UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the Fiscal Year Ended
December 31, 2020

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the Transition Period From
(Not Applicable)

Commission File Number 001-36636

(Exact name of the registrant as specified in its charter)

Delaware	**05-0412693**
(State or Other Jurisdiction of Incorporation or Organization)	**(I.R.S. Employer Identification Number)**

One Citizens Plaza, Providence, RI 02903

(Address of principal executive offices, including zip code)

(401) 456-7000

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading symbol(s)	Name of each exchange on which registered
Common stock, $0.01 par value per share	CFG	New York Stock Exchange
Depositary Shares, each representing a 1/40th interest in a share of 6.350% Fixed-to-Floating Rate Non-Cumulative Perpetual Preferred Stock, Series D	CFG PrD	New York Stock Exchange
Depositary Shares, each representing a 1/40th interest in a share of 5.000% Fixed-Rate Non-Cumulative Perpetual Preferred Stock, Series E	CFG PrE	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. ☑ Yes ☐ No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. ☐ Yes ☑ No

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. ☑ Yes ☐ No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). ☑ Yes ☐ No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act:

Large accelerated filer	☑	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☐
		Emerging growth company	☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☑

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). ☐ Yes ☑ No

The aggregate market value of voting stock held by nonaffiliates of the Registrant was $10,732,733,443 (based on the June 30, 2020 closing price of Citizens Financial Group, Inc. common shares of $25.24 as reported on the New York Stock Exchange). There were 425,106,419 shares of Registrant's common stock ($0.01 par value) outstanding on February 1, 2021.

Documents incorporated by reference

Portions of Citizens Financial Group, Inc.'s proxy statement to be filed with the United States Securities and Exchange Commission in connection with Citizens Financial Group, Inc.'s 2021 annual meeting of stockholders (the "Proxy Statement") are incorporated by reference into Part III hereof. Such Proxy Statement will be filed within 120 days of Citizens Financial Group, Inc.'s fiscal year ended December 31, 2020.

Citizens Financial Group, Inc.™

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GLOSSARY OF ACRONYMS AND TERMS

The following is a list of common acronyms and terms we regularly use in our financial reporting:

AACL	Adjusted Allowance for Credit Losses
ACL	Allowance for Credit Losses: Allowance for Loan and Lease Losses plus Reserve for Unfunded Lending Commitments
Acquisitions	Refers to acquisitions after second quarter 2018, including Franklin American Mortgage Company, Clarfeld Financial Advisors, LLC, Bowstring Advisors LLC and Trinity Capital
AFS	Available for Sale
ALLL	Allowance for Loan and Lease Losses
ALM	Asset and Liability Management
AOCI	Accumulated Other Comprehensive Income (Loss)
ARRC	Alternative Reference Rates Committee
ASU	Accounting Standards Update
ATM	Automated Teller Machine
Bank Holding Company Act	The Bank Holding Company Act of 1956
Board or Board of Directors	The Board of Directors of Citizens Financial Group, Inc.
bps	Basis Points
Capital Plan Rule	Federal Reserve Regulation Y Capital Plan Rule
CARES Act	The Coronavirus Aid, Relief, and Economic Security Act
CBNA	Citizens Bank, National Association
CCAR	Comprehensive Capital Analysis and Review
CCB	Capital Conservation Buffer
CCMI	Citizens Capital Markets, Inc.
CECL	Current Expected Credit Losses (ASU 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments)*
CET1	Common Equity Tier 1
CET1 capital ratio	Common Equity Tier 1 capital divided by total risk-weighted assets as defined under the U.S. Basel III Standardized approach
CFPB	Consumer Financial Protection Bureau
CFTC	Commodity Futures Trading Commission
Citizens or CFG or the Company, we, us, or our	Citizens Financial Group, Inc. and its Subsidiaries
CLTV	Combined Loan-to-Value
CLO	Collateralized Loan Obligation
CMO	Collateralized Mortgage Obligation
COVID-19 pandemic	Coronavirus Disease 2019 Pandemic
CRA	Community Reinvestment Act
CRE	Commercial Real Estate
DIF	Deposit Insurance Fund
Dodd-Frank Act	The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010
EAD	Exposure at Default
EGRRCPA	Economic Growth, Regulatory Relief and Consumer Protection Act
Elevated cash	Cash above targeted operating levels
EPS	Earnings Per Share
ESPP	Employee Stock Purchase Program
ERISA	Employee Retirement Income Security Act of 1974
Exchange Act	The Securities Exchange Act of 1934

FAMC	Franklin American Mortgage Company
Fannie Mae (FNMA)	Federal National Mortgage Association
FASB	Financial Accounting Standards Board
FDIA	Federal Deposit Insurance Act
FDIC	Federal Deposit Insurance Corporation
FFIEC	Federal Financial Institutions Examination Council
FHLB	Federal Home Loan Bank
FICO	Fair Isaac Corporation (credit rating)
FINRA	Financial Industry Regulation Authority
FRB or Federal Reserve	Board of Governors of the Federal Reserve System and, as applicable, Federal Reserve Bank(s)
Freddie Mac (FHLMC)	Federal Home Loan Mortgage Corporation
FTE	Fully Taxable Equivalent
FTP	Funds Transfer Pricing
GAAP	Accounting Principles Generally Accepted in the United States of America
GDP	Gross Domestic Product
GLBA	Gramm-Leach-Bliley Act of 1999
Ginnie Mae (GNMA)	Government National Mortgage Association
GSE	Government Sponsored Entity
HELOC	Home Equity Line of Credit
HTM	Held To Maturity
ICE	Intercontinental Exchange
Last-of-Layer	Last-of-layer is a fair value hedge of the interest rate risk of a portfolio of similar prepayable assets whereby the last dollar amount within the portfolio of assets is identified as the hedged item
LCR	Liquidity Coverage Ratio
LHFS	Loans Held for Sale
LGD	Loss Given Default
LIBOR	London Interbank Offered Rate
LIHTC	Low Income Housing Tax Credit
LTV	Loan to Value
MBS	Mortgage-Backed Securities
MD&A	Management's Discussion and Analysis of Financial Condition and Results of Operations
Mid-Atlantic	District of Columbia, Delaware, Maryland, New Jersey, New York, Pennsylvania, Virginia, and West Virginia
Midwest	Illinois, Indiana, Michigan, and Ohio
Modified AACL Transition	The Day-1 CECL adoption entry booked to ACL plus 25% of subsequent CECL ACL reserve build
Modified CECL Transition	The Day-1 CECL adoption entry booked to retained earnings plus 25% of subsequent CECL ACL reserve build
MSA	Metropolitan Statistical Area
MSRs	Mortgage Servicing Rights
NCOs	Net charge-offs
New England	Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, and Vermont
NM	Not meaningful
NPLs	Nonaccrual loans
NSFR	Net Stable Funding Ratio
OCC	Office of the Comptroller of the Currency

OCI	Other Comprehensive Income (Loss)
OFAC	Office of Foreign Assets Control
Parent Company	Citizens Financial Group, Inc. (the Parent Company of Citizens Bank, National Association and other subsidiaries)
PD	Probability of Default
peers or peer regional banks	Comerica, Fifth Third, Huntington, KeyCorp, M&T, PNC, Regions, Truist and U.S. Bancorp
PPP	The U.S. Small Business Administration’s Paycheck Protection Program
REIT	Real estate investment trust
ROTCE	Return on Average Tangible Common Equity
RPA	Risk Participation Agreement
SBA	United States Small Business Administration
SEC	United States Securities and Exchange Commission
SOFR	Secured Overnight Financing Rate
SVaR	Stressed Value at Risk
Tailoring Rules	Rules establishing risk-based categories for determining prudential standards for large U.S. and foreign banking organizations, consistent with the Dodd-Frank Act, as amended by the Economic Growth, Regulatory Relief and Consumer Protection Act
TDR	Troubled Debt Restructuring
Tier 1 capital ratio	Tier 1 capital, which includes Common Equity Tier 1 capital plus non-cumulative perpetual preferred equity that qualifies as additional tier 1 capital, divided by total risk-weighted assets as defined under the U.S. Basel III Standardized approach
Tier 1 leverage ratio	Tier 1 capital, which includes Common Equity Tier 1 capital plus non-cumulative perpetual preferred equity that qualifies as additional tier 1 capital, divided by quarterly adjusted average assets as defined under the U.S. Basel III Standardized approach
Total capital ratio	Total capital, which includes Common Equity Tier 1 capital, tier 1 capital and allowance for credit losses and qualifying subordinated debt that qualifies as tier 2 capital, divided by total risk-weighted assets as defined under the U.S. Basel III Standardized approach
VaR	Value at Risk
VIE	Variable Interest Entities

FORWARD-LOOKING STATEMENTS

This document contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Statements regarding potential future share repurchases and future dividends as well as the potential effects of the COVID-19 pandemic and associated lockdowns on our business, operations, financial performance and prospects, 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. While there is no assurance that any list of risks and uncertainties or risk factors is complete, important factors that could cause actual results to differ materially from those in the forward-looking statements include the following, without limitation:

- Negative economic and political conditions that adversely affect the general economy, housing prices, the job market, consumer confidence and spending habits which may affect, among other things, the level of nonperforming assets, charge-offs and provision expense;
- The rate of growth in the economy and employment levels, as well as general business and economic conditions, and changes in the competitive environment;
- Our ability to implement our business strategy, including the cost savings and efficiency components, and achieve our financial performance goals;
- The COVID-19 pandemic and associated lockdowns and their effects on the economic and business environments in which we operate;
- Our ability to meet heightened supervisory requirements and expectations;
- Liabilities and business restrictions resulting from litigation and regulatory investigations;
- Our capital and liquidity requirements under regulatory capital standards and our ability to generate capital internally or raise capital on favorable terms;
- The effect of changes in interest rates on our net interest income, net interest margin and our mortgage originations, mortgage servicing rights and mortgages held for sale;
- Changes in interest rates and market liquidity, as well as the magnitude of such changes, which may reduce interest margins, impact funding sources and affect the ability to originate and distribute financial products in the primary and secondary markets;
- The effect of changes in the level of checking or savings account deposits on our funding costs and net interest margin;
- Financial services reform and other current, pending or future legislation or regulation that could have a negative effect on our revenue and businesses;
- A failure in or breach of our operational or security systems or infrastructure, or those of our third party vendors or other service providers, including as a result of cyber-attacks; and
- Management’s ability to identify and manage these and other risks.

In addition to the above factors, we also caution that the actual amounts and timing of any future common stock dividends or share repurchases will be subject to various factors, including our capital position, financial performance, risk-weighted assets, capital impacts of strategic initiatives, market conditions and regulatory and accounting considerations, as well as any other factors that our Board of Directors deems relevant in making such a determination. Therefore, there can be no assurance that we will repurchase shares from or pay any dividends to holders of our common stock, or as to the amount of any such repurchases or dividends. Further, statements about the effects of the COVID-19 pandemic and associated lockdowns on our business, operations, financial performance and prospects may constitute forward-looking statements and are subject to the risk that

the actual impacts may differ, possibly materially, from what is reflected in those forward-looking statements due to factors and future developments that are uncertain, unpredictable and in many cases beyond our control, including the scope and duration of the pandemic, actions taken by governmental authorities in response to the pandemic, and the direct and indirect impact of the pandemic on our customers, third parties and us.

More information about factors that could cause actual results to differ materially from those described in the forward-looking statements can be found under Item 1A "Risk Factors".

PART I

ITEM 1. BUSINESS

Citizens Financial Group, Inc. is the 13th largest retail bank holding company in the United States.[1] Headquartered in Providence, Rhode Island, we offer a broad range of retail and commercial banking products and services to more than five million individuals, small businesses, middle-market companies, large corporations and institutions. Our products and services are offered through approximately 1,000 branches in 11 states in the New England, Mid-Atlantic and Midwest regions and 130 retail and commercial non-branch offices, though certain lines of business serve national markets. At December 31, 2020, we had total assets of $183.3 billion, total deposits of $147.2 billion and total stockholders' equity of $22.7 billion.

We are a bank holding company incorporated under Delaware state law in 1984 and whose primary federal regulator is the FRB. CBNA is our banking subsidiary, whose primary federal regulator is the OCC.

Business Segments

We manage our business through two reportable business operating segments: Consumer Banking and Commercial Banking. For additional information regarding our business segments see the "Business Operating Segments" section of Item 7 and Note 25 in Item 8. Our activities outside these segments are classified as "Other" and include treasury activities, wholesale funding activities, securities portfolio, community development assets, non-core assets, and other unallocated assets, liabilities, capital, revenues, provision for credit losses and expenses, including income tax expense.

Consumer Banking Segment

Consumer Banking serves retail customers and small businesses with annual revenues of up to $25 million, with products and services that include deposit products, mortgage and home equity lending, credit cards, business loans, wealth management and investment services largely across our 11-state traditional banking footprint. We also offer auto, education and point-of-sale finance loans in addition to select digital deposit products nationwide.

Consumer Banking operates a multi-channel distribution network with a workforce of approximately 4,800 branch colleagues, approximately 1,000 branches, including 270 in-store locations, and approximately 2,700 ATMs. Our network includes approximately 1,420 specialists covering lending, savings and investment needs as well as a broad range of small business products and services. We serve customers on a national basis through telephone service centers as well as through our online and mobile platforms where we offer customers the convenience of depositing funds, paying bills and transferring money between accounts and from person to person, as well as a host of other everyday transactions.

We believe our strong retail deposit market share in our core regions, which have relatively diverse economies and affluent demographics, is a competitive advantage. As of June 30, 2020, we ranked second by retail deposit market share in the New England region and ranked in the top five in eight of our ten principal MSAs.[1]

(1) According to SNL Financial.

Commercial Banking Segment

Commercial Banking primarily serves companies and institutions with annual revenues of over $25 million to more than $3.0 billion and strives to be our clients' trusted advisor and preferred provider for their banking needs. We offer a broad complement of financial products and solutions, including lending and leasing, deposit and treasury management services, foreign exchange, interest rate and commodity risk management solutions, as well as syndicated loans, corporate finance, merger and acquisition, and debt and equity capital markets capabilities.

Commercial Banking is structured along business lines and product groups. The business lines, Corporate Banking and Commercial Real Estate, and the product groups, Corporate Finance & Capital Markets, and Treasury Solutions work in teams to understand client needs and provide comprehensive solutions to meet those needs. We acquire new clients through a coordinated approach to the market, leveraging deep industry knowledge in specialized banking groups and a geographic coverage model.

Corporate Banking serves middle market commercial and industrial clients with annual gross revenues of $25 million to $500 million, and mid-corporate clients with annual revenues of $500 million to more than $3.0 billion in the United States. In several areas, such as Aerospace, Defense and Government Services, Communications, Transportation and Logistics, Franchise, Human Capital Management, and Gaming we offer a more dedicated and tailored approach to better meet the unique needs of these client segments.

Commercial Real Estate provides customized debt capital solutions for middle market operators, institutional developers, investors, and REITs. Commercial Real Estate provides financing for projects primarily in the office, multi-family, industrial, retail, healthcare and hospitality sectors.

Corporate Finance & Capital Markets serve clients through key product groups including Corporate Finance, Capital Markets, and Global Markets. Corporate Finance provides advisory services to middle market and mid-corporate clients, including mergers and acquisitions and capital structure advice. The team works closely with industry-sector specialists within debt capital markets to advise our clients. Corporate Finance also provides acquisition and follow-on financing for new and recapitalized portfolio companies of key sponsors, services meeting the unique and time-sensitive needs of private equity firms, management companies and funds, and underwriting and portfolio management expertise for leveraged transactions and relationships. Capital Markets originates, structures and underwrites multi-bank syndicated credit facilities targeting middle market, mid-corporate and private equity sponsors with a focus on offering value-added ideas to optimize their capital structures, including advising on and facilitating mergers and acquisitions, valuations, tender offers, financial restructurings, asset sales, divestitures and other corporate reorganizations and business combinations. Global Markets provides foreign exchange, interest rate and commodities risk management services.

The Treasury Solutions product group supports Commercial Banking and certain small business clients with treasury management solutions, including domestic and international products and services related to receivables, payables, information reporting and liquidity management as well as commercial credit cards and trade finance.

Business Strategy

Our mission is to help our customers, colleagues and communities reach their potential, and our vision is to become a top-performing bank distinguished by our customer-centric culture, mindset of continuous improvement, and excellent capabilities. We strive to understand customers and client needs, so we can tailor advice and solutions to help make them more successful. Our business strategy is designed to maximize the full potential of our businesses, drive sustainable growth and enhance profitability. Our success rests on our ability to distinguish ourselves as follows:

Maintain a high-performing, customer-centric organization: We continually strive to enhance our "customer-first" culture in order to deliver the best possible banking experience. We are taking talent management to the next level, with a goal of attracting, developing and retaining great people, while ensuring strong leadership, teamwork, and a sense of empowerment, accountability and urgency.

Develop differentiated value propositions to acquire, deepen, and retain core customer segments: Our focus is on certain customer segments where we believe we are well positioned to compete. In Consumer Banking, we focus on serving mass affluent and affluent customers and small businesses. In Commercial Banking, we focus on serving customers in the middle market, mid-corporate, and select industry verticals. By developing differentiated and targeted value propositions, we believe we can attract new customers, deepen relationships with existing customers, and deliver an enhanced customer experience. We are building our fee-based

businesses, developing innovative solutions and broadening our capabilities to acquire, deepen and retain core customer relationships. For example, we have built out a strong corporate finance advisory model with deep expertise in multiple industries, and we deliver innovative solutions to our clients with an integrated approach.

Build excellent capabilities designed to help us stand out from competitors: Across our businesses, we strive to deliver seamless, multi-channel experiences that allow customers to interact with us when, where and how they choose. We continue to build out enhanced data analytics capabilities to provide timely, insight-driven, tailored advice in order to deliver solutions to consumer and business customers throughout their lifecycles. We are also focused on expanding our digital capabilities and related strategies in order to satisfy rapidly changing customer preferences.

Operate with financial discipline and a mindset of continuous improvement to self-fund investments: We believe that continued focus on operational efficiency is critical to our future profitability and ability to continue to reinvest to drive future growth. We launched the first Tapping our Potential ("TOP") initiative in 2014 and have launched additional programs in each subsequent year. These programs are designed to improve the effectiveness, efficiency, and competitiveness of the franchise. In the second half of 2019, we launched the sixth TOP program, which is a multi-year program consisting of traditional TOP initiatives as well as a transformation program designed to redefine how we operate across the organization and deliver for customers and colleagues.

Prudently grow and optimize our balance sheet: We operate with a strong balance sheet with regard to capital, liquidity and funding, coupled with a well-defined and prudent risk appetite. We continue to focus on thoughtfully growing our balance sheet and strive to generate attractive risk-adjusted returns by actively managing capital and resource allocation decisions through balance sheet optimization initiatives. Our goal is to be good stewards of our resources, and we continue to rigorously evaluate our execution.

Modernize our technology and operational models to improve delivery, organizational agility and speed to market: We are continuing to modernize our technology and operating models to improve our speed-to-market, deliver innovative products and services, strengthen collaboration across teams, and meet financial objectives. We will also continue to engage in FinTech partnerships that help deliver differentiated value-added digital experiences for customers.

Embed risk management within our culture and operations: Given that the quality of our risk management program directly affects our ability to execute our strategy we continue to work to further strengthen our risk management culture. Moreover, we are committed to continuously enhancing our processes and talent, and to making improvements in the platform including ongoing investments in risk technology and frameworks. These actions are designed to support and enhance our risk management capabilities and regulatory profile.

Delivering well for stakeholders through the pandemic

The coronavirus pandemic and resulting reactions, such as lockdowns, safety protocols, unprecedented government measures to shore up the economy and drastic changes to daily life have been unique and remarkable. These stresses have required a new level of resilience and adaptability and Citizens has risen to meet these challenges so we can do more for our customers, communities, colleagues, and shareholders.

For our customers, we continued to provide support, advice and guidance during a time of tremendous need. Our Consumer Banking business has provided vital branch services safely and with minimal disruption and has offered loan forbearance to customers. Beginning in March 2020 and through December 31, 2020, we granted payment forbearance relief to approximately 159,000 retail customers representing approximately 8% of the retail loan portfolio. At December 31, 2020, loans remaining in forbearance had decreased to approximately 2.3% of the retail loan portfolio.

Our Commercial Banking team has worked with clients on loan modifications and securing additional liquidity, while maintaining top-of-peer satisfaction ratings. Beginning in March 2020 and through December 31, 2020, we granted payment deferrals to approximately 490 commercial clients on loans totaling approximately $3.2 billion. As of December 31, 2020, this decreased to 19 commercial clients with deferrals on approximately $290 million of loans.

We also took action to provide relief through the SBA's Paycheck Protection Program ("PPP"), delivering approximately $4.8 billion of loans to small and medium-sized business clients with an average loan size of approximately $98,000. Approximately 84% of the loans were under $100,000, and 93% of the loans were to businesses with fewer than 25 employees supporting over 540,000 jobs. As of December 31, 2020, approximately $565 million of those loans have been forgiven by the SBA. We are building on this success to deliver more relief

for our clients through the expansion of the PPP program under the Consolidated Appropriations Act, 2021 passed at the end of 2020.

For our colleagues, our commitment to their wellness, including physical, financial, and mental wellness, has continued to be a central focus during the COVID-19 crisis. In addition to ensuring that colleagues had the necessary tools and resources to continue to serve our customers safely, we shifted approximately 10,000 of our colleagues to a work from home environment and implemented several programs to support their wellness and their ability to maintain work-life balance. Some of the actions taken to support colleagues include providing additional paid time off for all colleagues, providing premium pay to colleagues serving customers in the branch or office, making changes for production-based incentive plans to address lower production, providing mental health and parental resources, and enhancing recognition awards. We have successfully deployed colleagues into new roles across the organization to meet pandemic-driven demands and we are committed to attracting and developing high caliber talent to further strengthen our team and position us well for our multi-year transformation efforts.

For our communities, we are focused on promoting social equity and advancing economic opportunity in underserved communities. In 2020, we launched a $5 million initiative in support of minority-owned small business, and followed that up with a $10 million commitment for grants and charitable support for immediate and longer-term initiatives aimed at supporting minority-owned small businesses, increasing awareness of racial disparities, and supporting underserved communities through technology, education and digital literacy initiatives. We also committed to provide more than $500 million in incremental financing and capital for small businesses, housing, and other development in predominately minority communities. In addition, our colleagues achieved meaningful volunteer hour contributions supporting community-based organizations in spite of the current COVID-19 environment.

Our TOP 6 Program is on target despite the pandemic and has been expanded with significant new efficiency-focused initiatives, such as the digitization of customer interactions and operations, as well as other initiatives for a post-COVID-19 environment. These digitization efforts include increasing adoption of digital applications, data analytics, artificial intelligence and machine learning, cloud software, Citizens Access® enhancements and more remote services that compound and expand the customer experience and position us well for future top-line growth.

We will continue to serve our stakeholders through this crisis and beyond, backed by our strong financial position that enables us to deliver in meaningful ways.

Competition

The financial services industry is highly competitive. Our branch footprint is in the New England, Mid-Atlantic and Midwest regions, though certain lines of business serve national markets. Within these markets we face competition from community banks, super-regional and national financial institutions, credit unions, savings and loan associations, mortgage banking firms, consumer finance companies, securities brokerage firms, insurance companies, money market funds, hedge funds and private equity firms. Some of our larger competitors may make available to their customers a broader array of products, pricing and structure alternatives while some smaller competitors may have more liberal lending policies and processes. Competition among providers of financial products and services continues to increase, with consumers having the opportunity to select from a growing variety of traditional and nontraditional alternatives. The ability of non-banking financial institutions, including FinTech companies, to provide services previously limited to commercial banks has also intensified competition.

In Consumer Banking, the industry has become increasingly dependent on and oriented toward technology-driven delivery systems, permitting transactions to be conducted through telephone, online and mobile channels. In addition, technology has lowered barriers to entry and made it possible for non-bank institutions to attract funds and provide lending and other financial products and services. The emergence of digital-only banking models has increased and we expect this trend to continue. Given their lower cost structure, these models are often, on average, able to offer higher rates on deposit products than retail banking institutions with a traditional branch footprint. The primary factors driving competition for loans and deposits are interest rates, fees charged, tailored value propositions to different customer segments, customer service levels, convenience, including branch locations and hours of operation, and the range of products and services offered.

In Commercial Banking, there is intense competition for quality loan originations from traditional banking institutions, particularly large regional banks, as well as commercial finance companies, leasing companies and other non-bank lenders, and institutional investors including collateralized loan obligation managers, hedge funds and private equity firms. Some larger competitors, including certain national banks that compete in our market area, may offer a broader array of products and due to their asset size, may sometimes be in a position to hold

more exposure on their own balance sheet. We compete on a number of factors including providing innovative corporate finance solutions, quality of customer service and execution, range of products offered, price and reputation.

Human Capital Management

Our ultimate goal is to create an environment where colleagues feel valued and would like to build their careers, thereby contributing to the creation of long-term stockholder value. Our journey over the past few years has been one of accelerated progress and change, in step with rapidly evolving market and talent expectations. We have been on the path to digitization, transforming how we work, and establishing a different mix of necessary capabilities for the future, while at the same time facilitating continued evolution of our culture.

Health, Safety and Wellness

Colleague wellness has always been central to our consciousness and strategy and it was a priority when we were designing our Johnston, RI campus, which opened in 2018 and includes onsite fitness and wellness centers, as well as walking paths and various sports and recreation facilities. Our commitment to colleagues’ wellness, including physical, financial, and mental wellness, has continued to be a central focus during the COVID-19 pandemic and associated lockdowns. In addition to ensuring that our colleagues had the necessary tools and resources to continue to serve our customers safely, we shifted approximately 10,000 of our colleagues to a work from home environment and implemented several programs to support their wellness and their ability to maintain work-life balance. These programs included additional paid time off to address personal circumstances and for COVID-19 quarantine and recovery, mental health and parental resources, as well as committing to no increases in colleagues’ medical premiums for the 2021 year. With regard to financial support, during the onset of the crisis we provided premium pay and an increased overtime rate for colleagues continuing to serve customers in the branches and office, and also made changes to our production-based pay plans to take into consideration decreased production.

Diversity, Equity and Inclusion

We are committed to building deep partnerships among our customers, colleagues, and communities and fostering a culture where all stakeholders feel respected, valued, and heard, and have a sense of belonging. A core tenet of our business strategy is growth and innovation and a hallmark of that strategy is to focus on the diversity of our colleagues, customers, and communities and the inclusivity of our culture. To that end, we have been on a multi-year journey to enhance awareness and improve capabilities and opportunities within the organization and in our communities, which has accelerated since we became an independent publicly-traded company in 2015.

As part of that journey, we have conducted a third-party audit to de-bias our people practices, have put into place several recruiting and development initiatives, and provide unconscious bias training. We acknowledge that there is an opportunity to further increase the representation of women and people of color at all levels of our organization, in particular in senior roles. Information regarding colleague demographics can be found on our website. To enable further progress, we have implemented partnerships with community organizations to help identify qualified diverse candidates and have expanded our diverse hire commitment, through which we interview a slate of at least 50% diverse candidates for senior openings. In addition, our development programs are designed to build a strong pipeline of diverse emerging talent internally. A key catalyst for change within our organization is our six business resource groups (“BRGs”), Citizens WIN (Women’s Impact Network), Citizens Elev8 (rising professionals), Prism (multi-cultural), Citizens Pride (LGBTQ), Citizens Veterans and Citizens Awake (disability awareness), each of which is sponsored by senior leaders. BRG members serve as cultural ambassadors within the business to help formulate and influence our diversity, equity, and inclusion strategy and to identify and solve related issues.

We are also committed to ensuring that equal pay is received for equal work throughout our organization and we engage an independent third-party expert to regularly conduct a pay equity analysis that accounts for factors that appropriately explain differences in pay such as performance, time in role, and experience. Additional information about this analysis can be found on our website.

Colleague Growth and Development

The world in which our business operates is changing rapidly in nearly every dimension, and the skills required of our colleagues to meet the evolving needs of customers are changing at an accelerated pace. Our

human capital strategy focuses on creating a work environment where every colleague is always growing, thriving, performing, and future-ready.

We are in the midst of executing on a large-scale transformation agenda, including a path to end-to-end digitization and transforming how we work. We are working to ensure that our colleagues are reframing their mindsets, behaviors, and capabilities for the future. We invest significant resources in colleague development and offer various programs aimed at equipping colleagues with the skills necessary to not only excel in their current roles, but to build competencies that will enable them to be highly valuable contributors now and in the future and ensure they are in step with changes in the market. Our programs build relevant critical skills such as leadership, agile, digital, innovation, data and analytics, and coaching and advising in order to effectively strengthen the necessary workforce capabilities for our organization. To enable development of these skills, we have implemented resources, experiences, and technologies to facilitate quick consumption of new bodies of knowledge and skills. One example of this is learning academies which are enabled by our new learning experience platform to offer a collection of specifically curated learning experiences and content for a particular area of expertise, such as engineering. We have also reframed our performance management process in order to further enable colleague success with ongoing check-ins and feedback as another step toward colleagues being able to contribute at their highest potential.

Engagement and Communication

We use McKinsey & Company's Organizational Health Index ("OHI") survey to understand colleagues' viewpoints about the Company on a wide range of factors to inform decisions regarding initiatives that will drive sustained top-tier performance and growth. In 2020, our OHI overall score reached the top quartile, reflecting a 15-point improvement since 2014. Our success depends on employees understanding how their work contributes to our overall strategy and we use a variety of platforms and forums to facilitate open and direct communication. These include communications from our CEO and management team through live stream forums, "Let's Connect" sessions hosted by members of the management team, and engagement through our BRGs.

Employees

The table below presents our part-time and full-time equivalent employees by region as of December 31, 2020. None of our employees are parties to a collective bargaining agreement. We consider our relationship with our employees to be good and have not experienced interruptions of operations due to labor disagreements.

Region	Part-Time Equivalent Employees	Full-Time Equivalent Employees	Total
New England	67	9,047	9,114
Mid-Atlantic	56	5,206	5,262
Midwest	52	1,546	1,598
Other	2	1,608	1,610
Total	177	17,407	17,584

Consumer Banking personnel make up a workforce of approximately 4,800 branch colleagues across approximately 1,000 branches, and include approximately 1,420 specialists covering lending, savings and investment needs as well as a broad range of small business products and services.

Beginning June 30, 2020, we allowed colleagues to return to our offices in 10 states and portions of three others. Approximately 6,500 non-branch colleagues are normally assigned to offices in these states, and approximately 10% of these are considered essential and work consistently in the office. Return to office for our other colleagues is voluntary at this time.

Regulation and Supervision

Our operations are subject to extensive regulation, supervision and examination under federal and state laws and regulations. These laws and regulations cover all aspects of our business, including lending practices, deposit insurance, customer privacy and cybersecurity, capital adequacy and planning, liquidity, safety and soundness, consumer protection and disclosure, permissible activities and investments, and certain transactions with affiliates. These laws and regulations are intended primarily for the protection of depositors, the Deposit Insurance Fund and the banking system as a whole and not for the protection of shareholders or other investors. The discussion below outlines the material elements of selected laws and regulations applicable to us and our subsidiaries. Changes in applicable law or regulation, and in their interpretation and application by regulatory agencies and other governmental authorities, cannot be predicted, but may have a material effect on our

business, financial condition or results of operations.

We and our subsidiaries are subject to examinations by federal and state banking regulators, as well as the SEC, FINRA and various state insurance and securities regulators. In some cases, regulatory agencies may take supervisory actions that may not be publicly disclosed, and such actions may restrict or limit our activities or activities of our subsidiaries. As part of our regular examination process, regulators may advise us to operate under various restrictions as a prudential matter. We have periodically received requests for information from regulatory authorities at the federal and state level, including from banking, securities and insurance regulators, state attorneys general, federal agencies or law enforcement authorities, and other regulatory authorities, concerning our business practices. Such requests are considered incidental to the normal conduct of business. For a further discussion of how regulatory actions may impact our business, see Item 1A “Risk Factors.” For additional information regarding regulatory matters, see Note 24 in Item 8.

Overview

We are a bank holding company under the Bank Holding Company Act. We have elected to be treated as a financial holding company under amendments to the Bank Holding Company Act as effected by GLBA. As such, we are subject to the supervision, examination and reporting requirements of the Bank Holding Company Act and the regulations of the FRB, including through the Federal Reserve Bank of Boston. Under the system of “functional regulation” established under the Bank Holding Company Act, the FRB serves as the primary regulator of our consolidated organization, and the SEC serves as the primary regulator of our broker-dealer and investment advisory subsidiaries and directly regulates the activities of those subsidiaries, with the FRB exercising a supervisory role.

The federal banking regulators have authority to approve or disapprove mergers, acquisitions, consolidations, the establishment of branches and similar corporate actions. These banking regulators also have the power to prevent the continuance or development of unsafe or unsound banking practices or other violations of law. Federal law governs the activities in which CBNA engages, including the investments it makes and the aggregate amount of available credit that it may grant to one borrower. Various consumer and compliance laws and regulations also affect its operations. The actions the FRB takes to implement monetary policy also affect CBNA.

In addition, CBNA is subject to regulation, supervision and examination by the CFPB with respect to consumer protection laws and regulations. The CFPB has broad authority to regulate the offering and provision of consumer financial products by depository institutions, such as CBNA, with more than $10 billion in total assets. The CFPB may promulgate rules under a variety of consumer financial protection statutes, including the Truth in Lending Act, the Electronic Funds Transfer Act and the Real Estate Settlement Procedures Act.

Tailoring of Prudential Requirements

In October 2019, the FRB and the other federal banking regulators finalized rules that tailor the application of the enhanced prudential standards to bank holding companies and depository institutions to implement the Economic Growth, Regulatory Relief, and Consumer Protection Act of 2018 (“EGRRCPA”) amendments to the Dodd-Frank Act (“Tailoring Rules”). The Tailoring Rules assign each U.S. bank holding company with $100 billion or more in total consolidated assets, as well as its bank subsidiaries, to one of four categories based on its size and five other risk-based indicators:

i. cross-jurisdictional activity,

ii. weighted short-term wholesale funding (“wSTWF”),

iii. non-bank assets,

iv. off-balance sheet exposure, and

v. status as a U.S. global systemically important bank.

Under the Tailoring Rules, we are subject to “Category IV standards,” which apply to banking organizations with at least $100 billion in total consolidated assets that do not meet any of the thresholds specified for Categories I through III. Accordingly, Category IV firms, such as us,

i. are no longer subject to any LCR requirement (or in certain cases, are subject to reduced requirements),

ii. remain not subject to advanced approaches capital requirements,

iii. remain eligible to opt-out of the requirement to recognize most elements of Accumulated Other Comprehensive Income in regulatory capital,

iv. remain not subject to the supplementary leverage ratio,

v. remain not subject to the countercyclical capital buffer,

vi. are no longer subject to company-run stress testing requirements,

vii. became subject to supervisory stress testing on a biennial instead of annual basis,

viii. remain subject to requirements to develop and maintain a capital plan on an annual basis, and

ix. remain subject to certain liquidity risk management and risk committee requirements.

We discuss other elements of the Tailoring Rules where relevant below. The liquidity requirements are described below under "—Liquidity Requirements," and their stress testing requirements are described below under "—Capital Planning and Stress Testing Requirements."

Financial Holding Company Regulation

The Bank Holding Company Act generally restricts bank holding companies from engaging in business activities other than banking, managing or controlling banks, furnishing services to or performing services for subsidiaries and activities that the FRB has determined to be closely related to banking. For so long as they continue to meet the eligibility requirements for financial holding company status, financial holding companies may engage in a broader range of activities, including securities underwriting and dealing, insurance underwriting and brokerage, merchant banking and other activities that are determined by the FRB, in coordination with the Treasury Department, to be "financial in nature or incidental thereto" or that the FRB determines unilaterally to be "complementary" to financial activities. In addition, a financial holding company may conduct permissible new financial activities or acquire permissible non-bank financial companies with after-the-fact notice to the FRB.

As noted above, we currently have elected to be treated as a financial holding company under amendments to the Bank Holding Company Act as effected by GLBA. To maintain financial holding company status, a financial holding company and all of its insured depository institution subsidiaries must remain "well capitalized" and "well managed", as described below under "Federal Deposit Insurance Act", and maintain a CRA rating of at least "Satisfactory" (see "Community Reinvestment Act" below). If a financial holding company ceases to meet the capital and management requirements, the FRB's regulations provide that the financial holding company must enter into an agreement with the FRB to comply with all applicable capital and management requirements. Until the financial holding company returns to compliance, the FRB may impose limitations or conditions on the conduct of its activities, and the company may not commence any of the broader financial activities permissible for financial holding companies or acquire a company engaged in such financial activities without prior approval of the FRB. In addition, the failure to meet such requirements could result in other material restrictions on the activities of the financial holding company, may also adversely affect the financial holding company's ability to enter into certain transactions, including acquisition transactions, or obtain necessary approvals in connection therewith, and may result in the bank holding company losing financial holding company status. Any restrictions imposed on our activities by the FRB may not necessarily be made known to the public. If the company does not return to compliance within 180 days, which period may be extended, the FRB may require the financial holding company to divest its subsidiary depository institutions or to discontinue or divest investments in companies engaged in activities permissible only for a bank holding company electing to be treated as a financial holding company. If any insured depository institution subsidiary of a financial holding company fails to maintain a CRA rating of at least "Satisfactory," the financial holding company would be subject to restrictions on certain new activities and acquisitions. Bank holding companies and banks must also be both well capitalized and well managed in order to acquire banks located outside their home state.

Capital

The U.S. Basel III rules apply to us. These rules establish risk-based and leverage capital requirements. The risk-based requirements are based on a banking organization's risk-weighted assets, also known as RWA, which reflect the organization's on- and off-balance sheet exposures, subject to risk weights. The leverage requirements are based on a banking organization's average consolidated on-balance sheet assets. For more detail on our regulatory capital, see the "Capital and Regulatory Matters" section of Item 7.

We calculate RWA using the standardized approach and have made the one-time election to opt-out of AOCI. As a result, we are not required to recognize in regulatory capital the impacts of net unrealized gains and losses included within AOCI for debt securities that are available for sale or held to maturity, accumulated net gains and losses on cash flow hedges and certain defined benefit pension plan assets.

On January 1, 2020, we adopted the CECL accounting standard. In reaction to the COVID-19 pandemic and associated lockdowns, on September 30, 2020 the FRB and the other federal banking regulators adopted a final rule relative to regulatory capital treatment of ACL under CECL. This rule allowed electing banking organizations to delay the estimated impact of CECL on regulatory capital for a two-year period ending January 1, 2022, followed by a three-year transition period ending January 1, 2025 to phase-in the aggregate amount of the capital benefit provided during the initial two-year delay.

Under the U.S. Basel III rules, the minimum capital ratios are:

- 4.5% CET1 capital to risk-weighted assets;
- 6.0% tier 1 capital (that is, CET1 capital plus additional tier 1 capital) to risk-weighted assets;
- 8.0% total capital (that is, tier 1 capital plus tier 2 capital) to risk-weighted assets; and
- 4.0% tier 1 capital to total average consolidated assets as defined under U.S. Basel III Standardized approach (known as the “leverage ratio”).

Effective October 1, 2020, the FRB finalized our stress capital buffer (“SCB”) of 3.4% which replaced the capital conservation buffer (“CCB”) of 2.5%. Our SCB of 3.4% is based on the results of the 2020 Dodd-Frank Act Stress Test (“DFAST”) in connection with the related CCAR and is imposed on top of each of the three minimum risk-weighted asset ratios listed above. For Category IV firms, like us, the FRB has stated that the SCB will be re-calibrated with each biennial supervisory stress test and updated annually to reflect our planned common stock dividends and common share buybacks. Banking institutions that fail to meet the effective minimum ratios with the SCB taken into account will be subject to constraints on capital distributions, including dividends and share repurchases, and certain discretionary executive compensation. The severity of the constraints depends on the amount of the shortfall and the institution’s “eligible retained income”, defined as the greater of four quarter trailing net income, net of distributions and tax effects not reflected in net income, or the average four quarter trailing net income. On September 30, 2020, the FRB issued a proposed rule to make conforming changes to its Capital Plan Rule, stress capital buffer requirements, and capital planning requirements to be consistent with the Tailoring Rules framework. Under the proposal, Category IV firms, like us, would have the ability to elect to participate in the supervisory stress test and receive an updated SCB requirement in a year in which they are not subject to the supervisory stress test. For more details, see “—Capital Planning and Stress Testing Requirements” below and the “Capital and Regulatory Matters” section of Item 7.

We are also subject to the FRB's risk-based capital requirements for market risk. See the “Market Risk” section of Item 7.

Liquidity Requirements

The Federal banking regulators have adopted the Basel III-based U.S. LCR rule, which is a quantitative liquidity metric designed to ensure that a covered bank or bank holding company maintains an adequate level of unencumbered high-quality liquid assets to cover expected net cash outflows over a 30-day time horizon under an acute liquidity stress scenario. As noted above, under the Tailoring Rules, Category IV firms with less than $50 billion in wSTWF, including us, are no longer subject to any LCR requirement.

The Basel III framework also includes a second liquidity standard, the NSFR, which is designed to promote more medium- and long-term funding of the assets and activities of banks over a one-year time horizon. On October 20, 2020, the federal banking regulators issued a final rule to implement the NSFR for large U.S. banking organizations. Under the final rule, Category IV firms with less than $50 billion in weighted short-term wholesale funding, including us, will not be subject to the NSFR requirement.

Finally, per the liquidity rules included in the FRB’s enhanced prudential standards adopted pursuant to Section 165 of the Dodd-Frank Act (referred to above under “—Tailoring of Prudential Requirements”), we are also required to maintain a buffer of highly liquid assets based on projected funding needs for 30 days. Under the Tailoring Rules, the liquidity buffer requirements continue to apply to Category IV firms, such as us, and remain subject to liquidity risk management requirements. However, these requirements are now tailored such that we required to:

i. calculate collateral positions monthly, as opposed to weekly;

ii. establish a more limited set of liquidity risk limits than was previously required; and

iii. monitor fewer elements of intraday liquidity risk exposures than were previously monitored.

We are also now subject to liquidity stress testing quarterly, rather than monthly, and are required to report liquidity data on a monthly basis.

Capital Planning and Stress Testing Requirements

Under the Tailoring Rules, Category IV firms, such as us, are subject to biennial supervisory stress testing and are exempt from company-run stress testing and related disclosure requirements. Category IV firms are also no longer required to submit resolution plans. The FRB continues to supervise Category IV firms on an ongoing basis, including evaluation of the capital adequacy and capital planning processes during off-cycle years. We remain subject to the requirement to develop, maintain and submit an annual capital plan for review and approval by our board of directors, or one of its committees, as well as FR Y-14 reporting requirements.

On September 30, 2020, the FRB issued a proposed rule to make conforming changes to its Capital Plan Rule, stress capital buffer requirements, and capital planning requirements to be consistent with the Tailoring Rules framework. Under the proposal, Category IV firms, like us, would have the ability to elect to participate in the supervisory stress test and receive an updated SCB requirement in a year in which they are not subject to the supervisory stress test. For purposes of calculating the SCB in 2021, the proposed rule would require us to notify the FRB of our intention to participate in the 2021 supervisory stress test by April 5, 2021.

Regulations relating to capital planning, regulatory reporting, and stress capital buffer requirements applicable to firms like us are presently subject to rule making and potential further guidance and interpretation by the applicable federal regulators. We will continue to evaluate the impact of these and any other prudential regulatory changes, including their potential resultant changes in our regulatory and compliance costs and expenses.

For more detail on our capital planning and stress testing requirements see the “Capital and Regulatory Matters” section of Item 7.

Standards for Safety and Soundness

The FDIA requires the FRB, OCC and FDIC to prescribe operational and managerial standards for all insured depository institutions, including CBNA. The agencies have adopted regulations and interagency guidelines that set forth the safety and soundness standards used to identify and address problems at insured depository institutions before capital becomes impaired. If an agency determines that a bank fails to satisfy any standard, it may require the bank to submit an acceptable plan to achieve compliance, consistent with deadlines for the submission and review of such safety and soundness compliance plans. If, after being notified to submit a compliance plan, an institution fails to submit an acceptable compliance plan or fails in any material respect to implement an acceptable compliance plan, the agency must issue an order directing action to correct the deficiency and may issue an order directing other actions of the types to which an undercapitalized institution is subject under the FDIA. See “Federal Deposit Insurance Act” below. If an institution fails to comply with such an order, the agency may seek to enforce such order in judicial proceedings and to impose civil money penalties.

Federal Deposit Insurance Act

The FDIA requires, among other things, that the federal banking regulators take “prompt corrective action” with respect to depository institutions that do not meet minimum capital requirements, as described above in “Capital.” The FDIA sets forth the following five capital categories: “well-capitalized,” “adequately capitalized,” “undercapitalized,” “significantly undercapitalized” and “critically undercapitalized.” A depository institution’s capital category depends upon how its capital levels compare with various relevant capital measures and certain other factors that are established by regulation. The federal banking regulators must take certain mandatory supervisory actions, and are authorized to take other discretionary actions, with respect to institutions that are undercapitalized, significantly undercapitalized or critically undercapitalized, with the actions becoming more restrictive and punitive the lower the institution’s capital category. Under existing rules, an institution that is not an advanced approaches institution is deemed to be “well capitalized” if it has a CET1 ratio of at least 6.5%, a tier 1 capital ratio of at least 8%, a total capital ratio of at least 10%, and a tier 1 leverage ratio of at least 5%.

The FDIA’s prompt corrective action provisions only apply to depository institutions and not to bank holding companies. The FRB’s regulations applicable to bank holding companies separately define “well capitalized” for bank holding companies to require maintaining a tier 1 capital ratio of at least 6% and a total capital ratio of at least 10%. As described above under “—Financial Holding Company Regulation”, a financial holding company that is not well-capitalized and well-managed (or whose bank subsidiaries are not well

capitalized and well managed) under applicable prompt corrective action standards may be restricted in certain of its activities and ultimately may lose financial holding company status. As of December 31, 2020, the Parent Company and CBNA were well-capitalized.

The FDIA prohibits insured banks from accepting brokered deposits or offering interest rates on any deposits significantly higher than the prevailing rate in the bank's normal market area or nationally, depending upon where the deposits are solicited, unless it is "well-capitalized," or it is "adequately capitalized" and receives a waiver from the FDIC. A bank that is "adequately capitalized" and accepts brokered deposits under a waiver from the FDIC may not pay an interest rate on any deposit in excess of 75 basis points over certain prevailing market rates. The FDIA imposes no such restrictions on a bank that is "well-capitalized."

Deposit Insurance

The FDIA requires CBNA to pay deposit insurance assessments. FDIC assessment rates for large institutions are calculated based on one of two scorecards. One for most large institutions that have more than $10 billion in assets and another for "highly complex" institutions that have over $50 billion in assets and are fully owned by a parent with over $500 billion in assets. Each scorecard has a performance score and a loss-severity score that are combined to produce a total score, which is translated into an initial assessment rate. In calculating these scores, the FDIC utilizes the CAMELS ratings and forward-looking financial measures to assess an institution's ability to withstand asset-related stress and funding-related stress. The FDIC has the ability to make discretionary adjustments to the total score, based upon significant risk factors that are not adequately captured in the scorecard. The total score is then translated to an initial base assessment rate on a non-linear, sharply-increasing scale.

The deposit insurance assessment is calculated based on average consolidated total assets less average tangible equity of the insured depository institution during the assessment period. Deposit insurance assessments are also affected by the minimum reserve ratio with respect to the Deposit Insurance Fund ("DIF"). The FDIA established a minimum reserve ratio of the DIF of 1.15% prior to September 2020 and 1.35% thereafter. As of September 30, 2020, the reserve ratio of the DIF was 1.30%. On September 15, 2020, the FDIC's Board of Directors voted to adopt a restoration plan to restore the DIF reserve ratio to at least 1.35% within 8 years, as required by the FDIA.

Dividends

Various federal statutory provisions and regulations, as well as regulatory expectations, limit the amount of dividends that we and our subsidiaries may pay.

Our payment of dividends to our stockholders is subject to the oversight of the FRB. In particular, the FRB reviews the dividend policies and share repurchases of a large bank holding company based on capital plans submitted as part of the CCAR process and on the results of stress tests, as discussed above. In addition to other limitations, our ability to make any capital distributions, including dividends and share repurchases, is contingent on the FRB's non-objection to such planned distributions included in our submitted capital plan or the FRB's authorization to make distributions if we are exempt from the requirement to submit a capital plan. See "—Capital" and "—Capital Planning and Stress Testing Requirements" above.

Dividends payable by CBNA, as a national bank subsidiary, are limited to the lesser of the amount calculated under a "recent earnings" test and an "undivided profits" test. Under the recent earnings test, a dividend may not be paid if the total of all dividends declared by a bank in any calendar year is in excess of the current year's net income combined with the retained net income of the two preceding years, less any required transfers to surplus, unless the national bank obtains the approval of the OCC. Under the undivided profits test, a dividend may not be paid in excess of the entity's "undivided profits" (generally, accumulated net profits that have not been paid out as dividends or transferred to surplus). Federal bank regulatory agencies have issued policy statements that provide that FDIC-insured depository institutions and their holding companies should generally pay dividends only out of their current operating earnings.

Support of Subsidiary Bank

Under Section 616 of the Dodd-Frank Act, which codifies the FRB's long-standing "source of strength" doctrine, the Parent Company must serve as a source of financial and managerial strength for our depository institution subsidiary. The statute defines "source of financial strength" as the ability to provide financial assistance in the event of the financial distress at the insured depository institution. The FRB may require that the Parent Company provide such support at times even when the Parent Company may not have the financial resources to do so, or when doing so may not serve our interests or those of our shareholders or creditors. In addition, any capital loans by a bank holding company to its subsidiary bank are subordinate in right of payment to deposits and to certain other indebtedness of such subsidiary bank. In the event of a bank holding company's bankruptcy, any commitment by the bank holding company to a federal bank regulatory agency to maintain the capital of a subsidiary bank will be assumed by the bankruptcy trustee and entitled to a priority of payment.

Transactions with Affiliates and Insiders

Sections 23A and 23B of the Federal Reserve Act and related FRB rules, including Regulation W, restrict CBNA from extending credit to, or engaging in certain other transactions with, the Parent Company and its non-bank subsidiaries. These restrictions place limits on certain specified "covered transactions" between bank subsidiaries and their affiliates, which must be limited to 10% of a bank's capital and surplus for any one affiliate and 20% for all affiliates. Furthermore, within the foregoing limitations as to amount, certain covered transactions must meet specified collateral requirements ranging from 100% to 130%. Covered transactions are defined to include, among other things, a loan or extension of credit, as well as a purchase of securities issued by an affiliate, a purchase of assets (unless otherwise exempted by the FRB) from the affiliate, the acceptance of securities issued by the affiliate as collateral for a loan, derivatives transactions and securities lending transactions where the bank has credit exposure to an affiliate, and the issuance of a guarantee, acceptance or letter of credit on behalf of an affiliate. All covered transactions, including certain additional transactions (such as transactions with a third party in which an affiliate has a financial interest), must be conducted on market terms. The FRB enforces these restrictions and we are audited for compliance.

Section 23B prohibits an institution from engaging in certain transactions with affiliates unless the transactions are on terms substantially the same, or at least as favorable to the bank, as those prevailing at the time for comparable transactions with non-affiliated companies. Transactions between a bank and any of its subsidiaries that are engaged in certain financial activities may be subject to the affiliated transaction limits. The FRB also may designate banking subsidiaries as affiliates.

Pursuant to FRB Regulation O, we are also subject to quantitative restrictions on extensions of credit to executive officers, directors, principal stockholders and their related interests. In general, such extensions of credit may not exceed certain dollar limitations, must be made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with third parties and must not involve more than the normal risk of repayment or present other unfavorable features. Certain extensions of credit also require the approval of our Board.

Volcker Rule

The Dodd-Frank Act prohibits banks and their affiliates from engaging in proprietary trading and investing in, sponsoring and having certain relationships with private funds such as certain hedge funds or private equity funds. The statutory provision is commonly called the "Volcker Rule." In October 2019, the FRB, OCC, FDIC, the SEC and the CFTC (collectively, the "Volcker Agencies") finalized amendments to their regulations to tailor the Volcker Rule's compliance requirements to the amount of a firm's trading activity, revise the definition of trading account, clarify certain key provisions in the Volcker Rule, and modify the information companies are required to provide the Volcker Agencies. Under those amendments, we expect that we would be regarded as having "moderate" trading assets and liabilities, and therefore subject to a requirement to have a simplified compliance program that is appropriate for our activities, size, scope, and complexity. In June 2020, the Volcker Agencies finalized other regulations modifying the Volcker Rule's prohibition on banking entities investing in or sponsoring hedge funds or private equity funds (referred to under the rule as covered funds). This final rule became effective October 1, 2020. We do not expect either of these regulatory amendments to the Volcker Rule to have a material impact on Citizens.

Consumer Financial Protection Regulations

The retail activities of banks are subject to a variety of statutes and regulations designed to protect consumers and promote lending to various sectors of the economy and population. These laws include, but are not limited to, the Equal Credit Opportunity Act, the Fair Debt Collection Practices Act, the Fair Credit Reporting Act, the Truth in Lending Act, the Home Mortgage Disclosure Act, the Service Members Civil Relief Act, the Expedited Funds Availability Act, the Right to Financial Privacy Act, the Truth in Savings Act, the Electronic Funds Transfer Act, and their respective federal regulations and state law counterparts.

In addition to these federal laws and regulations, the guidance and interpretations of the various federal agencies charged with the responsibility of implementing such regulations also influences loan and deposit operations.

The CFPB has broad rulemaking, supervisory, examination and enforcement authority over various consumer financial protection laws, including the laws referenced above, fair lending laws and certain other statutes. The CFPB also has examination and primary enforcement authority with respect to depository institutions with $10 billion or more in assets, including the authority to prevent unfair, deceptive or abusive acts or practices in connection with the offering of consumer financial products.

The Dodd-Frank Act permits states to adopt stricter consumer protection laws and standards that are more stringent than those adopted at the federal level, and in certain circumstances allows state attorneys general to enforce compliance with both the state and federal laws and regulations. State regulation of financial products and potential enforcement actions could also adversely affect our business, financial condition or results of operations.

Protection of Customer Personal Information and Cybersecurity

The privacy provisions of GLBA generally prohibit financial institutions, including us, from disclosing nonpublic personal financial information of consumer customers to third parties for certain purposes (primarily marketing) unless customers have the opportunity to opt out of the disclosure. The Fair Credit Reporting Act restricts information sharing among affiliates for marketing purposes. Both the Fair Credit Reporting Act and Regulation V, issued by the FRB, govern the use and provision of information to consumer reporting agencies.

The federal banking regulators regularly issue guidance regarding cybersecurity intended to enhance cyber risk management standards among financial institutions. Financial institutions are expected to design multiple layers of security controls to establish lines of defense and to ensure that their risk management processes also address the risk posed by compromised customer credentials, including security measures to reliably authenticate customers' accessing internet-based services of the financial institution. Further, a financial institution's management is expected to maintain sufficient business continuity planning processes to ensure the rapid recovery, resumption and maintenance of the institution's operations after a cyber-attack involving destructive malware. A financial institution is also expected to develop appropriate processes to enable recovery of data and business operations and address rebuilding network capabilities and restoring data if the institution or its critical service providers fall victim to this type of cyber-attack. If we fail to observe the regulatory guidance, we could be subject to various regulatory sanctions, including financial penalties. For a further discussion of risks related to cybersecurity, see Item 1A "Risk Factors."

In 2016, federal regulators jointly issued an advance notice of proposed rulemaking on enhanced cyber risk management standards that are intended to increase the operational resilience of large and interconnected entities under their supervision. Once established, the enhanced cyber risk management standards would help to reduce the potential impact of a cyber-attack or other cyber-related failure on the financial system. The advance notice of proposed rulemaking addresses five categories of cyber standards:

i. cyber risk governance;

ii. cyber risk management;

iii. internal dependency management;

iv. external dependency management; and

v. incident response, cyber resilience, and situational awareness.

We will continue to monitor any developments related to this proposed rulemaking.

State regulators have also been increasingly active in implementing privacy and cybersecurity standards and regulations. Recently, several states have adopted laws and regulations requiring certain financial institutions to implement cybersecurity programs and providing detailed requirements with respect to these programs, including data encryption requirements. For example, the California Consumer Privacy Act, which became effective on January 1, 2020, gives new rights to California residents to require certain businesses to disclose or delete their personal information. In addition, many states have also recently implemented or modified their data breach notification and data privacy requirements. We expect this trend of state-level activity to continue, and are continually monitoring developments in the states in which we operate.

Community Reinvestment Act

The CRA requires banking regulators to evaluate the Parent Company and CBNA in meeting the credit needs of our local communities, including providing credit to individuals residing in low- and moderate- income neighborhoods. The CRA requires each appropriate federal bank regulatory agency, in connection with its examination of a depository institution, to assess such institution's record in assessing and meeting the credit needs of the community served by that institution and assign ratings. The regulatory agency's evaluation of the institution's record and ratings are made public. These CRA performance evaluations are also considered by regulatory agencies in evaluating mergers, acquisitions and applications to open a branch or facility, and, in the case of a bank holding company that has elected financial holding company status, a CRA rating of at least "satisfactory" is required to commence certain new financial activities or to acquire a company engaged in such activities. CBNA received a rating of "outstanding" in our most recent CRA evaluation.

On May 20, 2020, the OCC announced its final rule designed to strengthen and modernize its regulations under the CRA, which followed a December 2019 joint notice of proposed rulemaking with the FDIC. The final rule significantly revamps for national banks, like CBNA, how the OCC defines what qualifies for CRA credit, where such activity must be conducted to receive credit, how CRA performance is measured, and how CRA performance is documented and reported. The final rule was effective October 1, 2020, with a compliance date of January 1, 2023. On November 24, 2020, the OCC issued a proposed rule which included its approach to determine and assess significant declines in CRA evaluation measure benchmarks, retail lending distribution test thresholds, and community development minimums under the general performance standards set forth in the May 2020 final rule. We will continue to evaluate the impact of any changes to the regulations implementing the CRA.

Compensation

Our compensation practices are subject to oversight by the FRB and the OCC. The federal banking regulators have issued guidance designed to ensure that incentive compensation arrangements at banking organizations take into account risk and are consistent with safe and sound practices. The guidance sets forth the following three key principles with respect to incentive compensation arrangements:

i. the arrangements should provide employees with incentives that appropriately balance risk and financial results in a manner that does not encourage employees to expose their organizations to imprudent risk;

ii. the arrangements should be compatible with effective controls and risk management; and

iii. the arrangements should be supported by strong corporate governance.

The guidance provides that supervisory findings with respect to incentive compensation will be incorporated, as appropriate, into the organization's supervisory ratings.

The U.S. financial regulators, including the FRB, the OCC and the SEC, jointly proposed regulations in 2011 and again in 2016 to implement the incentive compensation requirements of Section 956 of the Dodd-Frank Act. These regulations have not been finalized.

Anti-Money Laundering

The USA PATRIOT Act, enacted in 2001 and renewed in 2006, substantially broadened the scope of U.S. anti-money laundering laws and regulations by imposing significant new compliance and due diligence obligations, creating new crimes and penalties and expanding the extra-territorial jurisdiction of the United States. Institutions must maintain anti-money laundering programs that include established internal policies, procedures and controls; a designated compliance officer; an ongoing employee training program; and testing of the program by an independent audit function. We are prohibited from entering into specified financial transactions and account relationships and must meet enhanced standards for due diligence in dealings with

foreign financial institutions and foreign customers. We also must take reasonable steps to conduct enhanced scrutiny of account relationships to guard against money laundering and to report any suspicious transactions. Recent laws provide law enforcement authorities with increased access to financial information maintained by banks.

The USA PATRIOT Act also provides for the facilitation of information sharing among governmental entities and financial institutions for the purpose of combating terrorism and money laundering. The statute also creates enhanced information collection tools and enforcement mechanics for the U.S. government, including requiring standards for verifying customer identification at account opening, promulgating rules to promote cooperation among financial institutions, regulators and law enforcement entities in identifying parties that may be involved in terrorism or money laundering, requiring reports by non-financial trades and businesses filed with the Treasury's Financial Crimes Enforcement Network ("FinCEN") for transactions exceeding $10,000 and mandating the filing of suspicious activities reports if a bank believes a customer may be violating U.S. laws and regulations. The statute also requires enhanced due diligence requirements for financial institutions that administer, maintain or manage private bank accounts or correspondent accounts for non-U.S. persons. Bank regulators routinely examine institutions for compliance with these obligations and are required to consider compliance in connection with the regulatory review of applications.

FinCEN drafts regulations implementing the USA PATRIOT Act and other anti-money laundering and Bank Secrecy Act legislation. FinCEN has adopted rules that require financial institutions to obtain beneficial ownership information with respect to legal entities with which such institutions conduct business, subject to certain exclusions and exemptions. Bank regulators are focusing their examinations on anti-money laundering compliance, and we continue to monitor and augment, where necessary, our anti-money laundering compliance programs.

Office of Foreign Assets Control Regulation

The U.S. has imposed economic sanctions that affect transactions with designated foreign countries, nationals and others. These are typically known as the "OFAC" rules based on their administration by the U.S. Treasury Department Office of Foreign Assets Control. The OFAC-administered sanctions targeting countries take many different forms. Generally, they contain one or more of the following elements:

i. restrictions on trade with or investment in a sanctioned country, including prohibitions against direct or indirect imports from and exports to a sanctioned country and prohibitions on U.S. persons engaging in financial transactions relating to, making investments in, or providing investment-related advice or assistance to, a sanctioned country; and

ii. a blocking of assets in which the government or specially designated nationals of the sanctioned country have an interest, by prohibiting transfers of property subject to U.S. jurisdiction (including property in the possession or control of U.S. persons). Blocked assets (e.g., property and bank deposits) cannot be paid out, withdrawn, set off or transferred in any manner without a license from OFAC.

