent entity, The Royal Bank of Scotland plc. Assuming execution of this special exchange transaction lowers ratios reliant on common equity and Tier 1 Common capital by approximately 30 basis points, while being net neutral to the total risk-based capital ratio.

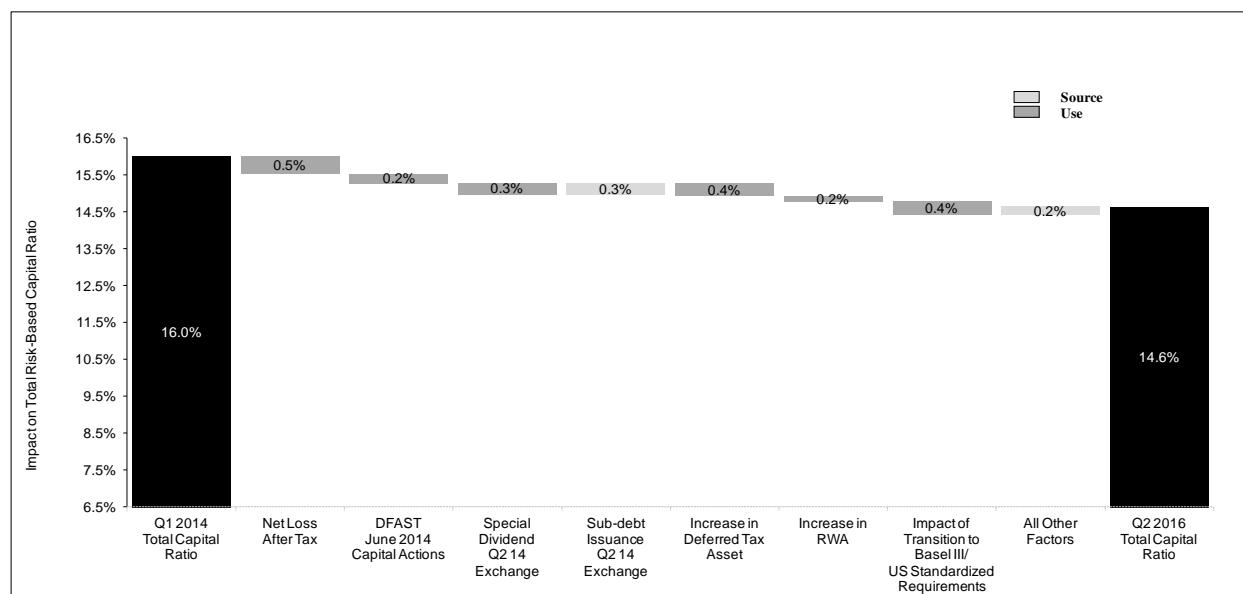
**Exhibit 8: CFG Common Equity Tier 1 Ratio Change Under CFG Severely Adverse Scenario**



In addition to factors laid out in Exhibit 8, the decline of ratios that rely on Tier 1 Common capital alone was approximately 50 basis points more than for the total risk-based capital ratio (See Exhibit 9 below).

Over nine quarters of the mid-cycle CFG severely adverse scenario with DFAST capital actions, CFG estimates that its total risk-based capital ratio declines approximately 140 basis points, from 16.0% to 14.6%, as demonstrated in Exhibit 9. This decline reflects an estimated \$0.5 billion (-0.5%) of net loss and an increase of \$0.4 billion (-0.4%) in the Deferred Tax Asset that is created as a result of the loss, leading to a further decline of 0.4% in the total risk-based capital ratio. DFAST capital actions reduce capital by \$0.3 billion (-0.2%). The ratio also drops 20 basis points due to an estimated increase in risk-weighted assets of \$1.0 billion (-0.2%) of risk-weighted assets, calculated on a Basel I basis. The transition to Basel III methodologies reduces the ratio (-0.4%), while all other factors provide a slight lift (+0.2%).

**Exhibit 8: CFG Total Risk-Based Capital Ratio Change Under CFG Severely Adverse Scenario**



Supervisory DFAST capital actions do not reflect CFG's planned capital actions for 2014 and 2015, nor do they necessarily reflect the capital actions that CFG would execute in a stressed environment. CFG's internal policy controls would halt planned capital distributions if losses such as those implied by the CFG severely adverse scenario occur. CFG would not resume distributions until it returned to profitability and could meet the full range of internal and regulatory requirements governing the distributions.