Citizens Financial Group, Inc.

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

First Published March 11, 2015 to disclose estimated impacts for Citizens Financial Group and for Citizens Bank, National Association.

Amended June 29, 2015 to also include estimated impacts for Citizens Bank of Pennsylvania, in accordance with the FDIC disclosure timeline for $10-$50 billion covered banks.

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-charted 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 recently completed the rebranding of its former Charter One brand to Citizens Bank in Ohio and Michigan. 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 banking subsidiaries, CBNA[1] and CBPA[2], consistent with requirements for the 2015 Dodd-Frank Act Stress Test (DFAST 2015). The Stress Test Final Rule[3], 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 2010[4]. CFG must disclose the following information for a prescribed supervisory severely adverse stress scenario[5] 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.

[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] Under 12 CFR C (Chapter III of Title 12 of the Code of Federal Regulations Section 325.207), the Federal Deposit Insurance Corporation allows CBPA as a state-chartered bank with average total assets between $10 billion and $50 billion to fulfill its DFAST disclosure requirement within the context of the parent bank holding company's disclosure and also to execute the bank disclosure on an approximate three-month lag to the consolidated publication.
[3] Board of Governors of the Federal Reserve System, 12 CFR Part 252, Final Rule: Supervisory and Company-Run Stress Test Requirements for Covered Companies.
[4] Dodd-Frank Wall Street Reform and Consumer Protection Act, Section 165(i)(2).
[5] 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.

- 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 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 supervisors[6]. 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] Additional tier 1 and tier 2 capital instruments include non-cumulative preferred equity and qualifying subordinated-debt.

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.*

[6] 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
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 definitions[7] 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 scenario as 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.

[7] 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
less		
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
equals		
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 losses[2]	$3.1	3.4%
First-lien mortgages, domestic	0.2	1.8
Junior-liens and HELOCs, domestic	0.9	4.7
Commercial and industrial[3]	0.6	2.5
Commercial real estate, domestic	0.3	2.4
Credit cards	0.2	15.8
Other consumer[4]	0.6	3.8
Other loans[5]	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 assets [1]	$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 ratio[2]	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%

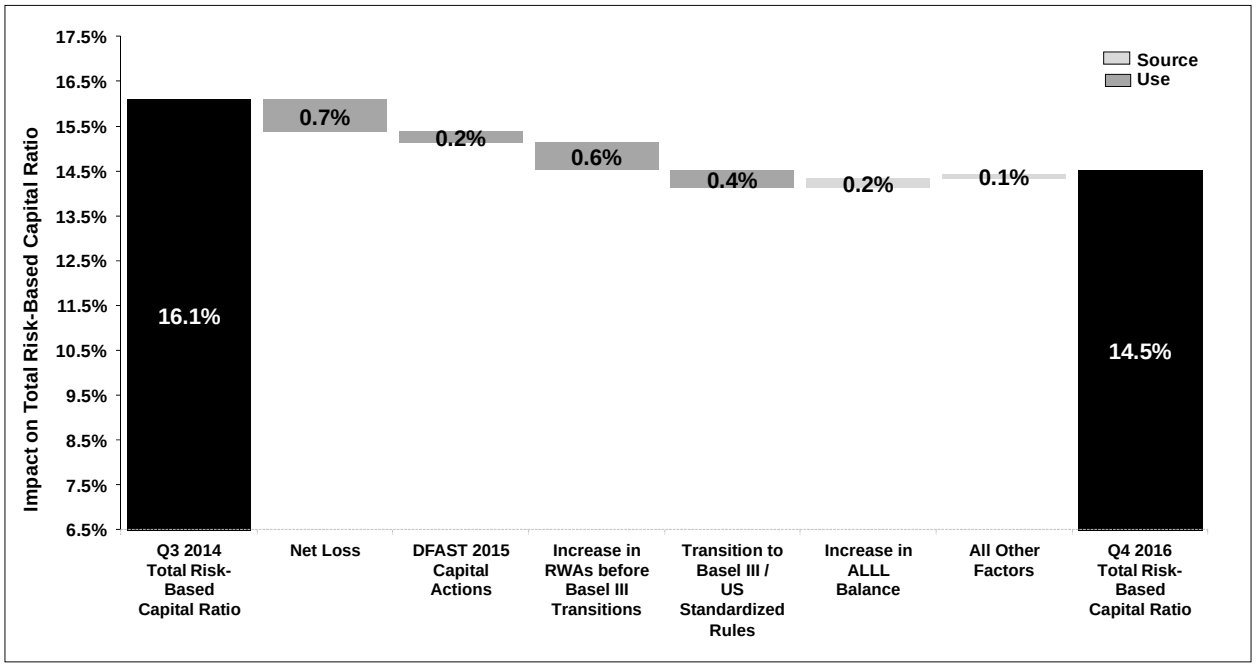
[1] The capital ratios are calculated using capital action assumptions provided within the Dodd-Frank Act stress testing rule. These projections represent hypothetical estimates that involve an economic outcome that is more adverse than expected. These estimates are not forecasts of expected losses, 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. Ratios that specifically rely on common equity/tier 1 capital are also impacted by the assumption that paired rebalancing transactions executed with RBS in Q4 2014 would occur as planned, despite modeled losses under stress. 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
less		
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
equals		
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: CBNA-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%