OFAC publishes, and routinely updates, lists of names of persons and organizations suspected of aiding, harboring or engaging in terrorist acts, including the Specially Designated Nationals and Blocked Persons. We are responsible for, among other things, blocking accounts of and transactions with, such targets and countries, prohibiting unlicensed trade and financial transactions with them and reporting blocked transactions after their occurrence. If we find a name on any transaction, account or wire transfer that is on an OFAC list, we must freeze such account, file a suspicious activity report and notify the appropriate authorities. Failure to comply with these sanctions could have serious legal and reputational consequences.

Regulation of Broker-Dealers

Our subsidiary CCMI is a registered broker-dealer with the SEC and subject to regulation and examination by the SEC as well as FINRA and other self-regulatory organizations. These regulations cover a broad range of issues, including capital requirements; sales and trading practices; use of client funds and securities; the conduct of directors, officers and employees; record-keeping and recording; supervisory procedures to prevent improper trading on material non-public information; qualification and licensing of sales personnel; and limitations on the extension of credit in securities transactions. In addition to federal registration, state securities commissions require the registration of certain broker-dealers.

Heightened Risk Governance Standards

CBNA is subject to OCC guidelines imposing heightened risk governance standards on large national banks with average total consolidated assets of $50 billion or more. The guidelines set forth minimum standards for the design and implementation of a bank's risk governance framework, and minimum standards for oversight of that framework by a bank's board of directors. The guidelines are intended to protect the safety and soundness of covered banks and improve bank examiners' ability to assess compliance with the OCC's expectations. Under the guidelines, a bank may use its parent company's risk governance framework if the framework meets the minimum standards, the risk profiles of the parent company and the covered bank are substantially the same, and certain other conditions are met. CBNA has elected to use the Parent Company's risk governance framework. A bank's board of directors is required to have two members who are independent of the bank and parent company management. A bank's board of directors is responsible for ensuring that the risk governance framework meets the standards in the guidelines, providing active oversight and a credible challenge to management's recommendations and decisions and ensuring that the parent company decisions do not jeopardize the safety and soundness of the bank.

Intellectual Property

In the highly competitive banking industry in which we operate, trademarks, service marks, trade names and logos are important to the success of our business. We own and license a variety of trademarks, service marks, trade names, logos and pending registrations and are spending significant resources to develop our stand-alone brands.

Website Access to Citizens' Filings with the SEC

We maintain a website at investor.citizensbank.com. We make available on our website, free of charge, our annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K, including exhibits, and amendments to those reports that are filed or furnished to the SEC pursuant to Section 13(a) of the Securities Exchange Act of 1934. These documents are made available on our website as soon as reasonably practicable after they are electronically filed with or furnished to the SEC. The SEC also maintains an internet site (www.sec.gov) that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC.

ITEM 1A. RISK FACTORS

We are subject to a number of risks potentially impacting our business, financial condition, results of operations and cash flows. As we are a financial services organization, certain elements of risk are inherent in our transactions and operations and are present in the business decisions we make. We, therefore, encounter risk as part of the normal course of our business and we design risk management processes to help manage these risks. Our success is dependent on our ability to identify, understand and manage the risks presented by our business activities so that we can appropriately balance revenue generation and profitability. These risks include, but are not limited to, credit risk, market risk, liquidity risk, operational risk, model risk, technology, regulatory and legal risk and strategic and reputational risk. We discuss our principal risk management processes and, in appropriate places, related historical performance in the "Risk Governance" section in Item 7.

You should carefully consider the following risk factors that may affect our business, financial condition and results of operations. Other factors that could affect our business, financial condition and results of operation are discussed in the "Forward-Looking Statements" section above. However, there may be additional risks that are not presently material or known, and factors besides those discussed below, or in this or other reports that we file or furnish with the SEC, that could also adversely affect us.

Risks Related to Our Business

The COVID-19 pandemic and associated lockdowns have adversely affected us, and may continue to adversely affect, and created, and may exacerbate or create new, significant risks and uncertainties for our business, and the ultimate impact of the pandemic on us will depend on future developments, which are highly uncertain and cannot be predicted.

The COVID-19 pandemic and associated lockdowns have negatively affected the global and U.S. economies, increased unemployment levels, disrupted supply chains and businesses in many industries, lowered equity market valuations, decreased liquidity in fixed income markets, and created significant volatility and disruption in financial markets. This has resulted, and could continue to result, in higher and more volatile provisions for credit losses, and is also expected to result in increased charge-offs, particularly as more

customers experience credit deterioration and as customers need to draw on their committed credit lines to help finance their businesses and activities. The pandemic's negative economic impact and its effect on customer needs and behaviors could adversely affect our liquidity and also continue to adversely affect our capital profile. Moreover, governmental actions in response to the pandemic are meaningfully influencing the interest-rate environment, which has, and is likely to continue to, reduce our net interest margin. The pandemic may also have adverse effects on our noninterest income. The effects of the pandemic have resulted, and may continue to result, in lower service charges and fees and card fees, and has also caused, and may continue to cause, volatility in other noninterest income, in particular capital markets fees and foreign exchange and interest rate products revenue.

In addition, our reliance on work-from-home capabilities and the potential inability to maintain critical staff in our operational facilities present risks associated with our local infrastructure, restrictive stay-at-home orders across jurisdictions, illness, quarantines and the sustainability of a work-from-home environment, as well as heightened cybersecurity, information security and operational risks. Many of our service providers have been, and may further be, affected by similar factors that increase their risk of business disruptions or that may otherwise affect their ability to perform under the terms of any agreements with us or provide essential services. Any disruption to our ability to deliver financial products or services to, or interact with, our clients and customers could result in losses or increased operational costs, regulatory fines, penalties or other sanctions, or harm to our reputation. We also face an increased risk of litigation and governmental and regulatory scrutiny as a result of the effects of the pandemic on market and economic conditions and the actions of governmental authorities in response to those conditions.

The federal banking regulators have issued interagency guidance to clarify supervisory expectations regarding loan modifications due to COVID-19-related non-payment and the regulatory capital transition for the current expected credit loss accounting standard. Further, the Federal Reserve has implemented a broad array of actions to limit the negative impacts of the COVID-19 pandemic and associated lockdowns on the economy and U.S. businesses. In addition, the U.S. Congress has passed a number of economic stimulus packages, including the $2 trillion CARES Act, the Families First Coronavirus Response Act, the Coronavirus Preparedness and Response Supplemental Appropriations Act, 2020, and the Consolidated Appropriations Act, 2021. In response to the pandemic, we have (i) assisted our retail and small business customers through loan forbearances and modifications, (ii) extended loans under the PPP, and (iii) committed funding for community support with a particular emphasis on small businesses and non-profit partners. These government programs are complex and our participation may lead to governmental and regulatory scrutiny, negative publicity and damage to our reputation.

In April 2020, we announced that we would temporarily suspend our stock repurchase program through December 31, 2020 to support the efforts of the Federal Reserve and other banks to moderate the impact of the pandemic by making additional capital and liquidity available to our customers, including corporates, small businesses and individuals. Further, the Federal Reserve took actions to preserve capital at banks by imposing certain limitations on firms that participate in CCAR for the third and fourth quarters of 2020, including mandatory suspension of share repurchases, and limiting common stock dividends to existing rates and the average quarterly net income for the prior four quarters. In December 2020, the Federal Reserve modified its limitations on capital distributions for the first quarter of 2021 such that firms that participate in CCAR, like us, may resume share repurchases provided that the aggregate of share repurchases and common stock dividends for the first quarter of 2021 do not exceed average quarterly net income for the trailing four quarters. The Federal Reserve can extend or modify its current capital distribution limitations in future quarters. The pandemic may cause us to limit future capital distributions.

The extent to which the pandemic and associated lockdowns adversely affect our business, financial condition and results of operations, as well as our liquidity and regulatory capital ratios, will depend on future developments, which are highly uncertain and cannot be predicted, including the scope and duration of the pandemic, the widespread availability, use and effectiveness of vaccines, the effectiveness of our work-from-home arrangements and staffing levels in operational facilities, actions taken by governmental authorities and other third parties in response to the pandemic and associated lockdowns and the direct and indirect impact of the pandemic and associated lockdowns on us, our clients and customers, our service providers and other market participants. As the pandemic and associated lockdowns adversely affect us, it may also have the effect of heightening many of the other risks described herein.

We may not be able to successfully execute our business strategy.

Our business strategy is designed to maximize the full potential of our business and drive sustainable growth and enhanced profitability, and our success rests on our ability to maintain a high-performing, customer-centric organization; develop differentiated value propositions to acquire, deepen, and retain core customer segments; build excellent capabilities designed to help us stand out from our competitors; operate with financial discipline and a mindset of continuous improvement to self-fund investments; prudently grow and optimize our balance sheet; modernize our technology and operational models to improve delivery, organizational agility and speed to market; and embed risk management within our culture and our operations. Our future success and the value of our stock will depend, in part, on our ability to effectively implement our business strategy. There are risks and uncertainties, many of which are not within our control, associated with each element of our strategy. If we are not able to successfully execute our business strategy, we may never achieve our financial performance goals and any shortfall may be material. See the "Business Strategy" section in Item 1 for further information.

Supervisory requirements and expectations on us as a financial holding company and a bank holding company and any regulator-imposed limits on our activities could adversely affect our ability to implement our strategic plan, expand our business, continue to improve our financial performance and make capital distributions to our stockholders.

Our operations are subject to extensive regulation, supervision and examination by the federal banking agencies (the FRB, the OCC and the FDIC), as well as the CFPB. As part of the supervisory and examination process, if we are unsuccessful in meeting the supervisory requirements and expectations that apply to us, regulatory agencies may from time to time take supervisory actions against us that may not be publicly disclosed. Such actions may include restrictions on our activities or the activities of our subsidiaries, informal (nonpublic) or formal (public) supervisory actions or public enforcement actions, including the payment of civil money penalties, which could increase our costs and limit our ability to implement our strategic plans and expand our business, and as a result could have a material adverse effect on our business, financial condition or results of operations. See the "Regulation and Supervision" section in Item 1 for further information.

Changes in interest rates may have an adverse effect on our profitability.

Net interest income historically has been, and we anticipate that it will remain, a significant component of our total revenue. This is due to the fact that a high percentage of our assets and liabilities have been and will likely continue to be in the form of interest-bearing or interest-related instruments. Changes in interest rates can have a material effect on many areas of our business, including net interest income, deposit costs, loan volume and delinquency, and the value of our mortgage servicing rights. Interest rates are highly sensitive to many factors that are beyond our control, including general economic conditions and policies of various governmental and regulatory agencies and, in particular, the Federal Open Market Committee. Changes in monetary policy, including changes in interest rates, could influence not only the interest we receive on loans and securities and the amount of interest we pay on deposits and borrowings, but such changes could also affect our ability to originate loans and obtain deposits and the fair value of our financial assets and liabilities. If the interest rates on our interest-bearing liabilities increase at a faster pace than the interest rates on our interest earning assets, our net interest income may decline and, with it, a decline in our earnings may occur. Our net interest income and our earnings would be similarly affected if the interest rates on our interest earning assets declined at a faster pace than the interest rates on our interest-bearing liabilities.

We cannot control or predict with certainty changes in interest rates. Global, national, regional and local economic conditions, competitive pressures and the policies of regulatory authorities, including monetary policies of the FRB, affect interest income and interest expense. Although we have policies and procedures designed to manage the risks associated with changes in market interest rates, as further discussed under the "Risk Governance" section in Item 7, changes in interest rates still may have an adverse effect on our profitability.

If our ongoing assumptions regarding borrower or depositor behavior or overall economic conditions are significantly different than we anticipate, then our risk mitigation may be insufficient to protect against interest rate risk and our net income would be adversely affected.

Changes in the method pursuant to which the LIBOR and other benchmark rates are calculated and their planned discontinuance could adversely impact our business operations and financial results.

Many of our lending products, securities, derivatives, and other financial transactions utilize a benchmark rate, such as LIBOR, to determine the applicable interest rate or payment amount. In 2017, the Chief Executive of the U.K. Financial Conduct Authority ("FCA") announced that the FCA intends to stop persuading or compelling banks to submit rates for the calculation of LIBOR after 2021. Since then, the financial industry has been working towards the transition away from LIBOR to alternative reference rates. On November 30, 2020, the ICE Benchmark Administration ("IBA"), the authorized administrator of LIBOR regulated by the U.K. FCA, announced a proposal that, if adopted, would result in the cessation of one-week and two-month U.S. dollar LIBOR as previously anticipated at the end of 2021, while extending the publication of the other tenors of U.S. dollar LIBOR until June 30, 2023. While this proposal has received support from both U.K. and U.S. regulators, the U.S. regulators are encouraging banks to stop entering into new U.S. dollar LIBOR contracts as soon as practicable and not later than December 31, 2021. The combination of the IBA proposal and the U.S. official sector guidance would continue to facilitate the transition away from LIBOR for new originations by the end of 2021 while enabling more legacy contracts to mature before the final LIBOR cessation date of June 30, 2023.

The discontinuation of a benchmark rate, changes in a benchmark rate, or changes in market perceptions of the acceptability of a benchmark rate, including LIBOR, could, among other things, adversely affect the value of and return on certain of our financial instruments or products, result in changes to our risk exposures, or require renegotiation of previous transactions. In addition, any such discontinuation or changes, whether actual or anticipated, could result in market volatility, adverse tax or accounting effects, increased compliance, legal and operational costs, and risks associated with customer disclosures and contract negotiations. The transition to using a new rate could also expose us to risks associated with disputes with customers and other market participants in connection with interpreting and implementing LIBOR fallback provisions.

In 2018, we formed a LIBOR Transition Program designed to guide the organization through the planned discontinuation of LIBOR. Various regulators, industry bodies and other market participants in the U.S. and other countries are engaged in initiatives to develop, introduce and encourage the use of alternative rates to replace certain benchmarks. Despite progress made to date by regulators and industry participants, such as us, to prepare for the anticipated discontinuation of LIBOR, significant uncertainties still remain. Such uncertainties relate to, for example, whether replacement benchmark rates may become accepted alternatives to LIBOR for different types of transactions and financial instruments, how the terms of any transaction or financial instrument may be adjusted to account for differences between LIBOR and any alternative rate selected, how any replacement would be implemented across the industry, and the effect any changes in industry views or movement to alternative benchmarks would have on the markets for LIBOR-linked financial instruments.

We could fail to attract, retain or motivate highly skilled and qualified personnel, including our senior management, other key employees or members of our Board, which could impair our ability to successfully execute our strategic plan and otherwise adversely affect our business.

A cornerstone of our strategic plan involves the hiring of highly skilled and qualified personnel. Accordingly, our ability to implement our strategic plan and our future success depends on our ability to attract, retain and motivate highly skilled and qualified personnel, including our senior management and other key employees and directors. The marketplace for skilled personnel is becoming more competitive, which means the cost of hiring, incentivizing and retaining skilled personnel may continue to increase. The failure to attract or retain, including as a result of an untimely death or illness of key personnel, or replace a sufficient number of appropriately skilled and key personnel could place us at a significant competitive disadvantage and prevent us from successfully implementing our strategy, which could impair our ability to implement our strategic plan successfully, achieve our performance targets and otherwise have a material adverse effect on our business, financial condition and results of operations.

Limitations on the manner in which regulated financial institutions, such as us, can compensate their officers and employees, including those contained in pending rule proposals implementing requirements of Section 956 of the Dodd-Frank Act, may make it more difficult for such institutions to compete for talent with financial institutions and other companies not subject to these or similar limitations. If we are unable to compete effectively, our business, financial condition and results of operations could be adversely affected, perhaps materially.

Our ability to meet our obligations, and the cost of funds to do so, depend on our ability to access identified sources of liquidity at a reasonable cost.

Liquidity risk is the risk that we will not be able to meet our obligations, including funding commitments, as they come due. This risk is inherent in our operations and can be heightened by a number of factors, including an over-reliance on a particular source of funding (including, for example, secured FHLB advances), changes in credit ratings or market-wide phenomena such as market dislocation and major disasters. Like many banking groups, our reliance on customer deposits to meet a considerable portion of our funding has grown over recent years, and we continue to seek to increase the proportion of our funding represented by customer deposits. However, these deposits are subject to fluctuation due to certain factors outside our control, such as increasing competitive pressures for retail or corporate customer deposits, changes in interest rates and returns on other investment classes, or a loss of confidence by customers in us or in the banking sector generally which could result in a significant outflow of deposits within a short period of time. To the extent there is heightened competition among U.S. banks for retail customer deposits, this competition may increase the cost of procuring new deposits and/or retaining existing deposits, and otherwise negatively affect our ability to grow our deposit base. An inability to grow, or any material decrease in, our deposits could have a material adverse effect on our ability to satisfy our liquidity needs.

Maintaining a diverse and appropriate funding strategy for our assets consistent with our wider strategic risk appetite and plan remains challenging, and any tightening of credit markets could have a material adverse impact on us. In particular, there is a risk that corporate and financial institution counterparties may seek to reduce their credit exposures to banks and other financial institutions (for example, reductions in unsecured deposits supplied by these counterparties), which may cause funding from these sources to no longer be available. Under these circumstances, we may need to seek funds from alternative sources, potentially at higher costs than has previously been the case, or may be required to consider disposals of other assets not previously identified for disposal, in order to reduce our funding commitments.

A reduction in our credit ratings, which are based on a number of factors, could have a material adverse effect on our business, financial condition and results of operations.

Credit ratings affect the cost and other terms upon which we are able to obtain funding. Rating agencies regularly evaluate us, and their ratings are based on a number of factors, including our financial strength. Other factors considered by rating agencies include conditions affecting the financial services industry generally. Any downgrade in our ratings would likely increase our borrowing costs, could limit our access to capital markets, and otherwise adversely affect our business. For example, a ratings downgrade could adversely affect our ability to sell or market certain of our securities, including long-term debt, engage in certain longer-term derivatives transactions and retain our customers, particularly corporate customers who may require a minimum rating threshold in order to place funds with us. In addition, under the terms of certain of our derivatives contracts, we may be required to maintain a minimum credit rating or have to post additional collateral or terminate such contracts. Any of these results of a rating downgrade could increase our cost of funding, reduce our liquidity and have adverse effects on our business, financial condition and results of operations.

Our financial performance may be adversely affected by deterioration in borrower credit quality, particularly in the New England, Mid-Atlantic and Midwest regions, where our operations are concentrated.

We have exposure to many different industries and risks arising from actual or perceived changes in credit quality and uncertainty over the recoverability of amounts due from borrowers is inherent in our businesses. Our exposure may be exacerbated by the geographic concentration of our operations, which are predominately located in the New England, Mid-Atlantic and Midwest regions. The credit quality of our borrowers may deteriorate for a number of reasons that are outside our control, including as a result of prevailing economic and market conditions and asset valuation. The trends and risks affecting borrower credit quality, particularly in the New England, Mid-Atlantic and Midwest regions, have caused, and in the future may cause, us to experience impairment charges, increased repurchase demands, higher costs, additional write-downs and losses and an inability to engage in routine funding transactions, which could have a material adverse effect on our business, financial condition and results of operations.

Our framework for managing risks may not be effective in mitigating risk and loss.

Our risk management framework is made up of various processes and strategies to manage our risk exposure. The framework to manage risk, including the framework's underlying assumptions, may not be effective under all conditions and circumstances. If the risk management framework proves ineffective, we could suffer unexpected losses and could be materially adversely affected.

One of the main types of risks inherent in our business is credit risk. An important feature of our credit risk management system is to employ an internal credit risk control system through which we identify, measure, monitor and mitigate existing and emerging credit risk of our customers. As this process involves detailed analyses of the customer or credit risk, taking into account both quantitative and qualitative factors, it is subject to human error. In exercising their judgment, our employees may not always be able to assign an accurate credit rating to a customer or credit risk, which may result in our exposure to higher credit risks than indicated by our risk rating system.

In addition, we have undertaken certain actions to enhance our credit policies and guidelines to address potential risks associated with particular industries or types of customers, as discussed in more detail under the "Risk Governance" and "Market Risk" sections in Item 7. However, we may not be able to effectively implement these initiatives, or consistently follow and refine our credit risk management system. If any of the foregoing were to occur, it may result in an increase in the level of nonperforming loans and a higher risk exposure for us, which could have a material adverse effect on us.

Changes in our accounting policies or in accounting standards could materially affect how we report our financial results and condition.

From time to time, the FASB and SEC change the financial accounting and reporting standards that govern the preparation of our financial statements. These changes can be operationally complex to implement and can materially impact how we record and report our financial condition and results of operations. For example, in June 2016, the FASB issued Accounting Standards Update 2016-13, *Measurement of Credit Losses on Financial Instruments* ("CECL"), that substantially changed the accounting for credit losses on loans and other financial assets held by banks, financial institutions and other organizations. Upon adoption of CECL on January 1, 2020, we recognize credit losses on these assets equal to management's estimate of credit losses over the full remaining expected life. We consider all relevant information when estimating expected credit losses, including details about past events, current conditions, and reasonable and supportable forecasts. As evidenced in the first half of 2020 due to the impact of COVID-19, the standard introduces heightened volatility in provision for credit losses, given uncertainty in the accuracy of macroeconomic forecasts over longer time horizons, variances in the rate and composition of loan growth, and changes in overall loan portfolio size and mix. As a result, it is possible that our ongoing reported earnings and lending activity could be negatively impacted. For more information regarding CECL, see Note 1 in Item 8.

Our financial and accounting estimates and risk management framework rely on analytical forecasting and models.

The processes we use to estimate our inherent loan losses and to measure the fair value of financial instruments, as well as the processes used to estimate the effects of changing interest rates and other market measures on our financial condition and results of operations, depends upon the use of analytical and forecasting models. Some of our tools and metrics for managing risk are based upon our use of observed historical market behavior. We rely on quantitative models to measure risks and to estimate certain financial values. Models may be used in such processes as determining the pricing of various products, grading loans and extending credit, measuring interest rate and other market risks, predicting losses, assessing capital adequacy and calculating regulatory capital levels, as well as estimating the value of financial instruments and balance sheet items. Poorly designed or implemented models present the risk that our business decisions based on information incorporating such models will be adversely affected due to the inadequacy of that information. Moreover, our models may fail to predict future risk exposures if the information used in the model is incorrect, obsolete or not sufficiently comparable to actual events as they occur. We seek to incorporate appropriate historical data in our models, but the range of market values and behaviors reflected in any period of historical data is not at all times predictive of future developments in any particular period and the period of data we incorporate into our models may turn out to be inappropriate for the future period being modeled. In such case, our ability to manage risk would be limited and our risk exposure and losses could be significantly greater than our models indicated. In addition, if existing or potential customers believe our risk management is inadequate, they could take their business elsewhere. This could harm our reputation as well as our revenues and profits. Finally, information we provide to

our regulators based on poorly designed or implemented models could also be inaccurate or misleading. Some of the decisions that our regulators make, including those related to capital distributions to our stockholders, could be adversely affected due to their perception that the quality of the models used to generate the relevant information is insufficient.

The preparation of our financial statements requires the use of estimates that may vary from actual results. Particularly, various factors may cause our Allowance for Credit Losses to increase.

The preparation of audited Consolidated Financial Statements in conformity with GAAP requires management to make significant estimates that affect the financial statements. Our most critical accounting estimate is the ACL. The ACL is a reserve established through a provision for credit losses charged to expense and represents our estimate of expected credit losses within the existing loan and lease portfolio and unfunded lending commitments. The level of the ACL is based on periodic evaluation of the loan and lease portfolios and unfunded lending commitments that are not unconditionally cancellable considering a number of relevant underlying factors, including key assumptions and evaluation of quantitative and qualitative information.

The determination of the appropriate level of the ACL inherently involves a degree of subjectivity and requires that we make significant estimates of current credit risks and future trends, all of which may undergo material changes. Changes in economic conditions affecting borrowers, the stagnation of certain economic indicators that we are more susceptible to, such as unemployment and real estate values, new information regarding existing loans, identification of additional problem loans and other factors, both within and outside our control, may require an increase in the ACL. In addition, bank regulatory agencies periodically review our ACL and may require an increase in the ACL or the recognition of further loan charge-offs, based on judgments that can differ from those of our own management. In addition, if charge-offs in future periods exceed the ACL—that is, if the ACL is inadequate—we will need to recognize additional provision for credit losses. Should such additional provision expense become necessary, it would result in a decrease in net income and capital and may have a material adverse effect on us. For more information regarding our use of estimates in preparation of financial statements, see Note 1 in Item 8 and the “Critical Accounting Estimates” section in Item 7.

Operational risks are inherent in our businesses.

Our operations depend on our ability to process a very large number of transactions efficiently and accurately while complying with applicable laws and regulations. Operational risk and losses can result from internal and external fraud; improper conduct or errors by employees or third parties; failure to document transactions properly or to obtain proper authorization; failure to comply with applicable regulatory requirements and conduct of business rules; equipment failures, including those caused by natural disasters or by electrical, telecommunications or other essential utility outages; business continuity and data security system failures, including those caused by computer viruses, cyber-attacks against us or our vendors, or unforeseen problems encountered while implementing major new computer systems or upgrades to existing systems; or the inadequacy or failure of systems and controls, including those of our suppliers or counterparties. Although we have implemented risk controls and loss mitigation actions, and substantial resources are devoted to developing efficient procedures, identifying and rectifying weaknesses in existing procedures and training staff, it is not possible to be certain that such actions have been or will be effective in controlling each of the operational risks faced by us. Any weakness in these systems or controls, or any breaches or alleged breaches of such laws or regulations, could result in increased regulatory supervision, enforcement actions and other disciplinary action, and have an adverse impact on our business, applicable authorizations and licenses, reputation and results of operations.

The financial services industry, including the banking sector, is undergoing rapid technological change as a result of changes in customer behavior, competition and changes in the legal and regulatory framework, and we may not be able to compete effectively as a result of these changes.

The financial services industry, including the banking sector, is continually undergoing rapid technological change with frequent introductions of new technology-driven products and services. In addition, new, unexpected technological changes could have a disruptive effect on the way banks offer products and services. We believe our success depends, to a great extent, on our ability to address customer needs by using technology to offer products and services that provide convenience to customers and to create additional efficiencies in our operations. However, we may not be able to, among other things, keep up with the rapid pace of technological changes, effectively implement new technology-driven products and services or be successful in marketing these products and services to our customers. As a result, our ability to compete effectively to attract

or retain new business may be impaired, and our business, financial condition or results of operations may be adversely affected.

In addition, changes in the legal and regulatory framework under which we operate require us to update our information systems to ensure compliance. Our need to review and evaluate the impact of ongoing rule proposals, final rules and implementation guidance from regulators further complicates the development and implementation of new information systems for our business. Also, recent regulatory guidance has focused on the need for financial institutions to perform increased due diligence and ongoing monitoring of third-party vendor relationships, thus increasing the scope of management involvement and decreasing the efficiency otherwise resulting from our relationships with third-party technology providers. Given the significant number of ongoing regulatory reform initiatives, it is possible that we incur higher than expected information technology costs in order to comply with current and impending regulations. See "—Supervisory requirements and expectations on us as a financial holding company and a bank holding company and any regulator-imposed limits on our activities could adversely affect our ability to implement our strategic plan, expand our business, continue to improve our financial performance and make capital distributions to our stockholders."

We are subject to a variety of cybersecurity risks that, if realized, could adversely affect how we conduct our business.

Information security risks for large financial institutions such as us have increased significantly in recent years in part because of the proliferation of new technologies, such as Internet and mobile banking to conduct financial transactions, and the increased sophistication and activities of organized crime, hackers, terrorists, nation-states, activists and other external parties. Third parties with whom we or our customers do business also present operational and information security risks to us, including security breaches or failures of their own systems. The possibility of employee error, failure to follow security procedures, or malfeasance also presents these risks, particularly given the recent trend towards remote work arrangements. Our operations rely on the secure processing, transmission and storage of confidential information in our computer systems and networks. In addition, to access our products and services, our customers may use personal computers, smartphones, tablets, and other mobile devices that are beyond our control environment. Although we believe that we have appropriate information security procedures and controls, our technologies, systems, networks and our customers' devices may be the target of cyber-attacks or information security breaches that could result in the unauthorized release, gathering, monitoring, misuse, theft, sale or loss or destruction of the confidential, and/or proprietary information of CFG, our customers, our vendors, our counterparties, or our employees. We are under continuous threat of loss or network degradation due to cyber-attacks, such as computer viruses, malicious or destructive code, phishing attacks, ransomware, and Distributed Denial of Service ("DDoS") attacks. This is especially true as we continue to expand customer capabilities to utilize the Internet and other remote channels to transact business. Two of the most significant cyber-attack risks that we face are e-fraud and loss of sensitive customer data. Loss from e-fraud occurs when cybercriminals extract funds directly from customers' or our accounts using fraudulent schemes that may include Internet-based funds transfers. We have been subject to a number of e-fraud incidents historically. We have also been subject to attempts to steal sensitive customer data, such as account numbers and social security numbers, through unauthorized access to our computer systems including computer hacking. Such attacks are less frequent but could present significant reputational, legal and regulatory costs to us if successful. We have implemented certain technology protections such as Customer Profiling and Set-Up Authentication to be in compliance with the FFIEC Authentication in Internet Banking Environment ("AIBE") guidelines.

As cyber threats continue to evolve, we may be required to expend significant additional resources to continue to modify or enhance our layers of defense or to investigate and remediate any information security vulnerabilities. System enhancements and updates may also create risks associated with implementing new systems and integrating them with existing ones. Due to the complexity and interconnectedness of information technology systems, the process of enhancing our layers of defense can itself create a risk of systems disruptions and security issues. In addition, addressing certain information security vulnerabilities, such as hardware-based vulnerabilities, may affect the performance of our information technology systems. The ability of our hardware and software providers to deliver patches and updates to mitigate vulnerabilities in a timely manner can introduce additional risks, particularly when a vulnerability is being actively exploited by threat actors. Cyber-attacks against the patches themselves have also proven to be a significant risk that companies will have to address going forward.

Despite our efforts to prevent a cyber-attack, a successful cyber-attack could persist for an extended period of time before being detected, and, following detection, it could take considerable time for us to obtain full and reliable information about the cybersecurity incident and the extent, amount and type of information compromised. During the course of an investigation, we may not necessarily know the full effects of the incident or how to remediate it, and actions and decisions that are taken or made in an effort to mitigate risk may further increase the costs and other negative consequences of the incident.

The techniques used by cyber criminals change frequently, may not be recognized until launched and can be initiated from a variety of sources, including terrorist organizations and hostile foreign governments. These actors may attempt to fraudulently induce employees, customers or other users of our systems to disclose sensitive information in order to gain access to data or our systems. In the event that a cyber-attack is successful, our business, financial condition or results of operations may be adversely affected. For a discussion of the guidance that federal banking regulators have released regarding cybersecurity and cyber risk management standards, see the "Regulation and Supervision" section of Item 1.

We rely heavily on communications and information systems to conduct our business.

We rely heavily on communications and information systems to conduct our business. Any failure, interruption or breach in security of these systems, including due to hacking or other similar attempts to breach information technology security protocols, could result in failures or disruptions in our customer relationship management, general ledger, deposit, loan and other systems. Although we have established policies and procedures designed to prevent or limit the effect of the possible failure, interruption or security breach of our information systems, there can be no assurance that these policies and procedures will be successful and that any such failure, interruption or security breach will not occur or, if they do occur, that they will be adequately addressed. The occurrence of any failure, interruption or security breach of our information systems could require us to devote substantial resources (including management time and attention) to recovery and response efforts, damage our reputation, result in a loss of customer business, subject us to additional regulatory scrutiny, or expose us to civil litigation and possible financial liability. Although we maintain insurance coverage for information security events, we may incur losses as a result of such events that are not insured against or not fully covered by our insurance.

We rely on third parties for the performance of a significant portion of our information technology.

We rely on third parties for the performance of a significant portion of our information technology functions and the provision of information technology and business process services. For example, (i) unaffiliated third parties operate data communications networks on which certain components and services relating to our online banking system rely, (ii) third parties host or maintain many of our applications, including our Commercial Loan System, which is hosted and maintained by Automated Financial Systems, Inc., and our Mobile Digital Banking Application, which is hosted and maintained by Amazon Web Services, Inc., (iii) Fidelity National Information Services, Inc. maintains our core deposits system, (iv) Infosys Limited provides us with a wide range of information technology support services, including service desk, end user, servicer, and private cloud support, and (v) IBM Corporation provides us with mainframe support services. The success of our business depends in part on the continuing ability of these (and other) third parties to perform these functions and services in a timely and satisfactory manner, which performance could be disrupted or otherwise adversely affected due to failures or other information security events originating at the third parties or at the third parties' suppliers or vendors (so-called "fourth party risk"). We may not be able to effectively monitor or mitigate fourth-party risk, in particular as it relates to the use of common suppliers or vendors by the third parties that perform functions and services for us. If we experience a disruption in the provision of any functions or services performed by third parties, we may have difficulty in finding alternate providers on terms favorable to us and in reasonable time frames. If these services are not performed in a satisfactory manner, we would not be able to serve our customers well. In either situation, our business could incur significant costs and be adversely affected.

We are exposed to reputational risk and the risk of damage to our brands and the brands of our affiliates.

Our success and results depend, in part, on our reputation and the strength of our brands. We are vulnerable to adverse market perception as we operate in an industry where integrity, customer trust and confidence are paramount. We are exposed to the risk that litigation, employee misconduct, operational failures, the outcome of regulatory or other investigations or actions, press speculation and negative publicity, among other factors, could damage our brands or reputation. Our brands and reputation could also be harmed if we sell

products or services that do not perform as expected or customers' expectations for the product are not satisfied.

We may be adversely affected by unpredictable catastrophic events or terrorist attacks and our business continuity and disaster recovery plans may not adequately protect us from serious disaster.

The occurrence of catastrophic events such as hurricanes, tropical storms, tornadoes and other large-scale catastrophes and terrorist attacks could adversely affect our business, financial condition or results of operations if a catastrophe rendered both our production data center in Rhode Island and our recovery data center in North Carolina unusable. Although we enhanced our disaster recovery capabilities in 2016 through the completion of the new, out-of-region backup data center in North Carolina, there can be no assurance that our current disaster recovery plans and capabilities will adequately protect us from serious disaster.

Risks Related to Our Industry

Any deterioration in national economic conditions could have a material adverse effect on our business, financial condition and results of operations.

Our business is affected by national economic conditions, as well as perceptions of those conditions and future economic prospects. Changes in such economic conditions are not predictable and cannot be controlled. Adverse economic conditions could require us to charge off a higher percentage of loans and increase the provision for credit losses, which would reduce our net income and otherwise have a material adverse effect on our business, financial condition and results of operations. For example, our business was significantly affected by the global economic and financial crisis that began in 2008. The falling home prices, increased rate of foreclosure and high levels of unemployment in the United States triggered significant write-downs by us and other financial institutions. These write-downs adversely impacted our financial results in material respects. Although the U.S. economy has made a significant recovery, an interruption or reversal of this recovery would adversely affect the financial services industry and banking sector.

We operate in an industry that is highly competitive, which could result in losing business or margin declines and have a material adverse effect on our business, financial condition and results of operations.

We operate in a highly competitive industry. The industry could become even more competitive as a result of reform of the financial services industry resulting from the Dodd-Frank Act and other legislative, regulatory and technological changes, as well as continued consolidation. We face aggressive competition from other domestic and foreign lending institutions and from numerous other providers of financial services, including non-banking financial institutions that are not subject to the same regulatory restrictions as banks and bank holding companies, securities firms and insurance companies, and competitors that may have greater financial resources.

With respect to non-banking financial institutions, technology and other changes have lowered barriers to entry and made it possible for non-banks to offer products and services traditionally provided by banks. For example, consumers can maintain funds that would have historically been held as bank deposits in brokerage accounts or mutual funds. Consumers can also complete transactions such as paying bills and/or transferring funds directly without the assistance of banks. The process of eliminating banks as intermediaries, known as "disintermediation," could result in the loss of fee income, as well as the loss of customer deposits and the related income generated from those deposits. Some of our non-bank competitors are not subject to the same extensive regulations we are and, therefore, may have greater flexibility in competing for business. As a result of these and other sources of competition, we could lose business to competitors or be forced to price products and services on less advantageous terms to retain or attract clients, either of which would adversely affect our profitability.

The conditions of other financial institutions or of the financial services industry could adversely affect our operations and financial conditions.

Financial services institutions are typically interconnected as a result of trading, investment, liquidity management, clearing, counterparty and other relationships. Within the financial services industry, the default by any one institution could lead to defaults by other institutions. Concerns about, or a default by, one institution could lead to significant liquidity problems and losses or defaults by other institutions, as the commercial and financial soundness of many financial institutions are closely related as a result of these credit, trading, clearing and other relationships. Even the perceived lack of creditworthiness of, or questions about, a

counterparty may lead to market-wide liquidity problems and losses or defaults by various institutions. This systemic risk may adversely affect financial intermediaries, such as clearing agencies, banks and exchanges with which we interact on a daily basis, or key funding providers such as the FHLBs, any of which could have a material adverse effect on our access to liquidity or otherwise have a material adverse effect on our business, financial condition and results of operations.

Risks Related to Regulations Governing Our Industry

As a financial holding company and a bank holding company, we are subject to comprehensive regulation that could have a material adverse effect on our business and results of operations.

As a financial holding company and a bank holding company, we are subject to comprehensive regulation, supervision and examination by the FRB. In addition, CBNA is subject to comprehensive regulation, supervision and examination by the OCC. Our regulators supervise us through regular examinations and other means that allow the regulators to gauge management's ability to identify, assess and control risk in all areas of operations in a safe and sound manner and to ensure compliance with laws and regulations. In the course of their supervision and examinations, our regulators may require improvements in various areas. If we are unable to implement and maintain any required actions in a timely and effective manner, we could become subject to informal (non-public) or formal (public) supervisory actions and public enforcement orders that could lead to significant restrictions on our existing business or on our ability to engage in any new business. Such forms of supervisory action could include, without limitation, written agreements, cease and desist orders, and consent orders and may, among other things, result in restrictions on our ability to pay dividends, requirements to increase capital, restrictions on our activities, the imposition of civil monetary penalties, and enforcement of such actions through injunctions or restraining orders. We could also be required to dispose of certain assets and liabilities within a prescribed period. The terms of any such supervisory or enforcement action could have a material adverse effect on our business, financial condition and results of operations.

We are a bank holding company that has elected to become a financial holding company pursuant to the Bank Holding Company Act. Financial holding companies are allowed to engage in certain financial activities in which a bank holding company is not otherwise permitted to engage. However, to maintain financial holding company status, a bank holding company (and all of its depository institution subsidiaries) must be “well capitalized” and “well managed.” If a bank holding company ceases to meet these capital and management requirements, there are many penalties it would be faced with, including the FRB may impose limitations or conditions on the conduct of its activities, and it may not undertake any of the broader financial activities permissible for financial holding companies or acquire a company engaged in such financial activities without prior approval of the FRB. If a company does not return to compliance within 180 days, which period may be extended, the FRB may require divestiture of that company's depository institutions. To the extent we do not meet the requirements to be a financial holding company in the future, there could be a material adverse effect on our business, financial condition and results of operations.

We may be unable to disclose some restrictions or limitations on our operations imposed by our regulators.

From time to time, bank regulatory agencies take supervisory actions that restrict or limit a financial institution's activities and lead it to raise capital or subject it to other requirements. Directives issued to enforce such actions may be confidential and thus, in some instances, we are not permitted to publicly disclose these actions. In addition, as part of our regular examination process, our regulators may advise us to operate under various restrictions as a prudential matter. Any such actions or restrictions, if and in whatever manner imposed, could adversely affect our costs and revenues. Moreover, efforts to comply with any such nonpublic supervisory actions or restrictions may require material investments in additional resources and systems, as well as a significant commitment of managerial time and attention. As a result, such supervisory actions or restrictions, if and in whatever manner imposed, could have a material adverse effect on our business and results of operations; and, in certain instances, we may not be able to publicly disclose these matters.

The regulatory environment in which we operate continues to be subject to significant and evolving regulatory requirements that could have a material adverse effect on our business and earnings.

We are heavily regulated by multiple banking, consumer protection, securities and other regulatory authorities at the federal and state levels. This regulatory oversight is primarily established to protect depositors, the FDIC's Deposit Insurance Fund, consumers of financial products, and the financial system as a

whole, not our security holders. Changes to statutes, regulations, rules or policies, including the interpretation, implementation or enforcement of statutes, regulations, rules or policies, could affect us in substantial and unpredictable ways, including by, for example, subjecting us to additional costs, limiting the types of financial services and other products we may offer, limiting our ability to pursue acquisitions and increasing the ability of third parties, including non-banks, to offer competing financial services and products. In recent years, we, together with the rest of the financial services industry, have faced particularly intense scrutiny, with many new regulatory initiatives and vigorous oversight and enforcement on the part of numerous regulatory and governmental authorities. Legislatures and regulators have pursued a broad array of initiatives intended to promote the safety and soundness of financial institutions, financial market stability, the transparency and liquidity of financial markets, and consumer and investor protection. Certain regulators and law enforcement authorities have also recently required admissions of wrongdoing and, in some cases, criminal pleas as part of the resolutions of matters brought by them against financial institutions. Any such resolution of a matter involving us could lead to increased exposure to civil litigation, could adversely affect our reputation, could result in penalties or limitations on our ability to do business or engage in certain activities and could have other negative effects. In addition, a single event or issue may give rise to numerous and overlapping investigations and proceedings, including by multiple federal and state regulators and other governmental authorities.

We are also subject to laws and regulations relating to the privacy of the information of our customers, employees, counterparties and others, and any failure to comply with these laws and regulations could expose us to liability and/or reputational damage. As new privacy-related laws and regulations are implemented, the time and resources needed for us to comply with those laws and regulations, as well as our potential liability for non-compliance and our reporting obligations in the case of data breaches, may significantly increase.

While there have been significant revisions to the laws and regulations applicable to us that have been finalized in recent months, there are other rules to implement changes that have yet to be proposed or enacted by our regulators. The final timing, scope and impact of these changes to the regulatory framework applicable to financial institutions remains uncertain. For more information on the regulations to which we are subject and recent initiatives to reform financial institution regulation, see the “Regulation and Supervision” section in Item 1.

We are subject to capital adequacy and liquidity standards, and if we fail to meet these standards our financial condition and operations would be adversely affected.

We are subject to several capital adequacy and liquidity standards. To the extent that we are unable to meet these standards, our ability to make distributions of capital will be limited and we may be subject to additional supervisory actions and limitations on our activities. See “Regulation and Supervision” in Item 1 and the “Capital and Regulatory Requirements” and “Liquidity” sections in Item 7, for further discussion of the regulations to which we are subject.

The Parent Company could be required to act as a “source of strength” to CBNA, which would have a material adverse effect on our business, financial condition and results of operations.

FRB policy historically required bank holding companies to act as a source of financial and managerial strength to their subsidiary banks. The Dodd-Frank Act codified this policy as a statutory requirement. This support may be required by the FRB at times when we might otherwise determine not to provide it or when doing so is not otherwise in the interests of CFG or our stockholders or creditors, and may include one or more of the following:

- The Parent Company may be compelled to contribute capital to CBNA, including by engaging in a public offering to raise such capital. Furthermore, any extensions of credit from the Parent Company to CBNA that are included in CBNA’s capital would be subordinate in right of payment to depositors and certain other indebtedness of CBNA.
- In the event of a bank holding company’s bankruptcy, any commitment that the bank holding company had been required to make to a federal bank regulatory agency to maintain the capital of a subsidiary bank will be assumed by the bankruptcy trustee and entitled to priority of payment.
- In the event of impairment of the capital stock of CBNA, the Parent Company, as CBNA’s stockholder, could be required to pay such deficiency.

The Parent Company depends on CBNA for substantially all of its revenue, and restrictions on dividends and other distributions by CBNA could affect its liquidity and ability to fulfill our obligations.

As a bank holding company, the Parent Company is a separate and distinct legal entity from CBNA, our banking subsidiary. The Parent Company typically receives substantially all of our revenue from dividends from CBNA. These dividends are the principal source of funds to pay dividends on our equity and interest and principal on our debt. Various federal and/or state laws and regulations, as well as regulatory expectations, limit the amount of dividends that CBNA may pay to the Parent Company. Also, our right to participate in a distribution of assets upon a subsidiary's liquidation or reorganization is subject to the prior claims of the subsidiary's creditors. In the event CBNA is unable to pay dividends to the Parent Company, it may not be able to service debt, pay obligations or pay dividends on its common stock. The inability to receive dividends from CBNA could have a material adverse effect on our business, financial condition and results of operations. See the "Supervision and Regulation" section in Item 1 and the "Capital and Regulatory Matters" section in Item 7.

From time-to-time, we may become or are subject to regulatory actions that may have a material impact on our business.

We may become or are involved, from time to time, in reviews, investigations and proceedings (both formal and informal) by governmental and self-regulatory agencies regarding our business. These regulatory actions involve, among other matters, accounting, compliance and operational matters, certain of which may result in adverse judgments, settlements, fines, penalties, injunctions or other relief that may require changes to our business or otherwise materially impact our business.

In regulatory actions, such as those referred to above, it is inherently difficult to determine whether any loss is probable or whether it is possible to reasonably estimate the amount of any loss. We cannot predict with certainty if, how or when such proceedings will be resolved or what the eventual fine, penalty or other relief, conditions or restrictions, if any, may be, particularly for actions that are in their early stages of investigation. The Parent Company may be required to make significant restitution payments to CBNA customers arising from certain compliance issues and also may be required to pay civil money penalties in connection with certain of these issues. This uncertainty makes it difficult to estimate probable losses, which, in turn, can lead to substantial disparities between the reserves we may establish for such proceedings and the eventual settlements, fines, or penalties. Adverse regulatory actions could have a material adverse effect on our business, financial condition and results of operations.

We are and may be subject to litigation that may have a material impact on our business.

Our operations are diverse and complex and we operate in legal and regulatory environments that expose us to potentially significant litigation risk. In the normal course of business, we have been named, from time to time, as a defendant in various legal actions, including arbitrations, class actions and other litigation, arising in connection with our activities as a financial services institution, including with respect to alleged unfair or deceptive business practices and mis-selling of certain products. Certain of the actual or threatened legal actions include claims for substantial compensatory and/or punitive damages or claims for indeterminate amounts of damages. In some cases, the entities that would otherwise be the primary defendants in such cases are bankrupt or in financial distress. Moreover, a number of recent judicial decisions have upheld the right of borrowers to sue lending institutions on the basis of various evolving legal theories, collectively termed "lender liability." Generally, lender liability is founded on the premise that a lender has either violated a duty, whether implied or contractual, of good faith and fair dealing owed to the borrower or has assumed a degree of control over the borrower resulting in the creation of a fiduciary duty owed to the borrower or its other creditors or stockholders. This could increase the amount of private litigation to which we are subject. For more information regarding ongoing significant legal proceedings in which we may be involved, see Note 18 in Item 8.

Compliance with anti-money laundering and anti-terrorism financing rules involves significant cost and effort.

We are subject to rules and regulations regarding money laundering and the financing of terrorism. Monitoring compliance with anti-money laundering and anti-terrorism financing rules can put a significant financial burden on banks and other financial institutions and poses significant technical challenges. Although we believe our current policies and procedures are sufficient to comply with applicable rules and regulations, we cannot guarantee that our anti-money laundering and anti-terrorism financing policies and procedures completely prevent situations of money laundering or terrorism financing. Any such failure events may have severe

consequences, including sanctions, fines and reputational consequences, which could have a material adverse effect on our business, financial condition or results of operations.

Risks Related to our Common Stock

Our stock price may be volatile, and you could lose all or part of your investment as a result.

You should consider an investment in our common stock to be risky, and you should invest in our common stock only if you can withstand a significant loss and wide fluctuation in the market value of your investment. The market price of our common stock could be subject to wide fluctuations in response to, among other things, the factors described in this “Risk Factors” section, and other factors, some of which are beyond our control. These factors include:

- quarterly variations in our results of operations or the quarterly financial results of companies perceived to be similar to us;
- changes in expectations as to our future financial performance, including financial estimates by securities analysts and investors;
- our announcements or our competitors’ announcements regarding new products or services, enhancements, significant contracts, acquisitions or strategic investments;
- fluctuations in the market valuations of companies perceived by investors to be comparable to us;
- future sales of our common stock;
- additions or departures of members of our senior management or other key personnel;
- changes in industry conditions or perceptions; and
- changes in applicable laws, rules or regulations and other dynamics.

Furthermore, the stock markets have experienced price and volume fluctuations that have affected and continue to affect the market price of equity securities of many companies. These fluctuations have often been unrelated or disproportionate to the operating performance of these companies. These broad market fluctuations, as well as general economic, systemic, political and market conditions, such as recessions, loss of investor confidence, interest rate changes or international currency fluctuations, may negatively affect the market price of our common stock.

If any of the foregoing occurs, it could cause our stock price to fall and may expose us to securities class action litigation that, even if unsuccessful, could be costly to defend and a distraction to management.

We may not repurchase shares or pay cash dividends on our common stock.

Holders of our common stock are only entitled to receive such dividends as our Board of Directors may declare out of funds legally available for such payments. Although we have historically declared cash dividends on our common stock, we are not required to do so and may reduce or eliminate our common stock dividend in the future. This could adversely affect the market price of our common stock. Also, as a bank holding company, our ability to repurchase shares and declare and pay dividends is dependent on certain federal regulatory considerations, including the rules of the FRB regarding capital adequacy and dividends. Additionally, we are required to submit periodic capital plans to the FRB for review, or otherwise obtain FRB authorization, before we can take certain capital actions, including repurchasing shares, declaring and paying dividends, or repurchasing or redeeming capital securities. If our capital plan or any amendment to our capital plan is objected to for any reason, our ability to repurchase shares and declare and pay dividends on our capital stock may be limited. Further, if we are unable to satisfy the capital requirements applicable to us for any reason, we may be limited in our ability to repurchase shares and declare and pay dividends on our capital stock. See the “Regulation and Supervision” section in Item 1, for further discussion of the regulations to which we are subject.

“Anti-takeover” provisions and the regulations to which we are subject may make it more difficult for a third party to acquire control of us, even if the change in control would be beneficial to stockholders.

We are a bank holding company incorporated in the state of Delaware. Anti-takeover provisions in Delaware law and our amended and restated certificate of incorporation and amended and restated bylaws, as well as regulatory approvals that would be required under federal law, could make it more difficult for a third party to take control of us and may prevent stockholders from receiving a premium for their shares of our common stock. These provisions could adversely affect the market price of our common stock and could reduce the amount that stockholders might get if we are sold.

We believe these provisions protect our stockholders from coercive or otherwise unfair takeover tactics by requiring potential acquirers to negotiate with our Board and by providing our Board with more time to assess any acquisition proposal. However, these provisions apply even if the offer may be determined to be beneficial by some stockholders and could delay or prevent an acquisition that our Board determines is not in our best interest and that of our stockholders.

Furthermore, banking laws impose notice, approval and ongoing regulatory requirements on any stockholder or other party that seeks to acquire direct or indirect "control" of an FDIC-insured depository institution. These laws include the Bank Holding Company Act and the Change in Bank Control Act.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

We lease eight operations centers in Boston, Medford, and Westwood, Massachusetts; Pittsburgh, Pennsylvania; Warwick, Rhode Island; Franklin, Tennessee; Irving, Texas and Glen Allen, Virginia. We own two principal operations centers in Johnston and East Providence, Rhode Island. At December 31, 2020, our subsidiaries owned and operated a total of 38 facilities and leased an additional 1,172 facilities. We believe our current facilities are adequate to meet our needs. See Note 6 and Note 8 in Item 8 for more information regarding our premises and equipment, and leases, respectively.

ITEM 3. LEGAL PROCEEDINGS

Information required by this item is presented in Note 18 in Item 8 and is incorporated herein by reference.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

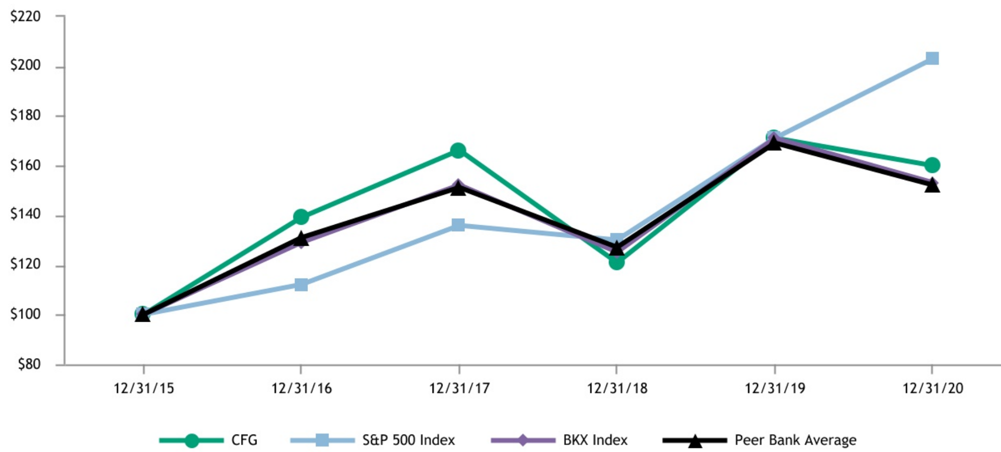
PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock is traded on the New York Stock Exchange under the symbol "CFG." As of February 1, 2021, our common stock was owned by seven holders of record (including Cede & Co.) and approximately 209,000 beneficial shareholders whose shares were held in "street name" through a broker or bank. Information relating to compensation plans under which our equity securities are authorized for issuance is presented in Item 12.

The following graph compares the cumulative total stockholder returns for our performance during the five-year period ended December 31, 2020 relative to the performance of the Standard & Poor's 500® index, a commonly referenced U.S. equity benchmark consisting of leading companies from diverse economic sectors; the KBW Nasdaq Bank Index ("BKX"), composed of 24 leading national money center and regional banks and thrifts; and a group of other banks that constitute our peer regional banks (i.e., Comerica, Fifth Third, KeyCorp, M&T, PNC, Regions, Truist, Huntington and U.S. Bancorp). The graph assumes a $100 investment at the closing price on December 31, 2015 in each of CFG common stock, the S&P 500 index, the BKX and the peer market-capitalization weighted average and assumes all dividends were reinvested on the date paid. The points on the graph represent the fiscal quarter-end amounts based on the last trading day in each subsequent fiscal quarter.

This graph shall not be deemed "soliciting material" or be filed with the Securities and Exchange Commission for purposes of Section 18 of the Securities Exchange Act of 1934, as amended ("Exchange Act"), or otherwise subject to the liabilities under that Section, and shall not be deemed to be incorporated by reference into any filing of Citizens Financial Group, Inc. under the Securities Act of 1933, as amended, or the Exchange Act.



	12/31/2020	12/31/2019	12/31/2018	12/31/2017	12/31/2016	12/31/2015
CFG	$160	$171	$121	$166	$139	$100
S&P 500 Index	203	171	130	136	112	100
KBW BKX Index	153	171	125	152	129	100
Peer Regional Bank Average	$152	$169	$127	$151	$131	$100

Issuer Purchase of Equity Securities

We did not purchase any of the Company's equity securities during the quarter ended December 31, 2020.

ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA

The following selected consolidated financial data should be read in conjunction with Item 7 and our audited Consolidated Financial Statements and Notes in Item 8. Our historical results are not necessarily indicative of the results expected for any future period.

	For the Year Ended December 31,				
(in millions, except per-share and ratio data)	2020	2019	2018	2017	2016
OPERATING DATA:					
Net interest income	$4,586	$4,614	$4,532	$4,173	$3,758
Noninterest income	2,319	1,877	1,596	1,534	1,497
Total revenue	6,905	6,491	6,128	5,707	5,255
Provision for credit losses	1,616	393	326	321	369
Noninterest expense	3,991	3,847	3,619	3,474	3,352
Income before income tax expense	1,298	2,251	2,183	1,912	1,534
Income tax expense[1]	241	460	462	260	489
Net income	1,057	1,791	1,721	1,652	1,045
Net income available to common stockholders	950	1,718	1,692	1,638	1,031
Net income per average common share - basic	2.22	3.82	3.54	3.26	1.97
Net income per average common share - diluted	2.22	3.81	3.52	3.25	1.97
Dividends declared and paid per common share	1.56	1.36	0.98	0.64	0.46
OTHER OPERATING DATA:					
Return on average common equity[2]	4.65 %	8.45 %	8.62 %	8.35 %	5.23 %
Return on average tangible common equity[2]	6.93	12.64	12.94	12.35	7.74
Return on average total assets[2]	0.60	1.10	1.11	1.10	0.73
Return on average total tangible assets[2]	0.62	1.15	1.16	1.15	0.76
Efficiency ratio[2]	57.80	59.28	59.06	60.87	63.80
Operating leverage[2][3]	2.65	(0.39)	3.19	4.98	6.08
Net interest margin, FTE[4]	2.89	3.16	3.22	3.06	2.90
Effective income tax rate[1]	18.54	20.43	21.16	13.62	31.88
Dividend payout ratio	70	36	28	20	23
Average equity to average assets ratio	12.60	13.27	13.02	13.25	13.93

[1] On December 22, 2017, Tax Legislation was passed reducing the corporate tax rate from 35% to 21% effective January 1, 2018.
[2] See the “Introduction — Key Performance Metrics Used by Management and Non-GAAP Financial Measures” section in Item 7 for definitions of our key performance metrics.
[3] “Operating leverage” represents the period-over-period percent change in total revenue, less the period-over-period percent change in noninterest expense. For the purpose of the 2016 calculation, 2015 total revenue was $4.8 billion and noninterest expense was $3.3 billion.
[4] Net interest margin is presented on an FTE basis using the federal statutory tax rate.

(in millions, except ratio data)	As of December 31, 2020	2019	2018	2017	2016
BALANCE SHEET DATA:					
Total assets	$183,349	$165,733	$160,518	$152,336	$149,520
Loans held for sale, at fair value	3,564	1,946	1,219	497	583
Other loans held for sale	439	1,384	101	221	42
Loans and leases	123,090	119,088	116,660	110,617	107,669
Allowance for loan and lease losses[1]	(2,443)	(1,252)	(1,242)	(1,236)	(1,236)
Total securities	26,847	24,669	25,075	25,733	25,610
Goodwill	7,050	7,044	6,923	6,887	6,876
Total liabilities	160,676	143,532	139,701	132,066	129,773
Total deposits	147,164	125,313	119,575	115,089	109,804
Short-term borrowed funds[2]	243	274	1,317	1,926	3,609
Long-term borrowed funds	8,346	14,047	15,925	12,510	13,540
Total stockholders' equity	22,673	22,201	20,817	20,270	19,747
OTHER BALANCE SHEET DATA:					
Asset Quality Ratios:					
Allowance for loan and lease losses to loans and leases[1]	1.98 %	1.05 %	1.06 %	1.12 %	1.15 %
Allowance for credit losses to loans and leases[1]	2.17	1.09	1.14	1.20	1.22
Allowance for credit losses to loans and leases, excluding the impact of PPP loans[3]	2.24	1.09	1.14	1.20	1.22
Allowance for loan and lease losses to nonaccruing loans and leases[1]	240	178	162	142	119
Allowance for credit losses to nonaccruing loans and leases[1]	262	184	174	153	126
Nonaccruing loans and leases to loans and leases	0.83	0.59	0.66	0.78	0.97
Capital Ratios:[4]					
CET1 capital ratio	10.0	10.0	10.6	11.2	11.2
Tier 1 capital ratio	11.3	11.1	11.3	11.4	11.4
Total capital ratio	13.4	13.0	13.3	13.9	14.0
Tier 1 leverage ratio	9.4	10.0	10.0	10.0	9.9

[1] Allowance for loan and leases losses, allowance for credit losses, and related ratios, at December 31, 2020 reflect the impact of the adoption of ASU 2016-13, Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments.

[2] In the first quarter of 2020, we reclassified federal funds purchased and securities sold under agreement to repurchase and other short-term borrowed funds to short-term borrowed funds. Prior periods have been adjusted to conform with the current period presentation.

[3] For more information on the computation of non-GAAP financial measures, see "-Introduction - Non-GAAP Financial Measures" and "-Non-GAAP Financial Measures and Reconciliations."

[4] The capital ratios and associated components are prepared using the U.S. Basel III Standardized approach and became fully phased-in on January 1, 2019. The December 31, 2017 capital ratios reflect the retrospective adoption of FASB ASU 2018-02, *Income Statement-Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*.

ITEM 7. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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INTRODUCTION

Citizens Financial Group, Inc. is one of the nation's oldest and largest financial institutions with $183.3 billion in assets as of December 31, 2020. Our mission is to help customers, colleagues and communities each reach their potential by listening to them and understanding their needs in order to offer tailored advice, ideas and solutions. Headquartered in Providence, Rhode Island, we offer a broad range of retail and commercial banking products and services to individuals, small businesses, middle-market companies, large corporations and institutions. In Consumer Banking, we provide an integrated experience that includes mobile and online banking, a 24/7 customer contact center as well as the convenience of approximately 2,700 ATMs and 1,000 branches in 11 states in the New England, Mid-Atlantic, and Midwest regions. Consumer Banking products and services include a full range of banking, lending, savings, wealth management and small business offerings. In Commercial Banking, we offer corporate, institutional and not-for-profit clients a full range of wholesale banking products and services including lending and deposits, capital markets, treasury services, foreign exchange and interest rate products, and asset finance. More information is available at www.citizensbank.com.