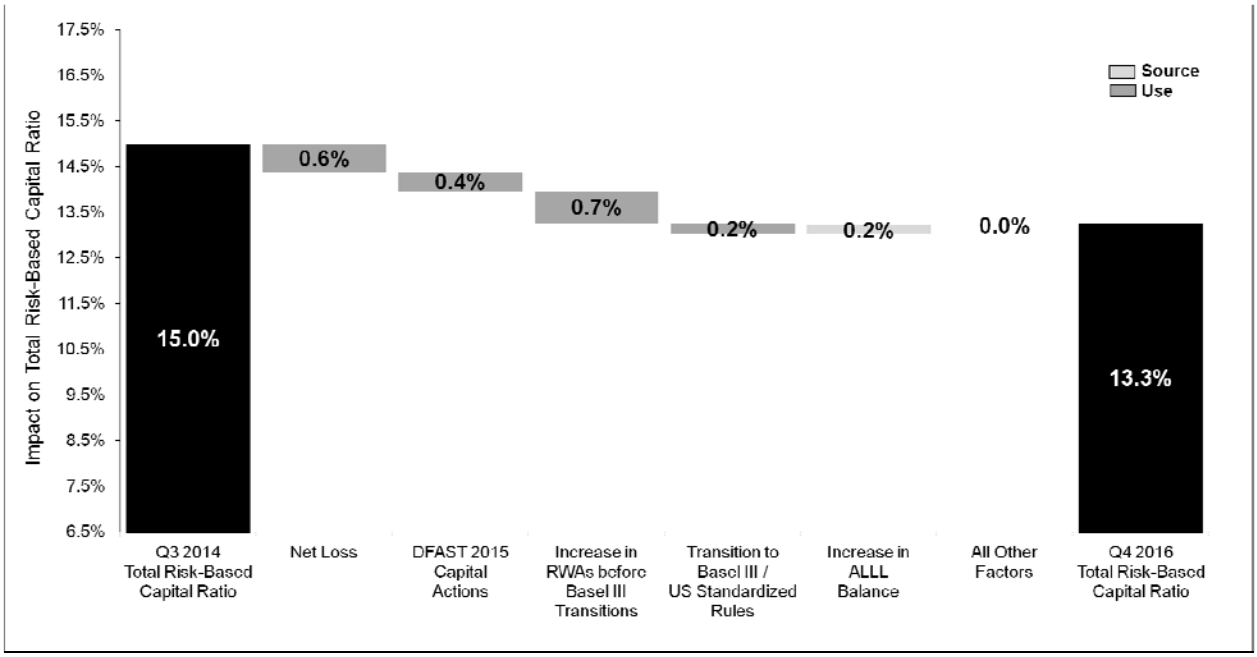
[1] The capital ratios are calculated using capital action assumptions provided within the Dodd-Frank Act stress testing rule. These projections represent hypothetical estimates that involve an economic outcome that is more adverse than expected. These estimates are not forecasts of expected losses, 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.

I.E CBPA Performance under the Supervisory Severely Adverse Stress Scenario

Citizens Bank of Pennsylvania is state-chartered savings bank and CFG's only other subsidiary bank. Under the FDIC's annual stress test requirement, CBPA is a "$10 billion to $50 billion covered bank," a designation that reflects a lower level of average total assets relative to certain other institutions for which the FDIC is primary supervisor. Given this designation, CBPA has an

extended deadline of March 31st for submitting its stress test results to the FDIC and a delayed publication window of June 15th through June 30th for posting its public disclosure. In addition, CBPA may publish an abbreviated disclosure in summary form within its parent company disclosure. Therefore, similarly to CBNA, CBPA models and reports its DFAST 2015 assessment pursuant to the same Federal Reserve rule and process that governs the disclosure of the pro forma impacts to consolidated CFG.

I.E.1 DFAST Capital Actions Applied by CBPA

In 2014, CBPA paid total common dividends of $155 million to CFG and also executed $300 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. Of these amounts, only a $50 million common dividend occurred in Q4 2014, as shown in *Exhibit 15* below. Consistent with the logic of DFAST capital actions, CBPA's DFAST capital actions reflect this actual Q4 2014 dividend and an assumed recurring quarterly dividend of $38.75 million in each of the eight quarters from Q1 2015 through Q4 2016.

Exhibit 15: DFAST Capital Actions as Interpreted for CBPA

Capital Action	Pre-defined DFAST Capital Actions		CBPA 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	$50	$38.75 / quarter = 25% of "recurring" common dividends paid in full year 2014
Redemption / Repurchase Activity	Actual	None	$0	$0
Issuance Activity	Actual	Not restricted	$0	$0

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

Exhibit 16 and *Exhibit 17* outline the pro forma impact of the supervisory severely adverse stress scenario on CBPA's cumulative financial performance for Q4 2014 through Q4 2016 (October 1, 2014–December 31, 2016). The size of the CBPA balance sheet under both stress scenarios decreases due to changes in business activities and cancelation of strategic initiatives. Most significantly, three quarters into the stress period, CBPA cancels an auto flow program that, under normal operating conditions, represents about 10% of total assets at the end of the projection horizon. Under stress, this percentage falls to 3%. This factor, along with other portfolio performances discussed for consolidated CFG, causes the overall balance sheet to decline by 11%.

Exhibit 16: CBPA-Modeled Net Income under Supervisory Severely Adverse Stress Scenario

	Q4 2014 - Q4 2016 ($ billions)	Percent of Average Assets[1]
Pre-provision net revenue[2]	$0.5	1.8%
Other revenue[3]	0.0	0.0
less		
Provisions	0.7	2.4
Realized losses/gains on securities (AFS/HTM)	(0.0)	(0.0)
Trading and counterparty losses[4]	0.0	0.0
Other losses/gains[5]	0.0	0.0
equals		
Net income (loss) before taxes[6]	$(0.2)	(0.6)%

[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 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.

[6] Numbers may not sum due to rounding.

Exhibit 17: CBPA-Modeled Loan Losses under Supervisory Severely Adverse Stress Scenario

	Q4 2014 - Q4 2016 ($ billions)	Portfolio loss rates (%)[1]
Loan losses[2]	$0.6	3.3%
First-lien mortgages, domestic	0.0	0.9
Junior-liens and HELOCs, domestic	0.1	2.6
Commercial and industrial[3]	0.2	3.0
Commercial real estate, domestic	0.1	3.8
Credit cards	0.0	0.0
Other consumer	0.2	10.4
Other loans	0.0	3.0

[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.

Exhibit 18 measures changes in the CBPA balance sheet and associated RWAs between September 31, 2014 and December 31, 2016 as modeled under stress. CBPA sees its balance sheet shrinking over the nine quarters due to credit losses, asset maturities, weaker demand for new credit, and management decisions to discontinue the purchase of certain consumer loans that may be originated by other banks. Nonetheless, RWAs increase due primarily to the transition to U.S. standardized risk-weight methodologies, which takes effect on January 1,

2015 for Q1 2015 regulatory reporting, but also due to a higher proportion of non-performing/higher risk-weighted assets in residual loan and investment portfolios.