The following MD&A is intended to assist readers in their analysis of the accompanying Consolidated Financial Statements and supplemental financial information. It should be read in conjunction with the Consolidated Financial Statements and Notes to the Consolidated Financial Statements in Item 8, as well as other information contained in this document.

Non-GAAP Financial Measures

This document contains non-GAAP financial measures denoted as "Underlying" results. Underlying results for any given reporting period exclude certain items that may occur in that period which management does not consider indicative of our on-going financial performance. We believe these non-GAAP financial measures provide useful information to investors because they are used by management to evaluate our operating performance and make day-to-day operating decisions. In addition, we believe our Underlying results in any given reporting period reflect our on-going financial performance and increase comparability of period-to-period results, and, accordingly, are useful to consider in addition to our GAAP financial results.

Other companies may use similarly titled non-GAAP financial measures that are calculated differently from the way we calculate such measures. Accordingly, our non-GAAP financial measures may not be comparable to similar measures used by such companies. We caution investors not to place undue reliance on such non-GAAP financial measures, but to consider them with the most directly comparable GAAP measures. Non-GAAP financial measures have limitations as analytical tools, and should not be considered in isolation or as a substitute for our results reported under GAAP.

Non-GAAP measures are denoted throughout our MD&A by the use of the term Non-GAAP or Underlying and where there is a reference to Non-GAAP or Underlying results in that paragraph, all measures that follow that reference are on the same basis when applicable. For more information on the computation of non-GAAP financial measures, see "—Non-GAAP Financial Measures and Reconciliations."

FINANCIAL PERFORMANCE

Key Highlights

Net income of $1.1 billion decreased 41% from 2019, with earnings per diluted common share of $2.22, down 42% from $3.81 per diluted common share for 2019. ROTCE of 6.9% declined from 12.6% in 2019. Declining results continue to be driven by the COVID-19 pandemic and its associated impact on our ACL which, coupled with our adoption of CECL on January 1, 2020, resulted in a $923 million reserve build during 2020.

In 2020, results reflected a $83 million after-tax reduction, or $0.19 per diluted common share, from notable items, largely tied to TOP 6 transformational and revenue and efficiency initiatives. In 2019, we recorded $17 million after-tax, or $0.03 per diluted common share, of notable items tied to Acquisition integration costs, costs related to strategic initiatives and income tax benefits associated with an operational restructure and legacy tax matters.

Table 1: Notable Items

(in millions)	Year Ended December 31, 2020 Noninterest expense	Income tax expense	Net Income
Reported results (GAAP)	$3,991	$241	$1,057
Less: Notable items			
Total integration costs	10	(2)	(8)
Other notable items[1]	115	(40)	(75)
Total notable items	125	(42)	(83)
Underlying results (non-GAAP)	$3,866	$283	$1,140

(1) Other notable items include noninterest expense of $115 million related to our TOP 6 transformational and revenue and efficiency initiatives and an income tax benefit of $11 million related to an operational restructure and legacy tax matters.

(in millions)	Year Ended December 31, 2019 Noninterest expense	Income tax expense	Net Income
Reported results (GAAP)	$3,847	$460	$1,791
Less: Notable items			
Total integration costs	18	(4)	(14)
Other notable items[1]	50	(47)	(3)
Total notable items	68	(51)	(17)
Underlying results (non-GAAP)	$3,779	$511	$1,808

1) Other notable items include noninterest expense of $50 million related to our TOP programs and other efficiency initiatives and an income tax benefit of $34 million related to an operational restructure and legacy tax matters.

- Net income available to common stockholders of $950 million decreased $768 million, or 45%, compared to $1.7 billion in 2019.
  - On an Underlying basis, which excludes notable items, 2020 net income available to common stockholders of $1.0 billion compared with $1.7 billion in 2019.
  - On an Underlying basis, EPS of $2.41 per share compared to $3.84 in 2019.
- Total revenue of $6.9 billion increased $414 million, or 6%, from 2019, as a 24% increase in noninterest income, given record results across mortgage, capital markets and wealth, was partially offset by a 1% decrease in net interest income given lower rates.
  - Net interest income of $4.6 billion reflected 8% growth in average interest-earning assets offset by the impact of the lower rate and challenging yield-curve environment.
  - Net interest margin of 2.88% decreased 26 basis points from 3.14% in 2019, reflecting the impact of lower interest rates, partially offset by lower funding costs and improved funding mix, as well as continued mix shift towards higher yielding assets.
    - Net interest margin on a fully taxable-equivalent basis of 2.89% decreased by 27 basis points, compared to 3.16% in 2019.
    - Average loans and leases of $124.5 billion increased $6.6 billion, or 6%, from $117.9 billion in 2019, reflecting a $5.5 billion increase in commercial loans and leases primarily driven by $3.2 billion of PPP loans as well as a $1.1 billion increase in retail loans.
    - Period-end loan growth of $4.0 billion, or 3%, from 2019, reflected 6% growth in total commercial driven by PPP loans.
    - Average deposits of $138.7 billion increased $15.4 billion, or 13%, from $123.3 billion in 2019, as a result of government stimulus benefiting consumers and small businesses as well as commercial clients building liquidity given COVID-19 disruption.
    - Period-end deposit growth of $21.9 billion, or 17%, from 2019, reflecting growth in demand deposits, money market accounts, savings and checking with interest, partially offset by a decrease in term deposits.

- Noninterest income of $2.3 billion increased $442 million, or 24%, from 2019, driven by mortgage banking and capital markets fees, partially offset by lower service charges and fees, card fees, foreign exchange and interest rate products revenue, securities gains and other income.

- Noninterest expense of $4.0 billion increased $144 million, or 4%, from $3.8 billion in 2019, driven by higher salaries and employee benefits reflecting strong mortgage production; outside services tied to growth initiatives; and equipment and software expense given continued investments in technology; partially offset by lower other operating expense given lower travel, pension and advertising expenses.
  - On an Underlying basis, noninterest expense increased 2% from 2019.
- The efficiency ratio of 57.8% compared to 59.3% in 2019, and ROTCE of 6.9% compared to 12.6%.
  - On an Underlying basis, the efficiency ratio of 56.0% compared to 58.2% in 2019 and ROTCE of 7.5% compared to 12.8%, given the implementation of CECL and reserve increases tied to COVID-19 impacts.
- Provision for credit losses of $1.6 billion increased $1.2 billion from $393 million in 2019, reflecting our adoption of CECL and its reliance on forecasts of expected future losses, combined with the approximate $923 million impact from COVID-19 and associated lockdowns and a sudden rise in unemployment and drop in GDP.
- Tangible book value per common of $32.72 increased 2% from 2019. Fully diluted average common shares outstanding decreased 23.1 million shares, or 5% over the same period.

RESULTS OF OPERATIONS — 2020 compared with 2019

Net Interest Income

Net interest income is our largest source of revenue and is the difference between the interest earned on interest-earning assets (generally loans, leases and investment securities) and the interest expense incurred in connection with interest-bearing liabilities (generally deposits and borrowed funds). The level of net interest income is primarily a function of the difference between the effective yield on our average interest-earning assets and the effective cost of our interest-bearing liabilities. These factors are influenced by the pricing and mix of interest-earning assets and interest-bearing liabilities which, in turn, are impacted by external factors such as local economic conditions, competition for loans and deposits, the monetary policy of the FRB and market interest rates. For further discussion, refer to "—Market Risk — Non-Trading Risk," and "—Risk Governance."

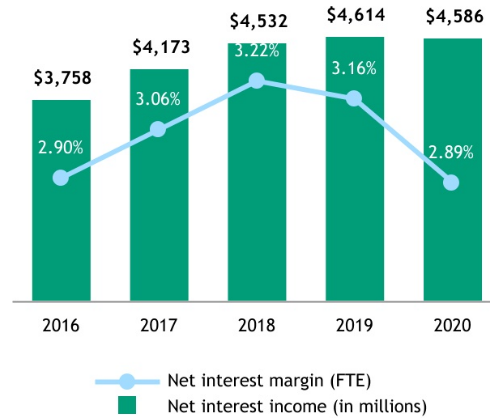


Table 2: Major Components of Net Interest Income

(dollars in millions)	Year Ended December 31, 2020 Average Balances	2020 Income/ Expense	2020 Yields/ Rates	2019 Average Balances	2019 Income/ Expense	2019 Yields/ Rates	Change Average Balances	Change Yields/ Rates (bps)
Assets								
Interest-bearing cash and due from banks and deposits in banks	$6,175	$11	0.18 %	$1,544	$30	1.94 %	$4,631	(176) bps
Taxable investment securities	25,160	519	2.06	25,425	642	2.51	(265)	(45)
Non-taxable investment securities	4	—	2.60	5	—	2.60	(1)	—
Total investment securities	25,164	519	2.06	25,430	642	2.51	(266)	(45)
Commercial and industrial	46,255	1,582	3.36	41,702	1,797	4.25	4,553	(89)
Commercial real estate	14,452	438	2.98	13,160	628	4.71	1,292	(173)
Leases	2,365	64	2.71	2,694	77	2.84	(329)	(13)
Total commercial	63,072	2,084	3.25	57,556	2,502	4.29	5,516	(104)
Residential mortgages	19,178	618	3.22	19,308	687	3.56	(130)	(34)
Home Equity	12,607	461	3.66	13,645	700	5.13	(1,038)	(147)
Automobile	12,064	517	4.29	12,047	506	4.20	17	9
Education	11,165	560	5.02	9,415	555	5.89	1,750	(87)
Other retail	6,458	479	7.41	5,929	491	8.27	529	(86)
Total retail	61,472	2,635	4.29	60,344	2,939	4.87	1,128	(58)
Total loans and leases [1]	124,544	4,719	3.76	117,900	5,441	4.59	6,644	(83)
Loans held for sale, at fair value	2,772	75	2.72	1,689	63	3.74	1,083	(102)
Other loans held for sale	620	33	5.22	251	13	5.10	369	12
Interest-earning assets	159,275	5,357	3.35	146,814	6,189	4.19	12,461	(84)
Allowance for loan and lease losses	(2,218)			(1,244)			(974)	
Goodwill	7,049			7,036			13	
Other noninterest-earning assets	12,336			9,570			2,766	
Total assets	$176,442			$162,176			$14,266	
Liabilities and Stockholders' Equity								
Checking with interest	$26,002	$64	0.24 %	$23,470	$203	0.87 %	$2,532	(63) bps
Money market accounts	44,732	192	0.43	36,613	450	1.23	8,119	(80)
Regular savings	16,144	50	0.31	13,247	75	0.57	2,897	(26)
Term deposits	14,309	203	1.42	21,035	427	2.03	(6,726)	(61)
Total interest-bearing deposits	101,187	509	0.50	94,365	1,155	1.22	6,822	(72)
Short-term borrowed funds	334	2	0.52	665	10	1.47	(331)	(95)
Long-term borrowed funds	10,853	260	2.39	13,014	410	3.14	(2,161)	(75)
Total borrowed funds	11,187	262	2.33	13,679	420	3.06	(2,492)	(73)
Total interest-bearing liabilities	112,374	771	0.69	108,044	1,575	1.46	4,330	(77)
Demand deposits	37,553			28,936			8,617	
Other liabilities	4,280			3,683			597	
Total liabilities	154,207			140,663			13,544	
Stockholders' equity	22,235			21,513			722	
Total liabilities and stockholders' equity	$176,442			$162,176			$14,266	
Interest rate spread			2.66 %			2.73 %		(7)
Net interest income and net interest margin		$4,586	2.88 %		$4,614	3.14 %		(26)
Net interest income and net interest margin, FTE[2]		$4,599	2.89 %		$4,635	3.16 %		(27)
Memo: Total deposits (interest-bearing and demand)	$138,740	$509	0.37 %	$123,301	$1,155	0.94 %	$15,439	(57) bps

[1] Interest income and rates on loans include loan fees. Additionally, $1.0 billion and $728 million of average nonaccrual loans were included in the average loan balances used to determine the average yield on loans for December 2020 and 2019, respectively.

[2] Net interest income and net interest margin is presented on a fully taxable-equivalent ("FTE") basis using the federal statutory tax rate of 21%. The FTE impact is predominantly attributable to commercial and industrial loans for the periods presented.

Net interest income of $4.6 billion decreased $28 million, reflecting 8% average interest-earning asset growth, including the addition of PPP loans, and improvements in funding mix and deposit pricing that were more than offset by a 26 basis point decrease in net interest margin given the lower rate and challenging yield curve environment.

Net interest margin on an FTE basis of 2.89% decreased 27 basis points compared to 3.16% in 2019, primarily reflecting the impact of lower interest rates and elevated cash balances given strong deposit flows (elevated cash balances drove 8 basis points of the decline), partially offset by improved funding mix and deposit

pricing. Average interest-earning asset yields of 3.35% decreased 84 basis points from 4.19% in 2019, while average interest-bearing liability costs of 0.69% decreased 77 basis points from 1.46% in 2019, reflecting strong pricing discipline.

Average interest-earning assets of $159.3 billion increased $12.5 billion, or 8%, from 2019, driven by a $5.5 billion increase in average commercial loans, a $4.4 billion increase in total investment securities and interest-bearing cash and due from banks and deposits in banks, a $1.5 billion increase in average total loans held for sale and a $1.1 billion increase in average retail loans. Commercial growth was driven by commercial and industrial (primarily PPP loans) and commercial real estate. Retail growth was driven by education and other retail, partially offset by home equity.

Average deposits of $138.7 billion increased $15.4 billion from 2019, as a result of government stimulus benefiting consumers and small businesses and clients building liquidity given COVID-19 disruption. Increases in demand deposits, money market accounts, savings, and checking with interest, were partially offset by a decrease in term deposits. Total interest-bearing deposit costs of $509 million decreased $646 million, or 56%, from $1.2 billion in 2019, primarily due to a lower rate environment and strong pricing discipline.

Average total borrowed funds of $11.2 billion decreased $2.5 billion from 2019 as strong deposit flows allowed for significantly lower levels of borrowings, with FHLB advances near zero at period-end and a reduction in senior and subordinated debt. Total borrowed funds costs of $262 million decreased $158 million from 2019. The total borrowed funds cost of 2.33% decreased 73 basis points from 3.06% in 2019 due to the impact of COVID-19 on the rate environment.

Table 3: Changes in Net Interest Income Due to Average Volume and Average Rate

	Year Ended December 31,		
	2020 Versus 2019		
(in millions)	**Average Volume[1]**	**Average Rate[1]**	**Net Change**
Interest Income			
Interest-bearing cash and due from banks and deposits in banks	$90	($109)	($19)
Taxable investment securities	(7)	(116)	(123)
Total investment securities	(7)	(116)	(123)
Commercial and industrial	194	(409)	(215)
Commercial real estate	61	(251)	(190)
Leases	(9)	(4)	(13)
Total commercial	246	(664)	(418)
Residential mortgages	(5)	(64)	(69)
Home Equity	(52)	(187)	(239)
Automobile	1	10	11
Education	103	(98)	5
Other retail	44	(56)	(12)
Total retail	91	(395)	(304)
Total loans and leases	337	(1,059)	(722)
Loans held for sale, at fair value	41	(29)	12
Other loans held for sale	19	1	20
Total interest income	$480	($1,312)	($832)
Interest Expense			
Checking with interest	$22	($161)	($139)
Money market accounts	100	(358)	(258)
Regular savings	16	(41)	(25)
Term deposits	(136)	(88)	(224)
Total interest-bearing deposits	2	(648)	(646)
Short-term borrowed funds	(5)	(3)	(8)
Long-term borrowed funds	(56)	(94)	(150)
Total borrowed funds	(61)	(97)	(158)
Total interest expense	(59)	(745)	(804)
Net interest income	$539	($567)	($28)

[1] Volume and rate changes have been allocated on a consistent basis using the respective percentage changes in average balances and average rates.

Noninterest Income

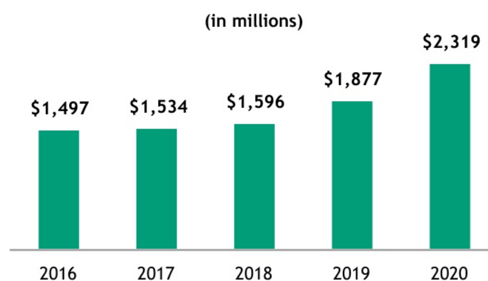


Table 4: Noninterest Income

(in millions)	Year Ended December 31, 2020	2019	Change	Percent
Mortgage banking fees	$915	$302	$613	203 %
Service charges and fees	403	505	(102)	(20)
Capital markets fees	250	216	34	16
Card fees	217	254	(37)	(15)
Trust and investment services fees	203	202	1	—
Letter of credit and loan fees	140	135	5	4
Foreign exchange and interest rate products	120	155	(35)	(23)
Securities gains, net	4	19	(15)	(79)
Other income[1]	67	89	(22)	(25)
Noninterest income	$2,319	$1,877	$442	24 %

[1] Includes bank-owned life insurance income and other income for all periods presented, and net impairment losses recognized in earnings on available for sale debt securities for the 2019 period.

Noninterest income of $2.3 billion increased $442 million, or 24%, from 2019, reflecting increased mortgage banking fees due to higher origination volumes and gain on sale margins, and capital markets fees. These results were partially offset by lower service charges and fees and card fees as well as lower foreign exchange and interest rate products revenue, reflecting challenging market conditions. Results also reflected decreased securities gains and other income given lower leasing income and lower gains related to asset dispositions, partially offset by gain on sale of education loans.

Noninterest Expense

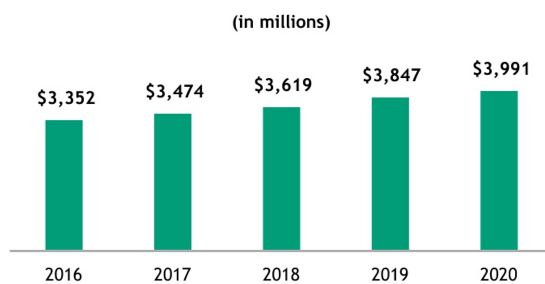
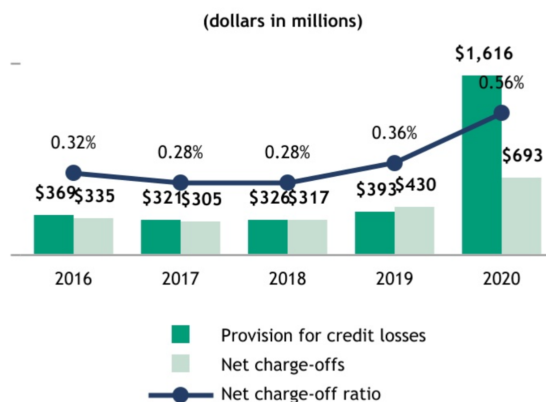


Table 5: Noninterest Expense

	Year Ended December 31,			
(in millions)	2020	2019	Change	Percent
Salaries and employee benefits	$2,123	$2,026	$97	5 %
Equipment and software expense	565	514	51	10
Outside services	553	498	55	11
Occupancy	331	333	(2)	(1)
Other operating expense	419	476	(57)	(12)
Noninterest expense	$3,991	$3,847	$144	4 %

Noninterest expense of $4.0 billion in 2020 increased $144 million, or 4%, compared to 2019, reflecting higher salaries and employee benefits, reflecting strong mortgage production, outside services, tied to growth initiatives, and an increase in equipment and software expense, given continued investments in technology. These results were partially offset by lower other operating expense given a decline in travel, pension, and advertising expenses. Underlying noninterest expense increased $87 million, or 2%, due to the reasons listed above.

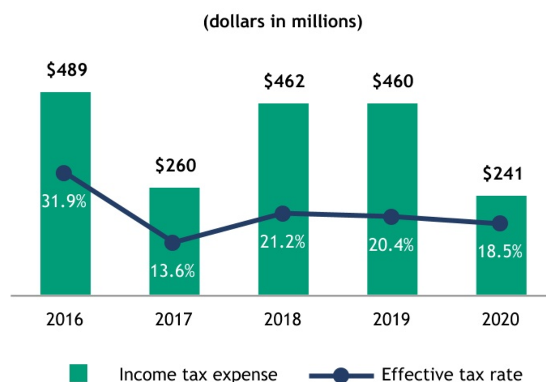
Provision for Credit Losses



The provision for credit losses is the result of a detailed analysis performed to estimate our ACL. The total provision for credit losses includes the provision for loan and lease losses and the provision for unfunded commitments. Refer to "—Analysis of Financial Condition — Allowance for Credit Losses and Nonaccruing Loans and Leases" for more information.

Provision for credit losses of $1.6 billion included a $923 million reserve build primarily associated with the impact of the COVID-19 pandemic and associated lockdowns on our loan portfolio, which resulted in a sudden rise in unemployment and drop in GDP. Net charge-offs of $693 million increased $263 million from 2019, which reflected charge-offs in our commercial portfolio concentrated in certain sub-categories, including retail real estate, metals and mining, energy and related, and casual dining, as well as the impact of continued seasoning in retail growth portfolios, and loan growth.

Income Tax Expense



Income tax expense of $241 million decreased $219 million from $460 million in 2019. The 2020 effective tax rate of 18.5% decreased from 20.4% in 2019, driven by the increased benefit of tax-advantaged investments on lower pre-tax income. An Underlying effective tax rate of 19.9% in 2020 compared to 22.0% in 2019.

Business Operating Segments

We have two business operating segments: Consumer Banking and Commercial Banking. Segment results are derived by specifically attributing managed assets, liabilities, capital and related revenues, provision for credit losses, which, at the segment level, is equal to net charge-offs, and other expenses. The residual difference between the consolidated provision for credit losses and the business operating segments' net charge-offs is reflected in Other.

Non-segment operations are classified as Other, which includes corporate functions, the Treasury function, the securities portfolio, wholesale funding activities, intangible assets not directly allocated to a business operating segment, community development, non-core assets, and other unallocated assets, liabilities, capital, revenues, provision for credit losses, expenses and income tax expense. In addition, Other includes goodwill not directly allocated to a business operating segment and any associated goodwill impairment charges. For impairment testing purposes, we allocate all goodwill to our Consumer Banking and/or Commercial Banking reporting units.

Our capital levels are evaluated and managed centrally; however, capital is allocated on a risk-adjusted basis to the business operating segments to support evaluation of business performance. Because funding and asset liability management is a central function, funds transfer-pricing ("FTP") methodologies are utilized to allocate a cost of funds used, or credit for the funds provided, to all business operating segment assets, liabilities and capital, respectively, using a matched-funding concept. The residual effect on net interest income of asset/liability management, including the residual net interest income related to the FTP process, is included in Other. We periodically evaluate and refine our methodologies used to measure financial performance of our business operating segments.

Noninterest income and expense are directly attributed to each business operating segment, including fees, service charges, salaries and benefits, and other direct revenues and costs and are respectively accounted for in a manner similar to our Consolidated Financial Statements. Occupancy costs are allocated based on utilization of facilities by each business operating segment. Noninterest expenses incurred by centrally managed operations or business operating segments that directly support another business operating segment's operations are charged to the applicable business operating segment based on its utilization of those services.

Income tax expense is assessed to each business operating segment at a standard tax rate with the residual tax expense or benefit to arrive at the consolidated effective tax rate included in Other.

Developing and applying methodologies used to allocate items among the business operating segments is a dynamic process. Accordingly, financial results may be revised periodically as management systems are enhanced, methods of evaluating performance or product lines are updated, or our organizational structure changes.

The following table presents certain financial data of our business operating segments. Total business operating segment financial results differ from total consolidated net income. These differences are reflected in Other non-segment operations. See Note 25 in Item 8 for further information.

Table 6: Selected Financial Data for Business Operating Segments

	As of and for the Year Ended December 31,		As of and for the Year Ended December 31,	
	2020	**2019**	**2020**	**2019**
(dollars in millions)	**Consumer Banking**		**Commercial Banking**	
Net interest income	$3,311	$3,182	$1,643	$1,466
Noninterest income	1,655	1,156	595	607
Total revenue	4,966	4,338	2,238	2,073
Noninterest expense	2,964	2,851	860	858
Profit before provision for credit losses	2,002	1,487	1,378	1,215
Net charge-offs	288	325	398	97
Income before income tax expense	1,714	1,162	980	1,118
Income tax expense	429	287	206	248
Net income	$1,285	$875	$774	$870
Average Balances:				
Total assets	$72,022	$66,240	$60,839	$55,947
Total loans and leases[1][2]	68,237	63,396	57,935	54,355
Deposits	91,541	84,835	40,417	31,085
Interest-earning assets	68,535	63,449	58,334	54,666

[1] Includes LHFS.
[2] The majority of PPP loans are reflected in Consumer Banking in accordance with how they are managed.

Consumer Banking

Net interest income increased $129 million, or 4%, from 2019, driven by the benefit of a $4.8 billion increase in average loans led by education, other retail and the impact of the PPP loan program, partially offset by lower deposit margins driven by the low rate environment. Noninterest income increased $499 million, or 43%, from 2019, driven by mortgage banking fees (reflecting strong origination volumes and gain on sale margins) and other income (gain on sale of education loans), partially offset by lower service charges and fees (higher deposit balances and lower transaction volumes) and card fees (lower transaction volumes). Noninterest expense increased $113 million, or 4%, from 2019, reflecting higher salaries and employee benefits costs tied to higher mortgage origination volumes and PPP loans. Net charge-offs of $288 million decreased $37 million, or 11%, reflecting the impact of loan forbearance programs.

Commercial Banking

Net interest income of $1.6 billion decreased $177 million, or 12%, from 2019, primarily due to the low rate environment, partially offset by higher loan and lower-costing deposit volume. Noninterest income of $595 million decreased $12 million, or 2%, from $607 million in 2019, as higher capital markets fees were offset by a decrease in other income and foreign exchange and interest rate products. Noninterest expense of $860 million increased $2 million, from $858 million in 2019, driven by higher salaries and employee benefits, partially offset by lower travel costs. Net charge-offs of $398 million increased $301 million from 2019, driven by the impact of COVID-19 and associated lockdowns, primarily in the retail real estate, metals and mining, energy and related, and casual dining industries.

RESULTS OF OPERATIONS — 2019 compared with 2018

For a description of our results of operations for 2019, see the “Results of Operations — 2019 compared with 2018” section of Item 7 in our 2019 Form 10-K.

ANALYSIS OF FINANCIAL CONDITION

Securities

Table 7: Amortized Cost and Fair Value of AFS and HTM Securities

	December 31, 2020		December 31, 2019		December 31, 2018	
(in millions)	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
U.S. Treasury and other	$11	$11	$71	$71	$24	$24
State and political subdivisions	3	3	5	5	5	5
Mortgage-backed securities, at fair value:						
Federal agencies and U.S. government sponsored entities	21,954	22,506	19,803	19,875	20,211	19,634
Other/non-agency	396	422	638	662	236	232
Total mortgage-backed securities, at fair value	22,350	22,928	20,441	20,537	20,447	19,866
Total debt securities available for sale, at fair value	$22,364	$22,942	$20,517	$20,613	$20,476	$19,895
Mortgage-backed securities, at cost:						
Federal agencies and U.S. government sponsored entities	$2,342	$2,464	$3,202	$3,242	$3,425	$3,293
Other/non-agency	—	—	—	—	740	748
Total mortgage-backed securities, at cost	$2,342	$2,464	$3,202	$3,242	$4,165	$4,041
Asset-backed securities, at cost	$893	$893	$—	$—	$—	$—
Total debt securities held to maturity	$3,235	$3,357	$3,202	$3,242	$4,165	$4,041
Total debt securities available for sale and held to maturity	$25,599	$26,299	$23,719	$23,855	$24,641	$23,936
Equity securities, at fair value	$66	$66	$47	$47	$181	$181
Equity securities, at cost	604	604	807	807	834	834

Our securities portfolio is managed to maintain prudent levels of liquidity, credit quality and market risk while achieving appropriate returns that align with our overall portfolio management strategy. The portfolio includes high quality, highly liquid investments reflecting our ongoing commitment to appropriate contingent liquidity levels and pledging capacity. U.S. government-guaranteed notes and GSE-issued mortgage-backed securities represent 95% of the fair value of our debt securities portfolio holdings. Holdings backed by mortgages dominate our portfolio and facilitate our ability to pledge those securities to the FHLB for collateral purposes.

The fair value of the AFS debt securities portfolio of $22.9 billion at December 31, 2020 increased $2.3 billion from $20.6 billion at December 31, 2019 largely reflecting an increase of $1.8 billion related to reinvestment timing and a $482 million increase in value from lower long-term rates. The fair value of the HTM debt securities portfolio decreased $115 million largely reflecting portfolio runoff, partially offset by the reclass of certain ABS. In September 2020, we purchased $813 million of asset-backed securities, which were recorded as AFS; however, in October 2020, management transferred these securities to HTM after concluding to hold these securities through maturity. For further information, see Note 1 in Item 8.

As of December 31, 2020, the portfolio's average effective duration was 2.7 years compared with 3.7 years as of December 31, 2019, as lower long-term rates drove an increase in both actual and projected securities prepayment speeds. We manage our securities portfolio duration and convexity risk through asset selection and securities structure, and maintain duration levels within our risk appetite in the context of the broader interest rate risk in the banking book framework and limits.

Table 8: Amortized Cost and Fair Value of AFS and HTM Securities by Contractual Maturity

	As of December 31, 2020				
	Distribution of Maturities[1]				
(dollars in millions)	Due in 1 Year or Less	Due After 1 Through 5 Years	Due After 5 Through 10 Years	Due After 10 Years	Total
Amortized cost:					
U.S. Treasury and other	$11	$—	$—	$—	$11
State and political subdivisions	—	—	—	3	3
Mortgage-backed securities:					
Federal agencies and U.S. government sponsored entities	1	127	1,616	20,210	21,954
Other/non-agency	—	—	—	396	396
Total debt securities available for sale	12	127	1,616	20,609	22,364
Mortgage-backed securities:					
Federal agencies and U.S. government sponsored entities	—	—	—	2,342	2,342
Asset-backed securities	—	—	893	—	893
Total debt securities held to maturity	—	—	893	2,342	3,235
Total amortized cost of debt securities [2]	$12	$127	$2,509	$22,951	$25,599
Weighted-average yield [3][4]	0.63 %	2.16 %	2.48 %	2.27 %	2.29 %

[1] Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations with or without incurring penalties.
[2] As of December 31, 2020, no investment exceeded 10% of Stockholders' Equity.
[3] Yields on tax-exempt securities are not computed on a tax-equivalent basis.
[4] Yields exclude the impact of hedging activity.

Loans and Leases

Table 9: Composition of Loans and Leases, Excluding LHFS

	December 31,					Changes from 2020-2019	
(in millions)	2020	2019	2018	2017	2016	$	%
Commercial and industrial [1][2]	$44,173	$41,479	$40,857	$37,562	$37,274	$2,694	6 %
Commercial real estate	14,652	13,522	13,023	11,308	10,624	1,130	8
Leases	1,968	2,537	2,903	3,161	3,753	(569)	(22)
Total commercial [1]	60,793	57,538	56,783	52,031	51,651	3,255	6
Residential mortgages	19,539	19,083	18,978	17,045	15,115	456	2
Home equity [3]	12,149	13,154	14,286	15,566	16,927	(1,005)	(8)
Automobile	12,153	12,120	12,106	13,204	13,938	33	—
Education	12,308	10,347	8,900	8,134	6,610	1,961	19
Other retail [4]	6,148	6,846	5,607	4,637	3,428	(698)	(10)
Total retail	62,297	61,550	59,877	58,586	56,018	747	1
Total loans and leases	$123,090	$119,088	$116,660	$110,617	$107,669	$4,002	3 %

[1] The commercial loan class has been renamed commercial and industrial, and the commercial loans and leases loan segment has been renamed commercial.
[2] The December 31, 2020 commercial and industrial balance included PPP loans fully guaranteed by the SBA.
[3] Beginning in the first quarter of 2020, home equity loans, home equity lines of credit, home equity loans serviced by others and home equity lines of credit serviced by others are included in home equity. Prior periods have been adjusted to conform with the current period presentation.
[4] Beginning in the first quarter of 2020, credit card and other retail are included in other retail. Prior periods have been adjusted to conform with the current period presentation.

Total loans and leases increased $4.0 billion, or 3%, from $119.1 billion as of December 31, 2019, largely driven by commercial PPP loans to small business customers. Growth in retail loans, driven by education, was muted in part by the sale of education loans in September and December 2020 amounting to $1.1 billion, inclusive of accrued interest, capitalized interest and fees, and a decline in home equity and other retail. For further information, see Note 10 in Item 8.

PPP loans to small business customers totaled approximately $4.7 billion for the quarters ended June 30, 2020 and September 30, 2020, and $4.2 billion as of December 31, 2020. Average PPP loans totaled approximately $3.4 billion, $4.7 billion and $4.5 billion for the quarters ended June 30, 2020, September 30, 2020, and December 31, 2020, respectively. There were no outstanding PPP loans as of and during the quarter ended March 31, 2020.

As of December 31, 2020, under our COVID-19-related forbearance programs, that are guided by the CARES Act as well as banking regulator interagency guidance, we have deferred payments on:

- Approximately $1.4 billion, or 2.3%, of our retail portfolio, for which the weighted average FICO score is 711
  - 94% of customers that exited forbearance are current on payments
  - Although not required, approximately 42% of our residential mortgage borrowers have made payment while in active forbearance, and the weighted average loan-to-value of the $700 million in residential mortgage loans in active forbearance is 62%.
- Approximately $343 million, or 0.6%, of our commercial portfolio, including approximately $53 million, or 1.0%, of our small business portfolio.

The vast majority of these deferrals are not classified as TDRs.

Table 10: Maturities and Sensitivities of Loans and Leases to Changes in Interest Rates

	December 31, 2020			
(in millions)	Due in 1 Year or Less	Due After 1 Year Through 5 Years	Due After 5 Years	Total Loans and Leases
Commercial and industrial	$7,678	$31,390	$5,105	$44,173
Commercial real estate	3,710	9,951	991	14,652
Leases	460	1,208	300	1,968
Total commercial	11,848	42,549	6,396	60,793
Residential mortgages	1,033	2,247	16,259	19,539
Home equity	10,179	258	1,712	12,149
Automobile	170	6,801	5,182	12,153
Education	17	1,346	10,945	12,308
Other retail	2,196	3,713	239	6,148
Total retail	13,595	14,365	34,337	62,297
Total loans and leases	$25,443	$56,914	$40,733	$123,090
Loans and leases due after one year at fixed interest rates		$22,848	$22,730	$45,578
Loans and leases due after one year at variable interest rates		34,066	18,003	52,069

Loan and Lease Concentrations

At December 31, 2020, we did not identify any concentration of loans and leases exceeding 10% of total loans and leases that were not otherwise disclosed as a category of loans and leases. For further information on how we manage concentration exposures, see Note 5 in Item 8.

Allowance for Credit Losses and Nonaccruing Loans and Leases

The ACL, which consists of an ALLL and a reserve for unfunded lending commitments, is created through charges to the provision for credit losses in order to provide appropriate reserves to absorb future estimated credit losses in accordance with GAAP. For further information on our processes to determine our ACL, see "—Critical Accounting Estimates — Allowance for Credit Losses," and Note 5 in Item 8.

Summary of Loan and Lease Loss Experience

Table 11: Summary of Changes in ALLL and Reserve for Unfunded Commitments

	As of and for the Year Ended December 31,				
(dollars in millions)	**2020**	**2019**	**2018**	**2017**	**2016**
Allowance for Loan and Lease Losses — Beginning:					
Commercial and industrial	$548	$530	$541	$516	$376
Commercial real estate	107	138	121	99	111
Leases	19	22	23	48	23
Qualitative	—	—	—	—	86
Total commercial	674	690	685	663	596
Residential mortgages	35	36	44	55	46
Home equity	83	108	122	182	203
Automobile	123	127	139	127	106
Education	116	101	120	102	96
Other retail	221	180	126	107	88
Qualitative	—	—	—	—	81
Total retail	578	552	551	573	620
Total allowance for loan and lease losses — Beginning	$1,252	$1,242	$1,236	$1,236	$1,216
Cumulative effect of change in accounting principle:					
Commercial and industrial	($197)	$—	$—	$—	$—
Commercial real estate	(57)	—	—	—	—
Leases	78	—	—	—	—
Total commercial	(176)	—	—	—	—
Residential mortgages	95	—	—	—	—
Home equity	74	—	—	—	—
Automobile	82	—	—	—	—
Education	298	—	—	—	—
Other retail	80	—	—	—	—
Total retail loans	629	—	—	—	—
Cumulative effect of change in accounting principle	$453	$—	$—	$—	$—
Allowance for Loan and Lease Losses — Beginning, Adjusted:					
Commercial and industrial	$351	$530	$541	$516	$376
Commercial real estate	50	138	121	99	111
Leases	97	22	23	48	23
Qualitative	—	—	—	—	86
Total commercial	498	690	685	663	596
Residential mortgages	130	36	44	55	46
Home equity	157	108	122	182	203
Automobile	205	127	139	127	106
Education	414	101	120	102	96
Other retail	301	180	126	107	88
Qualitative	—	—	—	—	81
Total retail loans	1,207	552	551	573	620
Total allowance for loan and lease losses — beginning, Adjusted	$1,705	$1,242	$1,236	$1,236	$1,216

Table 11: Summary of Changes in ALLL and Reserve for Unfunded Commitments

(dollars in millions)	As of and for the Year Ended December 31, 2020	2019	2018	2017	2016
Gross Charge-offs:					
Commercial and industrial	($247)	($87)	($48)	($62)	($56)
Commercial real estate	(112)	(39)	(4)	(13)	(14)
Leases	(78)	(14)	—	—	(9)
Total commercial	(437)	(140)	(52)	(75)	(79)
Residential mortgages	(7)	(8)	(8)	(11)	(21)
Home equity	(25)	(39)	(45)	(65)	(109)
Automobile	(114)	(143)	(158)	(181)	(160)
Education	(51)	(72)	(68)	(59)	(52)
Other retail	(209)	(213)	(163)	(121)	(115)
Total retail	(406)	(475)	(442)	(437)	(457)
Total gross charge-offs	($843)	($615)	($494)	($512)	($536)
Gross Recoveries:					
Commercial and industrial	$11	$24	$15	$37	$21
Commercial real estate	1	—	4	3	12
Total commercial	12	24	19	40	33
Residential mortgages	6	9	5	6	9
Home equity	38	49	49	54	61
Automobile	51	57	67	73	65
Education	16	16	16	15	11
Other retail	27	30	21	19	22
Total retail	138	161	158	167	168
Total gross recoveries	$150	$185	$177	$207	$201
Net (Charge-offs)/Recoveries:					
Commercial and industrial	($236)	($63)	($33)	($25)	($35)
Commercial real estate	(111)	(39)	—	(10)	(2)
Leases	(78)	(14)	—	—	(9)
Total commercial	(425)	(116)	(33)	(35)	(46)
Residential mortgages	(1)	1	(3)	(5)	(12)
Home equity	13	10	4	(11)	(48)
Automobile	(63)	(86)	(91)	(108)	(95)
Education	(35)	(56)	(52)	(44)	(41)
Other retail	(182)	(183)	(142)	(102)	(93)
Total retail	(268)	(314)	(284)	(270)	(289)
Total net charge-offs	($693)	($430)	($317)	($305)	($335)
Ratio of net charge-offs to average loans and leases	(0.56 %)	(0.36 %)	(0.28 %)	(0.28 %)	(0.32 %)
Provision for Loan and Lease Losses:					
Commercial and industrial	$706	$81	$22	$50	$117
Commercial real estate	421	8	17	32	(17)
Leases	33	11	(1)	(25)	34
Qualitative	—	—	—	—	(21)
Total commercial	1,160	100	38	57	113
Residential mortgages	12	(2)	(5)	(6)	8
Home equity	(36)	(35)	(18)	(49)	(8)
Automobile	58	82	79	120	99
Education	(18)	71	33	62	21
Other retail	255	224	196	121	95
Qualitative	—	—	—	—	27
Total retail	271	340	285	248	242
Total provision for loan and lease losses	$1,431	$440	$323	$305	$355

Table 11: Summary of Changes in ALLL and Reserve for Unfunded Commitments

(dollars in millions)	As of and for the Year Ended December 31, 2020	2019	2018	2017	2016
Total Allowance for Loan and Lease Losses — Ending:					
Commercial and industrial	$821	$548	$530	$541	$458
Commercial real estate	360	107	138	121	92
Leases	52	19	22	23	48
Qualitative	—	—	—	—	65
Total commercial	1,233	674	690	685	663
Residential mortgages	141	35	36	44	42
Home equity	134	83	108	122	147
Automobile	200	123	127	139	110
Education	361	116	101	120	76
Other retail	374	221	180	126	90
Qualitative	—	—	—	—	108
Total retail	1,210	578	552	551	573
Total allowance for loan and lease losses — Ending	$2,443	$1,252	$1,242	$1,236	$1,236
Reserve for Unfunded Lending Commitments — Beginning	$44	$91	$88	$72	$58
Cumulative effect of change in accounting principle	(2)	—	—	—	—
Provision for unfunded lending commitments	185	(47)	3	16	14
Reserve for unfunded lending commitments — Ending	$227	$44	$91	$88	$72
Total Allowance for Credit Losses — Ending	$2,670	$1,296	$1,333	$1,324	$1,308

Table 12: Allocation of the ALLL

(dollars in millions)	December 31, 2020		2019		2018		2017		2016	
Commercial and industrial	$821	36 %	$548	35 %	$530	35 %	$541	34 %	$458	35 %
Commercial real estate	360	12	107	11	138	11	121	10	92	10
Leases	52	1	19	2	22	3	23	3	48	3
Qualitative	—	N/A	—	N/A	—	N/A	—	N/A	65	N/A
Total commercial	1,233	49	674	48	690	49	685	47	663	48
Residential mortgages	141	16	35	16	36	16	44	15	42	14
Home equity	134	10	83	11	108	12	122	14	147	16
Automobile	200	10	123	10	127	10	139	12	110	13
Education	361	10	116	9	101	8	120	7	76	6
Other retail	374	5	221	6	180	5	126	5	90	3
Qualitative	—	N/A	—	N/A	—	N/A	—	N/A	108	N/A
Total retail	1,210	51	578	52	552	51	551	53	573	52
Total loans and leases	$2,443	100 %	$1,252	100 %	$1,242	100 %	$1,236	100 %	$1,236	100 %

The ALLL represented 1.98% of total loans and leases and 240% of NPLs as of December 31, 2020 compared with 1.05% and 178%, respectively, as of December 31, 2019.

Risk Elements

Table 13: Nonaccrual Loans and Leases, Accruing and 90 Days or More Past Due and Restructured Loans and Leases

	December 31,				
(in millions)	**2020**	**2019**	**2018**	**2017**	**2016**
Nonaccrual loans and leases					
Commercial and industrial	$280	$240	$194	$238	$322
Commercial real estate	176	2	7	27	50
Leases	2	3	—	—	15
Total commercial	458	245	201	265	387
Residential mortgages	167	93	105	125	139
Home equity	276	246	313	348	406
Automobile	72	67	81	70	50
Education	18	18	38	38	38
Other retail	28	34	28	22	20
Total retail	561	458	565	603	653
Total nonaccrual loans and leases	$1,019	$703	$766	$868	$1,040
Loans and leases that are accruing and 90 days or more delinquent					
Commercial and industrial	$20	$2	$1	$5	$2
Commercial real estate	—	—	—	3	—
Leases	1	—	—	—	—
Total commercial	21	2	1	8	2
Residential mortgages	30	13	15	16	18
Education	2	2	2	3	5
Other retail	9	8	7	5	1
Total retail	41	23	24	24	24
Total accruing and 90 days or more delinquent	62	25	25	32	26
Total	$1,081	$728	$791	$900	$1,066
Troubled debt restructurings [1]	$690	$692	$723	$629	$633

[1] TDR balances reported in this line item consist of only those TDRs not reported in the nonaccrual loan or accruing and 90 days or more delinquent loan categories. Thus, only those TDRs that are in compliance with their modified terms and not past due, or those TDRs that are past due 30-89 days and still accruing are included in the TDR balances listed above.

NPLs of $1.0 billion as of December 31, 2020 increased $316 million from December 31, 2019, driven by a $103 million increase in retail reflecting growth in mortgage NPLs, and a $213 million increase in commercial NPLs reflecting a deterioration in certain industry sectors from the impacts of COVID-19 and associated lockdowns. NCOs of $693 million increased $263 million, or 61%, from $430 million in 2019 reflecting charge-offs in our commercial portfolio related to retail real estate, metals and mining, energy and related, and casual dining, while retail NCOs were down compared to 2019 due in large part to U.S. Government stimulus programs and forbearance. NCOs as a percentage of total average loans of 0.56% increased 20 basis points compared to 0.36% in 2019.

We continue to assess the impact of the COVID-19 pandemic and associated lockdowns and have instituted a variety of measures to identify and monitor areas of potential risk, including direct outreach to commercial clients and close monitoring of retail credit metrics.

Potential Problem Loans and Leases

At December 31, 2020, we did not identify any potential problem loans or leases within the portfolio that were not already disclosed in "—Risk Elements" and "—Commercial Loan Asset Quality." Potential problem loans or leases consist of loans and leases where information about a borrower's possible credit problems cause management to have serious doubts as to the ability of a borrower to comply with the present repayment terms.

Commercial Loan Asset Quality

Our commercial portfolio consists of traditional commercial and industrial, and commercial real estate loans. The portfolio is largely comprised of customers in our footprint and adjacent states in which we have a physical presence where our local delivery model provides for strong client connectivity. We also lend nationally to companies that fall within targeted client, industry, and geographic expansion strategies.

Commercial NPLs increased $213 million to $458 million as of December 31, 2020 from $245 million as of December 31, 2019. As of December 31, 2020, total commercial NPLs were 0.8% of the commercial portfolio and increased from 0.4% at December 31, 2019. Total 2020 commercial portfolio net charge-offs of $425 million increased from $116 million in 2019. For the year ended December 31, 2020, the commercial portfolio annualized net charge-off ratio of 0.67% increased from 0.20% for the year ended December 31, 2019, reflecting charge-offs in the retail real estate, metals and mining, energy and related, and casual dining industry sectors.

The increases in commercial NPLs and NCOs were driven largely by a deterioration in certain industry sectors, including retail real estate, casual dining, and energy and related, resulting from the impacts of COVID-19 and associated lockdowns.

For commercial, we utilize regulatory classification ratings to monitor credit quality. For more information on regulatory classification ratings, see Note 5 in Item 8. The recorded investment in commercial based on regulatory classification ratings is presented below:

Table 14: Commercial Loans and Leases by Regulatory Classification

	December 31, 2020				
		Criticized			
(in millions)	Pass	Special Mention	Substandard	Doubtful	Total
Commercial and industrial[(1)]	$40,878	$1,583	$1,464	$248	$44,173
Commercial real estate	13,356	804	416	76	14,652
Leases	1,922	33	12	1	1,968
Total commercial	$56,156	$2,420	$1,892	$325	$60,793

[(1)] Pass includes PPP loans.

	December 31, 2019				
		Criticized			
(in millions)	Pass	Special Mention	Substandard	Doubtful	Total
Commercial and industrial	$38,950	$1,351	$934	$244	$41,479
Commercial real estate	13,169	318	33	2	13,522
Leases	2,383	109	42	3	2,537
Total commercial	$54,502	$1,778	$1,009	$249	$57,538

Total commercial criticized balances of $4.6 billion as of December 31, 2020 increased $1.6 billion compared with December 31, 2019. Commercial criticized as a percent of total commercial of 7.6% at December 31, 2020 increased from 5.3% at December 31, 2019.

Commercial and industrial criticized balances of $3.3 billion, or 7.5% of the total commercial and industrial loan portfolio as of December 31, 2020, increased from $2.5 billion, or 6.1%, as of December 31, 2019. The increase was due to the migration to criticized loans for hospitality, energy and related, and casual dining. Commercial and industrial criticized loans represented 71% of total criticized loans as of December 31, 2020 compared to 83% as of December 31, 2019.

Commercial real estate criticized balances of $1.3 billion, or 8.8% of the commercial real estate portfolio, increased from $353 million, or 2.6%, as of December 31, 2019. The increase was due to the migration to criticized loans for a few larger borrowers in the hospitality and retail industry sectors. Commercial real estate accounted for 28% of total criticized loans as of December 31, 2020 compared to 12% as of December 31, 2019.

Table 15: Commercial Loans and Leases by Industry Sector

(dollars in millions)	December 31, 2020 Balance	December 31, 2020 % of Total Loans	December 31, 2019 Balance	December 31, 2019 % of Total Loans
Finance and insurance	$6,481	5 %	$5,155	4 %
Health, pharma, and social assistance	3,243	3	3,496	3
Accommodation and food services	3,206	3	3,346	3
Professional, scientific, and technical services	2,804	2	2,986	3
Other manufacturing	2,403	2	2,337	2
Information	2,378	2	2,485	2
Retail trade	2,336	2	2,319	2
Energy and related	2,237	2	2,564	2
Wholesale trade	1,904	2	2,606	2
Metals and mining	1,646	1	1,956	2
Arts, entertainment, and recreation	1,382	1	1,229	1
Other services	1,370	1	1,413	1
Administrative and waste management services	1,320	1	1,454	1
Computer, electrical equipment, appliance, and component manufacturing	1,174	1	1,199	1
Transportation and warehousing	1,169	1	1,141	1
Consumer products manufacturing	1,112	1	1,005	1
Automotive	1,051	1	1,213	1
Educational services	844	1	1,093	1
Chemicals	736	—	983	1
Real estate and rental and leasing	732	—	659	—
All other [1]	490	—	840	1
Total commercial and industrial	40,018	32	41,479	35
Real estate and rental and leasing	13,169	11	12,116	10
Accommodation and food services	749	1	606	1
Finance and insurance	498	—	418	—
All other [1]	236	—	382	—
Total commercial real estate	14,652	12	13,522	11
Total leases	1,968	2	2,537	2
Total commercial [2]	$56,638	46 %	$57,538	48 %

[1] Deferred fees and costs are reported in All other
[2] Excludes PPP loans for the year-ended December 31, 2020.

Retail Loan Asset Quality

For retail loans, we utilize credit scores provided by FICO which are generally refreshed on a quarterly basis and the loan's payment and delinquency status to monitor credit quality. Management believes FICO credit scores are considered the strongest indicator of credit losses over the contractual life of the loan as the scores are based on current and historical national industry-wide consumer level credit performance data, and assist management in predicting the borrower's future payment performance. The largest portion of the retail portfolio is represented by borrowers located in the New England, Mid-Atlantic and Midwest regions, although we have continued to lend selectively in areas outside the footprint primarily in the auto finance and education lending.

Table 16: Aging of Retail Loans as a Percentage of Loan Class

	December 31, 2020				December 31, 2019			
	Days Past Due				Days Past Due			
	Current-29	30-59	60-89	90 or More	Current-29	30-59	60-89	90 or More
Residential mortgages	98.73 %	0.30 %	0.11 %	0.86 %	99.29 %	0.18 %	0.09 %	0.44 %
Home equity	97.53	0.50	0.23	1.74	97.57	0.69	0.30	1.44
Automobile	97.93	1.40	0.53	0.14	97.26	1.87	0.67	0.20
Education	99.56	0.27	0.11	0.06	99.45	0.29	0.14	0.12
Other retail	98.36	0.62	0.47	0.55	98.29	0.66	0.45	0.60
Total retail loans	98.47 %	0.58 %	0.25 %	0.70 %	98.43 %	0.70 %	0.30 %	0.57 %

For more information on the aging of accruing and nonaccruing retail loans, see Note 5 in Item 8.

Table 17: Retail Asset Quality Metrics

	December 31, 2020	December 31, 2019
Average refreshed FICO for total portfolio	771	764
CLTV ratio for secured real estate[1]	60 %	59 %
Nonaccrual retail loans as a percentage of total retail	0.90 %	0.74 %

[1] The real estate secured portfolio CLTV is calculated as the mortgage and second lien loan balance divided by the most recently available value of the property.

	Year Ended December 31,			
(dollars in millions)	2020	2019	Change	Percent
Net charge-offs	$268	$314	($46)	(15 %)
Annualized net charge-off rate	0.44 %	0.52 %	(8) bps	

Retail asset quality remained relatively stable with December 31, 2019. The net charge-off rate of 0.44% for the year ended December 31, 2020 reflected a decrease of 8 basis points from the year ended December 31, 2019, driven by the forbearance and stimulus activity stemming from the COVID-19 pandemic and associated lockdowns.

Troubled Debt Restructurings

TDR is the classification given to a loan that has been restructured in a manner that grants a concession to a borrower experiencing financial hardship that we would not otherwise make. TDRs typically result from our loss mitigation efforts and are undertaken in order to improve the likelihood of recovery and continuity of the relationship. Our loan modifications are handled on a case-by-case basis and are negotiated to achieve mutually agreeable terms that maximize loan collectability and meet our borrower's financial needs. The types of concessions include interest rate reductions, term extensions, principal forgiveness and other modifications to the structure of the loan that fall outside our lending policy. Depending on the specific facts and circumstances of the customer, restructuring can involve loans moving to nonaccrual, remaining on nonaccrual, or remaining on accrual status.

In the first quarter of 2020, we adopted the CARES Act and interagency guidance issued by the bank regulatory agencies which provide that COVID-19-related modifications to retail and commercial loans that met certain eligibility criteria are exempt from classification as a TDR. Loans with payment deferrals and forbearance plans entered into as a result of the COVID-19 pandemic and associated lockdowns were generally not considered TDRs.

As of December 31, 2020, $718 million of retail loans were classified as TDRs, compared with $667 million as of December 31, 2019. As of December 31, 2020, $171 million of retail TDRs were in nonaccrual status with 38% current with payments, compared to $143 million in nonaccrual status with 38% current on payments at December 31, 2019. TDRs generally return to accrual status once repayment capacity and appropriate payment history can be established. TDRs are individually evaluated for impairment and loans, once classified as TDRs, remain classified as TDRs until paid off, sold or refinanced at market terms. For additional information regarding TDRs, see "—Critical Accounting Estimates — Allowance for Credit Losses" and Note 5 in Item 8.

Table 18: Accruing and Nonaccruing Retail Troubled Debt Restructurings

	December 31, 2020				
		As a % of Accruing Retail TDRs			
(dollars in millions)	Accruing	30-89 Days Past Due	90+ Days Past Due	Nonaccruing	Total
Residential mortgages	$172	2.7 %	2.6 %	$43	$215
Home equity	221	1.3	—	83	304
Automobile	13	0.5	—	33	46
Education	116	0.6	0.3	10	126
Other retail	25	0.3	—	2	27
Total	$547	5.4 %	2.9 %	$171	$718

	December 31, 2019				
		As a % of Accruing Retail TDRs			
(dollars in millions)	Accruing	30-89 Days Past Due	90+ Days Past Due	Nonaccruing	Total
Residential mortgages	$113	3.8 %	2.1 %	$41	$154
Home equity loans	240	1.9	—	84	324
Automobile	13	0.2	—	8	21
Education	127	0.9	0.3	7	134
Other retail	31	0.6	—	3	34
Total	$524	7.4 %	2.4 %	$143	$667

Impact of Nonperforming Loans and Leases on Interest Income

The following table presents the gross interest income for both nonaccrual and restructured loans that would have been recognized if those loans had been current in accordance with their original contractual terms, and had been outstanding throughout the year, or since origination if held for only part of the year. The table also presents the interest income related to these loans that was actually recognized for the year.

Table 19: Interest Income Foregone

(in millions)	For the Year Ended December 31, 2020
Gross amount of interest income that would have been recorded [1]	$126
Interest income actually recognized	17
Total interest income foregone	$109

[1] Based on the contractual rate that was being charged at the time the loan was restructured or placed on nonaccrual status.

Cross-Border Outstandings

Cross-border outstandings can include loans, receivables, interest-bearing deposits with other banks, other interest-bearing investments and other monetary assets that are denominated in either dollars or non-local currency. As of December 31, 2020, 2019 and 2018, there were no aggregate cross-border outstandings from borrowers or counterparties in any country that exceeded 1%, or were between 0.75% and 1% of consolidated total assets.

Deposits

Table 20: Composition of Deposits

	December 31,			
(in millions)	2020	2019	Change	Percent
Demand	$43,831	$29,233	$14,598	50 %
Checking with interest	27,204	24,840	2,364	10
Regular savings	18,044	13,779	4,265	31
Money market accounts	48,569	38,725	9,844	25
Term deposits	9,516	18,736	(9,220)	(49)
Total deposits	$147,164	$125,313	$21,851	17 %

Total deposits as of December 31, 2020, increased $21.9 billion, or 17%, to $147.2 billion compared to $125.3 billion, driven by growth in demand deposits, money market accounts, savings, and checking with interest, partially offset by a decrease in term deposits and demand deposits. Citizens Access®, our national digital platform, attracted $5.9 billion of deposits through December 31, 2020, up from $5.8 billion as of December 31, 2019.

Table 21: Average Balances of and Average Interest Rates Paid for Deposits

	For the Year Ended December 31,					
	2020		2019		2018	
(dollars in millions)	Average Balances	Yields/ Rates	Average Balances	Yields/ Rates	Average Balances	Yields/ Rates
Noninterest-bearing demand deposits [1]	$37,553	—	$28,936	—	$29,231	—
Checking with interest	$26,002	0.24 %	$23,470	0.87 %	$21,856	0.63 %
Money market accounts	44,732	0.43	36,613	1.23	36,497	0.94
Regular savings	16,144	0.31	13,247	0.57	10,238	0.15
Term deposits	14,309	1.42	21,035	2.03	18,035	1.61
Total interest-bearing deposits [1]	$101,187	0.50 %	$94,365	1.22 %	$86,626	0.91 %

[1] The aggregate amount of deposits by foreign depositors in domestic offices was $839 million, $1.7 billion and $1.2 billion as of December 31, 2020, 2019 and 2018, respectively.

Borrowed Funds

Table 22: Summary of Short-Term Borrowed Funds

	December 31,			
(in millions)	2020	2019	Change	Percent
Securities sold under agreements to repurchase	$231	$265	($34)	(13 %)
Other short-term borrowed funds	12	9	3	33
Total short-term borrowed funds	$243	$274	($31)	(11 %)

Our advances, lines of credit, and letters of credit from the FHLB are collateralized by pledged mortgages and securities at least sufficient to satisfy the collateral maintenance level established by the FHLB. The utilized borrowing capacity for FHLB advances and letters of credit was $3.2 billion and $9.8 billion at December 31, 2020 and 2019, respectively. Our remaining available FHLB borrowing capacity was $13.9 billion and $7.2 billion at December 31, 2020 and 2019, respectively. We can also borrow from the FRB discount window to meet short-term liquidity requirements. Collateral, including certain loans, is pledged to support this borrowing capacity. At December 31, 2020, our unused secured borrowing capacity was approximately $64.6 billion, which included unencumbered securities, FHLB borrowing capacity, and FRB discount window capacity.

Table 23: Key Data Related to Short-Term Borrowed Funds

	As of and for the Year Ended December 31,		
(dollars in millions)	2020	2019	2018
Weighted-average interest rate at year-end: [1]			
Federal funds purchased and securities sold under agreements to repurchase	— %	0.41 %	1.72 %
Other short-term borrowed funds	0.02	3.85	2.73
Maximum amount outstanding at any month-end during the year:			
Federal funds purchased and securities sold under agreements to repurchase [2]	$1,049	$1,499	$1,282
Other short-term borrowed funds	18	511	1,110
Average amount outstanding during the year:			
Federal funds purchased and securities sold under agreements to repurchase [2]	$300	$599	$654
Other short-term borrowed funds	34	66	467
Weighted-average interest rate during the year: [1]			
Federal funds purchased and securities sold under agreements to repurchase	0.37 %	1.36 %	0.92 %
Other short-term borrowed funds	0.76	2.50	2.10

[1] Rates exclude certain hedging costs.
[2] Balances are net of certain short-term receivables associated with reverse repurchase agreements, as applicable.

Table 24: Summary of Long-Term Borrowed Funds

(in millions)	December 31, 2020	2019
Parent Company:		
2.375% fixed-rate senior unsecured debt, due July 2021	$350	$349
4.150% fixed-rate subordinated debt, due September 2022(1)	182	348
3.750% fixed-rate subordinated debt, due July 2024(1)	159	250
4.023% fixed-rate subordinated debt, due October 2024(1)	25	42
4.350% fixed-rate subordinated debt, due August 2025(1)	193	249
4.300% fixed-rate subordinated debt, due December 2025(1)	450	750
2.850% fixed-rate senior unsecured notes, due July 2026	497	496
2.500% fixed-rate senior unsecured notes, due February 2030	297	—
3.250% fixed-rate senior unsecured notes, due April 2030	745	—
2.638% fixed-rate subordinated debt, due September 2032(1)	543	—
CBNA's Global Note Program:		
2.250% senior unsecured notes, due March 2020	—	700
2.447% floating-rate senior unsecured notes, due March 2020(2)	—	300
2.487% floating-rate senior unsecured notes, due May 2020(2)	—	250
2.200% senior unsecured notes, due May 2020	—	500
2.250% senior unsecured notes, due October 2020	—	750
2.550% senior unsecured notes, due May 2021	1,003	991
3.250% senior unsecured notes, due February 2022	716	711
0.941% floating-rate senior unsecured notes, due February 2022(2)	299	299
1.042% floating-rate senior unsecured notes, due May 2022(2)	250	250
2.650% senior unsecured notes, due May 2022	510	501
3.700% senior unsecured notes, due March 2023	527	515
1.201% floating-rate senior unsecured notes, due March 2023(2)	249	249
2.250% senior unsecured notes, due April 2025	746	—
3.750% senior unsecured notes, due February 2026	551	521
Additional Borrowings by CBNA and Other Subsidiaries:		
Federal Home Loan Bank advances, 0.932% weighted average rate, due through 2038	19	5,008
Other	35	18
Total long-term borrowed funds	$8,346	$14,047

(1) Reflects the September 2020 completion of (i) $621 million in private exchange offers for five series of outstanding subordinated notes whereby participants received a combination of the our newly issued 2.638% fixed-rate subordinated notes due 2032 and an additional cash payment and (ii) $11 million in related cash tender offers whereby validly tendered and accepted subordinated notes were purchased by us and subsequently cancelled.

(2) Rate disclosed reflects the floating rate as of December 31, 2020, or final rate as applicable.

Long-term borrowed funds of $8.3 billion as of December 31, 2020 decreased $5.7 billion from December 31, 2019, as strong deposit flows allowed for significantly lower levels of borrowings. The decline in borrowed funds reflected a decrease of $5.0 billion in FHLB borrowings, and a decrease of $729 million in subordinated debt and unsecured notes.

The Parent Company's long-term borrowed funds as of December 31, 2020 and 2019 included principal balances of $3.5 billion and $2.5 billion, respectively, and unamortized deferred issuance costs and/or discounts of ($90) million and ($8) million, respectively. CBNA and other subsidiaries' long-term borrowed funds as of December 31, 2020 and 2019 included principal balances of $4.8 billion and $11.5 billion, respectively, with unamortized deferred issuance costs and/or discounts of ($11) million and ($13) million, respectively, and hedging basis adjustments of $112 million and $50 million, respectively. See Note 13 in Item 8 for further information about our hedging of certain long-term borrowed funds.

QUARTERLY RESULTS OF OPERATIONS

The following table presents unaudited quarterly Consolidated Statements of Operations data and Consolidated Balance Sheet data as of and for the four quarters of 2020 and 2019, respectively. We have prepared the Consolidated Statements of Operations data and Balance Sheet data on the same basis as our Consolidated Financial Statements in Item 8 and, in the opinion of management, each Consolidated Statement of Operations and Balance Sheet includes all adjustments, consisting solely of normal recurring adjustments, necessary for the fair statement of the results of operations and balance sheet data as of and for these periods. This information should be read in conjunction with our Consolidated Financial Statements and Notes in Item 8.

Table 25: Quarterly Results of Operations

	For the Three Months Ended							
(dollars in millions, except per share amounts)	December 31, 2020	September 30, 2020	June 30, 2020	March 31, 2020	December 31, 2019	September 30, 2019	June 30, 2019	March 31, 2019
Operating Data:								
Net interest income	$1,129	$1,137	$1,160	$1,160	$1,143	$1,145	$1,166	$1,160
Noninterest income	578	654	590	497	494	493	462	428
Total revenue	1,707	1,791	1,750	1,657	1,637	1,638	1,628	1,588
Provision for credit losses	124	428	464	600	110	101	97	85
Noninterest expense [1] [4] [5] [6] [7] [8] [9] [10]	1,012	988	979	1,012	986	973	951	937
Income before income tax expense (benefit)	571	375	307	45	541	564	580	566
Income tax expense [2] [4] [5] [6] [7] [8] [9] [10]	115	61	54	11	91	115	127	127
Net income [3] [4] [5] [6] [7] [8] [9] [10]	$456	$314	$253	$34	$450	$449	$453	$439
Net income available to common stockholders [3] [4] [5] [6] [7] [8] [9] [10]	$424	$289	$225	$12	$427	$432	$435	$424
Net income per average common share-basic [3] [4] [5] [6] [7] [8] [9] [10]	$0.99	$0.68	$0.53	$0.03	$0.98	$0.97	$0.95	$0.92
Net income per average common share-diluted [3] [4] [5] [6] [7] [8] [9] [10]	0.99	0.68	0.53	0.03	0.98	0.97	0.95	0.92
Other Operating Data:								
Return on average common equity[11]	8.20 %	5.60 %	4.44 %	0.24 %	8.30 %	8.35 %	8.54 %	8.62 %
Return on average tangible common equity [11]	12.20	8.33	6.62	0.36	12.39	12.44	12.75	13.00
Return on average total assets [11]	1.00	0.70	0.57	0.08	1.08	1.10	1.13	1.11
Return on average total tangible assets [11]	1.04	0.73	0.59	0.09	1.13	1.15	1.17	1.16
Efficiency ratio [11]	59.28	55.18	55.91	61.10	60.28	59.40	58.41	59.00
Net interest margin [11]	2.75	2.82	2.87	3.09	3.04	3.10	3.20	3.23
Net interest margin, FTE [11] [12]	2.75	2.83	2.88	3.10	3.06	3.12	3.21	3.25
Share Data:								
Cash dividends declared and paid per common share	$0.39	$0.39	$0.39	$0.39	$0.36	$0.36	$0.32	$0.32
Dividend payout ratio	39 %	58 %	74 %	1,398 %	37 %	37 %	34 %	35 %

(dollars in millions)	December 31, 2020	September 30, 2020	June 30, 2020	March 31, 2020	December 31, 2019	September 30, 2019	June 30, 2019	March 31, 2019
	As of							
Balance Sheet Data:								
Total assets	$183,349	$179,228	$179,874	$176,719	$165,733	$164,362	$162,749	$161,342
Loans and leases [13]	123,090	124,071	125,713	127,528	119,088	117,880	116,838	117,615
Allowance for loan and lease losses	2,443	2,542	2,448	2,171	1,252	1,263	1,227	1,245
Total securities	26,847	26,124	25,657	26,352	24,669	25,602	25,898	25,651
Goodwill	7,050	7,050	7,050	7,050	7,044	7,044	7,040	7,040
Total liabilities	160,676	156,759	157,456	154,769	143,532	142,511	140,732	139,811
Deposits	147,164	142,921	143,618	133,475	125,313	124,714	124,004	123,916
Short-term borrowed funds [14]	243	252	255	1,059	274	1,077	1,441	679
Long-term borrowed funds	8,346	9,109	9,202	16,437	14,047	12,806	11,538	11,725
Total stockholders' equity	22,673	22,469	22,418	21,950	22,201	21,851	22,017	21,531
Asset Quality Ratios:								
Allowance for loan and lease losses to loans and leases	1.98 %	2.05 %	1.95 %	1.70 %	1.05 %	1.07 %	1.05 %	1.06 %
Allowance for credit losses to loans and leases	2.17	2.21	2.01	1.73	1.09	1.11	1.13	1.13
Allowance for loan and lease losses to nonaccruing loans and leases	240	199	247	279	178	171	169	167
Allowance for credit losses to nonaccruing loans and leases	262	214	255	283	184	177	182	179
Nonaccruing loans and leases to loans and leases	0.83	1.03	0.79	0.61	0.59	0.63	0.62	0.63
Capital ratios:[15]								
CET1 capital ratio	10.0	9.8	9.6	9.4	10.0	10.3	10.5	10.5
Tier 1 capital ratio	11.3	11.2	10.9	10.5	11.1	11.1	11.3	11.3
Total capital ratio	13.4	13.3	13.1	12.5	13.0	13.0	13.4	13.4
Tier 1 leverage ratio	9.4	9.5	9.3	9.6	10.0	9.9	10.1	10.0

[1] Fourth quarter 2020 noninterest expense included $42 million of pre-tax notable items consisting of $2 million of integration costs associated with Acquisitions and $40 million in other notable items related to TOP programs and other efficiency initiatives.

[2] Fourth quarter 2020 income tax expense included $18 million of benefits associated with other notable items ($7 million largely tied to an operational restructure and $11 million in TOP programs and other efficiency initiatives).

[3] Fourth quarter 2020 net income included $24 million of after-tax notable items consisting of $2 million in integration costs associated with Acquisitions and $22 million in other notable items (including a $7 million benefit largely tied to an operational restructure more than offset by $29 million in after-tax TOP programs and other efficiency initiatives).

[4] Third quarter 2020 noninterest expense included $31 million of pre-tax notable items consisting of $2 million of integration costs associated with Acquisitions and $29 million in other notable items related to TOP programs and other efficiency initiatives. Income tax expense included $7 million of benefits associated with notable items related to TOP programs and other efficiency initiatives. Net income included $24 million of after-tax notable items consisting of $2 million of total integration costs associated with Acquisitions and $22 million in other notable items related to TOP programs and other efficiency initiatives.

[5] Second quarter 2020 noninterest expense included $19 million of pre-tax notable items consisting of $2 million of integration costs associated with Acquisitions and $17 million in other notable items related to TOP programs and other efficiency initiatives. Income tax expense included $9 million of benefits associated with notable items ($1 million for integration costs associated with Acquisitions and $8 million in other notable items, consisting of $4 million related to legacy tax matters and $4 million in TOP programs and other efficiency initiatives). Net income included $10 million of after-tax notable items consisting of $1 million of total integration costs associated with Acquisitions and $9 million in other notable items (including $4 million related to legacy tax matters more than offset by $13 million after-tax in TOP programs and other efficiency initiatives.

[6] First quarter 2020 noninterest expense included $33 million of pre-tax notable items consisting of $4 million of integration costs associated with Acquisitions and $29 million in other notable items related to TOP programs and other efficiency initiatives. Income tax expense included $8 million of benefits associated with notable items ($1 million for integration costs associated with Acquisitions and $7 million in TOP programs and other efficiency initiatives). Net income included $25 million of after-tax notable items consisting of $3 million after-tax of total integration costs associated with Acquisitions and $22 million after-tax in other notable items related to TOP programs and other efficiency initiatives.

[7] Fourth quarter 2019 noninterest expense included $37 million of pre-tax notable items consisting of $35 million in other notable items ($35 million in TOP programs and other efficiency initiatives) and $2 million of integration costs associated with acquisitions. Income tax expense included $33 million of benefits associated with other notable items ($24 million largely tied to legacy tax matters and $9 million in TOP programs and other efficiency initiatives). Net income included $4 million of after-tax notable items consisting of $2 million in total integration costs associated with acquisitions and $2 million in other notable items (including $24 million largely tied to legacy tax matters offset by $26 million in after-tax TOP programs and other efficiency initiatives).

[8] Third quarter 2019 noninterest expense included $19 million of pre-tax notable items consisting of $15 million in other notable items ($15 million in TOP programs and other efficiency initiatives) and $4 million of integration costs associated with acquisitions. Income tax expense included $15 million of benefits associated with notable items ($14 million in other notable items, consisting of $10 million related to an operational restructure and $4 million in TOP programs and other efficiency initiatives, and $1 million for integration costs associated with acquisitions). Net income included $4 million of after-tax notable items consisting of $3 million of total integration costs associated with acquisitions and $1 million in other notable items (including $10 million related to an operational restructure offset by $11 million in after-tax TOP programs and other efficiency initiatives).

[9] Second quarter 2019 noninterest expense included $7 million of pre-tax notable items for total integration costs associated with acquisitions. Income tax expense and net income included $2 million and $5 million, respectively, related to these notable items.

[10] First quarter 2019 noninterest expense included $5 million of pre-tax notable items for total integration costs associated with acquisitions. Income tax expense and net income included $1 million and $4 million, respectively, related to these notable items.

[11] Ratios for the periods above are presented on an annualized basis.

[12] Net interest margin is presented on a FTE basis using the federal statutory tax rate of 21%.
[13] Excludes LHFS of $4.0 billion, $3.7 billion, $5.0 billion, $3.3 billion, $3.3 billion, $2.0 billion, $2.2 billion, and $1.3 billion as of December 31, 2020, September 30, 2020, June 30, 2020, March 31, 2020, December 31, 2019, September 30, 2019, June 30, 2019 and March 31, 2019, respectively.
[14] In the first quarter of 2020, we reclassified federal funds purchased and securities sold under agreement to repurchase and other short-term borrowed funds to short-term borrowed funds. Prior periods have been adjusted to conform with the current period presentation.
[15] The capital ratios and associated components are prepared using the U.S. Basel III Standardized transitional approach.

CAPITAL AND REGULATORY MATTERS

As a bank holding company and a financial holding company, we are subject to regulation and supervision by the FRB. Our banking subsidiary, CBNA, is a national banking association whose primary federal regulator is the OCC. Our regulation and supervision continues to evolve as the legal and regulatory frameworks governing our operations continue to change. For more information, see the “Regulation and Supervision” section in Item 1.

Tailoring of Prudential Requirements

In October 2019, the FRB and the other banking regulators finalized rules that tailor the application of the enhanced prudential standards to bank holding companies and depository institutions to implement the EGRRCPA amendments to the Dodd-Frank Act (“Tailoring Rules”). Under the Tailoring Rules, Category IV firms, such as us, are subject to biennial supervisory stress-testing and are exempt from company-run stress testing and related disclosure requirements. Category IV firms are also no longer required to submit resolution plans. The FRB continues to supervise Category IV firms on an ongoing basis, including evaluation of the capital adequacy and capital planning processes during off-cycle years. We remain subject to the requirement to develop, maintain and submit an annual capital plan for review and approval by our board of directors (or one of its committees), as well as FR Y-14 reporting requirements. On April 6, 2020, we submitted our 2020 Capital Plan to the FRB under the FRB’s 2020 CCAR process. For more information, see the “Tailoring of Prudential Requirements” section in Item 1.

On March 4, 2020, the FRB finalized a stress capital buffer (“SCB”) requirement that integrates regulatory capital requirements with the results of the FRB’s supervisory stress tests by replacing the static CCB of 2.5% with a dynamic SCB requirement. The new SCB requirement is based on the projected losses under the supervisory severely adverse scenario of each firm subject to CCAR plus four quarters of planned common stock dividends, subject to a floor of 2.5%. Under the SCB framework, the FRB will no longer object to capital plans on quantitative grounds and each firm will be required to maintain capital ratios above the sum of its minimum requirements and the SCB requirements to avoid restrictions on capital distributions and discretionary bonus payments. For Category IV firms, like us, the FRB has stated that the SCB will be re-calibrated with each biennial supervisory stress test and updated annually to reflect our planned common stock dividends and common share buy-backs. On October 1, 2020, our SCB of 3.4% became effective and will apply to our capital actions through September 30, 2021.

On September 30, 2020, the FRB issued a proposed rule to make conforming changes to its Capital Plan Rule, stress capital buffer requirements, and capital planning requirements to be consistent with the Tailoring Rules framework. Under the proposal, Category IV firms, like us, would have the ability to elect to participate in the supervisory stress test and receive an updated SCB requirement in a year in which they are not subject to the supervisory stress test. For purposes of calculating the SCB in 2021, the proposed rule would require us to notify the FRB of our intention to participate in the 2021 supervisory stress test by April 5, 2021.

In light of the heightened uncertainty related to the COVID-19 pandemic and associated lockdowns, the FRB took certain actions to preserve capital at banks. Among those actions, the FRB imposed certain limitations on firms for the third and fourth quarters of 2020, including mandatory suspension of share repurchases, and limiting common stock dividends to existing rates and the average quarterly net income for the prior four quarters. Further, the FRB required that CCAR firms, like us, conduct an additional round of stress tests and resubmit updated capital plans to reflect changes in the macroeconomic environment due to the COVID-19 pandemic. Consistent with the FRB’s mandate, we resubmitted our capital plan on November 2, 2020. The results of our resubmission, received on December 18, 2020, exceeded all capital requirements under the FRB’s severe stress scenarios and we reiterated key aspects of our 2020 Capital Plan, which include maintaining quarterly common dividends of $0.39 per common share through the SCB window period ending third quarter 2021. In December 2020, the FRB modified its limitations on capital distributions for the first quarter of 2021 such that firms that participate in CCAR, like us, may resume share repurchases provided that the aggregate of share repurchases and common stock dividends for the first quarter of 2021 do not exceed average quarterly net income for the trailing four quarters. The FRB can extend or modify its current capital distribution limitations in future quarters. In January 2021, our board of directors authorized us to repurchase up to $750 million of our common stock beginning in the first quarter of 2021. The timing and amount of future dividends and share

repurchases will depend on various factors, including our capital position, financial performance, risk-weighted assets, capital impacts of strategic initiatives, market conditions and regulatory considerations. All future capital distributions are subject to consideration and approval by the board of directors prior to execution.

Regulations relating to capital planning, regulatory reporting, and stress capital buffer requirements applicable to firms like us are presently subject to rulemaking and potential further guidance and interpretation by the applicable federal regulators. We will continue to evaluate the impact of these and any other prudential regulatory changes, including their potential resultant changes in our regulatory and compliance costs and expenses.

Capital Framework

Under the current U.S. Basel III capital framework, we and our banking subsidiary must meet the following specific minimum requirements: CET1 capital ratio of 4.5%, tier 1 capital ratio of 6.0%, total capital ratio of 8.0%, and tier 1 leverage ratio of 4.0%. As a bank holding company, our SCB of 3.4% is imposed on top of the three minimum risk-based capital ratios listed above and a CCB of 2.5% is imposed on top of the three minimum risk-based capital ratios listed above for our banking subsidiary.

Effective for us on April 1, 2020, the CET1 deduction threshold for MSRs, certain deferred tax assets and significant investments in the capital of unconsolidated institutions is 25%. As of December 31, 2020, we did not meet the threshold for these additional capital deductions. MSRs or deferred tax assets not deducted from CET1 capital are assigned a 250% risk weight and significant investments in the capital of unconsolidated financial institutions not deducted from CET1 capital are assigned an exposure category risk weight.

In reaction to the COVID-19 pandemic, the FRB and the other federal banking regulators adopted a final rule relative to regulatory capital treatment of ACL under CECL. This rule allowed electing banking organizations to delay the estimated impact of CECL on regulatory capital for a two-year period ending January 1, 2022, followed by a three-year transition period ending January 1, 2025 to phase-in the aggregate amount of the capital benefit provided during the initial two-year delay. As of December 31, 2020, $568 million of the capital benefit has been accumulated for application to the three-year transition period.

Table 26: Regulatory Capital Ratios Under the U.S. Basel III Standardized Rules

(in millions, except ratio data)	Amount	Ratio	Required Minimum plus Required Buffer for Non-Leverage Ratios[1][2]
December 31, 2020			
CET1 capital	$14,607	10.0 %	7.9
Tier 1 capital	16,572	11.3	9.4
Total capital	19,602	13.4	11.4
Tier 1 leverage	16,572	9.4	4.0
Risk-weighted assets	146,781		
Quarterly adjusted average assets	175,370		
December 31, 2019			
CET1 capital	$14,304	10.0 %	7.0 %
Tier 1 capital	15,874	11.1	8.5
Total capital	18,542	13.0	10.5
Tier 1 leverage	15,874	10.0	4.0
Risk-weighted assets	142,915		
Quarterly adjusted average assets	158,782		

[1] Required “Minimum Capital ratio” for 2020 and 2019 are: Common equity tier 1 capital of 4.5%; Tier 1 capital of 6.0%; Total capital of 8.0%; and Tier 1 leverage of 4.0%.
[2] “Minimum Capital ratio” includes stress capital buffer of 3.4% for 2020 and capital conservation buffer of 2.5% for 2019; N/A to Tier 1 leverage.

At December 31, 2020, our CET1 capital, tier 1 capital and total capital ratios were 10.0%, 11.3% and 13.4%, respectively, as compared with 10.0%, 11.1% and 13.0%, respectively, as of December 31, 2019. The CET1 capital ratio remained stable as $3.9 billion of risk-weighted asset (“RWA”) growth and the impact of the capital actions described in “—Capital Transactions” below were primarily offset by net income for the year ended December 31, 2020 and 25% of the increase in AACL subsequent to CECL adoption. The tier 1 capital ratio increased due to the changes in CET1 capital and the issuance of Series F preferred stock described in “—Capital Transactions” below. The total capital ratio increased due to the changes in CET1 and tier 1 capital and the net change in AACL attributable to CECL adoption, the modified transition amount and excess ACL, partially offset by

the subordinated debt exchange offers described in "—Regulatory Capital Ratios and Capital Composition" below and an increase in non-qualifying subordinated debt. At December 31, 2020, our CET1 capital, tier 1 capital and total capital ratios were approximately 210 basis points, 190 basis points and 200 basis points, respectively, above their regulatory minimums plus our stress capital buffer. All ratios remained well above the U.S. Basel III minima.

Regulatory Capital Ratios and Capital Composition

CET1 capital under U.S. Basel III Standardized rules totaled $14.6 billion at December 31, 2020, and increased $303 million from $14.3 billion at December 31, 2019, largely driven by net income for the year ended December 31, 2020 and 25% of the increase in AACL subsequent to CECL adoption, partially offset by dividends and common share repurchases. Tier 1 capital at December 31, 2020 totaled $16.6 billion, reflecting a $698 million increase from $15.9 billion at December 31, 2019, driven by the changes in CET1 capital and the issuance of Series F preferred stock. At December 31, 2020, we had $2.0 billion of non-cumulative perpetual preferred stock issued and outstanding, an increase of $395 million from $1.6 billion at December 31, 2019, given the second quarter 2020 issuance of 400,000 shares of Series F Preferred Stock that qualified as additional tier 1 capital. Total capital of $19.6 billion at December 31, 2020, increased $1.1 billion from December 31, 2019, driven by the changes in CET1 and tier 1 capital and the net change in AACL, partially offset by a decrease in qualifying subordinated debt.

RWA totaled $146.8 billion at December 31, 2020, based on U.S. Basel III Standardized rules, up $3.9 billion from December 31, 2019. This increase was driven by higher derivative valuations, increases in education loans, commercial real estate loans, MSR RWA, resulting from the finalization of the simplification rules which increased risk weight from 100% to 250%, and increases in residential mortgages, loans held for sale and commercial past due loans. These RWA increases were partially offset by decreases in high volatility commercial real estate, commercial loans, home equity loans and consumer personal loans.

As of December 31, 2020, the tier 1 leverage ratio was 9.4% decreasing from 10.0% at December 31, 2019 driven by the $16.6 billion increase in quarterly adjusted average assets, partially offset by higher tier one capital. The increase in quarterly adjusted average assets was primarily driven by the COVID-19 pandemic and associated lockdowns, resulting in increased cash level of $9.3 billion and an increase in total loans of $4.6 billion. The increased cash is a result of higher deposits caused by government stimulus and commercial clients building liquidity. The increase in total loans is primarily the result of an increase in commercial and industrial loans from PPP.

Table 27: Capital Composition Under the U.S. Basel III Capital Framework

(in millions)	December 31, 2020	December 31, 2019
Total common stockholders' equity	$20,708	$20,631
Exclusions:[1]		
Modified CECL transitional amount	568	—
Net unrealized losses recorded in accumulated other comprehensive income, net of tax:		
Debt and equity securities	(380)	(1)
Derivatives	11	(3)
Unamortized net periodic benefit costs	429	415
Deductions:		
Goodwill	(7,050)	(7,044)
Deferred tax liability associated with goodwill	379	374
Other intangible assets	(58)	(68)
Total common equity tier 1	14,607	14,304
Qualifying preferred stock	1,965	1,570
Total tier 1 capital	16,572	15,874
Qualifying subordinated debt[2]	1,204	1,372
Allowance for credit losses	2,670	1,296
Exclusions from tier 2 capital:		
Modified AACL transitional amount	(682)	—
Excess allowance for credit losses[2]	(162)	—
Adjusted allowance for credit losses	$1,826	$1,296
Total capital	$19,602	$18,542

[1] As a U.S. Basel III Standardized approach institution, we selected the one-time election to opt-out of the requirements to include all the components of AOCI.
[2] As of December 31, 2020 and 2019, the amount of non-qualifying subordinated debt excluded from regulatory capital was $348 million and $267 million, respectively.

On February 11, 2021, we completed $265 million in private exchange offers for five series of outstanding subordinated notes. Exchange offer participants received newly issued subordinated notes due 2031 which are redeemable by us five years prior to their maturity. In September 2020, we completed $621 million in private exchange offers for five series of outstanding subordinated notes. Exchange offer participants received a combination of our newly issued subordinated notes due 2032 and an additional cash payment. We also completed related cash tender offers which result in $11 million of subordinated notes being validly tendered and accepted for purchase by us and subsequently cancelled. The completion of these subordinated debt exchange offers will benefit our tier 2 and total capital going forward by increasing the amount of subordinated debt eligible for inclusion in tier 2 capital without increasing the aggregate principal amount of subordinated debt outstanding.

Capital Adequacy Process

Our assessment of capital adequacy begins with our risk appetite and risk management framework. This framework provides for the identification, measurement and management of material risks. Capital requirements are determined for actual and forecasted risk portfolios using applicable regulatory capital methodologies. The assessment also considers the possible impacts of approved and proposed changes to regulatory capital requirements. Key analytical frameworks, including stress testing, which enable the assessment of capital adequacy versus unexpected loss under a variety of stress scenarios, supplement our base line forecast. A governance framework supports our capital planning process, including capital management policies and procedures that document capital adequacy metrics and limits, as well as our Capital Contingency Plan and the active engagement of both the legal-entity boards and senior management in oversight and decision-making.

Forward-looking assessments of capital adequacy feed development of a single capital plan covering us and our banking subsidiary that is periodically submitted to the FRB. We prepare this plan in full compliance with the FRB's Capital Plan Rule and we participate annually in the FRB's horizontal capital review, which is the FRB's assessment of specific capital planning areas as part of their normal supervisory process.

All distributions proposed under our Capital Plan are subject to consideration and approval by our board of directors prior to execution. The timing and exact amount of future dividends and share repurchases will depend on various factors, including our capital position, financial performance and market conditions.

Capital Transactions

We completed the following capital actions during 2020:

- Completed $621 million of subordinated debt private exchange offers in September 2020;
- Issued $400 million or 400,000 shares, of 5.650% fixed-rate reset non-cumulative perpetual Series F Preferred Stock in June 2020;
- Declared and paid quarterly common stock dividends of $0.39 per share for the first, second, third, and fourth quarters of 2020, aggregating to $672 million;
- Declared a semi-annual dividend of $27.50 per share in first quarter 2020, a quarterly dividend of $13.48 per share in second quarter of 2020, a quarterly dividend of $10.90 per share in third quarter 2020 and a quarterly dividend of $10.72 per share in fourth quarter 2020 on the 5.500% fixed-to-floating rate non-cumulative perpetual Series A Preferred Stock, aggregating to $15 million;
- Declared semi-annual dividends of $30.00 per share for the second and fourth quarter of 2020 on the 6.000% fixed-to-floating rate non-cumulative perpetual Series B Preferred Stock, aggregating to $18 million;
- Declared quarterly dividends of $15.94 per share on the 6.375% fixed-to-floating rate non-cumulative perpetual Series C Preferred Stock, aggregating to $19 million;
- Declared quarterly dividends of $15.88 per share on the 6.350% fixed-to-floating rate non-cumulative perpetual Series D Preferred Stock, aggregating to $19 million;
- Declared quarterly dividends of $12.50 per share on the 5.000% fixed-rate non-cumulative perpetual Series E Preferred Stock, aggregating to $23 million;
- Declared quarterly dividends of $19.15 per share in third quarter of 2020 and a quarterly dividend of $14.13 per share in fourth quarter 2020 on the 5.650% fixed-rate non-cumulative perpetual Series F Preferred Stock, aggregating to $13 million; and
- Repurchased $270 million of our outstanding common stock in the first quarter 2020.

Banking Subsidiary's Capital

Table 28: CBNA's Capital Ratios Under the U.S. Basel III Standardized Rules

	December 31, 2020		December 31, 2019	
(dollars in millions, except ratio data)	Amount	Ratio	Amount	Ratio
CET1 capital	$16,032	10.9 %	$15,610	11.0 %
Tier 1 capital	16,032	10.9	15,610	11.0
Total capital	18,980	13.0	17,937	12.6
Tier 1 leverage	16,032	9.2	15,610	9.9
Risk-weighted assets	146,558		142,555	
Quarterly adjusted average assets	174,954		158,391	

CBNA CET1 and tier 1 capital totaled $16.0 billion at December 31, 2020, up $422 million from $15.6 billion at December 31, 2019. The increase was primarily driven by net income for the year ended December 31, 2020 and 25% of the increase in AACL subsequent to CECL adoption, partially offset by dividend payments to the Parent Company. Total capital was $19.0 billion at December 31, 2020, an increase of $1.0 billion from $17.9 billion at December 31, 2019, driven by the change in CET1 capital, the net change in AACL and an increase in qualifying subordinated debt.

CBNA had RWA of $146.6 billion at December 31, 2020, an increase of $4.0 billion from December 31, 2019, driven by higher derivative valuations, increases in education loans, commercial real estate loans, MSR RWA, resulting from the finalization of the simplification rules which increased risk weight from 100% to 250%, and increases in residential mortgages, loans held for sale and commercial past due loans. These RWA increases were partially offset by decreases in high volatility commercial real estate, commercial loans, home equity loans and consumer personal loans.

As of December 31, 2020, the CBNA tier 1 leverage ratio decreased to 9.2% from 9.9% at December 31, 2019, driven by the $16.6 billion increase in quarterly adjusted average assets, partially offset by higher tier one capital. The increase in quarterly adjusted average assets was primarily driven by COVID-19 and the associated lockdowns, resulting in increased cash level of $9.3 billion and an increase in total loans of $4.6 billion. The

increased cash is a result of higher deposits caused by government stimulus and commercial clients building liquidity. The increase in total loans is primarily the result of an increase in commercial and industrial loans from PPP.

LIQUIDITY

Liquidity is defined as our ability to meet our cash flow and collateral obligations in a timely manner, at a reasonable cost. An institution must maintain operating liquidity to meet its expected daily and forecasted cash flow requirements, as well as contingent liquidity to meet unexpected (stress scenario) funding requirements. As noted earlier, reflecting the importance of meeting all unexpected and stress scenario funding requirements, we identify and manage contingent liquidity (consisting of cash balances at the FRB, unencumbered high-quality and liquid securities, and unused FHLB borrowing capacity.) Separately, we also identify and manage asset liquidity as a subset of contingent liquidity (consisting of cash balances at the FRB and unencumbered high-quality securities.) We consider the effective and prudent management of liquidity fundamental to our health and strength.

We manage liquidity at the consolidated enterprise level and at each material legal entity, including at the Parent Company and CBNA level.

Parent Company Liquidity

Our Parent Company's primary sources of cash are dividends and interest received from CBNA as a result of investing in bank equity and subordinated debt and externally issued preferred stock as well as senior and subordinated debt. Uses of cash include the routine cash flow requirements as a bank holding company, including periodic share repurchases and payments of dividends, interest and expenses; the needs of subsidiaries, including CBNA, for additional equity and, as required, its need for debt financing; and the support for extraordinary funding requirements when necessary. To the extent the Parent Company has relied on wholesale borrowings, uses also include payments of related principal and interest.

During the year ended December 31, 2020, the Parent Company completed the following transactions:

- Issued $400 million, or 400,000 shares, of 5.650% fixed-rate reset non-cumulative perpetual Series F Preferred Stock on June 4, 2020;
- Issued $750 million in ten-year 3.250% fixed-rate senior notes on April 30, 2020; and
- Issued $300 million in ten-year 2.500% fixed-rate senior notes on February 6, 2020.

For further information on outstanding debt and preferred stock, see Note 12 and Note 16 in Item 8.

During the years ended December 31, 2020 and 2019, the Parent Company declared and paid dividends on common stock of $672 million and $617 million, respectively, and declared dividends on preferred stock of $107 million and $73 million, respectively. In addition, the Parent Company repurchased $270 million and $1.2 billion of its outstanding common stock, respectively.

Our Parent Company's cash and cash equivalents represent a source of liquidity that can be used to meet various needs and totaled $2.7 billion as of December 31, 2020 compared with $1.4 billion as of December 31, 2019. The Parent Company's double-leverage ratio (the combined equity investment in Parent Company subsidiaries divided by Parent Company equity) is a measure of reliance on equity cash flows from subsidiaries to fund Parent Company obligations. At December 31, 2020, the Parent Company's double-leverage ratio was 98%.

CBNA Liquidity

In the ordinary course of business, the liquidity of CBNA is managed by matching sources and uses of cash. The primary sources of bank liquidity include deposits from our consumer and commercial customers; payments of principal and interest on loans and debt securities; and wholesale borrowings, as needed, and as described under "—Liquidity Risk Management and Governance." The primary uses of bank liquidity include withdrawals and maturities of deposits; payment of interest on deposits; funding of loans and related commitments; and funding of securities purchases. To the extent that CBNA has relied on wholesale borrowings, uses also include payments of related principal and interest. For further information on CBNA's outstanding debt, see Note 12 in Item 8.

As CBNA's primary business involves taking deposits and making loans, a key role of liquidity management is to ensure that customers have timely access to funds from deposits and for loans. Liquidity management also

involves maintaining sufficient liquidity to repay wholesale borrowings, pay operating expenses and support extraordinary funding requirements when necessary.

On April 30, 2020 CBNA issued $750 million in five-year 2.250% fixed-rate senior notes.

Liquidity Risk

We define liquidity risk as the risk that an entity will be unable to meet its payment obligations in a timely manner, at a reasonable cost. Liquidity risk can arise due to contingent liquidity risk and/or funding liquidity risk.

Contingent liquidity risk is the risk that market conditions may reduce an entity's ability to liquidate, pledge and/or finance certain assets and thereby substantially reduce the liquidity value of such assets. Drivers of contingent liquidity risk include general market disruptions as well as specific issues regarding the credit quality and/or valuation of a security or loan, issuer or borrower and/or asset class.

Funding liquidity risk is the risk that market conditions and/or entity-specific events may reduce an entity's ability to raise funds from depositors and/or wholesale market counterparties. Drivers of funding liquidity risk may be idiosyncratic or systemic, reflecting impediments to operations and/or damaged market confidence.

Factors Affecting Liquidity

Given the composition of assets and borrowing sources, contingent liquidity risk at CBNA would be materially affected by events such as deterioration of financing markets for high-quality securities (e.g., mortgage-backed securities and other instruments issued by the GNMA, FNMA and the FHLMC), by any inability of the FHLBs to provide collateralized advances and/or by a refusal of the FRB to act as a lender of last resort in systemic stress.

Similarly, given the structure of its balance sheet, the funding liquidity risk of CBNA would be materially affected by an adverse idiosyncratic event (e.g., a major loss, causing a perceived or actual deterioration in its financial condition), an adverse systemic event (e.g., default or bankruptcy of a significant capital markets participant), or a combination of both. Consequently, and despite ongoing exposure to a variety of idiosyncratic and systemic events, we view our contingent liquidity risk and our funding liquidity risk to be relatively modest.

An additional variable affecting our access to unsecured wholesale market funds and to large denomination (i.e., uninsured) customer deposits is the credit ratings assigned by such agencies as Moody's, Standard & Poor's and Fitch.

Table 29: Credit Ratings

	December 31, 2020		
	Moody's	Standard and Poor's	Fitch
Citizens Financial Group, Inc.:			
Long-term issuer	NR	BBB+	BBB+
Short-term issuer	NR	A-2	F1
Subordinated debt	NR	BBB	BBB
Preferred Stock	NR	BB+	BB
Citizens Bank, National Association:			
Long-term issuer	Baa1	A-	BBB+
Short-term issuer	NR	A-2	F1
Long-term deposits	A1	NR	A-
Short-term deposits	P-1	NR	F1

NR = Not Rated

Changes in our public credit ratings could affect both the cost and availability of our wholesale funding. As a result and in order to maintain a conservative funding profile, CBNA continues to minimize reliance on unsecured wholesale funding. At December 31, 2020, our wholesale funding consisted primarily of secured borrowings from the FHLBs collateralized by high-quality residential mortgages and term debt issued by the Parent Company and CBNA.

Existing and evolving regulatory liquidity requirements represent another key driver of systemic liquidity conditions and liquidity management practices. The FRB, the OCC and the FDIC regularly evaluate our liquidity as

part of the overall supervisory process. In addition we are subject to existing and evolving regulatory liquidity requirements, some of which are subject to further rulemaking, guidance and interpretation by the applicable federal regulators. For further discussion, see the "Regulation and Supervision — Financial Regulatory Reform" and "—Liquidity Requirements" sections in Item 1.

The LCR was developed by the U.S. federal banking regulators to ensure banks have sufficient high-quality liquid assets to cover expected net cash outflows over a 30-day liquidity stress period. In accordance with the October 2019 Final Rules, Category IV institutions with less than $50 billion in weighted short-term wholesale funding, such as us, are no longer subject to the requirements of the LCR rule as of December 31, 2019.

Liquidity Risk Management and Governance

Liquidity risk is measured and managed by the Funding and Liquidity unit within our Treasury unit in accordance with policy guidelines promulgated by our Board and the Asset Liability Committee. In managing liquidity risk, the Funding and Liquidity unit delivers regular and comprehensive reporting, including current levels versus threshold limits, for a broad set of liquidity metrics and early warning indicators, explanatory commentary relating to emerging risk trends and, as appropriate, recommended remedial strategies.

Our Funding and Liquidity unit's primary goal is to deliver and otherwise maintain prudent levels of operating liquidity (to support expected and projected funding requirements), and contingent liquidity (to support unexpected funding requirements resulting from idiosyncratic, systemic, and combination stress events, and regulatory liquidity requirements) in a timely manner from stable and cost-efficient funding sources.

We seek to accomplish this goal by funding loans with stable deposits; by prudently controlling dependence on wholesale funding, particularly short-term unsecured funding; and by maintaining ample available liquidity, including a contingent liquidity buffer of unencumbered high-quality loans and securities. As of December 31, 2020:

- Core deposits continued to be our primary source of funding and our consolidated year-end loans-to-deposits ratio, which excludes LHFS, was 83.6%;
- Our cash position (which is defined as cash balance held at the FRB) totaled $11.7 billion;
- Contingent liquidity was $47.3 billion, consisting of unencumbered high-quality liquid securities of $21.8 billion, unused FHLB capacity of $13.9 billion, and our cash position of $11.7 billion. Asset liquidity (a component of contingent liquidity) was $33.5 billion, consisting of our cash position of $11.7 billion and unencumbered high-quality liquid securities of $21.8 billion;
- Available discount window capacity, defined as available total borrowing capacity from the FRB based on identified collateral, is secured by non-mortgage commercial and retail loans and totaled $28.9 billion. Use of this borrowing capacity would be considered only during exigent circumstances; and
- For a summary of our sources and uses of cash by type of activity for the years ended December 31, 2020 and 2019, see the Consolidated Statements of Cash Flows in Item 8.

The Funding and Liquidity unit monitors a variety of liquidity and funding metrics and early warning indicators and metrics, including specific risk thresholds limits. These monitoring tools are broadly classified as follows:

- Current liquidity sources and capacities, including cash at the FRBs, free and liquid securities and available and secured FHLB borrowing capacity;
- Liquidity stress sources, including idiosyncratic, systemic and combined stresses, in addition to evolving regulatory requirements; and
- Current and prospective exposures, including secured and unsecured wholesale funding and spot and cumulative cash-flow gaps across a variety of horizons.

Further, certain of these metrics are monitored individually for CBNA, and for our consolidated enterprise on a daily basis, including cash position, unencumbered securities, asset liquidity, and available FHLB borrowing capacity. In order to identify emerging trends and risks and inform funding decisions, specific metrics are also forecasted over a one-year horizon.

CONTRACTUAL OBLIGATIONS

Table 30: Outstanding Contractual Obligations as of December 31, 2020

(in millions)	Total	Less than 1 year	1 to 3 years	3 to 5 years	More than 5 years
Deposits with a stated maturity of less than one year [1] [2]	$137,648	$137,648	$—	$—	$—
Term deposits [1]	9,516	8,474	828	211	3
Long-term borrowed funds [1] [3]	8,346	1,361	2,746	1,586	2,653
Contractual interest payments [4]	895	224	287	217	167
Lease liabilities maturing under non-cancelable operating leases	921	149	277	201	294
Purchase obligations [5]	944	411	396	116	21
Total outstanding contractual obligations	$158,270	$148,267	$4,534	$2,331	$3,138

[1] Deposits and long-term borrowed funds exclude interest.
[2] Includes demand, checking with interest, regular savings, and money market account deposits. See "—Deposits" for further information.
[3] Includes obligations under capital leases.
[4] Includes accrued interest and future contractual interest obligations related to long-term borrowed funds.
[5] Includes purchase obligations for goods and services covered by non-cancelable contracts and contracts including cancellation fees.

OFF-BALANCE SHEET ARRANGEMENTS

Table 31: Outstanding Off-Balance Sheet Arrangements

	December 31,			
(in millions)	2020	2019	Change	Percent
Commitments to extend credit	$74,160	$72,743	$1,417	2 %
Letters of credit	2,239	2,190	49	2
Risk participation agreements	98	37	61	165
Loans sold with recourse	54	37	17	46
Marketing rights	29	33	(4)	(11)
Total	$76,580	$75,040	$1,540	2 %

CRITICAL ACCOUNTING ESTIMATES

Our audited Consolidated Financial Statements, which are included in this Report, are prepared in accordance with GAAP. The preparation of financial statements in conformity with GAAP requires us to establish accounting policies and make estimates that affect amounts reported in our audited Consolidated Financial Statements.

An accounting estimate requires assumptions and judgments about uncertain matters that could have a material effect on our audited Consolidated Financial Statements. Estimates are made using facts and circumstances known at a point in time. Changes in those facts and circumstances could produce results substantially different from those estimates. Our most significant accounting policies and estimates and their related application are discussed below. See Note 1 in Item 8, for further discussion of our significant accounting policies.

Allowance for Credit Losses

We reserve for expected credit losses on our loan and lease portfolio through the ALLL and for expected credit losses in our unfunded lending commitments through other liabilities. Collectively, the ALLL and reserves for expected credit losses in unfunded lending commitments are referred to as the ACL.

Changes in the ACL are reflected in net income through provision for credit losses. Changes in the credit risk profile of our loans and leases result in changes in provision expense with a resulting change, net of charge-offs and recoveries, in the ACL balance.

The ACL is often the most critical of all the accounting estimates for banking institutions like us. The ACL is maintained at a level we believe to be appropriate to absorb expected lifetime credit losses over the contractual life of the loan and lease portfolios and on the unfunded lending commitments. Our determination of the ACL is based on periodic evaluation of the loan and lease portfolios and unfunded lending commitments that are not unconditionally cancellable considering a number of relevant underlying factors, including key assumptions and evaluation of quantitative and qualitative information.

Key assumptions used in our ACL measurement process include the use of a two-year reasonable and supportable economic forecast period followed by a one-year period during which the expected credit losses revert to long-term historical macroeconomic inputs.

The evaluation of quantitative and qualitative information is performed through assessments of groups of assets that share similar risk characteristics and certain individual loans and leases that do not share similar risk characteristics with the collective group. Loans are grouped generally by product type (e.g., commercial and industrial, commercial real estate, residential mortgage, etc.), and significant loan portfolios are assessed for credit losses using econometric models. The evaluation process is inherently imprecise and subjective as it requires significant management judgment based on underlying factors that are susceptible to change, sometimes materially and rapidly.

The quantitative evaluation of the adequacy of the ACL utilizes a single economic forecast as its foundation, and is primarily based on econometric models that use known or estimated data as of the balance sheet date and forecasted data over the reasonable and supportable period. Known and estimated data include current PD, LGD and EAD (for commercial), timing and amount of expected draws (for unfunded lending commitments), FICO, LTV, term and time on books (for retail loans), mix and level of loan balances, delinquency levels, assigned risk ratings, previous loss experience, current business conditions, amounts and timing of expected future cash flows, and factors particular to a specific commercial credit such as competition, business and management performance. Forward-looking economic assumptions include real gross domestic product, unemployment rate, interest rate curve, and changes in collateral values. This data is aggregated to estimate expected credit losses over the contractual life of the loans and leases, adjusted for expected prepayments. In highly volatile economic environments historical information, such as commercial customer financial statements or consumer credit ratings, may not be as important to estimating future expected losses as forecasted inputs to the models.

The ACL may also be affected materially by a variety of qualitative factors that we consider to reflect our current judgment of various events and risks that are not measured in our statistical procedures including uncertainty related to the economic forecasts used in the modeled credit loss estimates, loan growth, back testing results, credit underwriting policy exceptions, regulatory and audit findings, and peer comparisons. The qualitative allowance is further informed for certain industry sectors or loan classes by alternative scenarios to support the period-end ACL balance. We recognize that this approach may not be suitable in certain economic environments and differing analysis may be requested at management’s discretion. Due in part to its subjectivity, the qualitative evaluation may be materially impacted during periods of economic uncertainty and late breaking events could lead to revision of reserves to reflect management’s best estimate of expected credit losses.

The measurement process results in specific or pooled allowances for loans, leases and unfunded lending commitments, and qualitative allowances that are judgmentally determined and applied across the portfolio.

There are certain loan portfolios that may not need an econometric model to enable us to calculate management’s best estimate of the expected credit losses. Less data intensive, non-modeled approaches to estimating losses are considered more efficient and practical for portfolios that have lower levels of outstanding balances (e.g., runoff or closed portfolios, and new products or products that are not significant to our overall credit risk exposure).

The difference in ACL as of December 31, 2020 as compared to December 31, 2019 continues to be driven by the COVID-19 pandemic and associated lockdowns and the resulting economic impacts from March to December 31, 2020, as well as our adoption of CECL on January 1, 2020. We added $451 million in ACL upon adoption of CECL, and have added an additional $923 million over 2020, resulting in an ending ACL balance of $2.7 billion.

To determine the ACL as of December 31, 2020, we utilized an economic scenario that generally reflects real GDP growth of approximately 4% over 2021, returning to fourth quarter 2019 real GDP levels by the last quarter of 2021. The scenario also projects the unemployment rate to be in the range of approximately 7% to 7.5% throughout 2021. While the macroeconomic forecast was slightly improved relative to the third quarter 2020 forecast, we continued to apply management judgment to adjust the modeled reserves in the commercial industry sectors most impacted by the COVID-19 pandemic and associated lockdowns, including retail and hospitality, casual dining, retail trade, price-sensitive energy and related, and educational services, as well as in certain retail products.

Our determination of the ACL is sensitive to changes in forecasted macro-economic conditions during the reasonable and supportable period. To illustrate, we applied a more pessimistic scenario than that described

above which assumes vaccinations taking longer and COVID-19 cases being approximately 50% higher than our current expectations. This pessimistic scenario reflects real GDP growth of approximately 2.5% and unemployment in the range of 8% to 8.5% over 2021. Excluding consideration of qualitative adjustments, this scenario would result in a quantitative lifetime loss estimate of approximately 1.2x our period end ACL, or an increase of $450 million.

Because several quantitative and qualitative factors are considered in determining the ACL, this sensitivity analysis does not necessarily reflect the nature and extent of future changes in the ACL or even what the ACL would be under these economic circumstances. The sensitivity is intended to provide insights into the impact of adverse changes in the macro-economic environment and the corresponding impact to modeled loss estimates. The hypothetical determination does not incorporate the impact of management judgment or other qualitative factors that could be applied in the actual estimation of the ACL, and does not imply any expectation of future deterioration in our loss rates.

To provide additional context regarding sensitivity to more pessimistic scenarios, our ACL balance of $2.7 billion represents 31% of the $8.6 billion of nine-quarter losses projected in the Federal Reserve run of the December 2020 Supervisory Severely Adverse scenario (the "Supervisory Severely Adverse scenario"), which forecasted more protracted unemployment and GDP declines compared with our ACL calculation. Our ACL calculation also included the impacts of government stimulus.

Comparatively, our ACL represents 53% of the $5.1 billion of projected losses in the Company run results of the Supervisory Severely Adverse scenario. Losses projected under the Company run Supervisory Severely Adverse scenario are lower than the Federal Reserve run results due to methodology and modeling differences. As an example, the Federal Reserve's models did not recognize contractual loss sharing arrangements in the merchant loan portfolio. In addition, both the Company run and Federal Reserve run results include incremental losses associated with loan originations assumed post-June 30, 2020. In contrast, our December 31, 2020 ACL balance considers only existing loans and lines of credit as of the reporting date.

While the recovery path is clearer than it was at the end of the third quarter 2020, significant future uncertainty still exists, including size and timing of further monetary and fiscal stimulus, and progress in the rollout of COVID-19-related vaccines. It remains difficult to estimate how changes in economic forecasts might affect our ACL because such forecasts consider a wide variety of variables and inputs, and changes in the variables and inputs may not occur at the same time or in the same direction, and such changes may have differing impacts by product types. Further, the variables and inputs may be idiosyncratically affected by existing or future monetary and fiscal stimulus programs and forbearance and other customer accommodation efforts. Nevertheless, changes in one or multiple of the key variables may have a material impact to our estimation of expected credit losses.

We continue to monitor the impact of the COVID-19 pandemic, vaccination efforts, and related policy measures on the economy and the resulting potentially material effects on the ACL.

For additional information regarding the ALLL and reserve for unfunded lending commitments, see Note 1 and Note 5 in Item 8.

Goodwill

Goodwill is initially recorded as the excess of the purchase price over the fair value of net assets acquired in a business combination and is assigned to our reporting units at the acquisition date. Our reporting units align to our operating segments identified in Note 25 in Item 8. We have identified and assigned goodwill totaling $7.1 billion at December 31, 2020, to our reporting units as follows: $2.3 billion to Consumer Banking and $4.8 billion to Commercial Banking.

Goodwill is not amortized but is subject to annual impairment tests. We review goodwill for impairment annually as of October 31 and in interim periods when events or changes indicate the carrying value of one or more reporting units may not be recoverable. If it is more likely than not that the fair value exceeds the carrying value, no further testing is necessary, otherwise a quantitative assessment of goodwill is required.

The quantitative assessment used to identify potential impairment involves comparing each reporting unit's fair value to its carrying value, including goodwill. If the fair value of a reporting unit exceeds its carrying value inclusive of goodwill, the applicable goodwill is not considered impaired. If the carrying value of the reporting unit inclusive of goodwill exceeds its fair value, an impairment charge against net income is recorded equal to the excess amount. Under the quantitative impairment assessment, the fair values of our reporting units are determined using a combination of income and market-based approaches. We rely on the income approach

(discounted cash flow method, or "DCF") as our primary method to determine a range of values for each reporting unit, with the market and transaction approaches used to inform management of the best estimate of value within that range.

Significant management judgment is necessary in the determination of the fair value of a reporting unit as the income approach requires an estimation of future cash flows, considering the after-tax results of operations, the extent and timing of credit losses, and appropriate discount and capital retention rates. The determination of fair value is a highly subjective process, and actual future cash flows may differ from forecasted results.

Cash flow projections rely upon multi-year financial forecasts developed for each reporting unit that consider key business drivers such as new business initiatives, customer retention standards, market share changes, anticipated loan and deposit growth, fees and expenses, forward interest rates, historical performance, credit performance, and industry and economic trends, among other considerations. The long-term growth rate used in determining the terminal value of each reporting unit is estimated based on management's assessment of the minimum expected terminal growth rate of each reporting unit, as well as broader economic considerations such as GDP, unemployment and inflation.

Our discount rate was based on the estimated cost of equity under the Capital Asset Pricing Model, which considers the risk-free interest rate, market risk premium, and beta specific to a particular reporting unit. The discount rates are also calibrated on the assessment of the risks related to the projected cash flows of each reporting unit.

Under the market approach, valuation of our reporting units considers a combination of earnings and equity multiples from companies with characteristics similar to the reporting unit. Since the fair values determined under the market approach are representative of non-controlling interests, the valuations incorporate a control premium.

We performed our annual goodwill impairment assessment on a quantitative basis in the fourth quarter of 2020. When calculating the fair value of our reporting units under the income approach, short and medium-term forecasts incorporated current economic conditions and ongoing impacts of the COVID-19 pandemic and associated lockdowns, including a federal funds target near zero and near-term elevated ACL, offset by significant monetary and fiscal stimulus. Long-term cash flow projections reflected normalized rate and credit environments, as well as a long-term rate of return for each reporting unit. At the conclusion of the quantitative assessment it was determined that the estimated fair value of the Commercial Banking and Consumer Banking reporting units substantially exceed their carrying values due primarily to an improvement in the short and medium-term economic forecasts.

When performing the quantitative goodwill impairment assessment in the fourth quarter of 2020, we corroborated the fair value of our reporting units determined by the DCF method by adding the aggregated sum of these fair value measurements to the fair value of our Other non-segment operations and comparing this total to our observed market capitalization. The excess of the sum of the fair values of the reporting units over the market capitalization of Citizens decreased from third quarter of 2020 to October 31, 2020, and decreased significantly to December 31, 2020 as our per share price rose from $25.28 to $35.76. The increase in our market capitalization resulted in a corresponding decrease in our implied control premium.

Fair Value

We measure fair value of assets and liabilities using the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is also used on a recurring and nonrecurring basis to evaluate certain assets for impairment or for financial statement disclosure purposes. Examples of nonrecurring uses of fair value include impairment for certain loans, leases and goodwill. Examples of recurring uses of fair value for financial statement disclosure purposes include disclosure of the fair value of certain financial assets and liabilities accounted for on an amortized cost basis, such as HTM securities. For certain assets or liabilities, the application of management judgment in the determination of the fair value is more significant due to the lack of observable market data.

MSRs do not trade in an active market with readily observable prices. MSRs are classified as Level 3 since the valuation methodology utilizes significant unobservable inputs. The MSR fair value was calculated using a discounted cash flow model which used assumptions, including weighted-average life, prepayment assumptions and weighted-average option adjusted spread. It is important to note that changes in our assumptions may not be

independent of each other; changes in one assumption may result in changes to another (e.g., changes in interest rates, which are inversely correlated to changes in prepayment rates, may result in changes to discount rates). The underlying assumptions and estimated values are corroborated by values received from independent third parties based on their review of the servicing portfolio, and comparisons to market transactions.

For additional information regarding our fair value measurements, see Note 1, Note 3, Note 8, Note 13, and Note 19 in Item 8.

RISK GOVERNANCE

We are committed to maintaining a strong, integrated and proactive approach to the management of all risks to which we are exposed in pursuit of our business objectives. A key aspect of our Board's responsibility as the main decision making body is setting our risk appetite to ensure that the levels of risk that we are willing to accept in the attainment of our strategic business and financial objectives are clearly understood.

To enable our Board to carry out its objectives, it has delegated authority for risk management activities, as well as governance and oversight of those activities, to a number of Board and executive management level risk committees. The Executive Risk Committee ("ERC"), chaired by the Chief Risk Officer, is responsible for oversight of risk across the enterprise and actively considers our inherent material risks, analyzes our overall risk profile and seeks confirmation that the risks are being appropriately identified, assessed and mitigated. Reporting to the ERC are the following additional committees, covering specific areas of risk: Compliance and Operational Risk Committee, Model Risk Committee, Credit Policy Committee, Asset Liability Committee, Business Initiatives Review Committee, and the Conduct and Ethics Committee.

Risk Framework

Our risk management framework is embedded in our business through a "Three Lines of Defense" model which defines responsibilities and accountabilities for risk management activities.

First Line of Defense

The business lines (including their associated support functions) are the first line of defense and are accountable for identifying, assessing, managing, and controlling the risks associated with the products and services they provide. The business lines are responsible for performing regular risk assessments to identify and assess the material risks that arise in their area of responsibility, complying with relevant risk policies, testing and certifying the adequacy and effectiveness of their operational and financial reporting controls on a regular basis, establishing and documenting operating procedures and establishing and owning a governance structure for identifying and managing risk.

Second Line of Defense

The second line of defense includes independent monitoring and control functions accountable for developing and ensuring implementation of risk and control frameworks and related policies. This centralized risk function is appropriately independent from the business and is accountable for overseeing and challenging our business lines on the effective management of their risks, including credit, market, operational, regulatory, reputational, interest rate, liquidity and strategic risks.

Third Line of Defense

Our Internal Audit function is the third line of defense providing independent assurance with a view of the effectiveness of our internal controls, governance practices, and culture so that risk is managed appropriately for the size, complexity, and risk profile of the organization. Internal Audit has complete and unrestricted access to any and all of our records, physical properties and personnel. Internal Audit issues a report following each internal review and provides an audit opinion to the Board's Audit Committee on a quarterly basis.

Credit Quality Assurance reports to the Chief Audit Executive and provides the legal-entity boards, senior management and other stakeholders with independent assurance on the quality of credit portfolios and adherence to agreed Credit Risk Appetite and Credit Policies and processes. In line with its procedures and regulatory expectations, the Credit Quality Assurance function undertakes a program of portfolio testing, assessing and reporting through four Risk Pillars of Asset Quality, Rating and Data Integrity, Risk Management and Credit Risk Appetite.

Risk Appetite

Risk appetite is a strategic business and risk management tool. We define our risk appetite as the maximum limit of acceptable risk beyond which we could be unable to achieve our strategic objectives and capital adequacy obligations.

Our principal non-market risks include credit, operational, regulatory, reputational, liquidity and strategic risks. We are also subject to certain market risks which include potential losses arising from changes in interest rates, foreign exchange rates, equity prices, commodity prices and/or other relevant market rates or prices. Market risk in our business arises from trading activities that serve customer needs, including hedging of interest rates, foreign exchange risk and non-trading activities within capital markets. We have established enterprise-wide policies and methodologies to identify, measure, monitor and report on market risk. We actively manage both trading and non-trading market risks. See "—Market Risk" for further information. Our risk appetite is reviewed and approved annually by the Board Risk Committee.

Credit Risk

Overview

Credit risk represents the potential for loss arising from a customer, counterparty, or issuer failing to perform in accordance with the contractual terms of the obligation. While the majority of our credit risk is associated with lending activities, we do engage with other financial counterparties for a variety of purposes including investing, asset and liability management, and trading activities. Given the financial impact of credit risk on our earnings and balance sheet, the assessment, approval and management of credit risk represents a major part of our overall risk-management responsibility.

Objective

The independent Credit Risk Function is responsible for reviewing and approving credit risk appetite across all lines of business and credit products, approving larger and higher risk credit transactions, monitoring portfolio performance, identifying problem credit exposures, and ensuring remedial management.

Organizational Structure

Management and oversight of credit risk is the responsibility of both the business line and the second line of defense. The second line of defense, the independent Credit Risk Function, is led by the Chief Credit Officer who oversees all of our credit risk. The Chief Credit Officer reports to the Chief Risk Officer. The Chief Credit Officer, acting in a manner consistent with Board policies, has responsibility for, among other things, the governance process around policies, procedures, risk acceptance criteria, credit risk appetite, limits and authority delegation. The Chief Credit Officer and team also have responsibility for credit approvals for larger and higher risk transactions and oversight of line of business credit risk activities. Reporting to the Chief Credit Officer are the heads of the second line of defense credit functions specializing in: Consumer Banking, Commercial Banking, Citizens Restructuring Management, Portfolio and Corporate Reporting, ALLL Analytics, Current Expected Credit Loss, and Credit Policy and Administration. Each team under these leaders is composed of highly experienced credit professionals.

Governance

The primary mechanisms used to govern our credit risk function are our consumer and commercial credit policies. These policies outline the minimum acceptable lending standards that align with our desired risk appetite. Material changes in our business model and strategies that identify a need to change our risk appetite or highlight a risk not previously contemplated are identified by the individual committees and presented to the Credit Policy Committee, Executive Risk Committee and the Board Risk Committee for approval, as appropriate.

Key Management Processes

We employ a comprehensive and integrated risk control program to proactively identify, measure, monitor, and mitigate existing and emerging credit risks across the credit life cycle (origination, account management/portfolio management, and loss mitigation and recovery).

Consumer

On the Consumer Banking side of credit risk, our teams use models to evaluate consumer loans across the life cycle of the loan. Starting at origination, credit scoring models are used to forecast the probability of default

of an applicant. When approving customers for a new loan or extension of an existing credit line, credit scores are used in conjunction with other credit risk variables such as affordability, length of term, collateral value, collateral type, and lien subordination.

To ensure proper oversight of the underwriting teams, lending authority is granted by the second line of defense credit risk function to each underwriter. The amount of delegated authority depends on the experience of the individual. We periodically evaluate the performance of each underwriter and annually reauthorize their delegated authority. Only senior members of the second line of defense credit risk team are authorized to approve significant exceptions to credit policies. It is not uncommon to make exceptions to established policies when compensating factors are present. There are exception limits which, when reached, trigger a comprehensive analysis.

Once an account is established, credit scores and collateral values are refreshed at regular intervals to allow for proactive identification of increasing or decreasing levels of credit risk. Our approach to managing credit risk is highly analytical and, where appropriate, is automated to ensure consistency and efficiency.

Commercial

On the Commercial Banking side of credit risk, the structure is broken into C&I loans, leases and CRE. Within C&I loans and leases there are separate verticals established for certain specialty products (e.g., asset-based lending, leasing, franchise finance, health care, technology and mid-corporate). A “specialty vertical” is a stand-alone team of industry or product specialists. Substantially all activity that falls under the ambit of the defined industry or product is managed through a specialty vertical when one exists. CRE also operates as a specialty vertical.

Commercial credit risk management begins with defined credit products and policies.

Commercial transactions are subject to individual analysis and approval at origination and, with few exceptions, are subject to a formal annual review requirement. The underwriting process includes the establishment and approval of credit grades that confirm the PD and LGD. All material transactions then require the approval of both a business line approver and an independent credit approver with the requisite level of delegated authority. The approval level of a particular credit facility is determined by the size of the credit relationship as well as the PD. The checks and balances in the credit process and the independence of the credit approver function are designed to appropriately assess and sanction the level of credit risk being accepted, facilitate the early recognition of credit problems when they occur, and to provide for effective problem asset management and resolution. All authority to grant credit is delegated through the independent Credit Risk function and is closely monitored and regularly updated.