Exhibit 18: CBPA-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]	$20.6	$20.3	$21.3
Balance sheet assets	$31.9	$28.5	

[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.E.3 Impacts of Stress and Assumed Capital Actions on Capital Ratios

Exhibit 19 summarizes CBPA's pro forma capital ratios under the supervisory severely adverse stress scenario with DFAST capital actions. CBPA's capital level at the outset of the stress scenario is strong in relation to risk-based requirements, which ensures that ratios remain strong even under stress and even with the assumption that the bank would execute a recurring dividend throughout the stress window. Over the stress horizon, CBPA sees its largest decline in the estimated tier 1 common ratio, which is calculated throughout the horizon using general risk-based capital rules (Basel I) that were in place prior to the introduction of new Basel III capital and U.S. Standardized RWA methodologies.

CBPA's Basel I tier 1 common ratio as of December 31, 2016 ends the scenario at approximately 11.6%, 279 basis points lower than it began on September 31, 2014. Even at its lowest point over the scenario window, this ratio exceeds its required regulatory minimum under stress by 658 basis points. Current Basel III regulatory ratios end the scenario down 30 to 230 basis points. The minimum and ending levels for all ratios, including the Basel I tier 1 common ratio, exceed their applicable regulatory minima under stress by at least 479 basis points.

The Basel I tier 1 common ratio shows a greater decline than Basel III transitional ratios due predominantly to differences in accounting for deferred tax assets (DTAs). Basel III rules differentiate between DTAs created by net operating losses, as occur in stress, and DTAs that are created by differences in timing between financial reporting and tax reporting. Under Basel III rules, CBPA converts the portion of DTAs that relate to timing differences to RWA equivalents rather than incurring a dollar-for-dollar deduction from capital. This treatment for DTAs related to timing differences results in relatively higher Basel III ratios than under the prior Basel I rules.

Exhibit 19: CBPA-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	14.4%	11.6%	11.6%	5.0%
Common equity tier 1 capital ratio[2]	n/a	11.9	11.9	4.5
Tier 1 risk-based capital ratio	14.4	11.9	11.9	6.0
Total risk-based capital ratio	16.9	14.6	14.6	8.0
Tier 1 leverage ratio	9.5	9.2	8.8	4.0

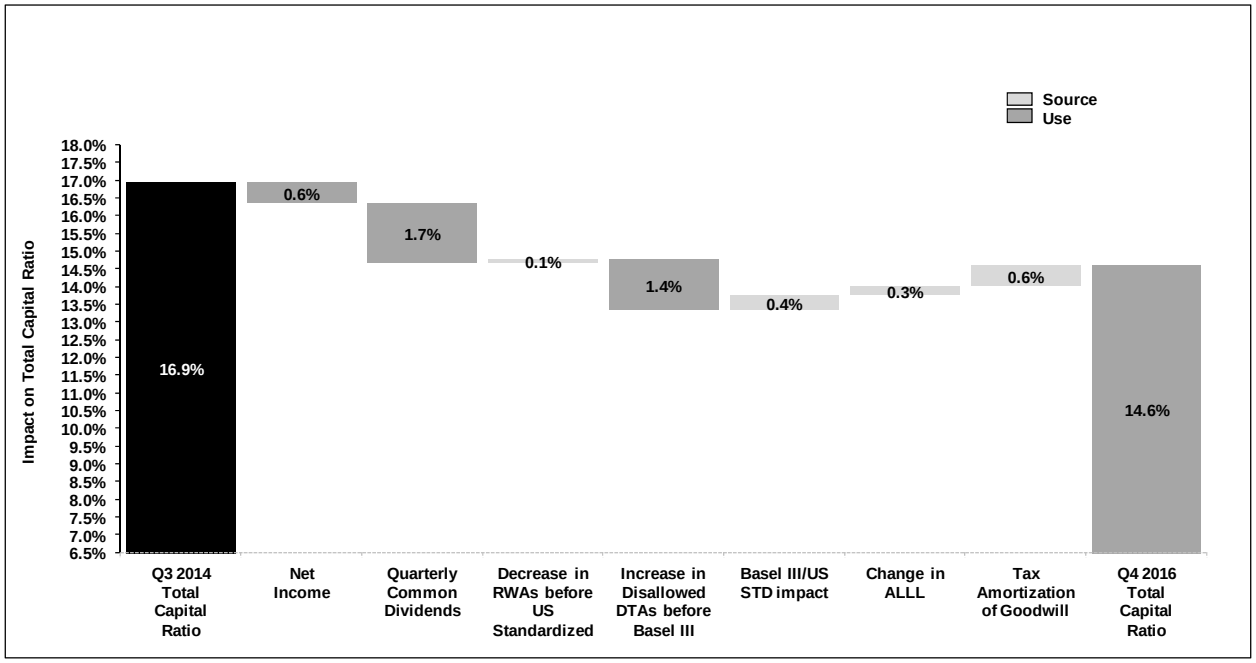
[1] The capital ratios are calculated using capital actions and supervisory stress assumptions provided under the Dodd-Frank Act stress testing rule. These projections represent hypothetical estimates that involve an economic outcome that is more adverse than expected. These estimates are not forecasts 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] CBPA became 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 CBPA's parent, CFG, qualifies as an "Other BHC" that is subject to 12 CFR 225.8 but not an advanced approach BHC.