The primary factors considered in commercial credit approvals are the financial strength of the borrower, assessment of the borrower’s management capabilities, cash flows from operations, industry sector trends, type and sufficiency of collateral, type of exposure, transaction structure, and the general economic outlook. While these are the primary factors considered, there are a number of other factors that may be considered in the decision process. In addition to the credit analysis conducted during the approval process at origination and annual review, our Credit Quality Assurance group performs testing to provide an independent review and assessment of the quality of the portfolio and new originations. This group conducts portfolio reviews on a risk-based cycle to evaluate individual loans and validate risk ratings, as well as test the consistency of the credit processes and the effectiveness of credit risk management.

The maximum level of credit exposure to individual credit borrowers is limited by policy guidelines based on the perceived risk of each borrower or related group of borrowers. Concentration risk is managed through limits on industry asset class and loan quality factors. We focus predominantly on extending credit to commercial customers with existing or expandable relationships within our primary markets (for this purpose defined as our 11 state footprint plus contiguous states), although we do engage in lending opportunities outside our primary markets if we believe that the associated risks are acceptable and aligned with strategic initiatives.

Substantially all loans categorized as Classified are managed by a specialized group of credit professionals.

MARKET RISK

Market risk refers to potential losses arising from changes in interest rates, foreign exchange rates, equity prices, commodity prices and/or other relevant market rates or prices. Modest market risk arises from trading activities that serve customer needs, including hedging of interest rate and foreign exchange risk. As

described below, more material market risk arises from our non-trading banking activities, such as loan origination and deposit-gathering. We have established enterprise-wide policies and methodologies to identify, measure, monitor and report market risk. We actively manage market risk for both trading and non-trading activities.

Non-Trading Risk

We are exposed to market risk as a result of non-trading banking activities. This market risk is substantially composed of interest rate risk, as we have no commodity risk and de minimis direct currency and equity risk. We also have market risk related to capital markets loan originations, as well as the valuation of our MSRs.

Interest Rate Risk

Interest rate risk emerges from the balance sheet after the aggregation of our assets, liabilities and equity. We refer to this non-trading risk embedded in the balance sheet as “structural interest rate risk” or “interest rate risk in the banking book.”

A major source of structural interest rate risk is a difference in the repricing of assets relative to liabilities and equity. There are differences in the timing and drivers of rate changes reflecting the maturity and/or repricing of assets and liabilities. For example, the rate earned on a commercial loan may reprice monthly with changes in LIBOR, while the rate paid on debt or certificates of deposit may be fixed for a longer period. There may also be differences in the drivers of rate changes. Loans may be tied to a specific index rate such as LIBOR or Prime, while deposits may be only loosely correlated with LIBOR and dependent upon competitive demand. Due to these basis differences, net interest income is sensitive to changes in spreads between certain indices or repricing rates.

Another important source of structural interest rate risk relates to the potential exercise of explicit or embedded options. For example, most consumer loans can be prepaid without penalty and most consumer deposits can also be withdrawn without penalty. The exercise of such options by customers can exacerbate the timing differences discussed above.

A primary source of our structural interest rate risk relates to faster repricing of floating-rate loans relative to core deposit funding. This source of asset sensitivity is more biased toward the short end of the yield curve.

The secondary source of our interest rate risk is driven by longer term rates comprising the rollover or reinvestment risk on fixed-rate loans, as well as prepayment risk on mortgage-related loans and securities funded by non-rate sensitive deposits and equity.

The primary goal of interest rate risk management is to control exposure to interest rate risk within policy limits approved by our Board. These limits and guidelines reflect our tolerance for interest rate risk over both short-term and long-term horizons. To ensure that exposure to interest rate risk is managed within our risk appetite, we must measure the exposure and hedge it, as necessary. The Treasury Asset and Liability Management team is responsible for measuring, monitoring and reporting on our structural interest rate risk position. These exposures are reported on a monthly basis to the Asset Liability Committee and at Board meetings.

We measure structural interest rate risk through a variety of metrics intended to quantify both short-term and long-term exposures. The primary method we use to quantify interest rate risk is simulation analysis in which we model net interest income from assets, liabilities and hedge derivative positions under various interest rate scenarios over a three-year horizon. Exposure to interest rate risk is reflected in the variation of forecasted net interest income across the scenarios.

Key assumptions in this simulation analysis relate to the behavior of interest rates and spreads, the changes in product balances and the behavior of loan and deposit clients in different rate environments. The most material of these behavioral assumptions relate to the repricing characteristics and balance fluctuations of deposits with indeterminate (i.e., non-contractual) maturities, as well as the pace of mortgage prepayments. Assessments are periodically made by running sensitivity analyses to determine the impact of key assumptions. The results of these analyses are reported to the Asset Liability Committee.

As the future path of interest rates cannot be known in advance, we use simulation analysis to project net interest income under various interest rate scenarios including a “most likely” (implied forward) scenario, as well as a variety of deliberately extreme and perhaps unlikely scenarios. These scenarios may assume gradual

ramping of the overall level of interest rates, immediate shocks to the level of rates and various yield curve twists in which movements in short- or long-term rates predominate. Generally, projected net interest income in any interest rate scenario is compared to net interest income in a base case where market forward rates are realized.

The table below reports net interest income exposures against a variety of interest rate scenarios. Our policies involve measuring exposures as a percentage change in net interest income over the next year due to either instantaneous or gradual parallel changes in rates relative to the market implied forward yield curve. As the following table illustrates, our balance sheet is asset-sensitive; net interest income would benefit from an increase in interest rates, while exposure to a decline in interest rates is within limit. While an instantaneous and severe shift in interest rates is included in this analysis, we believe that any actual shift in interest rates would likely be more gradual and therefore have a more modest impact.

Table 32: Sensitivity of Net Interest Income

	Estimated % Change in Net Interest Income over 12 Months	
	December 31,	
Basis points	**2020**	**2019**
Instantaneous Change in Interest Rates		
200	21.2 %	6.9 %
100	11.2	3.6
-25	(2.7)	(1.3)
Gradual Change in Interest Rates		
200	10.8 %	3.2 %
100	5.5	1.5
-25	(1.5)	(0.5)

We continue to manage asset sensitivity within the scope of our policy and changing market conditions. Asset sensitivity against a 200 basis point gradual increase in rates was 10.8% at December 31, 2020, compared with 3.2% at December 31, 2019. Current levels of asset sensitivity are elevated relative to our core sensitivity profile due to meaningful increases in cash and deposit balances as a result of monetary and fiscal stimulus programs. This increase in asset sensitivity is recognition of the current level of historically low interest rates and is consistent with our positioning in prior periods of policy rates between zero and 25 basis points. The risk position can be affected by changes in interest rates which impact the repricing sensitivity or beta of the deposit base as well as the cash flows on assets that allow for early payoff without a penalty. The risk position is managed within our risk limits, and long term view of interest rates through occasional adjustments to securities investments, interest rate swaps and mix of funding.

We use a valuation measure of exposure to structural interest rate risk, Economic Value of Equity ("EVE"), as a supplement to net interest income simulations. EVE complements net interest income simulation analysis, as it estimates risk exposure over a long-term horizon. EVE measures the extent to which the economic value of assets, liabilities and off-balance sheet instruments may change in response to fluctuations in interest rates. This analysis is highly dependent upon assumptions applied to assets and liabilities with non-contractual maturities. The change in value is expressed as a percentage of regulatory capital.

We use interest rate swap contracts to manage the interest rate exposure to variability in the interest cash flows on our floating-rate assets and floating-rate wholesale funding, and to hedge market risk on fixed-rate capital markets debt issuances.

Table 33: Interest Rate Swap Contracts Used to Manage Non-Trading Interest Rate Exposure

	December 31, 2020				December 31, 2019			
		Weighted Average				Weighted Average		
(dollars in millions)	Notional Amount	Maturity (Years)	Receive Rate	Pay Rate	Notional Amount	Maturity (Years)	Receive Rate	Pay Rate
Cash flow - receive-fixed/pay-variable - conventional ALM	$12,350	1.0	1.5 %	0.2 %	$19,350	1.5	1.7 %	1.7 %
Fair value - receive-fixed/pay-variable - conventional debt	3,200	1.7	2.1	0.2	4,650	2.0	2.0	1.9
Cash flow - pay-fixed/receive-variable - conventional ALM[1]	4,750	3.9	0.2	1.4	3,000	4.5	1.7	1.7
Fair value - pay-fixed/receive-variable - conventional ALM	2,000	3.7	0.2	1.5	2,846	4.5	1.8	1.8
Total portfolio swaps	$22,300	2.0	1.2 %	0.6 %	$29,846	2.2	1.8 %	1.8 %

[1] Includes $1.8 billion of forward-starting, pay-fixed interest rate swaps.

Using the interest rate curve at December 31, 2020, the estimated net contribution to net interest income related to the ALM interest rate swap contracts we use to manage the interest rate exposure to the variability in the interest cash flows on our floating-rate commercial loans and floating-rate wholesale funding, as well as the variability in the fair value of AFS securities is approximately $58 million for the full-year 2021. This amount could differ from amounts actually recognized due to changes in interest rates, hedge de-designations, and the addition of other hedges subsequent to December 31, 2020.

Table 34: Pre-Tax Gains (Losses) Recorded in the Consolidated Statements of Operations and the Consolidated Statements of Comprehensive Income

	Amounts Recognized for the Year Ended December 31,	
(in millions)	2020	2019
Amount of pre-tax net gains recognized in OCI	$130	$138
Amount of pre-tax net gains (losses) reclassified from OCI into interest income	184	(68)
Amount of pre-tax net (losses) gains reclassified from OCI into interest expense	(35)	11

LIBOR Transition

As previously disclosed, many of our lending products, securities, derivatives, and other financial transactions utilize the LIBOR benchmark rate and will be impacted by its planned discontinuance. In late 2018, we formed a LIBOR Transition Program designed to guide the organization through the planned discontinuation of LIBOR. The Program, with direction and oversight from our Chief Financial Officer, is responsible for developing, maintaining and executing against a coordinated strategy to ensure a timely and orderly transition from LIBOR. The Program is structured to address various initiatives including program governance, transition management, communications, exposure management, new alternative reference rate product delivery, risk management, contract remediation, operations and technology readiness, accounting and reporting, as well as tax and regulation impacts. We have identified and are monitoring the risks associated with the LIBOR transition on a quarterly basis.

The ARRC recommended that banks be systemically and operationally capable of supporting transactions in alternative reference rates, such as SOFR, by the end of September 2020. Guided by this milestone, we are systemically and operationally prepared to support alternative reference rate transactions. In light of announcements from the ICE Benchmark Administration regarding their proposal to extend the availability of U.S. dollar LIBOR for most tenors through June 20, 2023 and the support for this proposal from the official sector in the U.S., we are now engaged in determining the impact that this change may have on our LIBOR transition activities. Remaining mindful that regulators are still urging market participants to stop entering into new U.S. dollar LIBOR contracts as soon as practicable, but no later than the end of 2021, we will continue all efforts to move new originations to alternative reference rates over the course of 2021. However, plans for legacy contract remediation will extend through mid-2023 should the proposal become final in its current form. More broadly, program governance remains robust, and progress has been made in the above-outlined initiatives as management closely monitors the consultations and waits for timelines to be finalized.

For a further discussion of how the discontinuance of LIBOR may impact our business, see Item 1A "Risk Factors."

Capital Markets

A key component of our capital markets activities is the underwriting and distribution of corporate credit facilities to partially finance mergers and acquisitions transactions for our clients. We have a rigorous risk management process around these activities, including a limit structure capping our underwriting risk, our potential loss, and sub-limits for specific asset classes. Further, the ability to approve underwriting exposure is delegated only to senior level individuals in the credit risk management and capital markets organizations with each transaction adjudicated in the Loan Underwriting Approval Committee.

Mortgage Servicing Rights

We have market risk associated with the value of residential MSRs, which are impacted by various types of inherent risks, including risks related to duration, basis, convexity, volatility and yield curve. Through December 31, 2019, we had elected to account for the MSRs acquired from FAMC at fair value while maintaining a lower of cost or market approach on our MSRs held before the FAMC acquisition. On January 1, 2020, we elected to change our accounting treatment such that all MSRs will be accounted for at fair value.

As part of our overall risk management strategy relative to the fair market value of the MSRs we enter into various free-standing derivatives, such as interest rate swaps, interest rate swaptions, interest rate futures, and forward contracts to purchase mortgage-backed securities to economically hedge the changes in fair value. As of December 31, 2020 and 2019, the fair value of our MSRs was $658 million and $642 million, respectively, and the total notional amount of related derivative contracts was $11.4 billion and $8.6 billion, respectively. Gains and losses on MSRs and the related derivatives used for hedging are included in mortgage banking fees on the Consolidated Statements of Operations.

As with our traded market risk-based activities, earnings at risk excludes the impact of MSRs. MSRs are captured under our single price risk management framework that is used for calculating a management value at risk that is consistent with the definition used by banking regulators, as defined below.

Trading Risk

We are exposed to market risk primarily through client facilitation activities including derivatives and foreign exchange products, as well as corporate bond underwriting and market making activities. Exposure is created as a result of changes in interest rates and related basis spreads and volatility, foreign exchange rates, and credit spreads on a select range of interest rates, foreign exchange, commodities, corporate bonds and secondary loan instruments. These trading activities are conducted through CBNA and CCMI.

Client facilitation activities consist primarily of interest rate derivatives, financially settled commodity derivatives and foreign exchange contracts where we enter into offsetting trades with a separate counterparty or exchange to manage our market risk exposure. In addition to the aforementioned activities, we operate a secondary loan trading desk with the objective to meet secondary liquidity needs of our issuing clients' transactions and investor clients. We do not engage in any trading activities with the intent to benefit from short-term price differences.

We record these rate derivatives and foreign exchange contracts as derivative assets and liabilities on our Consolidated Balance Sheets. Trading assets and liabilities are carried at fair value with income earned related to these activities included in net interest income. Changes in fair value of trading assets and liabilities are reflected in other income, a component of noninterest income on the Consolidated Statements of Operations.

Market Risk Governance

The market risk limit setting process is established in-line with the formal enterprise risk appetite process and policy. This appetite reflects the strategic and enterprise level articulation of opportunities for creating franchise value set to the boundaries of how much market risk to assume. Dealing authorities represent the key control tool in the management of market risk that allows the cascading of the risk appetite throughout the enterprise. A dealing authority sets the operational scope and tolerances within which a business and/or trading desk is permitted to operate, which is reviewed at least annually. Dealing authorities are structured to accommodate client facing trades and hedges needed to manage the risk profile. Primary responsibility for keeping within established tolerances resides with the business. Key risk indicators, including VaR, open foreign

currency positions and single name risk, are monitored on a daily basis and reported against tolerances consistent with our risk appetite and business strategy to relevant business line management and risk counterparts.

Market Risk Measurement

We use VaR as a statistical measure for estimating potential exposure of our traded market risk in normal market conditions. Our VaR framework for risk management and regulatory reporting is the same. Risk management VaR is based on a one day holding period to a 99% confidence level, whereas regulatory VaR is based on a ten day holding period to the same confidence level. In addition to VaR, non-statistical measurements for measuring risk are employed, such as sensitivity analysis, market value and stress testing.

Our market risk platform and associated market risk and valuation models capture correlation effects across all our “covered positions” and allow for aggregation of market risk across products, risk types, business lines and legal entities. We measure, monitor and report market risk for both management and regulatory capital purposes.

VaR Overview

The market risk measurement model is based on historical simulation. The VaR measure estimates the extent of any fair value losses on trading positions that may occur due to broad market movements (General VaR) such as changes in the level of interest rates, foreign exchange rates, equity prices and commodity prices. It is calculated on the basis that current positions remain broadly unaltered over the course of a given holding period. It is assumed that markets are sufficiently liquid to allow the business to close its positions, if required, within this holding period. VaR’s benefit is that it captures the historic correlations of a portfolio. Based on the composition of our “covered positions,” we also use a standardized add-on approach for the loan trading and high yield bond desks’ Specific Risk capital which estimates the extent of any losses that may occur from factors other than broad market movements. The General VaR approach is expressed in terms of a confidence level over the past 500 trading days. The internal VaR measure (used as the basis of the main VaR trading limits) is a 99% confidence level with a one day holding period, meaning that a loss greater than the VaR is expected to occur, on average, on only one day in 100 trading days (i.e., 1% of the time). Theoretically, there should be a loss event greater than VaR two to three times per year. The regulatory measure of VaR is done at a 99% confidence level with a ten-day holding period. The historical market data applied to calculate the VaR is updated on a two business day lag. Refer to “Market Risk Regulatory Capital” below for details of our ten-day VaR metrics for the quarters ended December 31, 2020 and 2019, respectively, including high, low, average and period end VaR for interest rate and foreign exchange rate risks, as well as total VaR.

Market Risk Regulatory Capital

The U.S. banking regulators' "Market Risk Rule" covers the calculation of market risk capital. For the purposes of the Market Risk Rule, all of our client facing trades and associated hedges maintain a net low risk and do qualify, as "covered positions." The internal management VaR measure is calculated based on the same population of trades that is utilized for regulatory VaR.

Table 35: Results of Modeled and Non-Modeled Measures for Regulatory Capital Calculations

(in millions)	For the Three Months Ended December 31, 2020				For the Three Months Ended December 31, 2019			
Market Risk Category	**Period End**	**Average**	**High**	**Low**	**Period End**	**Average**	**High**	**Low**
Interest Rate	$2	$2	$4	$—	$1	$—	$1	$—
Foreign Exchange Currency Rate	—	—	—	—	—	—	—	—
Credit Spread	9	10	12	3	5	4	5	3
Commodity	—	—	—	—	—	—	—	—
General VaR	9	8	13	4	5	4	5	3
Specific Risk VaR	—	—	—	—	—	—	—	—
Total VaR	$9	$8	$13	$4	$5	$4	$5	$3
Stressed General VaR	$13	$10	$16	$6	$13	$10	$13	$7
Stressed Specific Risk VaR	—	—	—	—	—	—	—	—
Total Stressed VaR	$13	$10	$16	$6	$13	$10	$13	$7
Market Risk Regulatory Capital	$56				$42			
Specific Risk Not Modeled Add-on	14				14			
de Minimis Exposure Add-on	—				—			
Total Market Risk Regulatory Capital	$70				$56			
Market Risk-Weighted Assets (calculated)	$871				$695			
Market Risk-Weighted Assets (included in our FR Y-9C regulatory filing)	$871				$695			

Stressed VaR

SVaR is an extension of VaR, but uses a longer historical look-back horizon that is fixed from January 3, 2005. This is done not only to identify headline risks from more volatile periods, but also to provide a counter-balance to VaR which may be low during periods of low volatility. The holding period for profit and loss determination is ten days. In addition to risk management purposes, SVaR is also a component of market risk regulatory capital. We calculate SVaR daily under its own dynamic window regime. In a dynamic window regime, values of the ten-day, 99% VaR are calculated over all possible 260-day periods that can be obtained from the complete historical data set. Refer to "Market Risk Regulatory Capital" above for details of SVaR metrics, including high, low, average and period end SVaR for the combined portfolio.

Sensitivity Analysis

Sensitivity analysis is the measure of exposure to a single risk factor, such as a one basis point change in rates or credit spread. We conduct and monitor sensitivity on interest rates, basis spreads, foreign exchange exposures, option prices and credit spreads. Whereas VaR is based on previous moves in market risk factors over recent periods, it may not be an accurate predictor of future market moves. Sensitivity analysis complements VaR as it provides an indication of risk relative to each factor irrespective of historical market moves, and is an effective tool in evaluating the appropriateness of hedging strategies and concentrations.

Stress Testing

Conducting a stress test of a portfolio consists of running risk models with the inclusion of key variables that simulate various historical or hypothetical scenarios. For historical stress tests, profit and loss results are simulated for selected time periods corresponding to the most volatile underlying returns while hypothetical stress tests aim to consider concentration risk, illiquidity under stressed market conditions and risk arising from our trading activities that may not be fully captured by our other risk measurement methodologies. Hypothetical scenarios also assume that market moves happen simultaneously and no repositioning or hedging activity takes place to mitigate losses as market events unfold. We generate stress tests of our trading positions on a daily basis. For example, we currently include a stress test that simulates a "Lehman-type" crisis scenario by taking

the worst 20-trading day peak to trough moves for the various risk factors that go into VaR from that period, and assumes they occurred simultaneously.

VaR Model Review and Validation

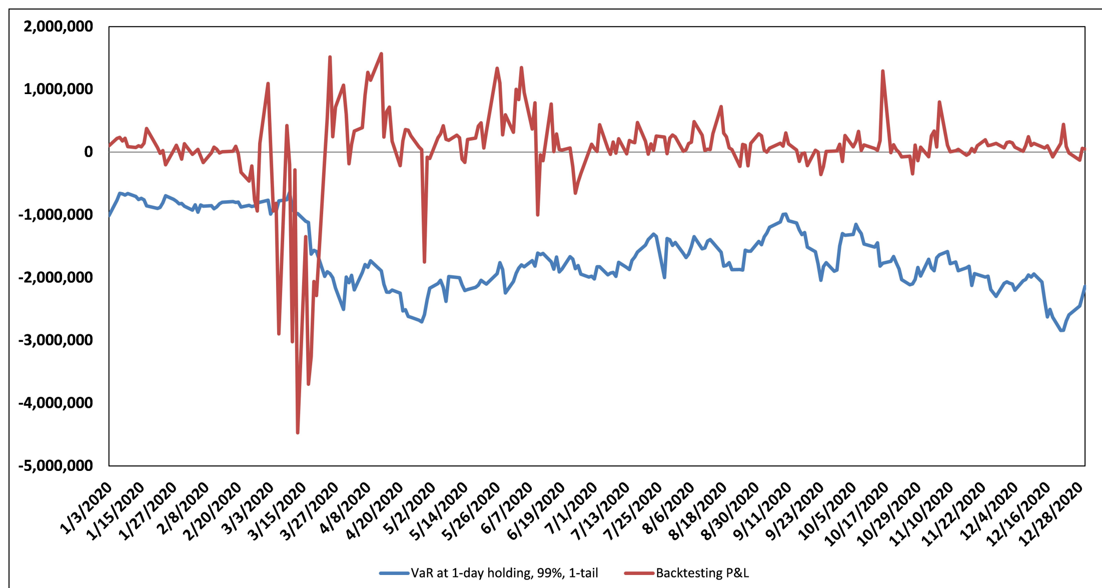
Market risk measurement models used are independently reviewed and subject to ongoing performance analysis by the model owners. The independent review and validation focuses on the model methodology, market data, and performance. Independent review of market risk measurement models is the responsibility of Citizens' Model Risk Management and Validation team. Aspects covered include challenging the assumptions used, the quantitative techniques employed and the theoretical justification underpinning them and an assessment of the soundness of the required data over time. Where possible, the quantitative impact of the major underlying modeling assumptions will be estimated (e.g., through developing alternative models). Results of such reviews are shared with our U.S. banking regulators. The market risk models may be periodically enhanced due to changes in market price levels and price action regime behavior. The Market Risk Management and Validation team will conduct internal validation before a new or changed model element is implemented and before a change is made to a market data mapping.

VaR Backtesting

Backtesting is one form of validation of the VaR model and is run daily. The Market Risk Rule requires a comparison of our internal VaR measure to the actual net trading revenue (excluding fees, commissions, reserves, intra-day trading and net interest income) for each day over the preceding year (the most recent 250 business days). Any observed loss in excess of the VaR number is taken as an exception. The level of exceptions determines the multiplication factor used to derive the VaR and SVaR-based capital requirement for regulatory reporting purposes, when applicable. We perform sub-portfolio backtesting as required under the Market Risk Rule, using models approved by our banking regulators, for interest rate, credit spread, and foreign exchange positions.

The following graph shows our daily net trading revenue and total internal, modeled VaR for the year ended December 31, 2020.

Daily VaR Backtesting



NON-GAAP FINANCIAL MEASURES AND RECONCILIATIONS

For more information on the computation of non-GAAP financial measures, see "—Introduction — Non-GAAP Financial Measures," included in this Report. The following tables present computations of non-GAAP financial measures representing our "Underlying" results used throughout the MD&A:

Table 36: Reconciliations of Non-GAAP Measures

		Year Ended December 31,	
(in millions, except share, per share and ratio data)	Ref.	2020	2019
Total revenue, Underlying:			
Total revenue (GAAP)	A	$6,905	$6,491
Less: Notable items		—	—
Total revenue, Underlying (non-GAAP)	B	$6,905	$6,491
Noninterest expense, Underlying:			
Noninterest expense (GAAP)	C	$3,991	$3,847
Less: Notable items		125	68
Noninterest expense, Underlying (non-GAAP)	D	$3,866	$3,779
Pre-provision profit:			
Total revenue (GAAP)	A	6,905	$6,491
Less: Noninterest expense (GAAP)	C	3,991	3,847
Pre-provision profit (GAAP)		$2,914	$2,644
Pre-provision profit, Underlying:			
Total revenue, Underlying (non-GAAP)	B	$6,905	$6,491
Less: Noninterest expense, Underlying (non-GAAP)	D	3,866	3,779
Pre-provision profit, Underlying (non-GAAP)		$3,039	$2,712
Income before income tax expense, Underlying:			
Income before income tax expense (GAAP)	E	$1,298	$2,251
Less: Expense before income tax benefit related to notable items		(125)	(68)
Income before income tax expense, Underlying (non-GAAP)	F	$1,423	$2,319
Income tax expense and effective income tax rate, Underlying:			
Income tax expense (GAAP)	G	$241	$460
Less: Income tax benefit related to notable items		(42)	(51)
Income tax expense, Underlying (non-GAAP)	H	$283	$511
Effective income tax rate (GAAP)	G/E	18.54 %	20.43 %
Effective income tax rate, Underlying (non-GAAP)	H/F	19.92	22.03
Net income, Underlying:			
Net income (GAAP)	I	$1,057	$1,791
Add: Notable items, net of income tax benefit		83	17
Net income, Underlying (non-GAAP)	J	$1,140	$1,808
Net income available to common stockholders, Underlying:			
Net income available to common stockholders (GAAP)	K	$950	$1,718
Add: Notable items, net of income tax benefit		83	17
Net income available to common stockholders, Underlying (non-GAAP)	L	$1,033	$1,735
Return on average common equity and return on average common equity, Underlying:			
Average common equity (GAAP)	M	$20,438	$20,325
Return on average common equity	K/M	4.65 %	8.45 %
Return on average common equity, Underlying (non-GAAP)	L/M	5.05	8.53
Return on average tangible common equity and return on average tangible common equity, Underlying:			
Average common equity (GAAP)	M	$20,438	$20,325
Less: Average goodwill (GAAP)		7,049	7,036
Less: Average other intangibles (GAAP)		64	71
Add: Average deferred tax liabilities related to goodwill (GAAP)		376	371
Average tangible common equity	N	$13,701	$13,589
Return on average tangible common equity	K/N	6.93 %	12.64 %
Return on average tangible common equity, Underlying (non-GAAP)	L/N	7.53	12.76

(in millions, except share, per share and ratio data)	Ref.	Year Ended December 31, 2020	2019
Return on average total assets and return on average total assets, Underlying:			
Average total assets (GAAP)	O	$176,442	$162,176
Return on average total assets	I/O	0.60 %	1.10 %
Return on average total assets, Underlying (non-GAAP)	J/O	0.65	1.11
Return on average total tangible assets and return on average total tangible assets, Underlying:			
Average total assets (GAAP)	O	$176,442	$162,176
Less: Average goodwill (GAAP)		7,049	7,036
Less: Average other intangibles (GAAP)		64	71
Add: Average deferred tax liabilities related to goodwill (GAAP)		376	371
Average tangible assets	P	$169,705	$155,440
Return on average total tangible assets	I/P	0.62 %	1.15 %
Return on average total tangible assets, Underlying (non-GAAP)	J/P	0.67	1.16
Efficiency ratio and efficiency ratio, Underlying:			
Efficiency ratio	C/A	57.80 %	59.28 %
Efficiency ratio, Underlying (non-GAAP)	D/B	55.99	58.23
Operating leverage and operating leverage, Underlying:			
Increase in total revenue		6.38 %	5.91 %
Increase in noninterest expense		3.73	6.30
Operating Leverage		2.65 %	(0.39)%
Increase in total revenue, Underlying (non-GAAP)		6.39 %	5.83 %
Increase in noninterest expense, Underlying (non-GAAP)		2.30	6.00
Operating Leverage, Underlying (non-GAAP)		4.09 %	(0.17)%
Tangible book value per common share:			
Common shares - at period end (GAAP)	**Q**	427,209,831	433,121,083
Common stockholders' equity (GAAP)		$20,708	$20,631
Less: Goodwill (GAAP)		7,050	7,044
Less: Other intangible assets (GAAP)		58	68
Add: Deferred tax liabilities related to goodwill (GAAP)		379	374
Tangible common equity	**R**	$13,979	$13,893
Tangible book value per common share	**R/Q**	$32.72	$32.08
Net income per average common share - basic and diluted and net income per average common share - basic and diluted, Underlying:			
Average common shares outstanding - basic (GAAP)	S	427,062,537	449,731,453
Average common shares outstanding - diluted (GAAP)	T	428,157,780	451,213,701
Net income per average common share - basic (GAAP)	K/S	$2.22	$3.82
Net income per average common share - diluted (GAAP)	K/T	2.22	3.81
Net income per average common share-basic, Underlying (non-GAAP)	L/S	2.42	3.86
Net income per average common share-diluted, Underlying (non-GAAP)	L/T	2.41	3.84
Dividend payout ratio and dividend payout ratio, Underlying:			
Cash dividends declared and paid per common share	U	$1.56	$1.36
Dividend payout ratio	U/(K/S)	70 %	36 %
Dividend payout ratio, Underlying (non-GAAP)	U/(L/S)	65	35

The following table presents computations of non-GAAP financial measures representing certain metrics excluding the impact of PPP loans used throughout the MD&A:

Table 37: Reconciliations of Non-GAAP Measures - Excluding PPP

(in millions, except share, per share and ratio data)	Ref.	December 31, 2020	December 31, 2019
Allowance for credit losses to total loans and leases, excluding the impact of PPP loans:			
Total loans and leases (GAAP)	A	$123,090	$119,088
Less: PPP loans		4,155	—
Total loans and leases, excluding the impact of PPP loans (non-GAAP)	B	$118,935	$119,088
Allowance for credit losses (GAAP)	C	$2,670	$1,296
Allowance for credit losses to total loans and leases (GAAP)	C/A	2.17 %	1.09 %
Allowance for credit losses to total loans and leases, excluding the impact of PPP loans (non-GAAP)	C/B	2.24 %	1.09 %

The following table presents computations of non-GAAP financial measures representing certain metrics excluding the impact of elevated cash levels used in "—Net Interest Income":

Table 38: Reconciliations of Non-GAAP Measures - Excluding Elevated Cash

(in millions, except ratio data)	Ref.	December 31, 2020	December 31, 2019
Net interest income, FTE, excluding the impact of elevated cash:			
Net interest income, FTE	A	$4,599	$4,635
Less: Net interest income associated with elevated cash		—	—
Net interest income, FTE, excluding the impact of elevated cash (non-GAAP)	B	$4,599	$4,635
Average interest-earning assets, excluding the impact of elevated cash:			
Total interest-earning assets (GAAP)	C	$159,275	$146,814
Less: Elevated cash		4,322	—
Total average interest-earning assets, excluding the impact of elevated cash (non-GAAP)	D	$154,953	$146,814
Ratios:			
Net interest margin, FTE	A/C	2.89 %	3.16 %
Net interest margin, FTE, excluding the impact of elevated cash (non-GAAP)	B/D	2.97 %	3.16 %

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Quantitative and qualitative disclosures about market risk are presented in the "Market Risk" section of Part II, Item 7 — Management's Discussion and Analysis of Financial Condition and Results of Operations is incorporated herein by reference.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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REPORT OF MANAGEMENT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Management is responsible for establishing and maintaining an adequate system of internal control over financial reporting as defined in Rule 13a-15(f) of the Securities Exchange Act of 1934. The Company's system of internal control over financial reporting is designed, under the supervision of the Chief Executive Officer and the Chief Financial Officer, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect all misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of the Company's system of internal control over financial reporting as of December 31, 2020 based on the framework set forth by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control — Integrated Framework (2013)*. Based on that assessment, management concluded that, as of December 31, 2020, the Company's internal control over financial reporting is effective.

The Company's internal control over financial reporting as of December 31, 2020 has been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their accompanying report, appearing on page 96, which expresses an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Directors of
Citizens Financial Group, Inc.
Providence, Rhode Island

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Citizens Financial Group, Inc. and its subsidiaries (the "Company") as of December 31, 2020 and 2019, the related consolidated statements of operations, comprehensive income, changes in stockholders' equity, and cash flows, for each of the three years in the period ended December 31, 2020, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2020 and 2019, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2020, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2020, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 23, 2021, expressed an unqualified opinion on the Company's internal control over financial reporting.

Change in Accounting Principle

As described in Notes 1 and 5 to the consolidated financial statements, the Company changed its method for estimating the allowance for credit losses on January 1, 2020 due to the adoption of *Financial Instruments - Credit Losses (Topic 326)*.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's consolidated financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current-period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing separate opinions on the critical audit matter or on the accounts or disclosures to which it relates.

Allowance for Credit Losses - COVID-19 Considerations - Refer to Note 5 to the consolidated financial statements

Critical Audit Matter Description

Management's estimate of expected credit losses in the Company's loan and lease portfolios is recorded in the allowance for loan and lease losses and the reserve for unfunded lending commitments (collectively, the "ACL"). The ACL is maintained at a level the Company believes to be appropriate to absorb expected lifetime credit losses over the contractual life of the loan and lease portfolios and on the unfunded lending commitments. The determination of the ACL is based on periodic evaluation of the loan and lease portfolios and unfunded lending commitments that are not unconditionally cancelable considering a number of relevant underlying factors, including key assumptions and evaluation of quantitative and qualitative information. Key assumptions used in the ACL measurement process include the use of a two-year reasonable and supportable economic forecast period followed by a one-year period during which the expected credit losses revert to long-term historical macroeconomic inputs.

The quantitative evaluation of the adequacy of the ACL utilizes a single economic forecast as its foundation and is primarily based on econometric models that use known or estimated data as of the balance sheet date and forecasted data over the reasonable and supportable period. Known and estimated data include current probability of default, loss given default, and exposure at default (for commercial), timing and amount of expected draws (for unfunded lending commitments), FICO scores, loan-to-values ratios, term and time on books (for retail loans), mix and level of loan balances, delinquency levels, assigned risk ratings, previous loss experience, current business conditions, amounts and timing of expected future cash flows, and factors particular to a specific commercial credit such as competition, business and management performance. Forward-looking economic assumptions include real gross domestic product, unemployment rate, interest rate curves, and changes in collateral values. This data is aggregated to estimate expected credit losses over the contractual life of the loans and leases, adjusted for expected prepayments. In highly volatile economic environments, historical information, such as commercial customer financial statements or consumer credit ratings, may not be as important to estimating future expected losses as forecasted inputs to the models.

The ACL may also be affected materially by a variety of qualitative factors that the Company considers to reflect current judgment of various events and risks that are not measured in the statistical procedures including uncertainty related to the economic forecasts used in the modeled credit loss estimates, loan growth, back testing results, credit underwriting policy exceptions, regulatory and audit findings, and peer comparisons. The qualitative allowance is further informed for certain industry sectors or loan classes by alternative scenarios to support the period-end ACL.

While the macroeconomic forecast at year-end slightly improved relative to the third quarter of 2020 forecast, the Company continued to apply management judgment to adjust the modeled reserves in the commercial industry sectors most impacted by the COVID-19 pandemic and associated lockdowns, including in retail and hospitality, casual dining, retail trade, price-sensitive energy and related, and educational services, as well as in certain retail products.

Given the size of the loan and lease portfolios and unfunded commitments and the subjective nature of estimating the ACL, including the estimated impact of COVID-19, auditing the ACL involved a high degree of auditor judgment and an increased extent of effort.

How the Critical Audit Matter Was Addressed in the Audit

Our audit procedures related to the ACL for the loan and lease portfolios and unfunded commitments included the following, among others:

- We tested the effectiveness of controls over the (i) selection of the foundational economic forecast, (ii) development, execution, and monitoring of the econometric models, (iii) estimation of management's adjustments to the modeled reserves for COVID-19, (iv) determination of the qualitative allowance, and (v) overall calculation and disclosure of the ACL.
- We used our credit specialists to assist us in evaluating the reasonableness of the econometric models and management's adjustments to the modeled reserves for COVID-19.
- We (i) evaluated the reasonableness of the econometric models and related assumptions, (ii) assessed the reasonableness of design, theory, and logic of the econometric models for estimating expected credit losses, (iii) tested the accuracy of the data input into the econometric models, and (iv) tested the arithmetic

accuracy of the models' calculations of the expected credit losses.

- We (i) evaluated the reasonableness of the Company's identification of the commercial industry sectors and retail products most severely impacted by COVID-19, (ii) assessed the reasonableness of management's methodologies and assumptions used to estimate the impact of COVID-19 on the impacted sectors, (iii) tested the accuracy of the data used in management's calculation of the adjustments to the modeled reserves for the sectors impacted by COVID-19, (iv) tested the arithmetic accuracy of the calculation of the adjustments, and (v) considered available information related to industry sectors and borrowers severely impacted by COVID-19.
- We (i) evaluated the appropriateness and relevance of the qualitative factors and related quantitative measures included in the qualitative allowance, (ii) tested the accuracy and evaluated the relevance of the historical loss data used in determining the qualitative allowance, (iii) evaluated the reasonableness of the Company's assessment and determination of the qualitative factors and related impact on the estimation of the qualitative allowance and (iv) tested the arithmetic accuracy of the calculation of the qualitative allowance.
- We tested the arithmetic accuracy of the calculation of the overall ACL and assessed the reasonableness of the related disclosures.

/s/ Deloitte & Touche LLP

Boston, Massachusetts

February 23, 2021

We have served as the Company's auditor since 2000.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Directors of
Citizens Financial Group, Inc.
Providence, Rhode Island

Opinion on Internal Control over Financial Reporting

We have audited the internal control over financial reporting of Citizens Financial Group, Inc. and its subsidiaries (the "Company") as of December 31, 2020, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2020, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by COSO.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated financial statements as of and for the year ended December 31, 2020, of the Company and our report dated February 23, 2021, expressed an unqualified opinion on those consolidated financial statements and included an explanatory paragraph regarding the Company's adoption of *Financial Instruments - Credit Losses (ASC 326)* on January 1, 2020.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Report of Management on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of consolidated financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the consolidated financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Deloitte & Touche LLP

Boston, Massachusetts

February 23, 2021

CONSOLIDATED BALANCE SHEETS

(in millions, except share data)	December 31, 2020	December 31, 2019
ASSETS:		
Cash and due from banks	$1,037	$1,175
Interest-bearing cash and due from banks	11,696	2,211
Interest-bearing deposits in banks	306	297
Debt securities available for sale, at fair value (including $549 and $359 pledged to creditors, respectively) [1]	22,942	20,613
Debt securities held to maturity (fair value of $3,357 and $3,242, respectively, and including $144 and $249 pledged to creditors, respectively) [1]	3,235	3,202
Loans held for sale, at fair value	3,564	1,946
Other loans held for sale	439	1,384
Loans and leases	123,090	119,088
Less: Allowance for loan and lease losses	(2,443)	(1,252)
Net loans and leases	120,647	117,836
Derivative assets	1,915	807
Premises and equipment, net	759	761
Bank-owned life insurance	1,756	1,725
Goodwill	7,050	7,044
Other assets	8,003	6,732
TOTAL ASSETS	$183,349	$165,733
LIABILITIES AND STOCKHOLDERS' EQUITY:		
LIABILITIES:		
Deposits:		
Noninterest-bearing	$43,831	$29,233
Interest-bearing	103,333	96,080
Total deposits	147,164	125,313
Short-term borrowed funds	243	274
Derivative liabilities	128	120
Deferred taxes, net	629	866
Long-term borrowed funds	8,346	14,047
Other liabilities	4,166	2,912
TOTAL LIABILITIES	160,676	143,532
Contingencies (refer to Note 18)		
STOCKHOLDERS' EQUITY:		
Preferred Stock:		
$25.00 par value,100,000,000 shares authorized; 2,000,000 and 1,600,000 shares issued and outstanding at December 31, 2020 and 2019, respectively	1,965	1,570
Common stock:		
$0.01 par value, 1,000,000,000 shares authorized; 569,876,133 shares issued and 427,209,831 shares outstanding at December 31, 2020 and 568,238,730 shares issued and 433,121,083 shares outstanding at December 31, 2019	6	6
Additional paid-in capital	18,940	18,891
Retained earnings	6,445	6,498
Treasury stock, at cost, 142,666,302 and 135,117,647 shares at December 31, 2020 and 2019, respectively	(4,623)	(4,353)
Accumulated other comprehensive loss	(60)	(411)
TOTAL STOCKHOLDERS' EQUITY	22,673	22,201
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$183,349	$165,733

[1] Includes only collateral pledged by the Company where counterparties have the right to sell or pledge the collateral.

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended December 31,		
(in millions, except share and per-share data)	**2020**	**2019**	**2018**
INTEREST INCOME:			
Interest and fees on loans and leases	$4,719	$5,441	$5,010
Interest and fees on loans held for sale, at fair value	75	63	37
Interest and fees on other loans held for sale	33	13	10
Investment securities	519	642	672
Interest-bearing deposits in banks	11	30	29
Total interest income	5,357	6,189	5,758
INTEREST EXPENSE:			
Deposits	509	1,155	785
Short-term borrowed funds	2	10	15
Long-term borrowed funds	260	410	426
Total interest expense	771	1,575	1,226
Net interest income	4,586	4,614	4,532
Provision for credit losses	1,616	393	326
Net interest income after provision for credit losses	2,970	4,221	4,206
NONINTEREST INCOME:			
Mortgage banking fees	915	302	152
Service charges and fees	403	505	513
Capital markets fees	250	216	179
Card fees	217	254	244
Trust and investment services fees	203	202	171
Letter of credit and loan fees	140	135	128
Foreign exchange and interest rate products	120	155	126
Securities gains, net	4	19	19
Net impairment losses recognized in earnings on debt securities	—	(2)	(3)
Other income	67	91	67
Total noninterest income	2,319	1,877	1,596
NONINTEREST EXPENSE:			
Salaries and employee benefits	2,123	2,026	1,880
Equipment and software expense	565	514	464
Outside services	553	498	447
Occupancy	331	333	333
Other operating expense	419	476	495
Total noninterest expense	3,991	3,847	3,619
Income before income tax expense	1,298	2,251	2,183
Income tax expense	241	460	462
NET INCOME	$1,057	$1,791	$1,721
Net income available to common stockholders	$950	$1,718	$1,692
Weighted-average common shares outstanding:			
Basic	427,062,537	449,731,453	478,822,072
Diluted	428,157,780	451,213,701	480,430,741
Per common share information:			
Basic earnings	$2.22	$3.82	$3.54
Diluted earnings	2.22	3.81	3.52

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in millions)	Year Ended December 31, 2020	2019	2018
Net income	$1,057	$1,791	$1,721
Other comprehensive income (loss):			
Net unrealized derivative instruments gains (losses) arising during the periods, net of income taxes of $33, $35, ($11),respectively	97	103	(33)
Reclassification adjustment for net derivative (gains) losses included in net income, net of income taxes of ($38), $14, $10, respectively	(111)	43	33
Net unrealized debt securities gains (losses) arising during the periods, net of income taxes of $124, $165, ($79), respectively	382	501	(239)
Other-than-temporary impairment not recognized in earnings on debt securities, net of income taxes of $0, $0, ($1), respectively	—	—	(3)
Reclassification of net debt securities gains to net income, net of income taxes of ($1), ($8), ($4), respectively	(3)	(15)	(12)
Employee benefit plans:			
Actuarial (loss) gain, net of income taxes of $(10), $12, ($14), respectively	(27)	36	(35)
Amortization of actuarial loss, net of income taxes of $4, $6, $3, respectively	13	13	14
Amortization of prior service cost, net of income taxes of $0, $0,$0, respectively	—	(1)	(1)
Total other comprehensive income (loss), net of income taxes	351	680	(276)
Total comprehensive income	$1,408	$2,471	$1,445

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

(in millions)	Preferred Stock Shares	Preferred Stock Amount	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Retained Earnings	Treasury Stock, at Cost	Accumulated Other Comprehensive Loss	Total
Balance at January 1, 2018	—	$247	491	$6	$18,781	$4,164	($2,108)	($820)	$20,270
Dividends to common stockholders	—	—	—	—	—	(471)	—	—	(471)
Dividend to preferred stockholders	—	—	—	—	—	(29)	—	—	(29)
Preferred stock issued	1	593	—	—	—	—	—	—	593
Treasury stock purchased	—	—	(26)	—	—	—	(1,025)	—	(1,025)
Share-based compensation plans	—	—	1	—	20	—	—	—	20
Employee stock purchase plan shares purchased	—	—	—	—	14	—	—	—	14
Total comprehensive income:									
Net income	—	—	—	—	—	1,721	—	—	1,721
Other comprehensive loss	—	—	—	—	—	—	—	(276)	(276)
Total comprehensive income	—	—	—	—	—	1,721	—	(276)	1,445
Balance at December 31, 2018	1	$840	466	$6	$18,815	$5,385	($3,133)	($1,096)	$20,817
Dividends to common stockholders	—	—	—	—	—	(617)	—	—	(617)
Dividend to preferred stockholders	—	—	—	—	—	(73)	—	—	(73)
Preferred stock issued	1	730	—	—	—	—	—	—	730
Treasury stock purchased	—	—	(34)	—	—	—	(1,220)	—	(1,220)
Share-based compensation plans	—	—	1	—	59	—	—	—	59
Employee stock purchase plan shares purchased	—	—	—	—	17	—	—	—	17
Cumulative effect of change in accounting standards	—	—	—	—	—	12	—	5	17
Total comprehensive income:									
Net income	—	—	—	—	—	1,791	—	—	1,791
Other comprehensive income	—	—	—	—	—	—	—	680	680
Total comprehensive income	—	—	—	—	—	1,791	—	680	2,471
Balance at December 31, 2019	2	$1,570	433	$6	$18,891	$6,498	($4,353)	($411)	$22,201
Dividends to common stockholders	—	—	—	—	—	(672)	—	—	(672)
Dividends to preferred stockholders	—	—	—	—	—	(107)	—	—	(107)
Preferred stock issued	—	395	—	—	—	—	—	—	395
Treasury stock purchased	—	—	(8)	—	—	—	(270)	—	(270)
Share-based compensation plans	—	—	1	—	30	—	—	—	30
Employee stock purchase plan shares purchased	—	—	1	—	19	—	—	—	19
Cumulative effect of change in accounting standards	—	—	—	—	—	(331)	—	—	(331)
Total comprehensive income:									
Net income	—	—	—	—	—	1,057	—	—	1,057
Other comprehensive income	—	—	—	—	—	—	—	351	351
Total comprehensive income	—	—	—	—	—	1,057	—	351	1,408
Balance at December 31, 2020	2	$1,965	427	$6	$18,940	$6,445	($4,623)	($60)	$22,673

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in millions)	Year Ended December 31, 2020	2019	2018
OPERATING ACTIVITIES			
Net income	$1,057	$1,791	$1,721
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for credit losses	1,616	393	326
Net change in loans held for sale	32	(672)	26
Depreciation, amortization and accretion	567	622	486
Amortization of intangibles	11	11	3
Deferred income taxes	(238)	64	97
Share-based compensation	48	41	41
Net gain on sales of:			
Debt securities	(4)	(25)	(19)
Premises and equipment	—	(6)	—
Increase in other assets	(3,979)	(853)	(1,217)
Increase in other liabilities	1,001	331	303
Net cash provided by operating activities	111	1,697	1,767
INVESTING ACTIVITIES			
Investment securities:			
Purchases of debt securities available for sale	(9,271)	(8,422)	(4,270)
Proceeds from maturities and paydowns of debt securities available for sale	6,943	3,946	3,258
Proceeds from sales of debt securities available for sale	585	5,016	998
Proceeds from maturities and paydowns of debt securities held to maturity	897	398	522
Net (increase) decrease in interest-bearing deposits in banks	(9)	(149)	44
Acquisitions, net of cash acquired	(3)	(129)	(533)
Net increase in loans and leases	(5,095)	(4,334)	(6,445)
Capital expenditures, net	(118)	(95)	(232)
Other	(65)	(106)	(419)
Net cash used in investing activities	(6,136)	(3,875)	(7,077)

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

(in millions)	Year Ended December 31, 2020	2019	2018
FINANCING ACTIVITIES			
Net increase in deposits	21,851	5,738	4,486
Net decrease in short-term borrowed funds	(39)	(1,048)	(4,870)
Proceeds from issuance of long-term borrowed funds	8,323	12,850	22,503
Repayments of long-term borrowed funds	(14,022)	(14,857)	(14,837)
Treasury stock purchased	(270)	(1,220)	(1,025)
Net proceeds from issuance of preferred stock	395	730	593
Dividends declared and paid to common stockholders	(672)	(617)	(471)
Dividends declared and paid to preferred stockholders	(98)	(65)	(14)
Premium paid to exchange debt	(80)	—	—
Payments of employee tax withholding for share-based compensation	(16)	(21)	(13)
Net cash provided by financing activities	15,372	1,490	6,352
Increase (decrease) in cash and cash equivalents[(a)]	9,347	(688)	1,042
Cash and cash equivalents at beginning of period[(a)]	3,386	4,074	3,032
Cash and cash equivalents at end of period[(a)]	$12,733	$3,386	$4,074
Supplemental disclosures:			
Interest paid	$837	$1,560	$1,184
Income taxes paid	261	326	241
Non-cash items:			
Transfer of securities from available for sale to held to maturity	$813	$192	$—
Transfer of securities from held to maturity to available for sale	—	734	—
Loans securitized and transferred to securities available for sale	956	150	142
Loans securitized and transferred to securities held to maturity	111	—	—
Stock issued for share-based compensation plans	30	59	20
Stock issued for Employee Stock Purchase Plan	19	17	14

[(a)] Cash and cash equivalents include cash and due from banks and interest-bearing cash and due from banks as reflected on the Consolidated Balance Sheets.

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - BASIS OF PRESENTATION

The accounting and reporting policies of Citizens Financial Group, Inc. conform to GAAP. The Company's principal business activity is banking, conducted through its banking subsidiary Citizens Bank, National Association. The Company also provides M&A, capital raising and other financial advisory services to middle market companies across a focused set of industry verticals through its broker-dealer CCMI.

The Consolidated Financial Statements include the accounts of Citizens and subsidiaries in which Citizens has a controlling financial interest. All intercompany transactions and balances have been eliminated. The Company has evaluated its unconsolidated entities and does not believe that any entity in which it has an interest, but does not currently consolidate, meets the requirements to be consolidated as a variable interest entity.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near-term relate to the determination of the ACL and the fair value of MSRs.

Certain prior period balances on the Consolidated Balance Sheets, amounts reported on the Consolidated Statements of Operations and Consolidated Statements of Cash Flows, and applicable Notes to the Consolidated Financial Statements have been reclassified to conform to the current period presentation:

- Equity investment securities, at fair value, and equity investment securities, at cost, have been reclassified to other assets;
- Federal funds purchased and securities sold under agreement to repurchase, and other short-term borrowed funds have been reclassified to short-term borrowed funds;
- Purchases of equity securities, at fair value, proceeds of equity securities, at fair value, purchases of equity securities, at cost, and proceeds or equity securities, at cost, have been reclassified to other investing activities; and
- Purchases of mortgage servicing rights has been reclassified to other investing activities.

Certain prior period balances have been reclassified in the applicable Notes to the Financial Statements due to the following loan class changes:

- Home equity loans, home equity lines of credit, home equity loans serviced for others, and home equity lines of credit serviced for others have been reclassified into home equity; and
- Credit card and other retail have been reclassified into other retail.

Additionally, the commercial loan class has been renamed commercial and industrial and the commercial loans and leases loan segment has been renamed commercial.

These changes had no effect on net income, total comprehensive income, total assets, or total stockholders' equity as previously reported.

Significant Accounting Policies

The following table identifies the Company's significant accounting policies and the Note and Page where a detailed description of each policy can be found.

	Note	Page
Cash and Due From Banks	Note 2	105
Securities	Note 3	105
Loans and Leases	Note 4	109
Allowance for Credit Losses	Note 5	111
Premises, Equipment and Software	Note 6	123
Mortgage Servicing Rights	Note 7	124
Leases	Note 8	126
Goodwill	Note 9	128
Variable Interest Entities	Note 10	129
Derivative Instruments	Note 13	134
Employee Benefits	Note 14	137
Treasury Stock	Note 16	140
Employee Share-Based Compensation	Note 17	141
Fair Value Measurement	Note 19	144
Revenue Recognition	Note 20	150
Income Taxes	Note 22	152
Earnings Per Share	Note 23	155

Accounting Pronouncements Adopted in 2020

Pronouncement	Summary of Guidance	Effects on Financial Statements
Financial Instruments - Credit Losses *Issued June 2016*	• Required effective date: January 1, 2020. • Establishes a single allowance framework for financial assets carried at amortized cost (including securities HTM), which reflects management's estimate of credit losses over the full remaining expected life of the financial assets. • Amends impairment guidance for securities AFS to incorporate an allowance, which allows for reversals of impairment losses in the event that the credit of an issuer improves. • Requires a cumulative-effect adjustment to retained earnings, net of taxes, as of the beginning of the reporting period of adoption. • Requires enhanced credit quality disclosures including disaggregation of credit quality indicators by vintage.	• The Company adopted the new standard on January 1, 2020, under the modified retrospective approach. Refer to Note 5 for discussion of the significant accounting policy for the allowance for credit losses following adoption. • Adoption resulted in a cumulative-effect reduction of $337 million, net of taxes of $114 million, to retained earnings and a corresponding increase to the ACL of $451 million. Refer to Note 5 for the impact of the adoption to the ALLL and reserve for unfunded commitments. • Adoption of the new standard could produce higher volatility in the quarterly provision for credit losses than the prior incurred loss reserve process and could adversely impact the Company's ongoing earnings. • Based on the credit quality of the Company's existing debt securities portfolio, the Company did not recognize an allowance for HTM and AFS debt securities upon adoption.

Goodwill *Issued January 2017*	• Requires an impairment loss to be recognized when the estimated fair value of a reporting unit falls below its carrying value. • Eliminates the second condition in the previous guidance that required an impairment loss to be recognized only if the estimated implied fair value of the goodwill is below its carrying value. • Applied prospectively to all goodwill impairment tests performed after the adoption date.	• The Company adopted the new standard on January 1, 2020. Refer to Note 9 for discussion of the significant accounting policy for goodwill impairment following adoption. • Adoption did not have a material impact on the Company's Consolidated Financial Statements.
Disclosure Requirements - Fair Value Measurements *Issued August 2018*	• Amends disclosure requirements on fair value measurements. • Eliminates requirements for certain disclosures that are no longer considered relevant or cost beneficial, requires new disclosures and modifies existing disclosures that are expected to enhance the usefulness of the financial statements. • Prospective application is required for new disclosures. • Retrospective application is required for all other amendments for all periods presented.	• The Company adopted the new standard on January 1, 2020. • Adoption did not have a material impact on the Company's Consolidated Financial Statements. Required fair value measurement disclosures are included in Note 19.
Simplifying the Accounting for Income Taxes *Issued December 2019*	• Simplifies the accounting for income taxes by eliminating certain exceptions related to the approach for intraperiod tax allocation, the methodology for calculating income taxes in an interim period and the recognition of deferred tax liabilities for outside basis differences. • Simplifies aspects of the accounting for franchise taxes and enacted changes in tax laws or rates. • Clarifies the accounting for transactions that result in a step-up in the tax basis of goodwill.	• The Company adopted the new standard on January 1, 2020. • Adoption did not have an impact on the Company's Consolidated Financial Statements.
Facilitation of the Effects of Reference Rate Reform on Financial Reporting *Issued March 2020*	• Provides the option to apply a number of practical expedients when evaluating if a contract modification as the result of reference rate reform is considered a new contract or a continuation of an existing contract. • Provides optional expedients to the evaluation of, and accounting for, fair value and cash flow hedges affected by reference rate reform. • Provides an optional one-time election to sell or transfer debt securities classified as HTM that reference a rate affected by reference rate reform	• The Company adopted the new standard in the first quarter of 2020 upon issuance and is effective through December 31, 2022. • Adoption did not have a material impact on the Company's Consolidated Financial Statements.

NOTE 2 - CASH AND DUE FROM BANKS

For the purposes of reporting cash flows, cash and cash equivalents have original maturities of three months or less and include cash and due from banks and interest-bearing cash and due from banks, primarily at the FRB.

Citizens maintains certain average reserve balances and compensating balances for check clearing and other services with the FRB. At December 31, 2020 and 2019, the balance of deposits at the FRB amounted to $11.7 billion and $2.1 billion, respectively. Average balances maintained with the FRB during the years ended December 31, 2020 and 2019 exceeded amounts required by law for the FRB's requirements. All amounts, both required and excess reserves, held at the FRB currently earn interest at a fixed rate of 10 basis points. Citizens recorded interest income on FRB deposits of $10 million, $28 million, and $28 million for the years ended December 31, 2020, 2019, and 2018, respectively, in interest-bearing deposits in banks in the Consolidated Statements of Operations.

NOTE 3 - SECURITIES

Investments include debt and equity securities and other investment securities. Citizens classifies debt securities as AFS, HTM, or trading based on management's intent to hold to maturity at the time of purchase. Management reserves the right to change the initial classification of debt and equity securities purchased based

on its intent to hold to maturity or as permitted by periodic changes in accounting guidance. Equity securities are recorded at fair value or at cost if there is not a readily determinable fair value.

Debt securities that will be held for indefinite periods of time and may be sold in response to changes in interest rates, changes in prepayment risk, or other factors considered in managing the Company's asset/liability strategy are classified as AFS and reported at fair value, with unrealized gains and losses reported in OCI, net of taxes, as a separate component of stockholders' equity. Gains and losses on the sales of securities are recognized in noninterest income and are computed using the specific identification method.

Debt securities for which the Company has the ability and intent to hold to maturity are classified as HTM and reported at amortized cost. Transfers of debt securities to the HTM classification are recognized at fair value at the date of transfer.

For debt securities classified as AFS or HTM, interest income is recorded on the accrual basis including the amortization of premiums and the accretion of discounts. Premiums and discounts on debt securities are amortized or accreted using the effective interest method over the estimated lives of the individual securities. Citizens uses actual prepayment experience and estimates of future prepayments to determine the constant effective yield necessary to apply the effective interest method of income recognition. Estimates of future prepayments are based on the underlying collateral characteristics of each security and are derived from market sources. Judgment is involved in making determinations about prepayment expectations and in changing those expectations in response to changes in interest rates and macroeconomic conditions. The amortization of premiums and discounts associated with mortgage-backed securities may be significantly impacted by changes in prepayment assumptions.

Securities classified as trading are bought and held principally for selling them in the near term and carried at fair value, with changes in fair value recognized in earnings. When applicable, realized and unrealized gains and losses on such assets are reported in noninterest income in the Consolidated Statements of Operations.

Equity securities are primarily composed of FHLB stock and FRB stock (which are carried at cost) and money market mutual fund investments held by the Company's broker-dealers (which are carried at fair value, with changes in fair value recognized in noninterest income). Equity securities that are carried at cost are reviewed at least annually for impairment, with valuation adjustments recognized in noninterest income.

The following table presents the major components of securities at amortized cost and fair value:

	December 31, 2020				December 31, 2019			
(in millions)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury and other	$11	$—	$—	$11	$71	$—	$—	$71
State and political subdivisions	3	—	—	3	5	—	—	5
Mortgage-backed securities, at fair value:								
Federal agencies and U.S. government sponsored entities	21,954	571	(19)	22,506	19,803	143	(71)	19,875
Other/non-agency	396	26	—	422	638	24	—	662
Total mortgage-backed securities, at fair value	22,350	597	(19)	22,928	20,441	167	(71)	20,537
Total debt securities available for sale, at fair value	$22,364	$597	($19)	$22,942	$20,517	$167	($71)	$20,613
Federal agencies and U.S. government sponsored entities	$2,342	$122	$—	$2,464	$3,202	$45	($5)	$3,242
Total mortgage-backed securities, at cost	2,342	122	—	2,464	3,202	45	(5)	3,242
Asset-backed securities, at cost [(1)]	893	—	—	893	—	—	—	—
Total debt securities held to maturity	$3,235	$122	$—	$3,357	$3,202	$45	($5)	$3,242
Equity securities, at fair value	$66	$—	$—	$66	$47	$—	$—	$47
Equity securities, at cost	604	—	—	604	807	—	—	807

[(1)] In 2020, Citizens sold $1.1 billion of private in-school education loans, inclusive of accrued interest, capitalized interest and fees. As part of the transaction, the Company provided financing to the purchaser for a portion of the sale price in the form of $893 million of asset-backed securities, collateralized by the assets of the purchasing entity, which were initially classified as AFS. In October, 2020 management transferred these securities to the HTM portfolio upon concluding that the Company has the ability and the intent to hold the securities through maturity. Refer to Note 10 for additional information.

Accrued interest receivable on debt securities totaled $55 million and $58 million as of December 31, 2020 and December 31, 2019, respectively, and is included in other assets on the Consolidated Balance Sheets.

The following table presents the amortized cost and fair value of debt securities by contractual maturity as of December 31, 2020. Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations with or without incurring penalties.

	Distribution of Maturities				
(in millions)	1 Year or Less	After 1 Year through 5 Years	After 5 Years through 10 Years	After 10 Years	Total
Amortized cost:					
U.S. Treasury and other	$11	$—	$—	$—	$11
State and political subdivisions	—	—	—	3	3
Mortgage-backed securities:					
Federal agencies and U.S. government sponsored entities	1	127	1,616	20,210	21,954
Other/non-agency	—	—	—	396	396
Total debt securities available for sale	12	127	1,616	20,609	22,364
Mortgage-backed securities:					
Federal agencies and U.S. government sponsored entities	—	—	—	2,342	2,342
Asset-backed securities	—	—	893	—	893
Total debt securities held to maturity	—	—	893	2,342	3,235
Total amortized cost of debt securities	$12	$127	$2,509	$22,951	$25,599
Fair value:					
U.S. Treasury and other	$11	$—	$—	$—	$11
State and political subdivisions	—	—	—	3	3
Mortgage-backed securities:					
Federal agencies and U.S. government sponsored entities	1	133	1,660	20,712	22,506
Other/non-agency	—	—	—	422	422
Total debt securities available for sale	12	133	1,660	21,137	22,942
Mortgage-backed securities:					
Federal agencies and U.S. government sponsored entities	—	—	—	2,464	2,464
Asset-backed securities	—	—	893	—	893
Total debt securities held to maturity	—	—	893	2,464	3,357
Total fair value of debt securities	$12	$133	$2,553	$23,601	$26,299

Taxable interest income from investment securities as presented on the Consolidated Statements of Operations was $519 million, $642 million and $672 million for the years ended December 31, 2020, 2019 and 2018, respectively.

The following table presents realized gains and losses on securities:

	Year Ended December 31,		
(in millions)	2020	2019	2018
Gains on sale of debt securities [1]	$6	$41	$19
Losses on sale of debt securities	(2)	(16)	—
Debt securities gains, net	$4	$25	$19

[1] For the year ended December 31, 2019, $6 million of gains on sale of debt securities were recognized in mortgage banking fees in the Consolidated Statements of Operations, as they related to AFS securities held as economic hedges of the value of the MSR portfolio recognized using the amortization method.

The following table presents the amortized cost and fair value of debt securities pledged:

	December 31, 2020		December 31, 2019	
(in millions)	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Pledged against repurchase agreements	$224	$231	$265	$266
Pledged against FHLB borrowed funds	394	423	638	662
Pledged against derivatives, to qualify for fiduciary powers, and to secure public and other deposits as required by law	3,818	3,937	3,670	3,672

Citizens regularly enters into security repurchase agreements with unrelated counterparties, which involve the transfer of a security from one party to another, and a subsequent transfer of substantially the same security back to the original party. The Company's repurchase agreements are typically short-term in nature and are accounted for as secured borrowed funds on the Company's Consolidated Balance Sheets. Citizens recognized no offsetting of short-term receivables or payables as of December 31, 2020 or 2019. Citizens offsets certain derivative assets and derivative liabilities on the Consolidated Balance Sheets. For further information see Note 13.

Securitizations of mortgage loans retained in the investment portfolio for the years ended December 31, 2020, 2019 and 2018, were $144 million, $150 million and $142 million, respectively. These securitizations include a substantive guarantee by a third party. In 2020, 2019 and 2018 the guarantors were FNMA, FHLMC, and GNMA. The debt securities received from the guarantors are classified as AFS.

Impairment

Upon purchase of HTM investment securities and at each subsequent measurement date, Citizens is required to evaluate the securities for risk of loss over their life and, if necessary, establish an associated reserve. Recognition of a reserve for expected credit losses is not required if the amount the Company expects to realize is zero (commonly referred to as "zero expected credit losses"). The Company evaluated its existing HTM portfolio as of December 31, 2020 and concluded that the majority (72%) of the securities met the zero expected credit loss criteria, and therefore no ACL was recognized as of the balance sheet date. Lifetime expected credit losses for the remaining (28%) HTM portfolio were modeled using various approaches and determined to be $0 at December 31, 2020. The Company monitors the credit exposure through the use of credit quality indicators. For these securities, the Company uses external credit ratings or an internally derived credit rating when an external rating is not available. All securities were determined to be investment grade at December 31, 2020.

Citizens reviews its AFS debt securities for impairment at the individual security level on a quarterly basis, or more frequently if a potential loss triggering event occurs. The initial indicator of impairment for debt securities classified as AFS is a decline in fair value below its amortized cost basis. For any security that has declined in fair value below the amortized cost basis, the Company recognizes an impairment loss in current period earnings if management has the intent to sell the security or if it is more likely than not it will be required to sell the security before recovery of its amortized cost basis.

Estimating the recovery of the amortized cost basis of a debt security is based upon an assessment of the cash flows expected to be collected. If the present value of cash flows expected to be collected, discounted at the security's original effective yield, is less than the amortized cost basis, impairment equal to the shortfall in cash flows has occurred. Citizens evaluates whether any portion of the impairment is attributable to credit-related factors or various other market factors affecting the fair value of the security (e.g., interest rates, spread levels, liquidity in the sector, etc.), and the public credit rating of the security. If credit-related factors exist, credit-related impairment has occurred regardless of the Company's intent to hold the security until it recovers.

The credit-related portion of impairment is recognized in current period earnings as provision expense through the establishment of an allowance for AFS securities, to the extent the allowance does not reduce the value of the AFS security below its current fair value. The remaining non-credit related portion of impairment is recognized in OCI. Improvement in credit losses in subsequent periods results in a reversal of the allowance for AFS securities and a corresponding decrease to provision expense, to the extent the allowance does not become negative. Accrued interest receivable on AFS debt securities is excluded from the balances used to calculate the allowance for AFS securities. All accrued and uncollected interest is immediately reversed against interest income when it is deemed uncollectible. The Company has evaluated any AFS securities in an unrealized loss position at December 31, 2020 and concluded that all unrealized losses are due to non-credit related factors. As such, the Company does not have an allowance for AFS securities as of December 31, 2020.

The following table presents AFS mortgage-backed debt securities with fair values below their respective carrying values, separated by the duration the securities have been in a continuous unrealized loss position:

	December 31, 2020					
	Less than 12 Months		12 Months or Longer		Total	
(dollars in millions)	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Federal agencies and U.S. government sponsored entities	$1,991	($19)	$—	$—	$1,991	($19)

The following table present AFS and HTM mortgage-backed debt securities with fair values below their respective carrying values, separated by the duration the securities have been in a continuous unrealized loss position:

	December 31, 2019					
	Less than 12 Months		12 Months or Longer		Total	
(dollars in millions)	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Federal agencies and U.S. government sponsored entities	$5,135	($24)	$3,748	($52)	$8,883	($76)

NOTE 4 - LOANS AND LEASES

Loans held for investment are reported at the amount of their outstanding principal, net of charge-offs, unearned income, deferred loan origination fees and costs, and unamortized premiums or discounts on purchased loans. Deferred loan origination fees and costs and purchase premiums and discounts are amortized as an adjustment of yield over the life of the loan, using the effective interest method. Unamortized amounts remaining upon prepayment or sale are recorded as interest income or gain (loss) on sale, respectively. Credit card receivables include billed and uncollected interest and fees.

Interest income on loans is determined using the effective interest method. This method calculates periodic interest income at a constant effective yield on the net investment in the loan, to provide a constant rate of return over the term. Loans accounted for using the fair value option are measured at fair value with corresponding changes recognized in noninterest income.

Loan commitment fees for loans that are likely to be drawn down, and other credit related fees, are deferred (together with any incremental costs) and recognized as an adjustment to the effective interest rate over the loan term. When it is unlikely that a loan will be drawn down, the loan commitment fees are recognized over the commitment period on a straight-line basis.

Loans and leases are disclosed in portfolio segments and classes. The Company’s loan and lease portfolio segments are commercial and retail. The classes of loans and leases are: commercial and industrial, commercial real estate, leases, residential mortgages, home equity, automobile, education and other retail.

The following table presents the composition of loans and leases, excluding LHFS:

(in millions)	December 31, 2020	December 31, 2019
Commercial and industrial[1]	$44,173	$41,479
Commercial real estate	14,652	13,522
Leases	1,968	2,537
Total commercial	60,793	57,538
Residential mortgages	19,539	19,083
Home equity	12,149	13,154
Automobile	12,153	12,120
Education	12,308	10,347
Other retail	6,148	6,846
Total retail	62,297	61,550
Total loans and leases	$123,090	$119,088

[1] The December 31, 2020 commercial and industrial balance includes $4.2 billion of PPP loans fully guaranteed by the SBA.

Accrued interest receivable on loans and leases held for investment totaled $449 million and $495 million as of December 31, 2020 and 2019, respectively, and is included in other assets in the Consolidated Balance Sheets.

The following table presents the composition of LHFS:

	December 31, 2020			December 31, 2019		
(in millions)	Residential Mortgages[1]	Commercial[2]	Total	Residential Mortgages[1]	Commercial[2]	Total
Loans held for sale at fair value	$3,416	$148	$3,564	$1,778	$168	$1,946
Other loans held for sale	—	439	439	1,101	283	1,384

[1] Residential mortgage LHFS are originated for sale.
[2] Commercial LHFS at fair value consist of loans managed by the Company's commercial secondary loan desk. Other commercial LHFS generally consist of loans associated with the Company's syndication business.

Loans pledged as collateral for FHLB borrowed funds, primarily residential mortgages and home equity loans, totaled $25.5 billion and $25.3 billion at December 31, 2020 and 2019, respectively. Loans pledged as collateral to support the contingent ability to borrow at the FRB discount window, if necessary, were primarily comprised of education, auto, commercial and industrial, and commercial real estate loans, and totaled $40.0 billion and $17.4 billion at December 31, 2020 and 2019, respectively.

During the year ended December 31, 2020, the Company purchased $2.4 billion of education loans and $870 million of other retail loans. During the year ended December 31, 2019, the Company purchased $1.1 billion of education loans and $530 million of other retail loans.

During the year ended December 31, 2020, the Company sold $500 million of commercial loans, $1.0 billion of education loans and $1.5 billion of residential mortgage loans. During the year ended December 31, 2019, the Company sold $454 million of commercial loans and $628 million of retail loans, including $22 million of TDR sales.

Citizens is engaged in the leasing of equipment for commercial use, primarily focused on middle market and mid-corporate clients for large capital equipment acquisitions including corporate aircraft, railcars and trucks and trailers, among other equipment. The Company determines if an arrangement is a lease and the related lease classification at inception. Lease terms predominantly range from three years to ten years and may include options to purchase the leased property prior to the end of the lease term. The Company does not have lease agreements which contain both lease and non-lease components.

A lessee is evaluated from a credit perspective using the same underwriting standards and procedures as for a loan borrower. A lessee is expected to make rental payments based on its cash flows and the viability of its operations. Leases are usually not evaluated as collateral-based transactions, and therefore the lessee's overall financial strength is the most important credit evaluation factor.

The components of the net investment in direct financing and sales-type leases, before ALLL, are presented below:

(in millions)	December 31, 2020	December 31, 2019
Total future minimum lease rentals	$1,381	$1,739
Estimated residual value of leased equipment (non-guaranteed)	746	1,013
Initial direct costs	7	10
Unearned income	(166)	(225)
Total leases	$1,968	$2,537

Interest income on direct financing and sales-type leases for the years ended December 31, 2020 and 2019 was $64 million and $77 million, respectively, and is reported within interest and fees on loans and leases in the Consolidated Statements of Operations.

A maturity analysis of direct financing and sales-type lease receivables at December 31, 2020 is presented below:

(in millions)	
2021	$334
2022	308
2023	246
2024	170
2025	112
Thereafter	211
Total undiscounted future minimum lease rentals	$1,381

NOTE 5 - ALLOWANCE FOR CREDIT LOSSES, NONPERFORMING ASSETS, AND CONCENTRATIONS OF CREDIT RISK

Allowance for Credit Losses

Management's estimate of expected credit losses in the Company's loan and lease portfolios is recorded in the ALLL and the reserve for unfunded lending commitments (collectively the ACL). Through December 31, 2019 the ACL reserve was management's best estimate of incurred probable losses in the Company's loan and lease portfolios based on reviews of certain individual loans and leases, analyzing changes in the composition, size and delinquency of the portfolio, reviewing previous loss experience and considering current and anticipated economic factors. The Company's methodology for determining the qualitative component through December 31, 2019 included a statistical analysis of prior charge-off rates and an assessment of factors affecting the determination of incurred losses in the loan and lease portfolio. Such factors included trends in economic conditions, loan growth, back testing results, credit underwriting policy exceptions, regulatory and audit findings, and peer comparisons. Upon adoption of CECL effective January 1, 2020, the Company's ACL reserve methodology changed to estimate expected credit losses over the contractual life of loans and leases.

The ACL is maintained at a level the Company believes to be appropriate to absorb expected lifetime credit losses over the contractual life of the loan and lease portfolios and on the unfunded lending commitments. The determination of the ACL is based on periodic evaluation of the loan and lease portfolios and unfunded lending commitments that are not unconditionally cancellable considering a number of relevant underlying factors, including key assumptions and evaluation of quantitative and qualitative information.

Key assumptions used in the ACL measurement process include the use of a two-year reasonable and supportable economic forecast period followed by a one-year reversion period to historical credit loss information.

The evaluation of quantitative and qualitative information is performed through assessments of groups of assets that share similar risk characteristics and certain individual loans and leases that do not share similar risk characteristics with the collective group. Loans are grouped generally by product type (e.g., commercial and industrial, commercial real estate, residential mortgage, etc.), and significant loan portfolios are assessed for credit losses using econometric models.

The quantitative evaluation of the adequacy of the ACL utilizes a single economic forecast as its foundation, and is primarily based on econometric models that use known or estimated data as of the balance

sheet date and forecasted data over the reasonable and supportable period. Known and estimated data include current PD, LGD and EAD (for commercial), timing and amount of expected draws (for unfunded lending commitments), FICO, LTV, term and time on books (for retail loans), mix and level of loan balances, delinquency levels, assigned risk ratings, previous loss experience, current business conditions, amounts and timing of expected future cash flows, and factors particular to a specific commercial credit such as competition, business and management performance. Forward-looking economic assumptions include real gross domestic product, unemployment rate, interest rate curve, and changes in collateral values. This data is aggregated to estimate expected credit losses over the contractual life of the loans and leases, adjusted for expected prepayments. In highly volatile economic environments historical information, such as commercial customer financial statements or consumer credit ratings, may not be as important to estimating future expected losses as forecasted inputs to the models.

The ACL may also be affected materially by a variety of qualitative factors that the Company considers to reflect current judgment of various events and risks that are not measured in the statistical procedures including uncertainty related to the economic forecasts used in the modeled credit loss estimates, loan growth, back testing results, credit underwriting policy exceptions, regulatory and audit findings, and peer comparisons. The qualitative allowance is further informed for certain industry sectors or loan classes by alternative scenarios to support the period-end ACL balance.

The measurement process results in specific or pooled allowances for loans, leases and unfunded lending commitments, and qualitative allowances that are judgmentally determined and applied across the portfolio.

There are certain loan portfolios that may not need an econometric model to enable the Company to calculate management's best estimate of the expected credit losses. Less data intensive, non-modeled approaches to estimating losses are considered more efficient and practical for portfolios that have lower levels of outstanding balances (e.g., runoff or closed portfolios, new products or products that are not significant to the Company's overall credit risk exposure).

Loans and leases that do not share similar risk characteristics are individually assessed for expected credit losses. Nonaccruing commercial and industrial, and commercial real estate loans with an outstanding balance of $5 million or greater and all commercial and industrial, and commercial real estate TDRs (regardless of size) are assessed on an individual loan level basis. Generally, the measurement of ACL on individual loans and leases is the present value of its future cash flows or the fair value of its underlying collateral, if the loan or lease is collateral dependent. Loans that are deemed to be collateral dependent are written down to the fair value, less costs to sell, if sale of the collateral is expected as of the evaluation date and are reassessed each subsequent period to determine if a change to the ACL is required. Subsequent evaluations may result in an increase or decrease to the ACL, based on a corresponding change in the fair value of the collateral during the period. Any subsequent decrease to the ACL (because of an increase to the collateral-dependent loan's fair value) is limited to the total amount previously written off for that loan. For retail TDRs that are not collateral dependent, the ACL is developed using the present value of expected future cash flows compared to the amortized cost basis in the loans. Expected re-default factors are considered in this analysis. Retail TDRs that are deemed collateral dependent are written down to fair market value less cost to sell.

Expected recoveries are considered in management's estimate of the ACL and may result in a negative adjustment (i.e., reduction) to the ACL balance. A loan is collateral dependent if repayment is expected to be provided substantially through the operation or sale of the collateral when the borrower is experiencing financial difficulty as of the evaluation date. Generally, repayment would be expected to be provided substantially by the sale or continued operation of the underlying collateral if cash flows to repay the loan from all other available sources (including guarantors) are expected to be no more than nominal. If repayment is dependent only on the operation of the collateral, the fair value of the collateral would not be adjusted for estimated costs to sell. If a loan is considered collateral dependent, the ACL is calculated as the difference between the fair value of collateral (adjusted for the costs to sell if the sale of the collateral is expected) and the amortized cost basis as of the evaluation date. It is possible to have a negative ACL for a collateral dependent loan if the fair value of the collateral increases in a subsequent reporting period. The negative ACL cannot exceed the total amount previously charged off.

Accrued interest receivable on loans and leases is excluded from asset balances used to calculate the ACL. All accrued and uncollected interest is immediately reversed against interest income when a loan or lease is placed on nonaccrual status. Uncollectible interest is written off timely in accordance with regulatory guidelines. Generally, loans and leases are placed on nonaccrual status when contractually past due 90 days or more, or earlier if management believes that the probability of collection is insufficient to warrant further accrual.

Residential mortgages are placed on nonaccrual status when contractually past due 120 days or more, or sooner if deemed collateral dependent, unless guaranteed by the Federal Housing Administration. Residential mortgages that received extended forbearance and were subsequently modified as a result of COVID-19 will be placed on nonaccrual sooner than those that were not on extended forbearance, and will return to accrual status only following a sustained period of repayment performance. Loans in COVID-19 pandemic-related forbearance programs continue to accrue interest during the forbearance period; a reserve is established for interest income expected to be uncollectible following forbearance. Accrued interest reversed against interest income for the year ended December 31, 2020 was $8 million and $19 million for commercial and retail, respectively.

The Company estimates expected credit losses associated with off-balance sheet financial instruments such as standby letters of credit, financial guarantees and unfunded loan commitments that are not unconditionally cancellable. Off-balance sheet financial instruments are subject to individual reviews and are analyzed and segregated by risk according to the Company's internal risk rating scale. These risk classifications, in conjunction with historical loss experience, current and future economic conditions, timing and amount of expected draws, and performance trends within specific portfolio segments, result in the estimate of the reserve for unfunded lending commitments. The Company does not recognize a reserve for future draws from credit lines that are unconditionally cancellable (e.g., credit cards).

The ALLL and the reserve for unfunded lending commitments are reported on the Consolidated Balance Sheets in the allowance for loan and lease losses and in other liabilities, respectively. Provision for credit losses related to the loan and lease portfolios and the unfunded lending commitments are reported in the Consolidated Statements of Operations as provision for credit losses.

Loan Charge-Offs

Commercial loans are charged off when available information indicates that a loan or portion thereof is determined to be uncollectible, including situations where a loan is determined to be both impaired and collateral-dependent. The determination of whether to recognize a charge-off involves many factors, including the prioritization of the Company's claim in bankruptcy, expectations of the workout/restructuring of the loan and valuation of the borrower's equity or the loan collateral. A loan is considered to be collateral-dependent when repayment of the loan is expected to be provided solely by the underlying collateral, rather than by cash flows from the borrower's operations, income or other resources.

Retail loans are generally fully charged-off or written down to the net realizable value of the underlying collateral, with an offset to the ALLL, upon reaching specified stages of delinquency in accordance with standards established by the FFIEC. Residential real estate loans, credit card loans and unsecured open end loans are generally charged off in the month in which the account becomes 180 days past due. Auto loans, education loans and unsecured closed end loans are generally charged off in the month in which the account becomes 120 days past due. Certain retail loans will be charged off or charged down to their net realizable value earlier than the FFIEC charge-off standards in the following circumstances:

- Loans modified in a TDR that are determined to be collateral-dependent.
- Residential real estate loans that received extended forbearance and were subsequently modified as a result of COVID-19
- Loans to borrowers who have experienced an event (e.g., bankruptcy) that suggests a loss is either known or highly certain.
    - Residential real estate and auto loans are charged down to the net realizable value within 60 days of receiving notification of the bankruptcy filing, or when the loan becomes 60 days past due if repayment is likely to occur.
    - Credit card loans are fully charged off within 60 days of receiving notification of the bankruptcy filing or other event.
    - Education loans are generally charged off when the loan becomes 60 days past due after receiving notification of a bankruptcy.
- Auto loans are written down to net realizable value upon repossession of the collateral.

The following table present a summary of changes in the ACL for the year ended December 31, 2020:

	Year Ended December 31, 2020		
(in millions)	Commercial	Retail	Total
Allowance for loan and lease losses, beginning of period	$674	$578	$1,252
Cumulative effect of change in accounting principle	(176)	629	453
Allowance for loan and lease losses, beginning of period, adjusted	498	1,207	1,705
Charge-offs	(437)	(406)	(843)
Recoveries	12	138	150
Net charge-offs	(425)	(268)	(693)
Provision charged to income	1,160	271	1,431
Allowance for loan and lease losses, end of period	1,233	1,210	2,443
Reserve for unfunded lending commitments, beginning of period	44	—	44
Cumulative effect of change in accounting principle	(3)	1	(2)
Reserve for unfunded lending commitments, beginning of period, adjusted	41	1	42
Provision for unfunded lending commitments	145	40	185
Reserve for unfunded lending commitments, end of period	186	41	227
Total allowance for credit losses, end of period	$1,419	$1,251	$2,670

The following table provides additional detail on the cumulative effect of change in accounting principle on the ACL and related coverage ratios:

	December 31, 2019			January 1, 2020			December 31, 2020		
(in millions)	Amortized Cost Basis	ACL Balance	Coverage	Impact of Adoption of CECL	ACL Balance	Coverage	Amortized Cost Basis	ACL Balance	Coverage
Commercial and industrial[1]	$41,479	$575	1.4 %	($199)	$376	0.9 %	$44,173	$895	2.0 %
Commercial real estate	13,522	124	0.9	(57)	67	0.5	14,652	472	3.2
Leases	2,537	19	0.7	77	96	3.8	1,968	52	2.6
Total commercial	57,538	718	1.2	(179)	539	0.9	60,793	1,419	2.3
Residential	19,083	35	0.2	95	130	0.7	19,539	141	0.7
Home equity	13,154	83	0.6	73	156	1.2	12,149	150	1.2
Automobile	12,120	123	1.0	83	206	1.7	12,153	200	1.6
Education	10,347	116	1.1	298	414	4.0	12,308	386	3.1
Other retail	6,846	221	3.2	81	302	4.4	6,148	374	6.1
Total retail	61,550	578	0.9	630	1,208	2.0	62,297	1,251	2.0
Total loans and leases	$119,088	$1,296	1.1 %	$451	$1,747	1.5 %	$123,090	$2,670	2.2 %

[1] The commercial coverage ratio includes a 21 basis point reduction associated with PPP loans as of December 31, 2020.

The difference in ACL as of December 31, 2020 as compared to December 31, 2019 continues to be driven by the COVID-19 pandemic, associated lockdowns and the resulting economic impacts from March to December 31, 2020, as well as the Company's adoption of CECL on January 1, 2020. Citizens added $451 million in ACL upon adoption of CECL, and has since added an additional $923 million in the year ended December 31, 2020, resulting in an ending ACL balance of $2.7 billion.

The increase in commercial net charge-offs in the year ended December 31, 2020 compared to the year ended December 31, 2019 was driven by charge-offs in the retail real estate, metals and mining, energy and related, and casual dining industry sectors. Retail net charge-offs in the year ended December 31, 2020 reflected the benefit of forbearance and stimulus activity stemming from the COVID-19 pandemic and associated lockdowns.

To determine the ACL as of December 31, 2020, we utilized an economic scenario that generally reflects real GDP growth of approximately 4% over 2021, returning to fourth quarter 2019 real GDP levels by the last quarter of 2021. The scenario also projects the unemployment rate to be in the range of approximately 7% to 7.5% throughout 2021. While the macroeconomic forecast was slightly improved relative to the third quarter 2020 forecast, we continued to apply management judgment to adjust the modeled reserves in the commercial industry sectors most impacted by the COVID-19 pandemic and associated lockdowns, including retail and hospitality, casual dining, retail trade, price-sensitive energy and related, and educational services, as well as in certain retail products.

The following tables present a summary of changes in the ACL for the year ended December 31, 2019 and 2018:

(in millions)	Year Ended December 31, 2019 Commercial	Retail	Total
Allowance for loan and lease losses, beginning of period	$690	$552	$1,242
Charge-offs	(140)	(475)	(615)
Recoveries	24	161	185
Net charge-offs	(116)	(314)	(430)
Provision charged to income	100	340	440
Allowance for loan and lease losses, end of period	674	578	1,252
Reserve for unfunded lending commitments, beginning of period	91	—	91
Provision for unfunded lending commitments	(47)	—	(47)
Reserve for unfunded lending commitments, end of period	44	—	44
Total allowance for credit losses, end of period	$718	$578	$1,296

(in millions)	Year Ended December 31, 2018 Commercial	Retail	Total
Allowance for loan and lease losses, beginning of period	$685	$551	$1,236
Charge-offs	(52)	(442)	(494)
Recoveries	19	158	177
Net charge-offs	(33)	(284)	(317)
Provision charged to income[1]	38	285	323
Allowance for loan and lease losses, end of period	690	552	1,242
Reserve for unfunded lending commitments, beginning of period	88	—	88
Provision for unfunded lending commitments	3	—	3
Reserve for unfunded lending commitments, end of period	91	—	91
Total allowance for credit losses, end of period	$781	$552	$1,333

Credit Quality Indicators

Loan and lease portfolio segments and classes, excluding LHFS, are presented by credit quality indicator and vintage year. Citizens defines the vintage date for the purpose of this disclosure as the date of the most recent credit decision. In general, renewals are categorized as new credit decisions and reflect the renewal date as the vintage date. Loans modified in a TDR are considered to be a continuation of the original loan and vintage date corresponds with the initial loan origination date.

For commercial, Citizens utilizes regulatory classification ratings to monitor credit quality. Regulatory classification ratings are assigned at loan origination and are periodically re-evaluated by Citizens utilizing a risk-based approach, or at any time management becomes aware of information affecting the borrowers' ability to fulfill their obligations. Both quantitative and qualitative factors are considered in this review process. Loans with a "pass" rating are those that the Company believes will be fully repaid in accordance with the contractual loan terms. Commercial loans that are "criticized" are those that have some weakness or potential weakness that indicate an increased probability of future loss. "Criticized" loans are grouped into three categories, "special mention," "substandard" and "doubtful." Special mention loans have potential weaknesses that, if left uncorrected, may result in deterioration of the Company's credit position at some future date. Substandard loans are inadequately protected loans; these loans have well-defined weaknesses that could hinder normal repayment or collection of the debt. Doubtful loans have the same weaknesses as substandard, with the added characteristics that the possibility of loss is high and collection of the full amount of the loan is improbable. Additional credit quality information is discussed below for each loan class.

For commercial and industrial loans, Citizens monitors the performance of the borrower in a disciplined and regular manner based upon the level of credit risk inherent in the loan. To evaluate the level of credit risk, management assigns an internal risk rating reflecting the borrower's PD and LGD. This two-dimensional credit risk rating methodology provides granularity in the risk monitoring process. These ratings are generally reviewed at least annually. The combination of the PD and LGD ratings assigned to commercial and industrial loans, capturing both the combination of expectations of default and loss severity in the event of default, reflects credit quality characteristics as of the reporting date and are used as inputs into the loss forecasting process. Based upon the amount of the lending arrangement and risk rating assessment, management periodically reviews each loan, prioritizing those loans which are perceived to be of higher risk, based upon PDs and LGDs, or loans for which credit quality is weakening (e.g., payment delinquency). Citizens proactively manages loans by using various procedures that are customized to the risk of a given loan, including ongoing outreach to the borrower, assessment of the borrower's financial conditions and appraisal of the collateral.

Credit risk associated with commercial real estate projects and commercial mortgages are managed similar to commercial and industrial loans by evaluating PD and LGD. Risks associated with commercial real estate activities tend to be correlated to the loan structure and collateral location, project progress and business environment. As a result, these attributes are also monitored and utilized in assessing credit risk. As with the commercial and industrial loan class, periodic reviews are also performed to assess market/geographic risk and business unit/industry risk, which may result in increased scrutiny on loans that are perceived to be of higher risk, had adverse changes in risk ratings and/or areas that concern management. These reviews are designed to assess risk and facilitate actions to mitigate such risks.

Citizens manages credit risk associated with financing leases similar to commercial and industrial loans by analyzing PD and LGD. Reviews are generally performed annually based upon the dollar amount of the lease and the level of credit risk, and may be more more frequent if circumstances warrant. The review process includes analysis of the following factors: equipment value/residual value, exposure levels, jurisdiction risk, industry risk, guarantor requirements, and regulatory compliance as applicable.

Commercial loans with renewal terms in the original contract are recognized as current year originations upon renewal unless the loan automatically renewed with no new credit decision. Citizens generally reserves the right to not renew the loan or lease until current underwriting has been completed and approved.

The following table presents the amortized cost basis of commercial loans and leases, by vintage date and regulatory classification rating, as of December 31, 2020:

	Term Loans by Origination Year						Revolving Loans		
(in millions)	2020	2019	2018	2017	2016	Prior to 2016	Within the Revolving Period	Converted to Term	Total
Commercial and industrial									
Pass[(1)]	$8,036	$5,730	$4,180	$2,174	$1,157	$1,980	$17,281	$340	$40,878
Special Mention	34	264	163	84	60	173	771	34	1,583
Substandard	91	195	248	100	81	127	600	22	1,464
Doubtful	65	10	34	38	3	31	63	4	248
Total commercial and industrial	8,226	6,199	4,625	2,396	1,301	2,311	18,715	400	44,173
Commercial real estate									
Pass	1,848	2,836	2,810	1,106	566	919	3,271	—	13,356
Special Mention	19	130	121	92	94	48	300	—	804
Substandard	116	2	65	5	53	26	149	—	416
Doubtful	16	26	8	—	—	2	24	—	76
Total commercial real estate	1,999	2,994	3,004	1,203	713	995	3,744	—	14,652
Leases									
Pass	455	246	229	139	180	673	—	—	1,922
Special Mention	3	4	2	4	2	18	—	—	33
Substandard	—	2	2	4	4	—	—	—	12
Doubtful	—	—	—	—	—	1	—	—	1
Total leases	458	252	233	147	186	692	—	—	1,968
Total commercial									
Pass[(1)]	10,339	8,812	7,219	3,419	1,903	3,572	20,552	340	56,156
Special Mention	56	398	286	180	156	239	1,071	34	2,420
Substandard	207	199	315	109	138	153	749	22	1,892
Doubtful	81	36	42	38	3	34	87	4	325
Total commercial	$10,683	$9,445	$7,862	$3,746	$2,200	$3,998	$22,459	$400	$60,793

(1) Includes PPP loans designated as pass that are fully guaranteed by the SBA originating in 2020.

For retail loans, Citizens utilizes credit scores provided by FICO and the loan's payment and delinquency status to monitor credit quality. Management believes FICO credit scores are considered the strongest indicator of credit losses over the contractual life of the loan as the scores are based on current and historical national industry-wide consumer level credit performance data, and assist management in predicting the borrower's future payment performance.

The following table presents the amortized cost basis of retail loans, by vintage date and FICO scores that are generally refreshed quarterly, as of December 31, 2020:

	Term Loans by Origination Year						Revolving Loans		
(in millions)	2020	2019	2018	2017	2016	Prior to 2016	Within the Revolving Period	Converted to Term	Total
Residential mortgages									
800+	$2,687	$1,885	$638	$1,129	$1,615	$1,755	$—	$—	$9,709
740-799	2,931	1,133	398	527	743	904	—	—	6,636
680-739	784	351	162	172	295	458	—	—	2,222
620-679	97	94	44	56	66	223	—	—	580
<620	12	28	35	58	50	185	—	—	368
No FICO available[1]	1	2	1	5	1	14	—	—	24
Total residential mortgages	6,512	3,493	1,278	1,947	2,770	3,539	—	—	19,539
Home equity									
800+	2	8	10	7	5	216	4,319	344	4,911
740-799	2	6	7	6	5	180	3,234	331	3,771
680-739	1	6	10	15	8	179	1,632	284	2,135
620-679	—	10	18	21	14	136	402	195	796
<620	1	17	30	29	18	122	105	214	536
Total home equity	6	47	75	78	50	833	9,692	1,368	12,149
Automobile									
800+	1,056	812	424	312	169	62	—	—	2,835
740-799	1,514	1,022	531	344	172	59	—	—	3,642
680-739	1,347	889	461	282	138	47	—	—	3,164
620-679	669	484	259	157	84	32	—	—	1,685
<620	140	242	189	137	79	34	—	—	821
No FICO available[1]	2	—	—	—	—	4	—	—	6
Total automobile	4,728	3,449	1,864	1,232	642	238	—	—	12,153
Education									
800+	1,817	1,363	849	781	578	777	—	—	6,165
740-799	1,797	1,009	541	387	251	423	—	—	4,408
680-739	450	294	173	127	90	221	—	—	1,355
620-679	26	35	33	28	25	95	—	—	242
<620	2	5	10	10	8	41	—	—	76
No FICO available[1]	2	—	—	—	—	60	—	—	62
Total education	4,094	2,706	1,606	1,333	952	1,617	—	—	12,308
Other retail									
800+	461	380	163	77	15	44	341	—	1,481
740-799	620	460	184	81	19	31	638	2	2,035
680-739	495	302	111	48	10	13	561	5	1,545
620-679	248	104	37	14	3	5	174	7	592
<620	24	30	17	6	1	3	77	8	166
No FICO available[1]	54	1	—	—	—	—	272	2	329
Total other retail	1,902	1,277	512	226	48	96	2,063	24	6,148
Retail									
800+	6,023	4,448	2,084	2,306	2,382	2,854	4,660	344	25,101
740-799	6,864	3,630	1,661	1,345	1,190	1,597	3,872	333	20,492
680-739	3,077	1,842	917	644	541	918	2,193	289	10,421
620-679	1,040	727	391	276	192	491	576	202	3,895
<620	179	322	281	240	156	385	182	222	1,967
No FICO available[1]	59	3	1	5	1	78	272	2	421
Total retail	$17,242	$10,972	$5,335	$4,816	$4,462	$6,323	$11,755	$1,392	$62,297

[1] Represents loans for which an updated FICO score was unavailable (e.g., due to recent profile changes).

Nonaccrual and Past Due Assets

Nonaccrual loans and leases are those on which accrual of interest has been suspended. Loans (other than certain retail loans insured by U.S. government agencies) are placed on nonaccrual status when full payment of principal and interest is in doubt, unless the loan is both well secured and in the process of collection.

When the Company places a loan on nonaccrual status, the accrued unpaid interest receivable is reversed against interest income and amortization of any net deferred fees is suspended. Interest collections on nonaccruing loans and leases for which the ultimate collectability of principal is uncertain are generally applied to first reduce the carrying value of the asset. Otherwise, interest income may be recognized to the extent of the cash received. A loan or lease may be returned to accrual status if (i) principal and interest payments have been brought current, and the Company expects repayment of the remaining contractual principal and interest, (ii) the loan or lease has otherwise become well-secured and in the process of collection, or (iii) the borrower has been making regularly scheduled payments in full for the prior six months and the Company is reasonably assured that the loan or lease will be brought fully current within a reasonable period.

Commercial and industrial loans, commercial real estate loans, and leases are generally placed on nonaccrual status when contractually past due 90 days or more, or earlier if management believes that the probability of collection is insufficient to warrant further accrual. Some of these loans and leases may remain on accrual status when contractually past due 90 days or more if management considers the loan collectible.

Residential mortgages are generally placed on nonaccrual status when past due 120 days, or sooner if determined to be collateral-dependent, unless repayment of the loan is guaranteed by the Federal Housing Administration. Credit card balances are placed on nonaccrual status when past due 90 days or more and are restored to accruing status if they subsequently become less than 90 days past due. All other retail loans are generally placed on nonaccrual status when past due 90 days or more, or earlier if management believes that the probability of collection is insufficient to warrant further accrual. Loans less than 90 days past due may be placed on nonaccrual status upon the death of the borrower, fraud or bankruptcy.

Nonaccrual and Past Due Assets

The following table presents nonaccrual loans and leases and loans accruing and 90 days or more past due:

	As of December 31, 2020			As of December 31, 2019
(in millions)	Nonaccrual loans and leases	90+ days past due and accruing	Nonaccrual with no related ACL	Nonaccrual loans and leases
Commercial and industrial	$280	$20	$56	$240
Commercial real estate	176	—	2	2
Leases	2	1	—	3
Total commercial	458	21	58	245
Residential mortgages	167	30	96	93
Home equity	276	—	207	246
Automobile	72	—	17	67
Education	18	2	2	18
Other retail	28	9	—	34
Total retail	561	41	322	458
Total loans and leases	$1,019	$62	$380	$703

Interest income is generally not recognized for loans and leases that are on nonaccrual status. The Company reverses accrued interest receivable with a charge to interest income upon classifying the loan or lease as nonaccrual.

The following table presents an analysis of the age of both accruing and nonaccruing loan and lease past due amounts:

	December 31, 2020					December 31, 2019				
	Days Past Due					Days Past Due				
(in millions)	Current-29	30-59	60-89	90 or More	Total	Current-29	30-59	60-89	90 or More	Total
Commercial and industrial	$43,817	$223	$16	$117	$44,173	$41,340	$45	$27	$67	$41,479
Commercial real estate	14,531	1	85	35	14,652	13,520	1	1	—	13,522
Leases	1,956	9	—	3	1,968	2,498	37	—	2	2,537
Total commercial	60,304	233	101	155	60,793	57,358	83	28	69	57,538
Residential mortgages	19,291	59	21	168	19,539	18,947	35	17	84	19,083
Home equity	11,848	61	28	212	12,149	12,834	91	40	189	13,154
Automobile	11,901	170	65	17	12,153	11,788	227	81	24	12,120
Education	12,255	33	13	7	12,308	10,290	30	15	12	10,347
Other retail	6,047	38	29	34	6,148	6,729	45	31	41	6,846
Total retail	61,342	361	156	438	62,297	60,588	428	184	350	61,550
Total	$121,646	$594	$257	$593	$123,090	$117,946	$511	$212	$419	$119,088

The Company estimates expected credit losses based on the fair value of collateral for collateralized loans that management believes will not be paid under the terms of the original loan contract. These loans are considered to be collateral dependent, and the estimated credit loss is calculated as the difference between the loan's amortized cost basis and the fair value of the collateral as of each evaluation date.

Collateral values for residential mortgage and home equity loans are based on refreshed valuations which are updated at least every 90 days less estimated costs to sell. At December 31, 2020 and 2019, the Company had collateral-dependent residential mortgage and home equity loans totaling $552 million and $227 million, respectively.

For collateral-dependent commercial loans, the ACL is individually assessed based on the fair value of the collateral. Various types of collateral are used, including real estate, inventory, equipment, accounts receivable, securities and cash, among others. For commercial real estate loans, collateral values are generally based on appraisals which are updated based on management judgment under the specific circumstances on a case-by-case basis. At December 31, 2020 and 2019, the Company had collateral-dependent commercial loans totaling $206 million and $85 million, respectively.

The amortized cost basis of mortgage loans collateralized by residential real estate property for which formal foreclosure proceedings were in-process was $119 million and $152 million as of December 31, 2020 and 2019, respectively.

Troubled Debt Restructurings

In situations where, for economic or legal reasons related to the borrower's financial difficulties, the Company grants a concession to the borrower that it would not otherwise consider, the related loan is classified as a TDR. TDRs typically result from the Company's loss mitigation efforts and are undertaken in order to improve the likelihood of recovery and continuity of the relationship with the borrower. The Company's loan modifications are handled on a case-by-case basis and are negotiated to achieve mutually agreeable terms that maximize loan collectability and meet the borrower's financial needs. Concessions granted in TDRs for all classes of loans may include lowering the interest rate, forgiving a portion of principal, extending the loan term, lowering scheduled payments for a specified period of time, waiving or delaying a scheduled payment of principal or interest for other than an insignificant time period, or capitalizing past due amounts. A rate increase can be a concession if the increased rate is lower than a market rate for debt with risk similar to that of the restructured loan. TDRs for commercial loans may also involve creating a multiple note structure, accepting non-cash assets, accepting an equity interest, or receiving a performance-based fee. In some cases, a TDR may involve multiple concessions. The financial effects of TDRs for all loan classes may include lower income (either due to a lower interest rate or a delay in the timing of cash flows), larger loan loss provisions, and accelerated charge-offs if the modification renders the loan collateral-dependent. In some cases, interest income throughout the term of the loan may increase if, for example, the loan is extended or the interest rate is increased as a result of the restructuring.

Retail and commercial loans whose contractual terms have been modified in a TDR and are current at the time of restructuring may remain on accrual status if there is demonstrated performance prior to the restructuring and payment in full under the restructured terms is expected. Retail loans that were discharged in bankruptcy and not reaffirmed by the borrower are deemed to be collateral-dependent TDRs and are generally charged off to the fair value of the collateral, less cost to sell, and less amounts recoverable under a government guarantee (if any). Cash receipts on nonaccruing impaired loans, including nonaccruing loans involved in TDRs, are generally applied to reduce the unpaid principal balance. Certain TDRs that are current in payment status are classified as nonaccrual in accordance with regulatory guidance. Income on these loans may be recognized on a cash basis if management believes that the remaining book value of the loan is realizable. Nonaccruing TDRs that meet the guidelines above for accrual status can be returned to accruing if supported by a well-documented evaluation of the borrowers' financial condition, and if they have been current for at least six months.

Because TDRs are impaired loans, Citizens measures impairment by comparing the present value of expected future cash flows, or when appropriate, the fair value of collateral less costs to sell, to the loan's amortized cost basis. Any excess of amortized cost basis over the present value of expected future cash flows or collateral value is included in the ALLL. Any portion of the loan's amortized cost basis the Company does not expect to collect as a result of the modification is charged off at the time of modification. For retail TDR accounts where the expected value of cash flows is utilized, any recorded investment in excess of the present value of expected cash flows is recognized by increasing the ALLL. For retail TDR accounts assessed based on the fair value of collateral, any portion of the loan's recorded investment in excess of the collateral value less costs to sell is charged off at the time of modification or at the time of subsequent and regularly recurring valuations.

In 2020, Citizens implemented various retail and commercial loan modification programs to provide borrowers relief from the economic impacts of COVID-19. The CARES Act and bank regulatory agencies provided guidance stating certain loan modifications to borrowers experiencing financial distress as a result of COVID-19 may not be accounted for as TDRs under U.S. GAAP. In accordance with the CARES Act, Citizens elected to not apply TDR classification to any COVID-19 related loan modification performed after March 1, 2020 for borrowers who were current as of December 31, 2019 or the date of their loan modification. In addition, for loans modified in response to the COVID-19 pandemic and associated lockdowns that were not eligible for relief from TDR classification under the CARES Act, the Company elected to apply the guidance issued by the bank regulatory agencies. Under this guidance, loans with up to six months of deferred principal and interest to borrowers who were current as of March 1, 2020 or the date of their loan modification are not classified as TDRs.

For loan modifications that include a payment deferral and are not TDRs, the borrower's past due and nonaccrual status will not be impacted during the deferral period. Interest income will continue to be recognized over the contractual life of the loan.

The following table summarizes TDRs by class and total unfunded commitments:

	December 31,	
(in millions)	2020	2019
Commercial	$257	$297
Retail	718	667
Unfunded commitments related to TDRs	49	42

The following tables summarize how loans were modified during the years ended December 31, 2020, 2019 and 2018. The reported balances represent the post-modification outstanding recorded investment and can include loans that became TDRs during the period and were paid off in full, charged off, or sold prior to period end.

	December 31, 2020					
	Primary Modification Types					
	Interest Rate Reduction[1]		Maturity Extension[2]		Other[3]	
(dollars in millions)	Number of Contracts	Recorded Investment	Number of Contracts	Recorded Investment	Number of Contracts	Recorded Investment
Commercial and industrial	1	$—	25	$107	44	$325
Commercial real estate	—	—	1	7	—	—
Total commercial	1	—	26	114	44	325
Residential mortgages	210	39	190	34	73	13
Home equity	143	12	151	12	429	23
Automobile	129	2	104	1	3,003	47
Education	—	—	—	—	465	10
Other retail	2,311	10	—	—	280	2
Total retail	2,793	63	445	47	4,250	95
Total	2,794	$63	471	$161	4,294	$420

	December 31, 2019					
	Primary Modification Types					
	Interest Rate Reduction[1]		Maturity Extension[2]		Other[3]	
(dollars in millions)	Number of Contracts	Recorded Investment	Number of Contracts	Recorded Investment	Number of Contracts	Recorded Investment
Commercial and industrial	3	$—	26	$5	56	$210
Commercial real estate	—	—	1	—	—	—
Total commercial	3	—	27	5	56	210
Residential mortgages	60	12	62	10	120	17
Home equity	196	20	72	11	454	26
Automobile	160	3	21	—	1,250	17
Education	—	—	—	—	272	7
Other retail	3,259	18	—	—	480	2
Total retail	3,675	53	155	21	2,576	69
Total	3,678	$53	182	$26	2,632	$279

	December 31, 2018					
	Primary Modification Types					
	Interest Rate Reduction[1]		Maturity Extension[2]		Other[3]	
(dollars in millions)	Number of Contracts	Recorded Investment	Number of Contracts	Recorded Investment	Number of Contracts	Recorded Investment
Commercial and industrial	7	$1	49	$22	53	$200
Commercial real estate	—	—	3	31	2	31
Total commercial	7	1	52	53	55	231
Residential mortgages	35	4	61	8	142	17
Home equity	128	11	180	26	584	36
Automobile	158	3	46	1	1,189	17
Education	—	—	—	—	355	7
Other retail	2,313	13	—	—	9	—
Total retail	2,634	31	287	35	2,279	77
Total	2,641	$32	339	$88	2,334	$308

(1) Includes modifications that consist of multiple concessions, one of which is an interest rate reduction.
(2) Includes modifications that consist of multiple concessions, one of which is a maturity extension (unless one of the other concessions was an interest rate reduction).
(3) Includes modifications other than interest rate reductions or maturity extensions, such as lowering scheduled payments for a specified period of time, principal forgiveness, and capitalizing arrearages. Also included are the following: deferrals, trial modifications, certain bankruptcies, loans in forbearance and prepayment plans. Modifications can include the deferral of accrued interest resulting in post modification balances being higher than pre-modification.

The net change to ALLL resulting from modifications of loans for the years ended December 31, 2020, 2019 and 2018 was $12 million, $9 million and $3 million, respectively. Charge-offs may also be recorded on

TDRs. Citizens recorded charge-offs resulting from the modification of loans of $51 million, $7 million and $5 million for the years ended December 31, 2020, 2019 and 2018, respectively.

A payment default refers to a loan that becomes 90 days or more past due under the modified terms. Loan data includes loans meeting the criteria that were paid off in full, charged off, or sold prior to December 31, 2020, 2019 and 2018. For commercial loans, recorded investment in TDRs that defaulted within 12 months of their modification date for the years ended December 31, 2020, 2019 and 2018 were $54 million, $1 million and $63 million, respectively. For retail loans, there were $46 million, $37 million and $40 million of loans which defaulted within 12 months of their restructuring date for the years ended December 31, 2020, 2019 and 2018, respectively.

Concentrations of Credit Risk

As of December 31, 2020, under the Company's COVID-19-related forbearance and other customer accommodation programs that are guided by the CARES Act as well as banking regulator interagency guidance, Citizens deferred payments on approximately $1.4 billion, or 2.3%, of the retail portfolio, approximately $343 million, or 0.6%, of the commercial portfolio, including approximately $53 million, or 1.0%, of the small business portfolio. The vast majority of these deferrals are not classified as TDRs.

Most of the Company's lending activity is with customers located in the New England, Mid-Atlantic and Midwest regions. Generally, loans are collateralized by assets including real estate, inventory, accounts receivable, other personal property and investment securities. As of December 31, 2020 and 2019, Citizens had a significant amount of loans collateralized by residential and commercial real estate. There were no significant concentration risks within the commercial loan or retail loan portfolios. Exposure to credit losses arising from lending transactions may fluctuate with fair values of collateral supporting loans, which may not perform according to contractual agreements. The Company's policy is to collateralize loans to the extent necessary; however, unsecured loans are also granted on the basis of the financial strength of the applicant and the facts surrounding the transaction.

Certain loan products, including residential mortgages, home equity loans and lines of credit, and credit cards, have contractual features that may increase credit exposure to the Company in the event of an increase in interest rates or a decline in housing values. These products include loans that exceed 90% of the value of the underlying collateral (high LTV loans), interest-only and negative amortization residential mortgages, and loans with low introductory rates. Certain loans have more than one of these characteristics. The following tables present balances of loans with these characteristics:

	December 31, 2020			
(in millions)	Residential Mortgages	Home Equity	Other Retail	Total
High loan-to-value	$289	$64	$—	$353
Interest only/negative amortization	2,801	—	—	2,801
Low introductory rate	—	—	170	170
Total	$3,090	$64	$170	$3,324

	December 31, 2019			
(in millions)	Residential Mortgages	Home Equity	Other Retail	Total
High loan-to-value	$402	$151	$—	$553
Interest only/negative amortization	2,043	—	—	2,043
Low introductory rate	—	—	235	235
Total	$2,445	$151	$235	$2,831

NOTE 6 - PREMISES, EQUIPMENT AND SOFTWARE

Premises and Equipment

Premises and equipment are stated at cost, less accumulated depreciation and amortization. Depreciation and amortization have been computed using the straight-line method over the estimated useful

lives of the assets. Leasehold improvements are amortized over the life of the lease (including renewal options if exercise of those options is reasonably assured) or their estimated useful life, whichever is shorter.

Additions to premises and equipment are recorded at cost. The cost of major additions, improvements and betterments is capitalized. Normal repairs and maintenance and other costs that do not improve the property, extend the useful life or otherwise do not meet capitalization criteria are charged to expense as incurred. Citizens evaluates premises and equipment for impairment when events or changes in circumstances indicate that the carrying value of such assets may not be recoverable.

A summary of the carrying value of premises and equipment is presented below:

		December 31,	
(dollars in millions)	Useful Lives (years)	2020	2019
Land and land improvements	10 - 75	$102	$102
Buildings and leasehold improvements	5 - 60	800	848
Furniture, fixtures and equipment	4 - 20	644	535
Construction in progress		50	368
Total premises and equipment, gross		1,596	1,853
Accumulated depreciation		(837)	(1,092)
Total premises and equipment, net		$759	$761

Depreciation charged to noninterest expense totaled $110 million, $116 million, and $117 million for the years ended December 31, 2020, 2019, and 2018, respectively, and is presented in the Consolidated Statements of Operations in both occupancy and equipment expense.

Software

Costs related to computer software developed or obtained for internal use are capitalized if the projects improve functionality and provide long-term future operational benefits. Capitalized costs are amortized using the straight-line method over the asset's expected useful life, based upon the basic pattern of consumption and economic benefits provided by the asset. Citizens begins to amortize the software when the asset (or identifiable component of the asset) is substantially complete and ready for its intended use. All other costs incurred in connection with an internal-use software project are expensed as incurred. Capitalized software is included in other assets on the Consolidated Balance Sheets.

Citizens had capitalized software assets of $2.2 billion and $2.0 billion and related accumulated amortization of $1.3 billion and $1.1 billion as of December 31, 2020 and 2019, respectively. Amortization expense was $215 million, $194 million, and $189 million for the years ended December 31, 2020, 2019, and 2018, respectively.

The estimated future amortization expense for capitalized software assets is presented below.

Year	(in millions)
2021	$191
2022	155
2023	123
2024	97
2025	57
Thereafter	43
Total [1]	$666

[1] Excluded from this balance is $226 million of in-process software at December 31, 2020.

NOTE 7 - MORTGAGE BANKING AND OTHER

The Company sells residential mortgages to GSEs and other parties, who may issue securities backed by pools of such loans. The Company retains no beneficial interests in these sales, but may retain the servicing rights for the loans sold. The Company is obligated to subsequently repurchase a loan if the purchaser discovers a representation or warranty violation such as noncompliance with eligibility or servicing requirements, or customer fraud, that should have been identified in a loan file review.

Mortgage loans held for sale are accounted for at fair value on an individual loan basis. Changes in the fair value, and realized gains and losses on the sales of mortgage loans, are reported in mortgage banking income.

The following table summarizes activity related to the Company's residential mortgage loan sales and the Company's mortgage banking activity:

	Year Ended December 31,		
(in millions)	2020	2019	2018
Residential mortgage loan sold with servicing retained	$33,221	$20,430	$8,149
Gain on sales [1]	895	251	89
Contractually specified servicing, late and other ancillary fees [1]	227	208	118

[1] Reported in mortgage banking fees in the Consolidated Statements of Operations.

The Company recognizes the right to service residential mortgage loans for others, or MSRs, as separate assets, which are presented in other assets on the Consolidated Balance Sheets, when purchased, or when servicing is contractually separated from the underlying mortgage loans by sale with servicing rights retained. MSRs are initially recorded at fair value. Subsequent to the initial recognition, MSRs are measured using either the fair value method or the amortization method. Effective January 1, 2020, the Company elected to account for all MSRs previously accounted for under the amortization method under the fair value method. Upon election, the Company recognized a cumulative effect adjustment to retained earnings of $6 million, net of taxes, equal to the difference between the carrying value of the MSRs and the fair value. Under the fair value method, the MSRs are recorded at fair value at each reporting date with any changes in fair value during the period recorded in mortgage banking fees in the Consolidated Statements of Operations. The unpaid principal balance of the related residential mortgage loans was $81.2 billion and $77.5 billion as of December 31, 2020 and 2019, respectively. The Company manages an active hedging strategy to manage the risk associated with changes in the value of the MSR portfolio accounted for under the fair value method, which includes the purchase of freestanding derivatives.

The following table summarizes changes in MSRs recorded using the fair value method:

	As of and for the Year Ended December 31,	
(in millions)	2020	2019
Fair value as of beginning of the period	$642	$600
Transfers upon election of fair value method [1]	190	—
Fair value as of beginning of the period, adjusted	832	600
Amounts capitalized	324	270
Changes in unpaid principal balance during the period [2]	(196)	(119)
Changes in fair value during the period [3]	(302)	(109)
Fair value at end of the period	$658	$642

[1] Effective January 1, 2020, the Company elected to account for all MSRs previously accounted for under the amortization method under the fair value method.
[2] Represents changes in value of the MSRs due to i) passage of time including the impact from both regularly scheduled loan principal payments and partial paydowns, and ii) loans that paid off during the period.
[3] Represents changes in value primarily driven by market conditions. These changes are recorded in mortgage banking fees in the Consolidated Statements of Operations.

The fair value of MSRs is estimated by using the present value of estimated future net servicing cash flows, taking into consideration actual and expected mortgage loan prepayment rates, discount rates, contractual servicing fee income, servicing costs, default rates, ancillary income, and other economic factors, which are determined based on current market interest rates. The valuation does not attempt to forecast or predict the future direction of interest rates.

The sensitivity analyses below present the impact to current fair value of an immediate 50 basis point and 100 basis point adverse change in key economic assumptions and the decline in fair value if the respective adverse change was realized. These sensitivities are hypothetical, with the effect of a variation in a particular assumption on the fair value of the MSRs calculated independently without changing any other assumption. In reality, changes in one factor may result in changes in another (e.g., changes in interest rates, which drive changes in prepayment rates, could result in changes in the discount rates), which may amplify or counteract the sensitivities. The primary risk inherent in the Company's MSRs is an increase in prepayments of the underlying mortgage loans serviced, which is dependent upon movements in market interest rates.

	December 31, 2020			December 31, 2019		
(dollars in millions)	Actual	Decline in fair value due to		Actual	Decline in fair value due to	
		50 bps adverse change	100 bps adverse change		50 bps adverse change	100 bps adverse change
Fair value	$658			$642		
Weighted average life (in years)	4.2			5.5		
Weighted average constant prepayment rate	17.3%	$122	$202	13.9%	$116	$222
Weighted average option adjusted spread	595 bps	12	24	440 bps	12	25

Citizens accounts for derivatives in its mortgage banking operations at fair value on the Consolidated Balance Sheets as derivative assets or derivative liabilities, depending on whether the derivative had a positive (asset) or negative (liability) fair value as of the balance sheet date. The Company's mortgage banking derivatives include commitments to originate mortgages held for sale, certain loan sale agreements, and other financial instruments that meet the definition of a derivative. Refer to Note 13 for additional information.

Other Serviced Loans

From time to time, Citizens engages in other servicing relationships. The following table presents the unpaid principal balance of other serviced loans:

(in millions)	December 31, 2020	December 31, 2019
Education[1]	$974	$—
Commercial and industrial[2]	51	33

[1] Represents the servicing associated with education loans sold. See Note 10 for further information.
[2] Represents the government guaranteed portion of SBA loans sold to outside investors.

NOTE 8 - LEASES

Citizens as Lessee

The Company determines if an arrangement is a lease at inception and records a right-of-use asset and a corresponding lease liability. A right-of-use asset represents the value of the Company's contractual right to use an underlying leased asset and a lease liability represents the Company's contractual obligation to make payments on the same underlying leased asset. Operating and finance lease right-of-use assets and liabilities are recognized at commencement date based on the present value of the lease payments over the non-cancelable lease term. As most of the Company's leases do not specify an implicit rate, the Company uses an incremental borrowing rate based on information available at the lease commencement date to determine the present value of the lease payments. The Company evaluates right-of-use assets for impairment when events or changes in circumstances indicate that the carrying value of the asset may not be recoverable.

In its normal course of business, the Company leases both equipment and real estate, including office and branch space. Lease terms predominantly range from one year to ten years and may include options to extend the lease, terminate the lease, or purchase the underlying asset at the end of the lease. Certain lease agreements include rental payments based on an index or are adjusted periodically for inflation. The Company has lease agreements that contain lease and non-lease components and for certain real estate leases, these components are accounted for as a single lease component.

Leases with an initial term of 12 months or less are not recorded on the Company's Consolidated Balance Sheets and are recognized in occupancy expense in the Company's Consolidated Statements of Operations on a straight-line basis over the remaining lease term. The Company may also enter into subleases with third parties for certain leased real estate properties that are no longer occupied.

The components of operating lease cost are presented below.

(in millions)	Year Ended December 31, 2020	2019
Operating lease cost	$165	$165
Short-term lease cost	4	10
Variable lease cost	8	7
Sublease income	(4)	(3)
Total	$173	$179

Operating lease cost is recognized on a straight line basis over the lease term and is recorded in occupancy, equipment and software expense, and other income on the Consolidated Statements of Operations.

Supplemental Consolidated Balance Sheet information related to the Company's operating lease arrangements is presented below:

(in millions)	December 31, 2020	December 31, 2019	Affected Line Item in Consolidated Balance Sheets
Operating lease right-of-use assets	$800	$699	Other assets
Operating lease liabilities	835	721	Other liabilities

Supplemental information related to the Company's operating lease arrangements is presented below:

(in millions)	Year Ended December 31, 2020	2019
Cash paid for amounts included in measurement of liabilities:		
Operating cash flows from operating leases	$167	$164
Right-of-use assets in exchange for new operating lease liabilities	268	117

The weighted average remaining lease term and weighted average discount rate for operating leases as of December 31, 2020 is eight years and 2.48%, respectively. The weighted average remaining lease term and weighted average discount rate for operating leases as of December 31, 2019 is seven years and 3.15%, respectively.

At December 31, 2020, lease liabilities maturing under non-cancelable operating leases are presented below for the years ended December 31.

(in millions)	Operating Leases
2021	$149
2022	147
2023	130
2024	111
2025	90
Thereafter	294
Total lease payments	921
Less: Interest	86
Present value of lease liabilities	$835

Citizens as Lessor

Operating lease assets where Citizens was the lessor totaled $153 million and $57 million as of December 31, 2020 and 2019, respectively. Operating lease rental income for leased assets where Citizens is the lessor is recognized in other income on a straight-line basis over the lease term.

Depreciation expense associated with operating lease assets is recorded on a straight-line basis over the estimated useful life, considering the estimated residual value of the leased asset and is included in other operating expense in the Consolidated Statements of Operations. On a periodic basis, operating lease assets are reviewed for impairment. Impairment loss is recognized in other operating expense if the carrying amount of the leased asset exceeds fair value and is not recoverable. The carrying amount of a leased asset is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the lease payments and the estimated residual value upon the eventual disposition of the asset.

For discussion of direct finance and sales-type leases where Citizens is lessor, refer to Note 4.

NOTE 9 - GOODWILL AND INTANGIBLE ASSETS

Goodwill is the purchase premium associated with the acquisition of a business and is assigned to the Company's reporting units at the acquisition date. A reporting unit is a business operating segment or a component of a business operating segment. Citizens has identified and assigned goodwill to two reporting units - Consumer Banking and Commercial Banking - based upon reviews of the structure of the Company's executive team and supporting functions, resource allocations and financial reporting processes. Once goodwill has been assigned to reporting units, it no longer retains its association with a particular acquisition, and all of the activities within a reporting unit, whether acquired or organically grown, are available to support the value of the goodwill.