I.E.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, CBPA estimates that its total risk-based capital ratio declines approximately 235 basis points, from 16.9% to 14.6%, as demonstrated in *Exhibit 20*.

Exhibit 20: CBPA Total Risk-Based Capital Ratio Change under Supervisory Severely Adverse Stress Scenario



Sources and uses of capital that drive the decline in CBPA's ratio between its actual level as of September 30, 2014 and the end of the stress scenario on December 31, 2016 are as follows:

- Net losses approximating $125 million (-0.6%);
- DFAST capital actions, which imply that CBPA would continue paying quarterly common dividends at its previous rate, reducing capital by $360 million (-1.7%);
- An estimated $128 million decrease (+0.1%) in business-driven RWAs calculated under the Basel I methodology;
- The transition to Basel III capital definition and RWA methodologies, which reflects higher average risk-weights largely offset by the above-noted benefit to capital due to risk-weighting certain DTAs (-1.0%);
- A $142 million increase in the ALLL balance (+0.3%);
- Ongoing tax amortization of goodwill (+0.6%).

Cautionary Statement About Forward-Looking Statements

This document contains forward-looking statements within the Private Securities Litigation Reform Act of 1995. Statements about our future regulatory capital compliance, which will be an important factor in determining the extent to which we may pay common stock dividends and repurchase our common stock are forward-looking statements. Also, any statement that does not describe historical or current facts is a forward-looking statement. These statements often include the words “believes,” “expects,” “anticipates,” “estimates,” “intends,” “plans,” “goals,” “targets,” “initiatives,” “potentially,” “probably,” “projects,” “outlook” or similar expressions or future conditional verbs such as “may,” “will,” “should,” “would,” and “could.”

Forward-looking statements are based upon the current beliefs and expectations of management, and on information currently available to management. Our statements speak as of the date hereof, and we do not assume any obligation to update these statements or to update the reasons why actual results could differ from those contained in such statements in light of new information or future events. We caution you, therefore, against relying on any of these forward-looking statements. They are neither statements of historical fact nor guarantees or assurances of future performance.

We also caution that the amount and timing of any future common stock dividends or stock repurchases will depend on our financial condition, earnings, cash needs, regulatory constraints, capital requirements (including requirements of our subsidiaries), and any other factors that our Board of Directors deems relevant in making such a determination. Therefore, there can be no assurance that we will pay any dividends to holders of our common stock, or as to the amount of any such dividends. In addition, the timing and manner of the sale of RBS’s remaining ownership of our common stock remains uncertain, and we have no control over the manner in which RBS may seek to divest such remaining shares. Any such sale would impact the price of our shares of common stock.

More information about factors that could cause actual results to differ materially from those described in the forward-looking statements can be found under “Risk Factors” in our Annual Report on Form 10-K filed with the United States Securities and Exchange Commission on March 3, 2015.