Goodwill is not amortized, but is subject to annual impairment tests. Citizens reviews goodwill for impairment annually as of October 31st and in interim periods when events or changes indicate the carrying value of one or more reporting units may not be recoverable. The Company has the option of performing a qualitative assessment of goodwill to determine whether it is more likely than not that the fair value of each reporting unit is less than the carrying value. If it is more likely than not that the fair value exceeds the carrying value, then no further testing is necessary; otherwise, Citizens must perform a quantitative assessment of goodwill.

Citizens may elect to bypass the qualitative assessment and perform a quantitative assessment. The quantitative assessment, used to identify potential impairment, involves comparing each reporting unit's fair value to its carrying value, including goodwill. If the fair value of a reporting unit exceeds its carrying value inclusive of goodwill, applicable goodwill is deemed to be not impaired. If the carrying value of the reporting unit inclusive of goodwill exceeds fair value, an impairment charge is recorded for the excess. The impairment loss recognized cannot exceed the amount of goodwill assigned to the reporting unit, and the loss establishes a new basis in the goodwill. Subsequent reversal of goodwill impairment losses is not permitted.

Under the quantitative impairment assessment, the fair values of the Company's reporting units are determined using a combination of income and market-based approaches. Citizens relies on the income approach (discounted cash flow method) for determining fair value. Market and transaction approaches are used as benchmarks only to corroborate the value determined by the discounted cash flow method. Citizens relies on several assumptions when estimating the fair value of its reporting units using the discounted cash flow method. These assumptions include the discount rate, as well as projected loan loss, income tax and capital retention rates.

In 2020, U.S. economic conditions deteriorated significantly due to the COVID-19 pandemic and associated lockdowns. For the year ended December 31, 2020, Citizens performed a quantitative analysis to determine whether the fair value of either of its reporting units was less than the respective reporting unit's carrying value. When calculating the fair value of the Company's reporting units under the income approach, short and medium-term forecasts incorporated current economic conditions and ongoing impacts of the COVID-19 pandemic, including a federal funds target near zero and near-term elevated ACL, offset by significant monetary and fiscal stimulus. Long-term cash flow projections reflected normalized rate and credit environments, as well as a long-term rate of return for each reporting unit. As a result of this quantitative assessment, the Company determined that there was no impairment to the carrying value of the Company's goodwill as of December 31, 2020.

On March 4, 2020, the Company expanded its capital markets and financial advisory position through the acquisition of Trinity Capital, a Los Angeles-based advisory firm that delivers a range of financial services to commercial clients, which resulted in an increase to goodwill of $6 million. Changes in the carrying value of goodwill for the years ended December 31, 2020 and 2019 are presented below.

(in millions)	Consumer Banking	Commercial Banking	Total
Balance at December 31, 2018	$2,172	$4,751	$6,923
Business acquisition	83	35	118
Adjustments	3	—	3
Balance at December 31, 2019	$2,258	$4,786	$7,044
Business acquisitions	—	6	6
Balance at December 31, 2020	$2,258	$4,792	$7,050

Accumulated impairment losses related to the Consumer Banking reporting unit totaled $5.9 billion at December 31, 2020 and 2019. The accumulated impairment losses related to the Commercial Banking reporting unit totaled $50 million at December 31, 2020 and 2019. No impairment was recorded for the years ended December 31, 2020, 2019 and 2018.

Other Intangibles

Other intangible assets are recognized separately from goodwill if the asset arises as a result of contractual rights or if the asset is capable of being separated and sold, transferred or exchanged. Intangible assets are recorded in other assets on the Consolidated Balance Sheets. Intangible assets are amortized on a straight-line basis and subject to an annual impairment evaluation. Amortization expense is recorded in other expenses in our Consolidated Statements of Operations.

A summary of the carrying value of intangible assets is presented below.

		December 31, 2020			December 31, 2019		
(in millions)	Amortizable Lives (years)	Gross	Accumulated Amortization	Net	Gross	Accumulated Amortization	Net
Acquired technology	7	$21	$7	$14	$21	$4	$17
Acquired relationships	5 - 15	38	10	28	37	5	32
Naming Rights	10	11	2	9	11	1	10
Other	2 - 7	13	6	7	13	4	9
Total		$83	$25	$58	$82	$14	$68

As of December 31, 2020, all of the Company’s intangible assets were being amortized. Amortization expense recognized on intangible assets was $11 million, $11 million and $3 million for the year ended December 31, 2020, 2019, and 2018, respectively. The Company’s projection of amortization expense is based on balances as of December 31, 2020, and future amortization expense may vary from these projections.

Estimated intangible asset amortization expense for the next five years is as follows:

(in millions)	Total
2021	$10
2022	9
2023	9
2024	8
2025	7

NOTE 10 - VARIABLE INTEREST ENTITIES

Citizens makes equity investments in various entities that are considered VIEs, as defined by GAAP. A VIE typically does not have sufficient equity at risk to finance its activities without additional subordinated financial support from other parties. The Company’s variable interest arises from contractual, ownership or other monetary interests in the entity, which change with fluctuations in the fair value of the entity's net assets. Citizens consolidates a VIE if it is the primary beneficiary of the entity. Citizens is the primary beneficiary of a VIE if its variable interest provides it with the power to direct the activities that most significantly impact the VIE and the right to receive benefits (or the obligation to absorb losses) that could potentially be significant to the

VIE. To determine whether or not a variable interest held could potentially be significant to the VIE, the company considers both qualitative and quantitative factors regarding the nature, size and form of its involvement with the VIE. Citizens assesses whether or not it is the primary beneficiary of a VIE on an ongoing basis.

Citizens is involved in various entities that are considered VIEs, including investments in limited partnerships that sponsor affordable housing projects, limited liability companies that sponsor renewable energy projects or asset-backed securities and lending to special purpose entities. Citizens' maximum exposure to loss as a result of its involvement with these entities is limited to the balance sheet carrying amount of its equity investment and asset-backed securities, unfunded commitments, and outstanding principal balance of loans to special purpose entities.

A summary of these investments is presented below:

	December 31,	
(in millions)	2020	2019
LIHTC investment included in other assets	$1,687	$1,401
LIHTC unfunded commitments included in other liabilities	875	716
Lending to special purpose entities included in loans and leases	1,295	1,101
Investment in asset-backed securities included in HTM securities	893	—
Renewable energy investments included in other assets	403	355

Low Income Housing Tax Credit Partnerships

The purpose of the Company's equity investments is to assist in achieving the goals of the Community Reinvestment Act and to earn an adequate return of capital. LIHTC partnerships are managed by unrelated general partners that have the power to direct the activities which most significantly affect the performance of the partnerships. Citizens is therefore not the primary beneficiary of any LIHTC partnerships. Accordingly, Citizens does not consolidate these VIEs and accounts for these investments in other assets on the Consolidated Balance Sheets.

Citizens applies the proportional amortization method to account for its LIHTC investments. Under the proportional amortization method, the Company applies a practical expedient and amortizes the initial cost of the investment in proportion to the tax credits received in the current period as compared to the total tax credits expected to be received over the life of the investment. The amortization and tax benefits are included as a component of income tax expense. The tax credits received are reported as a reduction of income tax expense (or an increase to income tax benefit) related to these transactions.

The following table presents other information related to the Company's affordable housing tax credit investments:

	Year Ended December 31,		
(in millions)	2020	2019	2018
Tax credits included in income tax expense	$159	$128	$101
Amortization expense included in income tax expense	168	137	110
Other tax benefits included in income tax expense	38	32	25

No LIHTC investment impairment losses were recognized during the years ended December 31, 2020, 2019, and 2018.

Lending to Special Purpose Entities

Citizens provides lending facilities to third-party sponsored special purpose entities. Because the sponsor for each respective entity has the power to direct how proceeds from the Company are utilized, as well as maintains responsibility for any associated servicing commitments, Citizens is not the primary beneficiary of these entities. Accordingly, Citizens does not consolidate these VIEs on the Consolidated Balance Sheets. As of December 31, 2020 and 2019, the lending facilities had aggregate unpaid principal balances of $1.3 billion and $1.1 billion, respectively, and undrawn commitments to extend credit of $1.5 billion and $1.2 billion, respectively.

Asset-backed securities

For the year ended December 31, 2020, Citizens sold $1.1 billion of education loans, inclusive of accrued interest, capitalized interest and fees, to a third-party sponsored VIE. As part of these sales, the Company recognized a gain on sale of $35 million in other income. The Company provided financing to the purchaser for a portion of the sale price in the form of $893 million of asset-backed securities collateralized by the sold assets. Citizens will continue to act as primary servicer for the sold educational loans, and will receive a servicing fee. A third-party special servicer will be responsible for servicing for all loans that become significantly delinquent, as discussed below.

At the time of the sale, and at each subsequent reporting period, Citizens is required to evaluate its involvement with the VIE to determine if it holds a variable interest in the VIE and, if so, if the Company is the primary beneficiary of the VIE. If Citizens is both a variable interest holder and the primary beneficiary of the VIE, it would be required to consolidate the VIE. As of December 31, 2020, the Company concluded that both their investment in asset-backed securities as well as the primary servicing fee are considered variable interests in the VIE as there is a possibility, even if remote, that would result in either the Company's interest in the asset-backed securities or the primary servicing fee absorbing some of the losses of the VIE.

After concluding that the Company has one or more variable interests in the VIE, the Company must determine if the Company is the primary beneficiary of the VIE. GAAP defines the primary beneficiary as the entity that has both an economic exposure to the VIE as well as the power to direct the activities that are determined to be most significant to the economic performance of the VIE. In order to make this determination, the Company needed to first establish which activities are the most significant to the economic performance of the VIE. Based on a review of the historical performance of the types of education loans sold to the VIE, as well as consideration of which activities performed by the owner or servicer of the loans contribute most significantly to the ultimate performance of the loans, the Company concluded that the determination of the assets to be purchased by the VIE and the servicing activities that are performed for significantly delinquent loans are the activities that most significantly impact the performance of the loans, and thus the performance of the VIE holding these assets. As a result, the Company concluded that the entity that controls the determination of the assets to be purchased by the VIE and the servicing activities on significantly delinquent loans controls the activities that most significantly impact the economic performance of the VIE. As part of the sale process, the equity holder in the VIE had the ability to remove loans from the proposed sale pool, demonstrating control over the determination of the assets to be purchased. In addition, as a holder of asset-backed securities and the primary servicer of the loans, Citizens does not have the power to direct servicing of significantly delinquent loans. These rights are reserved for the third-party special servicer of the loans, who is controlled through a contractual relationship with the equity investor in the VIE. As the activities which most significantly affect the performance of the VIE are controlled by the equity holder in the VIE, and not by Citizens, the Company has concluded that Citizens is therefore not the primary beneficiary. Accordingly, Citizens does not consolidate the VIE and accounts for its investment in the asset-backed securities as HTM securities on the Consolidated Balance Sheets.

Renewable Energy Entities

The Company's investments in renewable energy entities provide benefits from a return generated by government incentives plus other tax attributes that are associated with tax ownership (e.g., tax depreciation). As a tax equity investor, Citizens does not have the power to direct the activities which most significantly affect the performance of these entities and therefore is not the primary beneficiary of any renewable energy entities. Accordingly, Citizens does not consolidate these VIEs and accounts for these investments in other assets on the Consolidated Balance Sheets.

NOTE 11 - DEPOSITS

Interest-bearing deposits in banks are carried at cost and include deposits that mature within one year.

The following table presents the major components of deposits:

(in millions)	December 31, 2020	December 31, 2019
Demand	$43,831	$29,233
Checking with interest	27,204	24,840
Regular savings	18,044	13,779
Money market accounts	48,569	38,725
Term deposits	9,516	18,736
Total deposits	$147,164	$125,313

The following table presents the maturity distribution by year of term deposits as of December 31, 2020:

(in millions)	
2021	$8,474
2022	660
2023	168
2024	162
2025	49
2026 and thereafter	3
Total	$9,516

Of these deposits, the amount of term deposits with a denomination of $100,000 or more was $5.8 billion at December 31, 2020. The following table presents the remaining maturities of these deposits:

(in millions)	
Three months or less	$3,420
After three months through six months	956
After six months through twelve months	986
After twelve months	436
Total term deposits	$5,798

NOTE 12 - BORROWED FUNDS

Short-term borrowed funds

The following table presents a summary of the Company's short-term borrowed funds.

(in millions)	December 31, 2020	December 31, 2019
Securities sold under agreements to repurchase	$231	$265
Other short-term borrowed funds	12	9
Total short-term borrowed funds	$243	$274

Long-term borrowed funds

The following table presents a summary of the Company's long-term borrowed funds:

(in millions)	December 31, 2020	2019
Parent Company:		
2.375% fixed-rate senior unsecured debt, due July 2021	$350	$349
4.150% fixed-rate subordinated debt, due September 2022[1]	182	348
3.750% fixed-rate subordinated debt, due July 2024[1]	159	250
4.023% fixed-rate subordinated debt, due October 2024[1]	25	42
4.350% fixed-rate subordinated debt, due August 2025[1]	193	249
4.300% fixed-rate subordinated debt, due December 2025[1]	450	750
2.850% fixed-rate senior unsecured notes, due July 2026	497	496
2.500% fixed-rate senior unsecured notes, due February 2030	297	—
3.250% fixed-rate senior unsecured notes, due April 2030	745	—
2.638% fixed-rate subordinated debt, due September 2032 [1]	543	—
CBNA's Global Note Program:		
2.250% senior unsecured notes, due March 2020	—	700
2.447% floating-rate senior unsecured notes, due March 2020 [2]	—	300
2.487% floating-rate senior unsecured notes, due May 2020 [2]	—	250
2.200% senior unsecured notes, due May 2020	—	500
2.250% senior unsecured notes, due October 2020	—	750
2.550% senior unsecured notes, due May 2021	1,003	991
3.250% senior unsecured notes, due February 2022	716	711
0.941% floating-rate senior unsecured notes, due February 2022 [2]	299	299
1.042% floating-rate senior unsecured notes, due May 2022 [2]	250	250
2.650% senior unsecured notes, due May 2022	510	501
3.700% senior unsecured notes, due March 2023	527	515
1.201% floating-rate senior unsecured notes, due March 2023 [2]	249	249
2.250% senior unsecured notes, due April 2025	746	—
3.750% senior unsecured notes, due February 2026	551	521
Additional Borrowings by CBNA and Other Subsidiaries:		
Federal Home Loan Bank advances, 0.932% weighted average rate, due through 2038	19	5,008
Other	35	18
Total long-term borrowed funds	$8,346	$14,047

(1 December 31, 2020 balances reflect the September 2020 completion of (i) $621 million in private exchange offers for five series of outstanding subordinated notes whereby participants received a combination of the Company's newly issued 2.638% fixed-rate subordinated notes due 2032 and an additional cash payment and (ii) $11 million in related cash tender offers whereby validly tendered and accepted subordinated notes were purchased by Citizens and subsequently cancelled.

(2) Rate disclosed reflects the floating rate as of December 31, 2020, or final floating rate as applicable.

The Parent Company's long-term borrowed funds as of December 31, 2020 and 2019 included principal balances of $3.5 billion and $2.5 billion, respectively, and unamortized deferred issuance costs and/or discounts of ($90) million and ($8) million, respectively. CBNA and other subsidiaries' long-term borrowed funds as of December 31, 2020 and 2019 included principal balances of $4.8 billion and $11.5 billion, respectively, with unamortized deferred issuance costs and/or discounts of ($11) million and ($13) million, respectively, and hedging basis adjustments of $112 million and $50 million, respectively. See Note 13 for further information about the Company's hedging of certain long-term borrowed funds.

Advances, lines of credit, and letters of credit from the FHLB are collateralized by pledged mortgages and pledged securities at least sufficient to satisfy the collateral maintenance level established by the FHLB. The utilized borrowing capacity for FHLB advances and letters of credit was $3.2 billion and $9.8 billion at December 31, 2020 and 2019, respectively. The Company's available FHLB borrowing capacity was $13.9 billion and $7.2 billion at December 31, 2020 and 2019, respectively. Citizens can also borrow from the FRB discount window to meet short-term liquidity requirements. Collateral, including certain loans, is pledged to support this borrowing capacity. At December 31, 2020, the Company's unused secured borrowing capacity was approximately $64.6 billion, which includes unencumbered securities, FHLB borrowing capacity, and FRB discount window capacity.

The following table presents a summary of maturities for the Company's long-term borrowed funds at December 31, 2020:

(in millions)	Parent Company	CBNA and Other Subsidiaries	Consolidated
Year			
2021	$350	$1,011	$1,361
2022	182	1,786	1,968
2023	—	778	778
2024	184	—	184
2025	643	759	1,402
2026 and thereafter	2,082	571	2,653
Total	$3,441	$4,905	$8,346

NOTE 13 - DERIVATIVES

In the normal course of business, Citizens enters into a variety of derivative transactions to meet the financing needs of its customers and to reduce its own exposure to fluctuations in interest rates and foreign currency exchange rates. These transactions include interest rate swap contracts, interest rate options, foreign exchange contracts, residential loan commitment rate locks, interest rate future contracts, swaptions, forward commitments to sell to-be-announced mortgage securities ("TBAs"), forward sale contracts and purchase options. The Company does not use derivatives for speculative purposes.

The Company's derivative instruments are recognized on the Consolidated Balance Sheets in derivative assets and derivative liabilities at fair value. Certain derivatives are cleared through a central clearing house. Cleared derivatives represent contracts executed bilaterally with counterparties in the OTC market that are novated to a central clearing house who then becomes our counterparty. OTC-cleared derivative instruments are typically settled in cash each day based on the prior day value. Information regarding the valuation methodology and inputs used to estimate the fair value of the Company's derivative instruments is described in Note 19.

Derivative assets and derivative liabilities are netted by counterparty on the Consolidated Balance Sheets if a "right of setoff" has been established in a master netting agreement between the Company and the counterparty. This netted derivative asset or liability position is also netted against the fair value of any cash collateral that has been pledged or received in accordance with a master netting agreement.

The following table presents derivative instruments included on the Consolidated Balance Sheets:

	December 31, 2020			December 31, 2019		
(in millions)	Notional Amount [1]	Derivative Assets	Derivative Liabilities	Notional Amount [1]	Derivative Assets	Derivative Liabilities
Derivatives designated as hedging instruments:						
Interest rate contracts	$22,300	$1	$3	$29,846	$1	$—
Derivatives not designated as hedging instruments:						
Interest rate contracts	149,021	1,565	214	142,386	772	133
Foreign exchange contracts	16,789	320	291	15,101	174	166
TBA contracts	11,149	8	65	—	—	—
Other contracts	8,297	259	61	6,868	37	23
Total derivatives not designated as hedging instruments		2,152	631		983	322
Gross derivative fair values		2,153	634		984	322
Less: Gross amounts offset in the Consolidated Balance Sheets [2]		(182)	(182)		(107)	(107)
Less: Cash collateral applied [2]		(56)	(324)		(70)	(95)
Total net derivative fair values presented in the Consolidated Balance Sheets		$1,915	$128		$807	$120

[1] The notional or contractual amount of interest rate derivatives and foreign exchange contracts is the amount upon which interest and other payments under the contract are based. For interest rate contracts, the notional amount is typically not exchanged. Therefore, notional amounts should not be taken as the measure of credit or market risk, as they do not measure the true economic risk of these contracts.

[2] Amounts represent the impact of enforceable master netting agreements that allow the Company to net settle positive and negative positions as well as collateral paid and received.

The Company's derivative transactions are internally divided into three sub-groups: institutional, customer and residential loan. Certain derivative transactions within these sub-groups are designated as fair value or cash flow hedges, as described below:

Derivatives Designated As Hedging Instruments

The Company's institutional derivatives qualify for hedge accounting treatment. The net interest accruals on interest rate swaps designated in a fair value or cash flow hedge relationship are treated as an adjustment to interest income or interest expense of the item being hedged. The Company formally documents at inception all hedging relationships, as well as risk management objectives and strategies for undertaking various accounting hedges. Additionally, the Company monitors the effectiveness of its hedge relationships during the duration of the hedge period. The methods utilized to assess hedge effectiveness vary based on the hedge relationship and the Company monitors each relationship to ensure that management's initial intent continues to be satisfied. The Company discontinues hedge accounting treatment when it is determined that a derivative is not expected to be, or has ceased to be, effective as a hedge and subsequently reflects changes in the fair value of the derivative in earnings after termination of the hedge relationship.

Fair Value Hedges

In a fair value hedge, changes in the fair value of both the derivative instrument and the hedged asset or liability attributable to the risk being hedged are recognized in the same income statement line item in the Consolidated Statements of Operations when the changes in fair value occur.

Citizens has outstanding interest rate swap agreements utilized to manage the interest rate exposure on its long-term borrowings, certain fixed rate residential mortgages and AFS debt securities. Certain fair value hedges have been designated as a last-of-layer hedge, which affords the Company the ability to execute a fair value hedge of the interest rate risk associated with a portfolio of similar prepayable assets whereby the last dollar amount estimated to remain in the portfolio of assets is identified as the hedged item.

The following table presents the change in fair value of interest rate contracts designated as fair value hedges, as well as the change in fair value of the related hedged items attributable to the risk being hedged, included in the Consolidated Statements of Operations:

	Year Ended December 31,			
(in millions)	2020	2019	2018	Affected Line Item in the Consolidated Statements of Operations
Interest rate swaps hedging borrowed funds	$65	$107	$8	Interest expense - long-term borrowed funds
Hedged long-term debt attributable to the risk being hedged	(63)	(107)	(9)	Interest expense - long-term borrowed funds
Interest rate swaps hedging fixed rate loans	17	(17)	—	Interest and fees on loans and leases
Hedged fixed rate loans attributable to the risk being hedged	(17)	17	—	Interest and fees on loans and leases
Interest rate swaps hedging debt securities available for sale	(104)	8	—	Interest income - investment securities
Hedged debt securities available for sale attributable to risk being hedged	104	(8)	—	Interest income - investment securities

The following table reflects amounts recorded on the Consolidated Balance Sheets related to cumulative basis adjustments for fair value hedges:

	December 31, 2020		December 31, 2019		
(in millions)	Debt securities available for sale[1]	Long-term borrowed funds	Debt securities available for sale[1]	Residential mortgages	Long-term borrowed funds
Carrying amount of hedged assets	$10,869	$—	$15,798	$976	$—
Carrying amount of hedged liabilities	—	3,307	—	—	4,689
Cumulative amount of fair value hedging adjustments included in the carrying amount of the hedged items	96	112	(8)	17	50

[1] The Company designated $2.0 billion as the hedged amount (from a closed portfolio of prepayable financial assets with a amortized cost basis of $10.9 billion and $15.8 billion as of December 31, 2020 and December 31, 2019, respectively) in a last-of-layer hedging relationship, which commenced in the third quarter of 2019.

Cash Flow Hedges

In a cash flow hedge, the entire change in the fair value of the interest rate swap included in the assessment of hedge effectiveness is initially recorded in OCI and is subsequently reclassified from OCI to current period earnings (interest income or interest expense) in the same period that the hedged item affects earnings.

Citizens has outstanding interest rate swap agreements designed to hedge a portion of the Company’s floating-rate assets, and liabilities. All of these swaps have been deemed highly effective cash flow hedges. During the next 12 months, there are $7 million in pre-tax net gains on derivative instruments included in OCI expected to be reclassified to net interest income in the Consolidated Statements of Operations. This amount could differ from amounts actually recognized due to changes in interest rates, hedge de-designations, and the addition of other hedges subsequent to December 31, 2020.

During the years ended December 31, 2020, 2019 and 2018, there were no gains or losses reclassified from OCI to current period earnings (other income) related to the discontinuance of a cash flow hedge where it became probable that the original forecasted transaction would no longer occur by the end of the originally specified time period.

The following table presents the pre-tax net gains (losses) recorded in the Consolidated Statements of Operations and in the Consolidated Statements of Comprehensive Income relating to derivative instruments designated as cash flow hedges:

	Amounts Recognized for the Year Ended December 31,		
(in millions)	2020	2019	2018
Amount of pre-tax net gains (losses) recognized in OCI	$130	$138	($44)
Amount of pre-tax net gains (losses) reclassified from OCI into interest income	184	(68)	(55)
Amount of pre-tax net (losses) gains reclassified from OCI into interest expense	(35)	11	12

Derivatives not designated as hedging instruments

Economic Hedges

The Company's economic hedges include those related to offsetting customer derivatives, residential mortgage loan derivatives (including interest rate lock commitments and forward sales commitments) and derivatives to hedge its residential MSR portfolio. Customer derivatives include interest rate and foreign exchange derivative contracts designed to meet the hedging and financing needs of the Company's customers, and are economically hedged by the Company to offset its market exposure. Interest rate lock commitments on residential mortgage loans that will be held for sale are considered derivative instruments, and are economically hedged by entering into forward sale commitments to manage changes in fair value due to interest rate risk. Residential MSR portfolio derivatives are entered to hedge the risk of changes in the fair value of the Company's MSR asset.

The following table presents the effect of economic hedges on noninterest income:

	Amounts Recognized in Noninterest Income for the Year Ended December 31,			
(in millions)	2020	2019	2018	Affected Line Item in the Consolidated Statements of Operations
Economic hedge type:				
Customer interest rate contracts	$1,234	$687	$5	Foreign exchange and interest rate products
Customer foreign exchange contracts	216	(166)	(54)	Foreign exchange and interest rate products
Derivatives transactions to hedge interest rate risk	(1,188)	(620)	43	Foreign exchange and interest rate products
Derivatives transactions to hedge foreign exchange risk	(263)	200	158	Foreign exchange and interest rate products
Residential loan commitments	179	8	(3)	Mortgage banking fees
Derivative contracts used to hedge residential loan commitments	(50)	20	21	Mortgage banking fees
Derivative contracts used to hedge residential MSRs[(1)]	311	134	35	Mortgage banking fees
Other derivative contracts	(9)	—	—	Foreign exchange and interest rate products
Derivative transactions to hedge other derivative risk	13	—	—	Foreign exchange and interest rate products
Total	$443	$263	$205	

[(1)]Includes ($5) million related to interest rate derivative contracts used to hedge residential MSRs valued at LOCOM for the year ended December 31, 2019.

NOTE 14 - EMPLOYEE BENEFITS

Pension Plans

Citizens maintains a non-contributory pension plan (the "Qualified Plan") that was closed to new hires and re-hires effective January 1, 2009, and frozen to all participants effective December 31, 2012. Benefits under the Qualified Plan are based on employees' years of service and highest 5-year average of eligible compensation. The Qualified Plan is funded on a current basis, in compliance with the requirements of ERISA. Citizens also provides an unfunded, non-qualified supplemental retirement plan (the "Non-Qualified Plan"), which was closed and frozen effective December 31, 2012. The Company's Qualified Plan and Non-Qualified Plan are collectively referred to as the Company's "Pension Plans". The Pension Plans' investments include equity-oriented and fixed income-oriented investments, including but not limited to government obligations, corporate bonds, and common and collective equity and fixed income funds.

The following table presents changes in the fair value of the Company's Pension Plans' assets, projected benefit obligation, funded status, and accumulated benefit obligation:

	Year Ended December 31,			
	Qualified Plan		Non-Qualified Plan	
(in millions)	2020	2019	2020	2019
Fair value of plan assets as of January 1	$1,246	$1,050	$—	$—
Actual return on plan assets	165	259	—	—
Employer contributions	—	—	8	8
Benefits and administrative expenses paid	(68)	(63)	(8)	(8)
Fair value of plan assets as of December 31	1,343	1,246	—	—
Projected benefit obligation	1,157	1,075	105	102
Pension asset (obligation)	$186	$171	($105)	($102)
Accumulated benefit obligation	$1,157	$1,075	$105	$102

The Company's projected benefit obligation increased for the year ending December 31, 2020, due to the decrease in the discount rate assumption, partially offset by updated mortality assumptions. Citizens recognized actuarial gains and losses on the Pension Plans in AOCI resulting in an ending balance of $571 million and $551 million at December 31, 2020 and 2019, respectively.

Citizens does not plan to contribute to the Qualified Plan in 2021. No contributions were made to the Qualified Plan in 2020 or 2019. Citizens expects to contribute $8 million to the Non-Qualified Plan in 2021 and contributed $8 million to the Non-Qualified Plan in 2020 and 2019.

The following table presents other changes in plan assets and benefit obligations recognized in OCI for the Company's Pension Plans:

	Year Ended December 31,		
(in millions)	2020	2019	2018
Net periodic pension income	($22)	($5)	($16)
Net actuarial loss (gain)	37	(49)	49
Amortization of prior service credit	—	—	1
Amortization of net actuarial loss	(17)	(19)	(17)
Total gain (loss) recognized in other comprehensive loss	20	(68)	33
Total (loss) gain recognized in net periodic pension (income) cost and other comprehensive loss	($2)	($73)	$17

Costs under the Company's Pension Plans are actuarially computed and include current service costs and amortization of prior service costs over the participants' average future working lifetime. The actuarial cost method used in determining the net periodic pension cost is the projected unit method.

The following table presents the components of net periodic pension (income) cost for the Company's Pension Plans:

	Year Ended December 31,								
	Qualified Plan			Non-Qualified Plan			Total		
(in millions)	2020	2019	2018	2020	2019	2018	2020	2019	2018
Service cost	$3	$3	$3	$—	$—	$—	$3	$3	$3
Interest cost	37	41	39	3	4	4	40	45	43
Expected return on plan assets	(82)	(72)	(79)	—	—	—	(82)	(72)	(79)
Amortization of actuarial loss	14	17	15	3	2	2	17	19	17
Net periodic pension (income) cost[1]	($28)	($11)	($22)	$6	$6	$6	($22)	($5)	($16)

[1] In the Consolidated Statements of Operations, service cost is presented in salaries and employee benefits, and all other components of net periodic pension (income) cost are presented in other operating expense.

The following table presents the expected future benefit payments for the Company's Pension Plans:

	(in millions)
Expected benefit payments by fiscal year ending:	
December 31, 2021	$69
December 31, 2022	70
December 31, 2023	70
December 31, 2024	70
December 31, 2025	70
December 31, 2026 - 2030	351

401(k) Plan

Citizens sponsors a 401(k) Plan under which employee tax-deferred/Roth after-tax contributions to the 401(k) Plan are matched by the Company after completion of one year of service. Contributions are matched at 100% up to an overall limitation of 4% on a pay period basis. Substantially all employees will receive an additional 2% of earnings after completion of one year of service, subject to limits set by the Internal Revenue Service. Amounts contributed and expensed by the Company were $78 million in 2020 compared to $72 million in 2019 and $68 million in 2018.

NOTE 15 - ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The following table presents the changes in the balances, net of income taxes, of each component of AOCI:

(in millions)	Net Unrealized (Losses) Gains on Derivatives	Net Unrealized (Losses) Gains on Securities	Employee Benefit Plans	Total AOCI
Balance at January 1, 2018	($143)	($236)	($441)	($820)
Other comprehensive loss before reclassifications	(33)	(239)	—	(272)
Other-than-temporary impairment not recognized in earnings on debt securities	—	(3)	—	(3)
Amounts reclassified to the Consolidated Statements of Operations	33	(12)	(22)	(1)
Net other comprehensive loss	—	(254)	(22)	(276)
Balance at December 31, 2018	($143)	($490)	($463)	($1,096)
Other comprehensive income before reclassifications	103	501	—	604
Amounts reclassified to the Consolidated Statements of Operations	43	(15)	48	76
Net other comprehensive income	146	486	48	680
Cumulative effect of change in accounting principle	—	5	—	5
Balance at December 31, 2019	$3	$1	($415)	($411)
Other comprehensive income before reclassifications	97	382	—	479
Amounts reclassified to the Consolidated Statements of Operations	(111)	(3)	(14)	(128)
Net other comprehensive (loss) income	(14)	379	(14)	351
Balance at December 31, 2020	($11)	$380	($429)	($60)
Primary location in the Consolidated Statement of Operations of amounts reclassified from AOCI	Net interest income	Securities gains, net	Other operating expense	

NOTE 16 - STOCKHOLDERS' EQUITY

Preferred Stock

The following table provides the number of authorized preferred shares, the number of issued and outstanding, the liquidation value per share and the carrying amount as of December 31:

(in millions, except per share and share data)	Liquidation value per share	2020 Preferred Shares	2020 Carrying Amount	2019 Preferred Shares	2019 Carrying Amount
Authorized ($25 par value)		100,000,000		100,000,000	
Issued and outstanding					
Series A	$1,000	250,000	$247	250,000	$247
Series B	1,000	300,000	296	300,000	296
Series C	1,000	300,000	297	300,000	297
Series D	1,000 [1]	300,000 [2]	293	300,000	293
Series E	1,000 [1]	450,000 [3]	437	450,000	437
Series F	1,000	400,000	395	—	—
Total issued and outstanding		2,000,000	$1,965	1,600,000	$1,570

[1] Equivalent to $25 per depositary share.
[2] Represented by 12,000,000 depositary shares each representing a 1/40th interest in the Series D Preferred Stock.
[3] Represented by 18,000,000 depositary shares each representing a 1/40th interest in the Series E Preferred Stock.

The following table provides information related to the Company's preferred stock outstanding as of December 31, 2020:

(in millions, except per share and share data)

Preferred Stock[1]	Issue Date	Number of Shares Issued	Dividend Dates[2]	Annual Per Share Dividend Rate	Optional Redemption Date[3]
Series A	April 6, 2015	250,000	Semi-annually beginning October 6, 2015 until April 6, 2020	5.500% until April 6, 2020	April 6, 2020
			Quarterly beginning July 6, 2020	3 Mo. LIBOR plus 3.960% beginning April 6, 2020	
Series B	May 24, 2018	300,000	Semi-annually beginning January 6, 2019 until July 6, 2023	6.000% until July 6, 2023	July 6, 2023
			Quarterly beginning October 6, 2023	3 Mo. LIBOR plus 3.003% beginning July 6, 2023	
Series C	October 25, 2018	300,000	Quarterly beginning January 6, 2019 until April 6, 2024	6.375% until April 6, 2024	April 6, 2024
			Quarterly beginning July 6, 2024	3 Mo. LIBOR plus 3.157% beginning April 6, 2024	
Series D	January 29, 2019	300,000[4]	Quarterly beginning April 6, 2019 until April 6, 2024	6.350% until April 6, 2024	April 6, 2024
			Quarterly beginning July 6, 2024	3 Mo. LIBOR plus 3.642% beginning April 6, 2024	
Series E	October 28, 2019	450,000[5]	Quarterly beginning January 6, 2020	5.000%	January 6, 2025
Series F	June 4, 2020	400,000	Quarterly beginning October 6, 2020 until October 6, 2025	5.650% until October 6, 2025	October 6, 2025
			Quarterly beginning January 6, 2026	5 Yr. US Treasury rate plus 5.313% beginning October 6, 2025	

[1] Series A through D are non-cumulative fixed-to-floating rate perpetual preferred stock, Series E is non-cumulative fixed-rate perpetual preferred stock, and Series F is non-cumulative fixed-rate reset perpetual preferred stock. Except in limited circumstances, each series of preferred stock does not have voting rights.
[2] Dividends are payable when, and if, declared by the Company's Board of Directors or an authorized committee thereof.
[3] Redeemable at the Company's option, in whole or in part, on any dividend payment date on or after the date stated, or in whole but not in part, at any time within 90 days following a regulatory capital treatment event a as defined in the applicable certificate of designations, in each case at a redemption price equal to $1,000 per share, plus any declared and unpaid dividends, without accumulation of any undeclared dividends. Under current rules, any redemption is subject to approval by the FRB.
[4] Represented by 12,000,000 depositary shares each representing a 1/40th interest in the Series D Preferred Stock.
[5] Represented by 18,000,000 depositary shares each representing a 1/40th interest in the Series E Preferred Stock.

Dividends

The following table provides information related to dividends per share and in the aggregate, declared and paid, for each type of stock issued and outstanding for the year ended December 31:

	2020			2019			2018		
(in millions, except per share and share data)	Dividends per Share	Dividends Declared	Dividends Paid	Dividends per Share	Dividends Declared	Dividends Paid	Dividends per Share	Dividends Declared	Dividends Paid
Common stock	$1.56	$672	$672	$1.36	$617	$617	$0.98	$471	$471
Preferred stock									
Series A	$62.59	$15	$13	$55.00	$14	$14	$55.00	$14	$14
Series B	60.00	18	18	60.00	18	20	37.00	11	—
Series C	63.75	19	19	63.75	19	18	12.57	4	—
Series D	63.50	19	19	59.45	18	13	—	—	—
Series E	50.00	23	21	9.44	4	—	—	—	—
Series F	33.27	13	8	—	—	—	—	—	—
Total preferred stock		$107	$98		$73	$65		$29	$14

Treasury Stock

The purchase of the Company’s common stock is recorded at cost. At the date of retirement or subsequent reissuance, treasury stock is reduced by the cost of such stock on a first-in, first-out basis with differences recorded in additional paid-in capital or retained earnings, as applicable.

During the year ended December 31, 2020, the Company paid $270 million to repurchase 7,548,655 common shares at a weighted-average price of $35.77. During the year ended December 31, 2020, the Company recorded no shares of treasury stock associated with share-based compensation plan activity.

During the year ended December 31, 2019, the Company paid $1.220 billion to repurchase 34,305,768 common shares at an average price of $35.56. During the year ended December 31, 2019, the Company recorded no shares of treasury stock associated with share-based compensation plan activity.

NOTE 17 - SHARE-BASED COMPENSATION

Citizens has share-based employee compensation plans as outlined below, pursuant to which stock awards are granted to employees and non-employee directors.

Employees of the Company hold time-based restricted stock units and performance-based restricted stock units. A restricted stock unit is the right to receive shares of stock on a future date, which may be subject to time-based vesting conditions and/or performance-based vesting conditions. If a dividend is paid on shares underlying the awards prior to the date such shares are distributed, those dividends will be distributed following vesting in the same form as the dividend that has been paid to common stockholders generally.

Citizens Financial Group, Inc. 2014 Omnibus Incentive Plan. Certain employees of the Company hold time-based restricted stock units and performance-based restricted stock units granted under this plan. Time-based restricted stock units granted generally become vested ratably over a 3-year period and performance-based restricted stock units granted generally become vested in a single installment at the end of a 3-year performance period, depending on the level of performance achieved during such period.

Citizens Financial Group, Inc. 2014 Non-Employee Directors Compensation Plan. Non-employee directors receive grants of time-based restricted stock units under this plan as compensation for their services pursuant to the Citizens Financial Group, Inc. Directors Compensation Policy. Restricted stock units granted to directors are fully vested on the grant date, with settlement of the awards deferred until a director’s cessation of service.

Citizens Financial Group, Inc. 2014 Employee Stock Purchase Plan. Citizens also maintains the Citizens Financial Group, Inc. Employee Stock Purchase Plan (the “ESPP”), which provides eligible employees an opportunity to purchase its common stock at a 10% discount, through accumulated payroll deductions. Eligible employees may contribute up to 10% of eligible compensation to the ESPP, up to a maximum purchase of $25,000 worth of stock in any calendar year. Offering periods under the ESPP are quarterly. Shares of CFG common stock are purchased for a participant on the last day of each quarter at a 10% discount from the fair market value (fair market value under the plan is defined as the closing price on the day of purchase). Prior to the date the shares are purchased, participants do not have any rights or privileges as a stockholder with respect to shares to be purchased at the end of the offering period.

Summary of Share-Based Plans Activity

The following table presents the activity related to the Company's share-based plans (excluding the ESPP) for the year ended December 31, 2020:

	Shares Underlying Awards	Weighted-Average Grant Price
Outstanding, January 1	3,000,224	$36.71
Granted	1,947,902	32.64
Vested & Distributed	(1,384,091)	38.59
Forfeited	(67,804)	35.89
Outstanding, December 31	3,496,231	$34.37

During the years ended December 31, 2020, 2019 and 2018, the following number of CFG share awards were granted: 2020 (1,947,902 granted with a weighted-average grant price of $32.64); 2019 (1,677,167 granted with weighted-average grant price of $36.21); and 2018 (1,174,501 granted with weighted-average grant price of $39.54).

In addition, the following number of CFG share awards became vested and distributed: 2020 (1,384,091 vested and distributed with a weighted-average grant price of $38.59); 2019 (1,518,836 vested with weighted-average grant price of $32.21); and 2018 (877,111 vested with weighted-average grant price of $30.50).

There are 46,236,889 shares of Company common stock available for awards to be granted under the Omnibus Plan and Directors Plan. In addition, there are 5,024,904 shares available for awards under the ESPP. Upon settlement of share-based awards, the Company generally issues new shares, but may also issue shares from treasury stock.

Citizens measures compensation expense related to stock awards based upon the fair value of the awards on the grant date. Compensation expense is adjusted for forfeitures as they occur. The related expense is charged to earnings on a straight-line basis over the requisite service period (e.g., vesting period) of the award. With respect to performance-based stock awards, compensation expense is adjusted upward or downward based upon the probability of achievement of performance. Awards that continue to vest after retirement are expensed over the shorter of the period of time from grant date to the final vesting date or from the grant date to the date when an employee is retirement eligible. Awards granted to employees who are retirement eligible at the grant date are generally expensed immediately upon grant.

Share-based compensation expense (including ESPP) was $48 million, $55 million, and $41 million for the years ended December 31, 2020, 2019, and 2018, respectively. At December 31, 2020, the total unrecognized compensation expense for nonvested equity awards granted was $43 million. This expense is expected to be recognized over a weighted-average period of approximately two years. No share-based compensation costs were capitalized during the years ended December 31, 2020, 2019, and 2018.

Citizens recognized income tax benefits related to share-based compensation arrangements of $8 million, $1 million and $3 million for the years ended December 31, 2020, 2019, and 2018, respectively.

NOTE 18 - COMMITMENTS AND CONTINGENCIES

A summary of outstanding off-balance sheet arrangements is presented below:

	December 31,	
(in millions)	2020	2019
Commitments to extend credit	$74,160	$72,743
Letters of credit	2,239	2,190
Risk participation agreements	98	37
Loans sold with recourse	54	37
Marketing rights	29	33
Total	$76,580	$75,040

Commitments to Extend Credit

Commitments to extend credit are agreements to lend to customers in accordance with conditions contractually agreed upon in advance. Generally, the commitments have fixed expiration dates or termination clauses and may require payment of a fee. Since many of these commitments are expected to expire without being drawn upon, the contract amounts are not necessarily indicative of future cash requirements.

The Company’s commercial loan trading desk provides ongoing secondary market support and liquidity to its clients. Unsettled loan trades (i.e., loan purchase contracts) represent firm commitments to purchase loans from a third party at an agreed-upon price. Principal amounts associated with unsettled commercial loan trades are off-balance sheet commitments until delivery of the loans has taken place. The principal balances of unsettled commercial loan trade purchases and sales were $170 million and $237 million, respectively, at December 31, 2020 and $183 million and $236 million, respectively, at December 31, 2019.

Letters of Credit

Letters of credit in the table above reflect commercial, standby financial and standby performance letters of credit. Standby letters of credit, both financial and performance, are issued by the Company for its customers. They are used as conditional guarantees of payment to a third party in the event the customer either fails to make specific payments (financial) or fails to complete a specific project (performance). The Company’s exposure to credit loss in the event of counterparty nonperformance in connection with the above instruments is represented by the contractual amount of those instruments, net of the value of collateral held. Generally, letters of credit are collateralized by cash, accounts receivable, inventory or investment securities. Credit risk associated with letters of credit is considered in determining the appropriate amounts of reserves for unfunded commitments. Standby letters of credit and commercial letters of credit are issued for terms of up to ten years and one year, respectively.

Other Commitments

Citizens has additional off-balance sheet arrangements that are summarized below:

- Marketing Rights - During 2003, Citizens entered into a 25-year agreement to acquire the naming and marketing rights of a baseball stadium in Pennsylvania.
- Loans sold with recourse - Citizens is an originator and servicer of residential mortgages and routinely sells such mortgage loans in the secondary market and to GSEs. In the context of such sales, the Company makes certain representations and warranties regarding the characteristics of the underlying loans and, as a result, may be contractually required to repurchase such loans or indemnify certain parties against losses for certain breaches of those representations and warranties. The Company also sells the government guaranteed portion of certain SBA loans to outside investors, for which it retains the servicing rights.
- Risk Participation Agreements - RPAs are guarantees issued by the Company to other parties for a fee, whereby the Company agrees to participate in the credit risk of a derivative customer of the other party. The current amount of credit exposure is spread out over 77 counterparties. RPAs generally have terms ranging from one year to five years; however, certain outstanding agreements have terms as long as nine years.

Contingencies

The Company operates in a legal and regulatory environment that exposes it to potentially significant risks. A certain amount of litigation ordinarily results from the nature of the Company’s banking and other businesses. The Company is a party to legal proceedings, including class actions. The Company is also the subject of investigations, reviews, subpoenas, and regulatory matters arising out of its normal business operations, which, in some instances, relate to concerns about fair lending, unfair and/or deceptive practices, mortgage-related issues, and mis-selling of certain products. In addition, the Company engages in discussions with relevant governmental and regulatory authorities on a regular and ongoing basis regarding various issues, and any issues discussed or identified may result in investigatory or other action being taken. Litigation and regulatory matters may result in settlements, damages, fines, penalties, public or private censure, increased costs, required remediation, restrictions on business activities, or other impacts on the Company.

In these disputes and proceedings, the Company contests liability and the amount of damages as appropriate. Given their complex nature, and based on the Company's experience, it may be years before some

of these matters are finally resolved. Moreover, before liability can be reasonably estimated for a claim, numerous legal and factual issues may need to be examined, including through potentially lengthy discovery and determination of important factual matters, and by addressing novel or unsettled legal issues relevant to the proceedings in question. The Company cannot predict with certainty if, how, or when such claims will be resolved or what the eventual settlement, fine, penalty or other relief, if any, may be, particularly for claims that are at an early stage in their development or where claimants seek substantial or indeterminate damages. The Company recognizes a provision for a claim when, in the opinion of management after seeking legal advice, it is probable that a liability exists and the amount of loss can be reasonably estimated. In many proceedings, however, it is not possible to determine whether any loss is probable or to estimate the amount of any loss.

Based on information currently available, the advice of legal counsel and other advisers, and established reserves, management believes that the aggregate liabilities, if any, potentially arising from these proceedings will not have a materially adverse effect on the Company's Consolidated Financial Statements.

NOTE 19 - FAIR VALUE MEASUREMENTS

Citizens measures or monitors many of its assets and liabilities on a fair value basis. Fair value is used on a recurring basis for assets and liabilities for which fair value is the required or elected measurement basis of accounting. Additionally, fair value is used on a nonrecurring basis to evaluate assets for impairment or for disclosure purposes. Nonrecurring fair value adjustments typically involve the application of lower of cost or market accounting or write-downs of individual assets. Citizens also applies the fair value measurement guidance to determine amounts reported for certain disclosures in this Note for assets and liabilities that are not required to be reported at fair value in the financial statements.

Fair Value Option

Citizens elected to account for residential mortgage LHFS and certain commercial and industrial, and commercial real estate LHFS at fair value. The election of the fair value option for financial assets and financial liabilities is optional and irrevocable. Applying fair value accounting to residential mortgage LHFS better aligns the reported results of the economic changes in the value of these loans and their related economic hedge instruments. Certain commercial and industrial, and commercial real estate LHFS are managed by a commercial secondary loan desk that provides liquidity to banks, finance companies and institutional investors. Applying fair value accounting to this portfolio is appropriate because the Company holds these loans with the intent to sell within the near-term periods.

The following table presents the difference between the aggregate fair value and the aggregate unpaid principal balance of LHFS measured at fair value:

	December 31, 2020			December 31, 2019		
(in millions)	Aggregate Fair Value	Aggregate Unpaid Principal	Aggregate Fair Value Less Aggregate Unpaid Principal	Aggregate Fair Value	Aggregate Unpaid Principal	Aggregate Fair Value Less Aggregate Unpaid Principal
Residential mortgage loans held for sale, at fair value	$3,416	$3,260	$156	$1,778	$1,727	$51
Commercial and industrial, and commercial real estate loans held for sale, at fair value	148	153	(5)	168	175	(7)

Residential Mortgage Loans Held for Sale

The fair value of residential mortgage LHFS is derived from observable mortgage security prices and includes adjustments for loan servicing value, agency guarantee fees, and other loan level attributes which are mostly observable in the marketplace. Credit risk does not significantly impact the valuation since these loans are sold shortly after origination. Therefore, the Company classifies residential mortgage LHFS in Level 2 of the fair value hierarchy.

Residential mortgage loans accounted for under the fair value option are initially measured at fair value (i.e., acquisition cost) when the financial asset is acquired. Subsequent changes in fair value are recognized in mortgage banking fees on the Consolidated Statements of Operations.

Interest income on residential mortgage loans held for sale is calculated based on the contractual interest rate of the loan and is recorded in interest income.

Commercial and Industrial, and Commercial Real Estate Loans Held for Sale

The fair value of commercial and industrial, and commercial real estate LHFS is estimated using observable prices of similar loans that transact in the marketplace. In addition, Citizens uses external pricing services that provide estimates of fair values based on quotes from various dealers transacting in the market, sector curves or benchmarking techniques. Therefore, the Company classifies the commercial and industrial, and commercial real estate loans managed by the commercial secondary loan desk in Level 2 of the fair value hierarchy given the observable market inputs.

There were no loans in this portfolio that were 90 days or more past due or nonaccruing as of December 31, 2020. The loans accounted for under the fair value option are initially measured at fair value when the financial asset is recognized. Subsequent changes in fair value are recognized in capital markets fees on the Consolidated Statements of Operations. Since all loans in the Company's commercial trading portfolio consist of floating rate obligations, all changes in fair value are due to changes in credit risk. Such credit-related fair value changes may include observed changes in overall credit spreads and/or changes to the creditworthiness of an individual borrower. Unsettled trades within the commercial trading portfolio are not recognized on the Consolidated Balance Sheets and represent off-balance sheet commitments. Refer to Note 18 for further information.

Interest income on commercial and industrial, and commercial real estate loans held for sale is calculated based on the contractual interest rate of the loan and is recorded in interest income.

Recurring Fair Value Measurements

Citizens measures fair value using the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is based upon quoted market prices in an active market, where available. If quoted prices are not available, observable market-based inputs or independently sourced parameters are used to develop fair value, whenever possible. Such inputs may include prices of similar assets or liabilities, yield curves, interest rates, prepayment speeds, and foreign exchange rates.

A portion of the Company's assets and liabilities are carried at fair value, including securities available for sale, derivative instruments and other investment securities. In addition, the Company elects to account for its loans associated with its mortgage banking business and secondary loan trading desk at fair value. Citizens classifies its assets and liabilities that are carried at fair value in accordance with the three-level valuation hierarchy:

- Level 1. Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2. Observable inputs other than Level 1 prices, such as quoted prices for similar instruments, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by market data for substantially the full term of the asset or liability.
- Level 3. Unobservable inputs that are supported by little or no market information and that are significant to the fair value measurement.

Classification in the hierarchy is based upon the lowest level input that is significant to the fair value measurement of the asset or liability. For instruments classified in Levels 1 and 2 where inputs are primarily based upon observable market data, there is less judgment applied in arriving at the fair value. For instruments classified in Level 3, management judgment is more significant due to the lack of observable market data.

Citizens reviews and updates the fair value hierarchy classifications on a quarterly basis. Changes from one quarter to the next related to the observability of inputs in fair value measurements may result in a reclassification between the fair value hierarchy levels and are recognized based on period-end balances.

Citizens utilizes a variety of valuation techniques to measure its assets and liabilities at fair value. The valuation methodologies used for significant assets and liabilities carried on the balance sheet at fair value on a recurring basis are presented below:

Debt securities available for sale

The fair value of debt securities classified as AFS is based upon quoted prices, if available. Where observable quoted prices are available in an active market, the security is classified as Level 1 in the fair value hierarchy. Classes of instruments that are valued using this market approach include debt securities issued by the U.S. Treasury. If quoted market prices are not available, the fair value for the security is estimated under the market or income approach using pricing models. These instruments are classified as Level 2 because they currently trade in active markets and the inputs to the valuations are observable. The pricing models used to value securities generally begin with market prices (or rates) for similar instruments and make adjustments based on the characteristics of the instrument being valued. These adjustments reflect assumptions made regarding the sensitivity of each security's value to changes in interest rates and prepayment speeds. Classes of instruments that are valued using this market approach include specified pool mortgage "pass-through" securities and other debt securities issued by U.S. government-sponsored entities and state and political subdivisions. The pricing models used to value securities under the income approach generally begin with the contractual cash flows of each security and make adjustments based on forecasted prepayment speeds, default rates, and other market-observable information. The adjusted cash flows are then discounted at a rate derived from observed rates of return for comparable assets or liabilities that are traded in the market. Classes of instruments that are valued using this market approach include residential and commercial CMOs.

The fair value of securities backed by education loans is estimated using observable inputs, including prices of similar securities that transact in the marketplace and current market assumptions related to yield, as well as unobservable inputs, including expected conditional default rates and prepayment speed estimates. Therefore, the Company classifies these asset-backed securities in Level 3 of the fair value hierarchy given the use of unobservable inputs.

A significant majority of the Company's Level 1 and 2 debt securities are priced using an external pricing service. Citizens verifies the accuracy of the pricing provided by its primary outside pricing service on a quarterly basis. This process involves using a secondary external vendor to provide valuations for the Company's securities portfolio for comparison purposes. Any valuation discrepancies beyond a certain threshold are researched and, if necessary, corroborated by an independent outside broker.

In certain cases where there is limited activity or less transparency around inputs to the valuation model, securities are classified as Level 3.

Mortgage Servicing Rights

MSRs do not trade in an active market with readily observable prices. MSRs are classified as Level 3 since the valuation methodology utilizes significant unobservable inputs. The fair value is calculated using a discounted cash flow model which used assumptions, including weighted-average life, prepayment assumptions and weighted-average option adjusted spread. The underlying assumptions and estimated values are corroborated by values received from independent third parties based on their review of the servicing portfolio, and comparisons to market transactions. In addition, the MSR Policy is approved by the Asset Liability Committee. Refer to Note 7 for more information.

Derivatives

The vast majority of the Company's derivatives portfolio is composed of "plain vanilla" interest rate swaps, which are traded in over-the-counter markets where quoted market prices are not readily available. For these interest rate derivatives, fair value is determined utilizing models that primarily use market observable inputs, such as swap rates and yield curves. The pricing models used to value interest rate swaps calculate the sum of each instrument's fixed and variable cash flows, which are then discounted using an appropriate yield curve (i.e., LIBOR or Overnight Index Swap curve) to arrive at the fair value of each swap. The pricing models do not contain a high level of subjectivity as the methodologies used do not require significant judgment. Citizens also considers certain adjustments to the modeled price that market participants would make when pricing each instrument, including a credit valuation adjustment that reflects the credit quality of the swap counterparty. Citizens incorporates the effect of exposure to a particular counterparty's credit by netting its derivative contracts with the available collateral and calculating a credit valuation adjustment on the basis of the net position with the counterparty where permitted. The determination of this adjustment requires judgment on

behalf of Company management; however, the total amount of this portfolio-level adjustment is not material to the total fair value of the interest rate swaps in their entirety. Therefore, interest rate swaps are classified as Level 2 in the valuation hierarchy.

The fair value of foreign exchange derivatives uses the mid-point of daily quoted currency spot prices. A valuation model estimates fair value based on the quoted spot rates together with interest rate yield curves and forward currency rates. Since all of these inputs are observable in the market, foreign exchange derivatives are classified as Level 2 in the fair value hierarchy.

The fair value of TBA contracts is estimated using observable prices of similar loan pools that transact in the marketplace, as well as sector curves and benchmarking techniques. Therefore, the Company classifies TBA contracts in Level 2 of the fair value hierarchy given the observable market inputs.

Other contracts primarily consist of interest rate lock commitments and forward sales commitments of residential MBS used to economically hedge existing mortgage commitments that are pending closure. Forward sales commitments are valued based on the value of similarly situated pools of mortgages trading in the market, adjusted for the unique characteristics of the pool. Since these inputs are observable in the market, these derivatives are classified as Level 2 in the fair value hierarchy. Interest rate lock commitments are valued utilizing internally generated loan closing rate assumptions, which are a significant unobservable input, and therefore are classified as Level 3 in the fair value hierarchy.

Equity Securities, at fair value

The fair value of money market mutual fund investments is determined based upon unadjusted quoted market prices and is considered a Level 1 fair value measurement.

The following table presents assets and liabilities measured at fair value, including gross derivative assets and liabilities, on a recurring basis at December 31, 2020:

(in millions)	Total	Level 1	Level 2	Level 3
Debt securities available for sale:				
Mortgage-backed securities	$22,928	$—	$22,928	$—
State and political subdivisions	3	—	3	—
U.S. Treasury and other	11	11	—	—
Total debt securities available for sale	22,942	11	22,931	—
Loans held for sale, at fair value:				
Residential loans held for sale	3,416	—	3,416	—
Commercial loans held for sale	148	—	148	—
Total loans held for sale, at fair value	3,564	—	3,564	—
Mortgage servicing rights	658	—	—	658
Derivative assets:				
Interest rate contracts	1,566	—	1,566	—
Foreign exchange contracts	320	—	320	—
TBA contracts	8	—	8	—
Other contracts	259	—	62	197
Total derivative assets	2,153	—	1,956	197
Equity securities, at fair value	66	66	—	—
Total assets	$29,383	$77	$28,451	$855
Derivative liabilities:				
Interest rate contracts	$217	$—	$217	$—
Foreign exchange contracts	291	—	291	—
TBA contracts	65	—	65	—
Other contracts	61	—	61	—
Total derivative liabilities	634	—	634	—
Total liabilities	$634	$—	$634	$—

The following table presents assets and liabilities measured at fair value, including gross derivative assets and liabilities, on a recurring basis at December 31, 2019:

(in millions)	Total	Level 1	Level 2	Level 3
Debt securities available for sale:				
Mortgage-backed securities	$20,537	$—	$20,537	$—
State and political subdivisions	5	—	5	—
U.S. Treasury and other	71	71	—	—
Total debt securities available for sale	20,613	71	20,542	—
Loans held for sale, at fair value:				
Residential loans held for sale	1,778	—	1,778	—
Commercial loans held for sale	168	—	168	—
Total loans held for sale, at fair value	1,946	—	1,946	—
Mortgage servicing rights	642	—	—	642
Derivative assets:				
Interest rate contracts	773	—	773	—
Foreign exchange contracts	174	—	174	—
Other contracts	37	—	18	19
Total derivative assets	984	—	965	19
Equity securities, at fair value	47	47	—	—
Total assets	$24,232	$118	$23,453	$661
Derivative liabilities:				
Interest rate contracts	$133	$—	$133	$—
Foreign exchange contracts	166	—	166	—
Other contracts	23	—	23	—
Total derivative liabilities	322	—	322	—
Total liabilities	$322	$—	$322	$—

The following table presents a rollforward of the balance sheet amounts for assets measured at fair value on a recurring basis and classified as Level 3 for the year ended December 31, 2020.

	For the Year Ended December 31,				
	2020			2019	
(in millions)	Mortgage Servicing Rights	Asset-Backed Securities	Other Derivative Contracts	Mortgage Servicing Rights	Other Derivative Contracts
Beginning balance	$642	$—	$19	$600	$—
Transfers upon election of fair value method [1]	190	—	—	—	—
Beginning balance, adjusted	832	—	19	600	—
Purchases	—	813	—	—	—
Issuances	324	—	900	270	144
Settlements [2]	(196)	—	(1,133)	(119)	(161)
Changes in fair value during the period recognized in earnings [3]	(302)	—	411	(109)	17
Transfers from Level 2 to Level 3 [4]	—	—	—	—	18
Transfer from AFS to HTM [5]	—	(813)	—	—	—
Ending balance	$658	$—	$197	$642	$19

[1] Effective January 1, 2020, the Company elected to account for all MSRs previously accounted for under the amortization method under the fair value method.
[2] Represents changes in value of the MSRs due to i) passage of time including the impact from both regularly scheduled loan principal payments and partial paydowns, and ii) loans that paid off during the period.
[3] Represents changes in value primarily driven by market conditions. These changes are recorded in mortgage banking fees in the Consolidated Statements of Operations.
[4] Reflects changes in the significance of unobservable inputs on derivative contracts associated with mortgage origination activities.
[5] In October 2020, Citizens concluded that it has the ability and intent to hold these assets to maturity and transferred them to HTM. Refer to Note 10 for additional information.

The following table presents quantitative information about the Company's Level 3 assets, including the range and weighted-average of the significant unobservable inputs used to fair value these assets, as well as valuation techniques used.

	As of December 31, 2020		
	Valuation Technique	Unobservable Input	Range (Weighted Average)
Mortgage servicing rights	Discounted Cash Flow	Constant prepayment rate	11.59-36.34% CPR (17.3% CPR)
		Option adjusted spread	350 -1,194 bps (595 bps)
Other derivative contracts	Internal Model	Pull through rate	8.80-100.00% (82.07%)
		MSR value	(35.45)-125.55 bps (80.29 bps)

Nonrecurring Fair Value Measurements

Fair value is also used on a nonrecurring basis to evaluate certain assets for impairment or for disclosure purposes. An example of a nonrecurring use of fair value includes loan impairments for certain loans and leases.

The following valuation techniques are utilized to measure significant assets for which the Company utilizes fair value on a nonrecurring basis:

Impaired Loans

The carrying amount of collateral-dependent impaired loans is compared to the appraised value of the collateral less costs to dispose and is classified as Level 2. Any excess of carrying amount over the appraised value is charged to the ALLL.

The following table presents losses on assets measured at fair value on a nonrecurring basis and recorded in earnings:

	Year Ended December 31,		
(in millions)	2020	2019	2018
Collateral-dependent loans	($82)	($34)	($13)

The following table presents assets measured at fair value on a nonrecurring basis:

	December 31, 2020				December 31, 2019			
(in millions)	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
Collateral-dependent loans	$758	$—	$758	$—	$312	$—	$312	$—

Disclosures about Fair Value of Financial Instruments

The following table presents the estimated fair value for financial instruments not recorded at fair value in the Consolidated Financial Statements. The carrying amounts are recorded in the Consolidated Balance Sheets under the indicated captions:

	December 31, 2020							
	Total		Level 1		Level 2		Level 3	
(in millions)	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Financial assets:								
Debt securities held to maturity	$3,235	$3,357	$—	$—	$2,342	$2,464	$893	$893
Other loans held for sale	439	439	—	—	—	—	439	439
Loans and leases	123,090	123,678	—	—	758	758	122,332	122,920
Other assets	604	604	—	—	596	596	8	8
Financial liabilities:								
Deposits	147,164	147,223	—	—	147,164	147,223	—	—
Short-term borrowed funds	243	243	—	—	243	243	—	—
Long-term borrowed funds	8,346	8,850	—	—	8,346	8,850	—	—

(in millions)	December 31, 2019 Total Carrying Value	Total Estimated Fair Value	Level 1 Carrying Value	Level 1 Estimated Fair Value	Level 2 Carrying Value	Level 2 Estimated Fair Value	Level 3 Carrying Value	Level 3 Estimated Fair Value
Financial assets:								
Debt securities held to maturity	$3,202	$3,242	$—	$—	$3,202	$3,242	$—	$—
Other loans held for sale	1,384	1,384	—	—	—	—	1,384	1,384
Loans and leases	119,088	119,792	—	—	312	312	118,776	119,480
Other assets	807	807	—	—	807	807	—	—
Financial liabilities:								
Deposits	125,313	125,340	—	—	125,313	125,340	—	—
Short-term borrowed funds	274	274	—	—	274	274	—	—
Long-term borrowed funds	14,047	14,228	—	—	14,047	14,228	—	—

NOTE 20 - NONINTEREST INCOME

The following table presents noninterest income, segregated between revenue from contracts with customers and revenue from other sources:

(in millions)	Year Ended December 31, 2020	2019
Revenue from contracts with customers	$1,080	$1,172
Revenue from other sources	1,239	705
Noninterest income	$2,319	$1,877

Revenues from Contracts with Customers

Citizens recognizes revenue from contracts with customers in the amount of consideration it expects to receive upon the transfer of control of a good or service. The timing of recognition is dependent on whether the Company satisfies a performance obligation by transferring control of the product or service to a customer over time or at a point in time. Judgments are made in the recognition of income including the timing of satisfaction of performance obligations and determination of the transaction price.

The following table presents the components of revenue from contracts with customers disaggregated by revenue stream and business operating segment:

(in millions)	Year Ended December 31, 2020 Consumer Banking	Commercial Banking	Consolidated [1]	Year Ended December 31, 2019 Consumer Banking	Commercial Banking	Consolidated [1]
Service charges and fees	$301	$100	$401	$400	$103	$503
Card fees	185	31	216	215	39	254
Capital markets fees	—	249	249	—	202	202
Trust and investment services fees	203	—	203	202	—	202
Other banking fees	1	10	11	1	10	11
Total revenue from contracts with customers	$690	$390	$1,080	$818	$354	$1,172

[1] There is no revenue from contracts with customers included in Other non-segment operations.

Citizens does not have any material contract assets, liabilities, or other receivables recorded on its Consolidated Balance Sheets related to revenues from contracts with customers as of December 31, 2020. Citizens has elected the practical expedient to exclude disclosure of unsatisfied performance obligations for (i) contracts with an original expected length of one year or less and (ii) contracts for which the Company recognized revenue at the amount to which the Company has the right to invoice for services performed.

A description of the above components of revenue from contracts with customers is presented below:

Service Charges and Fees

Service charges and fees include fees earned from deposit products in lieu of compensating balances, service charges for transactions performed upon depositors' request, as well as fees earned from performing cash management activities. Service charges on deposit products are recognized over the period in which the related service is provided, typically monthly. Service fees are recognized at a point in time upon completion of the requested service transaction. Fees on cash management products and servicing fees on loans sold without recognition of a servicing right are recognized over time (typically monthly) as services are provided.

Card Fees

Card fees include interchange income from credit and debit card transactions and are recognized at a point in time upon settlement by the association network. Interchange rates are generally set by the association network based on purchase volume and other factors. Other card-related fees are recognized at a point in time upon completion of the transaction. Costs related to card rewards programs are recognized in current earnings as the rewards are earned by the customer and are presented as a reduction to card fees on the Consolidated Statements of Operations.

Capital Markets Fees

Capital markets fees include fees received from leading or participating in loan syndications, underwriting services and advisory fees. Loan syndication and underwriting fees are recognized as revenue at a point in time when the Company has rendered all services to, and is entitled to collect the fee from, the borrower or the issuer, and there are no other contingencies associated with the fee. Underwriting expenses passed through from the lead underwriter are recognized within other operating expense on the Consolidated Statements of Operations. Advisory fees for merger and acquisitions are recognized over time, while valuation services and fairness opinions are recognized at a point in time upon completion of the advisory service.

Trust and Investment Services Fees

Trust and investment services fees include fees from investment management services and brokerage services. Fees from investment management services are based on asset market values and are recognized over the period in which the related service is provided. Brokerage services include custody fees, commission income, trailing commissions and other investment securities. Custody fees are recognized on a monthly basis for customers that are assessed custody fees. Commission income is recognized at a point in time on trade date. Trailing commissions such as 12b-1 fees, insurance renewal income, and income based on asset or investment levels in future periods are recognized at a point in time when the asset balance is known, or the renewal occurs and the income is no longer constrained. For the years ended December 31, 2020 and 2019, the Company recognized trailing commissions of $14 million and $15 million, respectively, related to services provided in previous reporting periods. Fees from other investment services are recognized at a point in time upon completion of the service.

Other Banking Fees

Other banking fees include fees for various transactional banking activities such as letter of credit fees, foreign wire transfers and other transactional services. These fees are recognized in a manner that reflects the timing of when transactions occur and as services are provided.

Revenue from Other Sources

Letter of Credit and Loan Fees

Letter of credit and loan fees primarily includes fees received related to letter of credit agreements as well as loan fees received from lending activities that are not deferrable. These fees are generally recognized upon execution of the contract.

Foreign Exchange and Interest Rate Products

Foreign exchange and interest rate products primarily includes the fees received from foreign exchange and interest rate derivative contracts executed with customers to meet their hedging and financing needs. These fees are generally recognized upon execution of the contracts. Foreign exchange and interest rate products also include the mark-to-market gains and losses recognized on (i) these customer contracts and (ii) offsetting derivative contracts that are executed with external counterparties to hedge the foreign exchange and interest rate risk associated with the customer contracts.

Mortgage Banking Fees

Mortgage banking fees primarily include gains on sales of residential mortgages originated with the intent to sell and servicing fees on mortgages where the Company is the servicer. Mortgage banking fees also include valuation adjustments for mortgage loans held-for-sale that are measured at the lower of cost or fair value, as well as mortgage loans originated with the intent to sell that are measured at fair value under the fair value option. Changes in the value of MSRs are reported in mortgage fees and related income. For a further discussion of MSRs, see Note 8. Net interest income from mortgage loans is recorded in interest income.

Other Income

Bank-owned life insurance is stated at its cash surrender value. Citizens is the beneficiary of the life insurance policies on current and former officers and selected employees of the Company. Net changes in the carrying amount of the cash surrender value are an adjustment of premiums paid in determining the expense or income to be recognized under the life insurance policy for the period.

	Year Ended December 31,		
(in millions)	2020	2019	2018
Bank-owned life insurance	$57	$55	$56

NOTE 21 - OTHER OPERATING EXPENSE

The following table presents the details of other operating expense:

	Year Ended December 31,		
(in millions)	2020	2019	2018
Promotional expense	$100	$112	$129
Deposit insurance	66	62	104
Other	253	302	262
Other operating expense	$419	$476	$495

NOTE 22 - INCOME TAXES

Citizens uses an asset and liability (balance sheet) approach for financial accounting and reporting of income taxes, resulting in two components of income tax expense: current and deferred. Current income tax expense approximates taxes to be paid or refunded for the current period. Deferred income tax expense results from changes in gross deferred tax assets and liabilities between periods. These gross deferred tax assets and liabilities represent changes in taxes expected to be paid in the future due to reversals of temporary differences between the bases of the assets and liabilities as measured under tax laws, and their bases reported in the Consolidated Financial Statements as measured under GAAP.

Citizens also assesses the probability that the positions taken, or expected to be taken, in its income tax returns will be sustained by taxing authorities. A “more likely than not” (more than 50 percent) recognition threshold must be met before a tax benefit can be recognized. Tax positions that are more likely than not to be sustained are reflected in the Company’s Consolidated Financial Statements.

The following table presents total income tax expense:

	Year Ended December 31,		
(in millions)	2020	2019	2018
Income tax expense	$241	$460	$462
Tax effect of changes in OCI	112	225	(96)
Total comprehensive income tax expense	$353	$685	$366

The following table presents the components of income tax expense:

(in millions)	Current	Deferred	Total
Year Ended December 31, 2020			
U.S. federal	$377	($181)	$196
State and local	102	(57)	45
Total	$479	($238)	$241
Year Ended December 31, 2019			
U.S. federal	$323	$64	$387
State and local	73	—	73
Total	$396	$64	$460
Year Ended December 31, 2018			
U.S. federal	$271	$90	$361
State and local	94	7	101
Total	$365	$97	$462

The following table presents a reconciliation between the U.S. federal income tax rate and the Company's effective income tax rate:

	Year Ended December 31,					
	2020		2019		2018	
(in millions, except ratio data)	Amount	Rate	Amount	Rate	Amount	Rate
U.S. federal income tax expense and tax rate	$273	21.0 %	$473	21.0 %	$459	21.0 %
Increase (decrease) resulting from:						
Federal rate change	—	—	—	—	(34)	(1.6)
State and local income taxes (net of federal benefit)	54	4.2	73	3.2	89	4.1
Bank-owned life insurance	(12)	(0.9)	(12)	(0.5)	(12)	(0.5)
Tax-exempt interest	(10)	(0.7)	(15)	(0.7)	(15)	(0.7)
Tax advantaged investments (including related credits)	(68)	(5.3)	(50)	(2.3)	(44)	(2.0)
Other tax credits	(6)	(0.5)	(10)	(0.4)	(8)	(0.4)
Adjustments for uncertain tax positions	(1)	(0.1)	—	—	1	0.1
Non-deductible FDIC premiums	14	1.1	13	0.6	21	1.0
Legacy tax matters	(4)	(0.3)	(19)	(0.8)	—	—
Other	1	—	7	0.3	5	0.2
Total income tax expense and tax rate	$241	18.5 %	$460	20.4 %	$462	21.2 %

The following table presents the tax effects of temporary differences that give rise to significant portions of the Company's deferred tax assets and liabilities:

(in millions)	December 31, 2020	2019
Deferred tax assets:		
Other comprehensive income	$29	$141
Allowance for credit losses	622	315
State net operating loss carryforwards	71	62
Accrued expenses not currently deductible	77	24
Investment and other tax credit carryforwards	99	89
Fair value adjustments	—	—
Total deferred tax assets	898	631
Valuation allowance	(98)	(79)
Deferred tax assets, net of valuation allowance	800	552
Deferred tax liabilities:		
Leasing transactions	459	513
Amortization of intangibles	376	370
Depreciation	262	186
Pension and other employee compensation plans	107	124
Partnerships	76	71
Deferred Income	62	79
MSRs	87	75
Total deferred tax liabilities	1,429	1,418
Net deferred tax liability	$629	$866

Deferred tax assets are recognized for net operating loss carryforwards and tax credit carryforwards. Valuation allowances are recorded as necessary to reduce deferred tax assets to the amounts that management concludes are more likely than not to be realized.

At December 31, 2020, the Company had state tax net operating loss carryforwards of $1.2 billion. Limitations on the ability to realize these carryforwards are reflected in the associated valuation allowance. At December 31, 2020, the Company had a valuation allowance of $98 million against various deferred tax assets related to state net operating losses and state tax credits, as it is management's current assessment that it is more likely than not that the Company will not recognize a portion of the deferred tax assets related to these items. The valuation allowance increased $19 million during the year ended December 31, 2020.

Effective with the fiscal year ended September 30, 1997, the reserve method for bad debts was no longer permitted for tax purposes. The repeal of the reserve method required the recapture of the reserve balance in excess of certain base year reserve amounts attributable to years ended prior to 1988. At December 31, 2020, the Company's base year loan loss reserves attributable to years ended prior to 1988, for which no deferred income taxes have been provided, was $557 million. This base year reserve may become taxable if certain distributions are made with respect to the stock of the Company or if the Company ceases to qualify as a bank for tax purposes. No actions are planned that would cause this reserve to become wholly or partially taxable.

Citizens files income tax returns in the U.S. federal jurisdiction and in various state and local jurisdictions. With few exceptions, the Company is no longer subject to U.S. federal or state and local income tax examinations by major tax authorities for years before 2017.

The following table presents a reconciliation of the beginning and ending amount of unrecognized tax benefits:

(in millions)	December 31, 2020	2019	2018
Balance at the beginning of the year	$5	$8	$5
Gross increase for tax positions related to current year	—	—	3
Gross decrease for tax positions related to prior years	—	(2)	—
Decrease for tax positions as a result of the lapse of the statutes of limitations	(1)	(1)	—
Balance at end of year	$4	$5	$8

Tax positions are measured as the largest amount of tax benefit that is greater than 50 percent likely of being realized upon settlement with a taxing authority that has full knowledge of all relevant information. The difference between the benefit recognized for a position and the tax benefit claimed on a tax return is referred to as an unrecognized tax benefit.

Included in the total amount of unrecognized tax benefits at December 31, 2020, are potential benefits of $4 million that, if recognized, would impact the effective tax rate.

Citizens classifies interest and penalties related to unrecognized tax benefits as a component of income tax expense. The Company released $1 million of accrued interest through income tax expense during the year ended December 31, 2020. There was no interest accrued through income tax expense during the years ended December 31, 2019 and 2018. Citizens had approximately $0 million, $1 million, and $2 million accrued for the payment of interest at December 31, 2020, 2019, and 2018, respectively. There were no amounts accrued for penalties as of December 31, 2020, 2019, and 2018, and there were no penalties recognized during the years ended December 31, 2020, 2019, and 2018.

NOTE 23 - EARNINGS PER SHARE

Basic EPS is computed by dividing net income available to common stockholders by the weighted-average number of common shares outstanding during each period. Net income available to common stockholders represents net income after preferred stock dividends, accretion of the discount on preferred stock issuances, and gains or losses from any repurchases of preferred stock. Diluted EPS is computed by dividing net income available to common stockholders by the weighted-average number of common shares outstanding during each period, plus potential dilutive shares such as share-based payment awards and warrants using the treasury stock method.

	Year Ended December 31,		
(in millions, except share and per-share data)	2020	2019	2018
Numerator (basic and diluted):			
Net income	$1,057	$1,791	$1,721
Less: Preferred stock dividends	107	73	29
Net income available to common stockholders	$950	$1,718	$1,692
Denominator:			
Weighted-average common shares outstanding - basic	427,062,537	449,731,453	478,822,072
Dilutive common shares: share-based awards	1,095,243	1,482,248	1,608,669
Weighted-average common shares outstanding - diluted	428,157,780	451,213,701	480,430,741
Earnings per common share:			
Basic	$2.22	$3.82	$3.54
Diluted[1]	2.22	3.81	3.52

[1] Potential dilutive common shares are excluded from the computation of diluted EPS in the periods where the effect would be antidilutive. Excluded from the computation of diluted EPS were weighted average antidilutive shares totaling 1,338,130 and 783 for the years ended December 31, 2020 and 2019. There were no antidilutive shares to exclude from the calculation for the year ended December 31, 2018.

NOTE 24 - REGULATORY MATTERS

As a bank holding company, Citizens is subject to regulation and supervision by the FRB. Our banking subsidiary, CBNA, is a national banking association whose primary federal regulator is the OCC.

Under the U.S. Basel III capital framework, the Company and CBNA must meet the following specific minimum requirements: CET1 capital ratio of 4.5%, tier 1 capital ratio of 6.0%, total capital ratio of 8.0%, and tier 1 leverage ratio of 4.0% . The Company is imposed a SCB of 3.4% on top of each of the three minimum risk-weighted capital ratios listed above and the Company's SCB is re-calibrated with each biennial supervisory stress test and updated annually to reflect the Company's planned common stock dividends. CBNA is imposed a static CCB of 2.5% on top of each of the three minimum risk-weighted capital ratios listed above. In addition, the Company must not be subject to a written agreement, order or capital directive with any of its regulators. Failure to meet minimum capital requirements can result in the initiation of certain actions that, if undertaken, could have a material effect on the Company's Consolidated Financial Statements.

The following table presents the Company's capital and capital ratios under U.S. Basel III Standardized rules. The Company has declared itself as an "AOCI opt-out" institution, which means the Company is not required to recognize in regulatory capital the impacts of net unrealized gains and losses included within AOCI

for debt securities that are available for sale or held to maturity, accumulated net gains and losses on cash flow hedges and certain defined benefit pension plan assets. The Company has also elected to delay the estimated impact of CECL on regulatory capital for a two-year period ending January 1, 2022, followed by a three-year transition period ending January 1, 2025 to phase-in the aggregate amount of the capital benefit provided during the initial two-year delay.

	Actual		Minimum Capital Adequacy	
(in millions, except ratio data)	Amount	Ratio	Amount	Ratio[1]
As of December 31, 2020				
CET1 capital	$14,607	10.0	$11,596	7.9 %
Tier 1 capital	16,572	11.3	13,797	9.4
Total capital	19,602	13.4	16,733	11.4
Tier 1 leverage	16,572	9.4	7,015	4.0
As of December 31, 2019				
CET1 capital	$14,304	10.0 %	$10,004	7.0 %
Tier 1 capital	15,874	11.1	12,148	8.5
Total capital	18,542	13.0	15,006	10.5
Tier 1 leverage	15,874	10.0	6,351	4.0

[1] "Minimum Capital ratio" includes stress capital buffer of 3.4% for 2020 and capital conservation buffer of 2.5% for 2019; N/A to Tier 1 leverage.

Under the FRB's Capital Plan Rule, the Company may only make capital distributions, including payment of dividends and share repurchases, in accordance with a capital plan that has been reviewed by the FRB with no objection or as otherwise authorized by the FRB. The timing and exact amount of future dividends and share repurchases will depend on various factors, including the Company's capital position, financial performance, risk-weighted assets, capital impacts of strategic initiatives, market conditions and regulatory considerations. All future capital distributions are subject to consideration and approval by the Board of Directors prior to execution. See Note 16 for more information regarding the Company's preferred stock issuances, common stock repurchases, and dividends.

Dividends payable by CBNA, as a national bank subsidiary, are limited to the lesser of the amount calculated under a "recent earnings" test and an "undivided profits" test. Under the recent earnings test, a dividend may not be paid if the total of all dividends declared by a bank in any calendar year is in excess of the current year's net income combined with the retained net income of the two preceding years, less any required transfers to surplus, unless the national bank obtains the approval of the OCC. Under the undivided profits test, a dividend may not be paid in excess of the entity's "undivided profits" (generally, accumulated net profits that have not been paid out as dividends or transferred to surplus). Federal bank regulatory agencies have issued policy statements which provide that FDIC-insured depository institutions and their holding companies should generally pay dividends only out of their current operating earnings.

NOTE 25 - BUSINESS OPERATING SEGMENTS

Citizens is managed by its Chief Executive Officer on a segment basis. The Company's two business operating segments are Consumer Banking and Commercial Banking. The business segments are determined based on the products and services provided, or the type of customer served. Each segment has a segment head who reports directly to the Chief Executive Officer. The Chief Executive Officer has final authority over resource allocation decisions and performance assessment. The business segments reflect this management structure and the manner in which financial information is currently evaluated by the Chief Executive Officer.

Reportable Segments

Segment results are determined based upon the Company's management reporting system, which assigns balance sheet and statement of operations items to each of the business segments. The process is designed around the Company's organizational and management structure and accordingly, the results derived are not necessarily comparable with similar information published by other financial institutions. A description of each reportable segment and table of financial results is presented below:

Consumer Banking

The Consumer Banking segment focuses on retail customers and small businesses with annual revenues of up to $25 million. It offers traditional banking products and services, including checking, savings, home loans,

education loans, credit cards, business loans, and unsecured product finance and personal loans in addition to financial management services. It also operates an indirect auto financing business, providing financing for both new and used vehicles through auto dealerships. The segment's distribution channels include a branch network, ATMs and a work force of experienced specialists ranging from financial consultants, mortgage loan officers and business banking officers to private bankers. The Company's Consumer Banking value proposition is based on providing simple, easy to understand product offerings and a convenient banking experience with a more personalized approach.

Commercial Banking

The Commercial Banking segment primarily targets companies with annual revenues from $25 million to $2.5 billion and provides a full complement of financial products and solutions, including loans, leases, trade financing, deposits, cash management, commercial cards, foreign exchange, interest rate risk management, corporate finance and capital markets advisory capabilities. It focuses on middle-market companies, large corporations and institutions and has dedicated teams with industry expertise in government banking, not-for-profit, healthcare, technology, professionals, oil and gas, asset finance, franchise finance, asset-based lending, commercial real estate, private equity and sponsor finance. While the segment's business development efforts are predominantly focused in the Company's footprint, some of its specialized industry businesses also operate selectively on a national basis (such as healthcare, asset finance and franchise finance). A key component of Commercial Banking's growth strategy is to bring ideas to clients that help their businesses thrive, and in doing so, expand the loan portfolio and ancillary product sales.

Non-segment Operations

Other

Non-segment operations are classified as Other, which includes corporate functions, the Treasury function, the securities portfolio, wholesale funding activities, intangible assets, community development, non-core assets, and other unallocated assets, liabilities, capital, revenues, provision for credit losses, and expenses including income tax expense. In addition to non-segment operations, Other includes goodwill and any associated goodwill impairment charges. For impairment testing purposes, the Company assigns goodwill to its Consumer Banking and Commercial Banking reporting units.

Management accounting practices utilized by the Company as the basis of presentation for segment results include the following:

FTP adjustments

Citizens utilizes an FTP system to eliminate the effect of interest rate risk from the segments' net interest income because such risk is centrally managed within the Treasury function. The FTP system credits (or charges) the segments with the economic value of the funds created (or used) by the segments. The FTP system provides a funds credit for sources of funds and a funds charge for the use of funds by each segment. The sum of the interest income/expense and FTP charges/credits for each segment is its designated net interest income. The variance between the Company's cumulative FTP charges and cumulative FTP credits is offset in Other. Citizens periodically evaluates and refines its methodologies used to measure financial performance of its business operating segments.

Provision for credit losses allocations

Provision for credit losses is allocated to each business segment based on actual net charge-offs recognized by the business segment. The difference between the consolidated provision for credit losses and the business segments' net charge-offs is reflected in Other.

Income tax allocations

Income taxes are assessed to each line of business at a standard tax rate with the residual tax expense or benefit to arrive at the consolidated effective tax rate included in Other.

Expense allocations

Noninterest expenses incurred by centrally managed operations or business lines that directly support another business line's operations are charged to the applicable business line based on its utilization of those services.

Goodwill

For impairment testing purposes, the Company assigns goodwill to its Consumer Banking and Commercial Banking reporting units. For management reporting purposes, the Company presents the goodwill balance (and any related impairment charges) in Other.

Substantially all revenues generated and long-lived assets held by the Company's business segments are derived from clients that reside in the United States. Neither business segment earns revenue from a single external customer that represents ten percent or more of the Company's total revenues.

	As of and for the Year Ended December 31, 2020			
(in millions)	Consumer Banking	Commercial Banking	Other	Consolidated
Net interest income	$3,311	$1,643	($368)	$4,586
Noninterest income	1,655	595	69	2,319
Total revenue	4,966	2,238	(299)	6,905
Noninterest expense	2,964	860	167	3,991
Profit before provision for credit losses	2,002	1,378	(466)	2,914
Provision for credit losses	288	398	930	1,616
Income (loss) before income tax expense (benefit)	1,714	980	(1,396)	1,298
Income tax expense (benefit)	429	206	(394)	241
Net income	$1,285	$774	($1,002)	$1,057
Total average assets	$72,022	$60,839	$43,581	$176,442

	As of and for the Year Ended December 31, 2019			
(in millions)	Consumer Banking	Commercial Banking	Other	Consolidated
Net interest income	$3,182	$1,466	($34)	$4,614
Noninterest income	1,156	607	114	1,877
Total revenue	4,338	2,073	80	6,491
Noninterest expense	2,851	858	138	3,847
Profit before provision for credit losses	1,487	1,215	(58)	2,644
Provision for credit losses	325	97	(29)	393
Income (loss) before income tax expense (benefit)	1,162	1,118	(29)	2,251
Income tax expense (benefit)	287	248	(75)	460
Net income	$875	$870	$46	$1,791
Total average assets	$66,240	$55,947	$39,989	$162,176

	As of and for the Year Ended December 31, 2018			
(in millions)	Consumer Banking	Commercial Banking	Other	Consolidated
Net interest income	$3,064	$1,497	($29)	$4,532
Noninterest income	973	545	78	1,596
Total revenue	4,037	2,042	49	6,128
Noninterest expense	2,723	813	83	3,619
Profit before provision for credit losses	1,314	1,229	(34)	2,509
Provision for credit losses	289	26	11	326
Income (loss) before income tax expense (benefit)	1,025	1,203	(45)	2,183
Income tax expense (benefit)	258	276	(72)	462
Net income	$767	$927	$27	$1,721
Total average assets	$62,444	$52,362	$39,747	$154,553

NOTE 26 - PARENT COMPANY FINANCIALS

Condensed Statements of Operations

	Year Ended December 31,		
(in millions)	2020	2019	2018
OPERATING INCOME:			
Income from consolidated subsidiaries and excluding equity in undistributed earnings:			
Dividends from banking subsidiaries	$900	$1,130	$1,650
Interest	42	48	46
Management and service fees	54	42	22
Income from nonbank subsidiaries and excluding equity in undistributed earnings:			
Dividends from nonbank subsidiaries	40	8	5
Interest	4	4	2
All other operating income	1	1	1
Total operating income	1,041	1,233	1,726
OPERATING EXPENSE:			
Salaries and employee benefits	27	35	25
Interest expense	120	87	89
All other expenses	30	27	23
Total operating expense	177	149	137
Income before taxes and undistributed income	864	1,084	1,589
Income taxes	(16)	(10)	(13)
Income before undistributed earnings of subsidiaries	880	1,094	1,602
Equity in undistributed earnings of subsidiaries:			
Bank	170	682	109
Nonbank	7	15	10
Net income	$1,057	$1,791	$1,721
Other comprehensive income (loss), net of income taxes:			
Net pension plan activity arising during the period	($3)	($5)	$5
Net unrealized derivative instrument gains arising during the period	2	2	2
Other comprehensive (loss) income activity of the Parent Company, net of income taxes	(1)	(3)	7
Other comprehensive income (loss) activity of Bank subsidiaries, net of income taxes	352	683	(283)
Total other comprehensive income (loss), net of income taxes	351	680	(276)
Total comprehensive income	$1,408	$2,471	$1,445

In accordance with federal and state banking regulations, dividends paid by CBNA to the Company are subject to certain limitations, see Note 24 for more information. Additionally, see Note 16 for more information regarding the Company's common and preferred stock dividends.

Condensed Balance Sheets

(in millions)	December 31, 2020	December 31, 2019
ASSETS:		
Cash and due from banks	$2,680	$1,418
Loans and advances to:		
Bank subsidiary	1,148	1,146
Nonbank subsidiaries	105	120
Investments in subsidiaries:		
Bank subsidiary	22,164	21,973
Nonbank subsidiaries	106	99
Other assets	152	127
TOTAL ASSETS	$26,355	$24,883
LIABILITIES:		
Long-term borrowed funds due to unaffiliated companies	$3,441	$2,485
Other liabilities	241	197
TOTAL LIABILITIES	3,682	2,682
TOTAL STOCKHOLDERS' EQUITY	22,673	22,201
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$26,355	$24,883

Condensed Cash Flow Statements

	Year Ended December 31,		
(in millions)	2020	2019	2018
OPERATING ACTIVITIES			
Net income	$1,057	$1,791	$1,721
Adjustments to reconcile net income to net cash provided by operating activities:			
Deferred income taxes	17	(8)	17
Equity in undistributed earnings of subsidiaries	(177)	(697)	(120)
Increase in other liabilities	43	50	11
(Increase) decrease in other assets	(41)	7	(7)
Other operating, net	48	58	40
Net cash provided by operating activities	947	1,201	1,662
INVESTING ACTIVITIES			
Investments in and advances to subsidiaries	(190)	(105)	—
Repayment of investments in and advances to subsidiaries	205	55	—
Other investing, net	(1)	(1)	(1)
Net cash provided (used) by investing activities	14	(51)	(1)
FINANCING ACTIVITIES			
Proceeds from issuance of long-term borrowed funds	1,053	500	—
Repayments of long-term borrowed funds	(12)	—	(333)
Treasury stock purchased	(270)	(1,220)	(1,025)
Net proceeds from issuance of preferred stock	395	730	593
Dividends declared and paid to common stockholders	(672)	(617)	(471)
Dividends declared and paid to preferred stockholders	(98)	(65)	(14)
Other financing, net	(95)	(21)	(13)
Net cash provided (used) by financing activities	301	(693)	(1,263)
Increase in cash and due from banks	1,262	457	398
Cash and due from banks at beginning of year	1,418	961	563
Cash and due from banks at end of year	$2,680	$1,418	$961

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

The Company maintains a set of disclosure controls and procedures designed to ensure that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act, is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms. The design of any disclosure controls and procedures is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Any controls and procedures, no matter how well designed and operated, can provide only reasonable, not absolute, assurance of achieving the desired control objectives. In accordance with Rule 13a-15(b) of the Exchange Act, as of the end of the period covered by this Annual Report on Form 10-K, an evaluation was carried out under the supervision and with the participation of the Company's management, including its Chief Executive Officer and Chief Financial Officer, of the effectiveness of its disclosure controls and procedures. Based on that evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures, as of the end of the period covered by this Annual Report on Form 10-K, were effective to provide reasonable assurance that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms and is accumulated and communicated to the Company's management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in internal control over financial reporting: During the first quarter of 2020, the Company implemented controls related to the adoption of Current Expected Credit Losses (ASU 2016-13, Financial Instruments- Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments) and the related financial statement reporting. Changes to the control environment specific to the Allowance for Credit Loss process include the enhancement of data validation procedures, tailoring of governance routines and verification of information provided for disclosures. There were no other changes in our internal control over financial reporting identified in management's evaluation pursuant to Rules13a-15(d) or 15d-15(d) of the Exchange Act during the period covered by this Annual Report on Form 10-K that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Management's Annual Report on Internal Control over Financial Reporting, the Report of the Independent Registered Public Accounting Firm on the Consolidated Financial Statements, and the Report of the Independent Registered Public Accounting Firm on Internal Control over Financial Reporting are included in Item 8.

ITEM 9B. OTHER INFORMATION

None.

PART III

We refer in Part III of this Report to relevant sections of our 2021 Proxy Statement for the 2021 annual meeting of shareholders, which will be filed with the SEC pursuant to Regulation 14A within 120 days of the close of our 2020 fiscal year. Portions of our 2021 Proxy Statement, including the sections we refer to in this Report, are incorporated by reference into this Report.

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Information required by this item is presented under the captions "Corporate Governance Matters" — "Election of Directors" — "Nominees" and "Board Governance and Oversight — "Corporate Governance Guidelines, Committee Charters and Code of Business Conduct and Ethics" of our 2021 Proxy Statement, which is incorporated by reference into this item.

ITEM 11. EXECUTIVE COMPENSATION

Information required by this item is presented under the captions "Compensation Matters" — "Compensation Discussion and Analysis," "Compensation and Human Resources Committee Report," "Executive Compensation," "Termination of Employment and Change of Control," "Director Compensation," "Role of Risk Management in Compensation," and "CEO Pay Ratio" of our 2021 Proxy Statement, which is incorporated by reference into this item.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by this item regarding security ownership of certain beneficial owners and management is presented under the caption "Security Ownership of Certain Beneficial Owners and Management" in our 2021 Proxy Statement and is incorporated herein by reference.

Information regarding our compensation plans under which CFG equity securities are authorized for issuance is included in the table below. Additional information regarding these plans is included in Note 17 in Item 8.

Equity Compensation Plan Information
At December 31, 2020

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (#)[1]	Weighted-average exercise price of outstanding options, warrants and rights ($)[2]	Number of securities remaining available (excluding securities reflected in first column) (#)[3]
Equity compensation plans approved by security holders	3,496,231	—	51,261,793
Equity compensation plans not approved by security holders	—	—	—
Total	3,496,231	—	51,261,793

[1] Represents the number of shares of common stock associated with outstanding time-based and performance-based restricted stock units.
[2] We had no outstanding options.
[3] Represents the number of shares remaining available for future issuance under the Citizens Financial Group, Inc. 2014 Omnibus Incentive Plan (44,857,264 shares), the Citizens Financial Group, Inc. 2014 Employee Stock Repurchase Plan (5,024,904 shares), and the Citizens Financial Group, Inc. 2014 Non-Employee Directors Compensation Plan (1,379,625 shares).

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Information required by this item is set forth under the captions "Corporate Governance Matters" — "Board Governance and Oversight — Director Independence" and "Related Person Transactions" of our 2021 Proxy Statement, which is incorporated by reference into this item.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Information required by this item is presented under the captions "Audit Matters" — "Pre-approval of Independent Auditor Services" and "Independent Registered Public Accounting Firm Fees" of our 2021 Proxy Statement, which is incorporated by reference into this item.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a)(1) Financial Statements of Citizens Financial Group, Inc., included in this Report:

- Report of Independent Registered Public Accounting Firm on the Consolidated Financial Statements;
- Consolidated Balance Sheets as of December 31, 2020 and 2019;
- Consolidated Statements of Operations for the Years Ended December 31, 2020, 2019 and 2018;
- Consolidated Statements of Comprehensive Income for the Years Ended December 31, 2020, 2019 and 2018;
- Consolidated Statements of Changes in Stockholders' Equity for the Years Ended December 31, 2020, 2019 and 2018;
- Consolidated Statements of Cash Flows for the Years Ended December 31, 2020, 2019 and 2018; and
- Notes to Consolidated Financial Statements.

(a)(2) Financial Statement Schedules

All financial statement schedules for the Registrant have been included in the audited Consolidated Financial Statements or the related footnotes in Item 8, or are either inapplicable or not required.

(a)(3) Exhibits

3.1 Amended and Restated Certificate of Incorporation of the Registrant dated April 23, 2020 (incorporated herein by reference to Exhibit 3.1 of the Current Report on Form 8-K, filed April 24, 2020)

3.2 Certificate of Designations of the Registrant with respect to the Series F Preferred Stock, dated June 1, 2020, filed with the Secretary of State of the State of Delaware and effective June 1, 2020 (incorporated herein by reference to Exhibit 3.1 of the Current Report on Form 8-K, filed June 4, 2020)

3.3 Amended and Restated Bylaws of the Registrant (as amended and restated on April 23, 2020) (incorporated herein by reference to Exhibit 3.2 of the Current Report on Form 8-K, filed April 24, 2020)

4.1 Senior Debt Indenture between the Company and The Bank of New York Mellon dated as of October 28, 2015 (incorporated herein by reference to Exhibit 4.1 of Registration Statement on Form S-3, filed October 29, 2015)

4.2 Subordinated Indenture between the Company and The Bank of New York Mellon dated as of September 28, 2012 (incorporated herein by reference to Exhibit 4.2 of the Registration Statement on Form S-1, filed July 28, 2015)

4.3 Form of Certificate representing the Series A Preferred Stock (incorporated herein by reference to Exhibit 4.2 of the Current Report on Form 8-K, filed April 6, 2015)

4.4 Form of Certificate representing the Series B Preferred Stock (incorporated herein by reference to Exhibit 4.2 of the Current Report on Form 8-K, filed May 24, 2018)

4.5 Form of Deposit Agreement, by and among the Company, Computershare Inc. and Computershare Trust Company, N.A., jointly as depositary, and the holders from time to time of the depositary receipts described therein (incorporated herein by reference to Exhibit 4.1 to the Registration Statement on Form 8-A, filed October 25, 2019)

4.6 Form of Depositary Receipt (incorporated herein by reference as Exhibit A to Exhibit 4.2 of the Current Report on Form 8-K, filed January 29, 2019)

4.7 Description of the Securities Registered Pursuant to Section 12 of the Securities Act of 1934*

4.8 Agreement to furnish to the Securities and Exchange Commission upon request a copy of instruments defining the rights of holders of certain long-term debt of the registrant and consolidated subsidiaries*

10.1 Citizens Financial Group, Inc. 2014 Omnibus Incentive Plan (incorporated herein by reference to Exhibit 10.11 of the Quarterly Report on Form 10-Q, filed November 14, 2014)†

10.2 Amended and Restated Citizens Financial Group, Inc. 2014 Omnibus Incentive Plan as of June 23, 2016 (incorporated herein by reference to Exhibit 10.2 of the Quarterly Report on Form 10-Q, filed August 5, 2016)†

10.3 Amended and Restated Citizens Financial Group, Inc. 2014 Omnibus Incentive Plan as of June 20, 2019 (incorporated herein by reference to Exhibit 10.2 of the Quarterly Report on Form 10-Q, filed August 6, 2019)†

10.4 Citizens Financial Group, Inc. 2014 Omnibus Incentive Plan Form of Restricted Stock Unit Award Agreement for 2017 Award (incorporated herein by reference to Exhibit 10.10 of the Annual Report on Form 10-K, Filed February 24, 2017)†

10.5 Citizens Financial Group, Inc. 2014 Omnibus Incentive Plan Form of Restricted Stock Unit Award Agreement for 2018 Award (incorporated herein by reference to Exhibit 10.11 of the Annual Report on Form 10-K, filed February 22, 2018)†

10.6 Citizens Financial Group, Inc. 2014 Omnibus Incentive Plan Form of Restricted Stock Unit Award Agreement for 2019 and 2020 Awards (incorporated herein by reference to Exhibit 10.7 of the Annual Report on Form 10-K, filed February 21, 2019)†

10.7 Citizens Financial Group, Inc. 2014 Omnibus Incentive Plan Form of Restricted Stock Unit Award Agreement†*

10.8 Citizens Financial Group, Inc. 2014 Omnibus Incentive Plan Restricted Stock Unit Award Agreement for Bruce Van Saun Relating to Annual Awards (incorporated herein by reference to Exhibit 10.11 of the Annual Report on Form 10-K, Filed February 24, 2017)†

10.9 Citizens Financial Group, Inc. 2014 Omnibus Incentive Plan Form of Performance Stock Award Agreement for 2017 Awards (incorporated herein by reference to Exhibit 10.14 of the Annual Report on Form 10-K, Filed February 24, 2017)†

10.10 Citizens Financial Group, Inc. 2014 Omnibus Incentive Plan Amendment to Form of Performance Stock Award Agreement (incorporated herein by reference to Exhibit 10.3 of the Quarterly Report on Form 10-Q, Filed August 3, 2017)†

10.11 Citizens Financial Group, Inc. 2014 Omnibus Incentive Plan Form of Performance Stock Award Agreement for 2018 Awards (incorporated herein by reference to Exhibit 10.17 of the Annual Report on Form 10-K, filed February 22, 2018)†

10.12 Citizens Financial Group, Inc. 2014 Omnibus Incentive Plan Form of Performance Stock Unit Award Agreement for 2019 and 2020 Awards (incorporated herein by reference to Exhibit 10.14 of the Annual Report on Form 10-K, filed February 21, 2019)†

10.13 Citizens Financial Group, Inc. 2014 Omnibus Incentive Plan Form of Performance Stock Unit Award Agreement†*

10.14 Citizens Financial Group, Inc. 2014 Omnibus Incentive Plan Performance Stock Unit Award Agreement for Bruce Van Saun Relating to Annual Awards (incorporated herein by reference to Exhibit 10.15 of the Annual Report on Form 10-K, Filed February 24, 2017)†

10.15 Citizens Financial Group, Inc. 2014 Employee Stock Purchase Plan (incorporated herein by reference to Exhibit 99.3 of the Registration Statement on Form S-8, filed September 26, 2014)†

10.16 Citizens Financial Group, Inc. Non-Employee Directors Compensation Policy, Amended and Effective as of April 26, 2018 (incorporated herein by reference to Exhibit 10.1 of the Quarterly Report on Form 10-Q filed May 9, 2018)†

10.17 Citizens Financial Group, Inc. Non-Employee Directors Compensation Policy, as amended April 25, 2019 (incorporated herein by reference to Exhibit 10.1 of the Quarterly Report on Form 10-Q filed August 6, 2019)†

10.18 Citizens Financial Group, Inc. 2014 Non-Employee Directors Compensation Plan (incorporated herein by reference to Exhibit 99.2 of the Registration Statement on Form S-8, filed September 26, 2014)†

10.19 Amended and Restated Citizens Financial Group, Inc. 2014 Non-Employee Directors Compensation Plan as of June 23, 2016 (incorporated herein by reference to Exhibit 10.1 of the Quarterly Report on Form 10-Q, filed August 5, 2016)†

10.20 Citizens Financial Group, Inc. 2014 Non-Employee Directors Compensation Plan Form of Restricted Stock Unit Award Agreement (incorporated herein by reference to Exhibit 10.19 of the Annual Report on Form 10-K, filed February 26, 2016)†

10.21 Citizens Financial Group, Inc. 2014 Non-Employee Directors Compensation Plan Form of Restricted Stock Unit Award Agreement (incorporated herein by reference to Exhibit 10.2 of the Quarterly Report on Form 10-Q, Filed August 3, 2017)†

10.22 Amended and Restated Deferred Compensation Plan for Directors of Citizens Financial Group, Inc., effective January 1, 2009 (incorporated herein by reference to Exhibit 10.19 of Amendment No. 2 to Registration Statement on Form S-1, filed August 15, 2014)†

10.23 Form of Indemnification Agreement (incorporated herein by reference to Exhibit 10.5 of Amendment No. 3 to Registration Statement on Form S-1, filed September 8, 2014)†

10.24 Amended and Restated CFG Voluntary Executive Deferred Compensation Plan, effective January 1, 2009 and amended and restated on September 1, 2014 (incorporated herein by reference to Exhibit 10.21 of the Annual Report on Form 10-K, filed March 3, 2015)†

10.25 First Amendment to the CFG Voluntary Executive Deferred Compensation Plan dated March 1, 2019 (incorporated herein by reference to Exhibit 10.26 of the Annual Report on Form 10-K, filed February 24, 2020)†

10.26 Second Amendment to the CFG Voluntary Executive Deferred Compensation Plan dated December 9, 2019 (incorporated herein by reference to Exhibit 10.27 of the Annual Report on Form 10-K, filed February 24, 2020)†

10.27 Third Amendment to the CFG Voluntary Executive Deferred Compensation Plan dated March 4, 2020†*

10.28 Amended and Restated Citizens Financial Group, Inc. Deferred Compensation Plan, effective January 1, 2009 (incorporated herein by reference to Exhibit 10.20 of Amendment No. 2 to Registration Statement on Form S-1, filed August 15, 2014)†

10.29 Citizens Financial Group, Inc. Form of Deferred Cash Award Agreement for 2016 Awards (incorporated herein by reference to Exhibit 10.28 of the Annual Report on Form 10-K, filed February 26, 2016)†

10.30 Citizens Financial Group, Inc. Form of Deferred Cash Award Agreement for 2017 and 2018 Awards (incorporated herein by reference to Exhibit 10.35 of the Annual Report on Form 10-K, filed February 22, 2018)†

10.31 Citizens Financial Group, Inc. Form of Deferred Cash Award Agreement for 2019 and 2020 Awards (incorporated herein by reference to Exhibit 10.32 of the Annual Report on Form 10-K, filed February 21, 2019)†

10.32 Citizens Financial Group, Inc. Form of Deferred Cash Award Agreement†*

10.33 Citizens Financial Group, Inc. Executive Severance Practice (incorporated herein by reference to Exhibit 10.21 of Amendment No. 2 to Registration Statement on Form S-1, filed August 15, 2014)†

10.34 Citizens Financial Group, Inc. Performance Formula and Incentive Plan (incorporated herein by reference to Exhibit 10.28 of Annual Report on Form 10-K, filed March 3, 2015)†

10.35 Amended and Restated Executive Employment Agreement, dated May 5, 2016, between the Registrant and Bruce Van Saun (incorporated herein by reference to Exhibit 10.5 of the Quarterly Report on Form 10-Q, filed May 9, 2016)†

10.36 Executive Employment Agreement, dated March 23, 2015, between the Registrant and Donald H. McCree III and subsequent addendum dated August 2, 2017 (incorporated herein by reference to Exhibit 10.7 of the Quarterly Report on Form 10-Q, filed August 3, 2017)†

10.37 Executive Employment Agreement, dated September 6, 2014, between the Registrant and Malcolm Griggs and subsequent addendum dated August 14, 2017 (incorporated herein by reference to Exhibit 10.41 of the Annual Report on Form 10-K, filed February 21, 2019)†

10.38 Executive Employment Agreement, dated December 13, 2016, between the Registrant and John F. Woods and subsequent addendum dated August 2, 2017 (incorporated herein by reference to Exhibit 10.8 of the Quarterly Report on Form 10-Q, filed August 3, 2017)†

10.39 Executive Employment Agreement, dated August 25, 2011, between the Registrant and Susan LaMonica and subsequent addendums dated July 15, 2014 and August 11, 2017†*

10.40 Supplemental Retirement Agreement, dated October 31, 1995, as amended, between Charter One Financial, Inc. and, Charles J. Koch (incorporated herein by reference to Exhibit 10.37 of Amendment No. 3 to Registration Statement on Form S-1, filed September 8, 2014)†

21.1 Subsidiaries of Registrant*

23.1 Consent of Independent Registered Public Accounting Firm*

24.1 Power of Attorney (contained herein on signature pages)

31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002*

31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002*

32.1 Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002*

32.2 Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002*

101 The following materials from the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2020, formatted in XBRL: (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Operations, (iii) the Consolidated Statements of Comprehensive Income, (iv) the Consolidated Statements of Changes in Stockholders' Equity, (v) the Consolidated Statements of Cash Flows and (vi) the Notes to Consolidated Financial Statements*

104 Cover page interactive data file in inline XBRL format, included in Exhibit 101 to this report*

† Indicates management contract or compensatory plan or arrangement.
* Filed herewith.

ITEM 16. FORM 10-K SUMMARY

Not applicable.

SIGNATURES

Pursuant to the requirements of the Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized on February 23, 2021.

CITIZENS FINANCIAL GROUP, INC.

(Registrant)

By: /s/ Bruce Van Saun

Name: Bruce Van Saun
Title: Chairman of the Board and Chief Executive Officer
(Principal Executive Officer)

SIGNATURES

KNOW ALL PERSONS BY THESE PRESENTS, that each of the undersigned, being a director or officer of Citizens Financial Group, Inc., a Delaware corporation (the "Company"), hereby constitutes and appoints Bruce Van Saun, John F. Woods, Stephen T. Gannon, and C. Jack Read, and each of them, his or her true and lawful attorney-in-fact and agent, with full power of substitution and resubstitution, for him or her and in his or her name, place and stead in any and all capacities, to sign one or more Annual Reports for the Company's fiscal year ended December 31, 2020 on Form 10-K under the Securities Exchange Act of 1934, as amended, or such other form as any such attorney-in-fact may deem necessary or desirable, any amendments thereto, and all additional amendments thereto, each in such form as they or any one of them may approve, and to file the same with all exhibits thereto and other documents in connection therewith with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done so that such Annual Report shall comply with the Securities Exchange Act of 1934, as amended, and the applicable Rules and Regulations adopted or issued pursuant thereto, as fully and to all intents and purposes as he or she might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them or their substitute or resubstitute, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the date indicated.

Signature	Title	Date
/s/ Bruce Van Saun Bruce Van Saun	Chairman of the Board and Chief Executive Officer (Principal Executive Officer and Director)	February 23, 2021
/s/ John F. Woods John F. Woods	Vice Chairman and Chief Financial Officer (Principal Financial Officer)	February 23, 2021
/s/ C. Jack Read C. Jack Read	Executive Vice President, Chief Accounting Officer and Controller (Principal Accounting Officer)	February 23, 2021
/s/ Lee Alexander Lee Alexander	Director	February 23, 2021
/s/ Christine M. Cumming Christine M. Cumming	Director	February 23, 2021
/s/ William P. Hankowsky William P. Hankowsky	Director	February 23, 2021
/s/ Howard W. Hanna, III Howard W. Hanna, III	Director	February 23, 2021
/s/ Leo I. Higdon, Jr. Leo I. Higdon, Jr.	Director	February 23, 2021
/s/ Edward J. Kelly III Edward J. Kelly III	Director	February 23, 2021
/s/ Charles J. Koch Charles J. Koch	Director	February 23, 2021
/s/ Robert G. Leary Robert G. Leary	Director	February 23, 2021
/s/ Terrance J. Lillis Terrance J. Lillis	Director	February 23, 2021
/s/ Shivan S. Subramaniam Shivan S. Subramaniam	Director	February 23, 2021
Christopher J. Swift	Director	
/s/ Wendy A. Watson Wendy A. Watson	Director	February 23, 2021
/s/ Marita Zuraitis Marita Zuraitis	Director	February 23, 2021

EXHIBIT 10.7

CITIZENS FINANCIAL GROUP, INC.
2014 OMNIBUS INCENTIVE PLAN

Restricted Stock Unit Award Agreement
Terms and Conditions

Unless defined in this award agreement (this “**Award Agreement**”), capitalized terms shall have the meanings assigned to them in the Citizens Financial Group, Inc. 2014 Omnibus Incentive Plan (the “**Plan**”). In the event of a conflict among the provisions of the Plan and this Award Agreement, the provisions of the Plan shall prevail.

Section 1. *Grant of RSU Award.* Citizens Financial Group, Inc. (together with its Subsidiaries, the “**Company**”) has granted to the Participant (the “**Participant**”) an award (the “**Award**”) of the number of restricted share units (“**RSUs**”) specified in the Participant’s electronic account, effective on the “**Grant Date**” specified in the Participant's electronic account. The Award is subject to the terms and conditions of the Plan and this Award Agreement. The Award is granted under the Plan, the provisions of which are incorporated herein by reference and made a part of this Award Agreement.

Section 2. *Issuance of RSUs.* Each RSU shall represent the right to receive one Share upon the vesting of such RSU, as determined in accordance with and subject to the terms of this Award Agreement and the Plan.

Section 3. *Rights as a Shareholder; Dividend Equivalents.*

(a) The Participant shall have no voting rights or any other rights as a shareholder of the Company with respect to the RSUs unless and until the Participant becomes the record owner of the Shares underlying such RSUs.

(b) If a dividend is declared on Shares during the period commencing on the Grant Date (including such date) and ending on the date on which the Shares underlying RSUs are distributed to the Participant pursuant to Section 6, the Participant shall be credited with dividend equivalents in the form and in an amount equal to the dividend that the Participant would have received had the Shares underlying the RSUs been distributed to the Participant as of the time at which such dividend is paid. Dividend equivalents will be subject to the same vesting and forfeiture restrictions as the RSUs to which they are attributable and will be paid on the same date that the RSUs to which they are attributable are settled in accordance with Section 6.

Section 4. *Restrictions on Transferability.* The RSUs granted hereunder shall not be assigned, sold, exchanged, pledged, hypothecated, transferred, alienated or otherwise disposed of or hedged, in any manner (including through the use of any cash-settled instrument), whether voluntarily or involuntarily, and whether by operation of law or otherwise, other than by will or by the laws of descent and distribution, by the Participant. Any sale, exchange, transfer, assignment, pledge, hypothecation, or other disposition in violation of the provisions of this Section 4 shall be null and void and any RSU which is hedged in any manner shall immediately be forfeited. All of the terms and conditions of the Plan and this Award Agreement shall be binding upon any permitted successors and assigns.

Section 5. *Vesting; Change of Control; Vesting and Forfeiture Upon a Termination of Employment.*

(a) *Vesting*. The Award will be subject to the vesting schedule specified in the Participant's electronic account.

(b) *Change of Control*. If the Participant is terminated by the Company without Cause, or the Participant resigns from employment with the Company with Good Reason, within 12 months after a Change of Control (a "**Change of Control Termination**"), all unvested RSUs shall fully vest on the Participant's termination date and shall be distributed to the Participant pursuant to Section 6.

(c) *Vesting and Forfeiture Upon Termination of Employment*.

i. *Termination Without Cause*. If the Participant is terminated by the Company without Cause (other than a Change of Control Termination), the Participant's RSUs shall continue to vest in accordance with Section 5(a) as though the Participant was still employed by the Company on each applicable vesting date, *provided*, *however*, that the Participant does not engage in any Detrimental Activity during the Participant's post-employment vesting period.

ii. *Retirement; Disability*. If the Participant's employment is terminated due to Retirement or Disability, the Participant's RSUs shall continue to vest in accordance with Section 5(a) as though the Participant was still employed by the Company on each applicable vesting date, *provided*, *however*, that the Participant (A) does not engage in any Detrimental Activity and (B) does not become employed by any company in the financial services industry, in each case, during the Participant's post-employment vesting period.

iii. *Death*. If the Participant is terminated due to death, the Participant's RSUs shall fully vest on the Participant's date of death and shall be distributed to the Participant's Beneficiary pursuant to Section 6.

iv. *Forfeiture*. If the Participant is terminated by the Company with Cause or the Participant resigns for any reason (other than a Change of Control Termination), any unvested RSUs shall be forfeited in their entirety on the Participant's termination date without any payment to the Participant. In addition, if (A) the Participant's employment is terminated by the Company without Cause (other than a Change of Control Termination) and the Participant engages in any Detrimental Activity during the Participant's post-employment vesting period, or (B) the Participant's employment is terminated due to Retirement or Disability and the Participant either (I) engages in any Detrimental Activity, or (II) becomes employed by any company in the financial services industry, in either case, during the Participant's post-employment vesting period, any unvested RSUs shall be forfeited in their entirety on the date that the Participant engages in such Detrimental Activity or becomes employed by any company in the financial services industry, as applicable, without any payment to the Participant.

Section 6. *Distribution on Vesting.* Subject to the provisions of this Award Agreement, upon the vesting of any of the RSUs, the Company shall deliver to the Participant (or the Participant's Beneficiary, in the event of the Participant's death prior to distribution), as soon as reasonably practicable after the vesting date (or the Participant's termination date, as applicable), one Share for each RSU, provided that such delivery of Shares shall be made no later than the end of the calendar year in which they vest or, if later, by the 15th day of the third calendar month after the vesting date provided that the Participant shall not be permitted, directly or indirectly, to designate the taxable year of the payment. Upon such delivery, such Shares shall be fully assignable, saleable and transferable by the Participant, provided that any such assignment, sale, transfer or other alienation with respect to such Shares shall be in accordance with applicable securities laws.

Section 7. *[Repayment Requirement.* If the Participant's employment is terminated (or notice to terminate is given by the Participant or the Company) for any reason other than death, Disability, Retirement, or termination by the Company without Cause within 12 months of

the date the Participant commences employment with the Company, any unvested RSUs shall be forfeited in their entirety on the Participant's termination date without any payment to the Participant and the Participant shall be required to repay the Company within 14 days of the Participant's termination date the net value (following any applicable tax and other statutory deductions) of any Shares that the Participant received pursuant to this Award Agreement.] [Note: Section 7 is only applicable to buy-out awards.]

Section 8. *Notice Prior to the Participant's Voluntary Separation from Employment.* In partial consideration for the Participant's eligibility for and receipt of any award granted under the Plan, the Participant agrees to provide the Company with prior notice of the Participant's voluntary separation from employment, regardless of the reason for such separation. Such notice shall be no less than the greater of (a) the notice period applicable to the Participant's employee level as specified in the Company's Separation from Employment Policy as it exists at the time the Participant provides such notice or (b) the period specified in any other written agreement between the Participant and the Company.

Section 9. *Restrictive Covenants.*

(a) *Non-Solicitation of Employees*. In addition to the Participant's obligations detailed in this Agreement, the Participant agrees and reaffirms that, at any time during the Participant's employment and for twelve (12) months following the date the Participant ceases to be employed by the Company for any reason, or if longer, during the remaining vesting period (the "Restricted Period"), the Participant shall not, directly or indirectly, whether for the Participant's own account or for any person or entity other than the Company or any Company Affiliate hire, employ, solicit for employment or hire, or attempt to solicit for employment or hire, any person who is employed by the Company or any Company Affiliate during the Restricted Period, nor shall the Participant directly or indirectly induce any such employee to terminate his or her employment or accept employment with anyone other than a Company Affiliate, or otherwise interfere with the relationship between the Company and/or any Company Affiliate and any of their employees during the Restricted Period. Anything to the contrary notwithstanding, the Company agrees that the Participant shall not be deemed in violation of this Section 9(a) if an entity with which the Participant is associated hires or engages any employee of the Company or a Company Affiliate, if the Participant was not, directly or indirectly, involved in hiring or identifying such person as a potential recruit or assisting in the recruitment of such employee.

(b) *Non-Solicitation of, and Non-Interference with, Customers and Prospective Clients.* The Participant agrees that during the Participant's employment and during the Restricted Period, the Participant shall not, directly or indirectly, for any person or entity other than the Company or any Company Affiliate, solicit, assist in soliciting for or accept business from any customer of the Company or any Company Affiliate, nor will the Participant induce or encourage any such customer to discontinue or diminish his, her or its relationship or prospective relationship with the Company or any Company Affiliate, or divert business away from the Company or any Company Affiliate; provided, however, that general solicitation through advertisement shall not constitute solicitation for purposes of this provision. Anything to the contrary notwithstanding, the Company agrees that the Participant shall not be deemed in violation of this Section 9(b) if an entity with which the Participant is associated accepts business from a customer or client of the Company or a Company Affiliate, if the Participant was not, directly or indirectly, involved in soliciting or identifying such customer or client as a potential customer or client of the competing entity.

(c) *Representations*. The Participant agrees that all of the foregoing restrictions are reasonable and necessary to protect the Company's and/or any Company Affiliate's business and their Confidential Information and that the Participant's eligibility for and receipt of any award under the Plan, are independently and together good and valuable consideration to compensate

him or her for agreeing to all restrictions contained in this Agreement. The Participant also acknowledges, represents and warrants that the Participant's knowledge, skills and abilities are sufficient to permit the Participant to earn a satisfactory livelihood without violating these provisions. Further, the Participant agrees that the Participant shall not, following the termination of the Participant's employment with the Company, represent or hold the Participant out as being in any way connected with the business of the Company or any Company Affiliate.

(d) *Blue Pencil*. It is expressly understood and agreed that although the Participant and the Company consider the restrictions contained in this section to be reasonable, if a final judicial determination is made by an arbitrator or a court of competent jurisdiction that the time or territory or any other restriction contained in this Agreement is an unenforceable restriction against the Participant, the provisions of this Agreement shall not be rendered void but shall be deemed amended to apply as to such maximum time and territory and to such maximum extent as such court may judicially determine or indicate to be enforceable. Alternatively, if an arbitrator or a court of competent jurisdiction finds that any restriction contained in this Agreement is unenforceable, and such restriction cannot be amended so as to make it enforceable, such finding shall not affect the enforceability of any of the other restrictions contained herein.

(e) *Injunctive Relief*. In the event of a breach or threatened breach of this Section 9 or the Participant's engaging in Detrimental Activity, the Participant agrees that the Company will be entitled to injunctive relief in a court of appropriate jurisdiction to remedy any such breach or threatened breach, the Participant acknowledging that damages would be inadequate and insufficient.

Section 10. *Tax Liability; Withholding Requirements.* The Participant shall be solely responsible for any applicable taxes (including, without limitation, income and excise taxes) and penalties, and any interest that accrues thereon, that the Participant incurs in connection with the receipt, vesting or settlement of any RSU granted hereunder. The Company shall be authorized to withhold from the Award the amount (in cash or Shares, or any combination thereof) of applicable withholding taxes due in respect of the Award, its settlement or any payment or transfer under the Award and to take such other action (including providing for elective payment of such amounts in cash or other property by the Participant) as may be necessary in the opinion of the Company to satisfy all obligations for the payment of such taxes; provided, however, that no Shares shall be withheld with a value exceeding the maximum statutory tax rates in the applicable tax jurisdictions.

Section 11. *Recoupment/Clawback.* The Participant hereby acknowledges and agrees that in order to comply with applicable law (including, without limitation, the Dodd-Frank Wall Street Reform and Consumer Protection Act), regulatory authority, and policies of the Company, the Committee retains the right at all times to decrease or terminate all awards and payments under the Plan, and any and all amounts payable under the Plan, or paid under the Plan, shall be subject to clawback, forfeiture, and reduction to the extent determined necessary to comply with applicable law, regulatory authority, and/or policies of the Company, including as a result of risk-related events.

Section 12. *No Right to Continued Employment.* Neither the Plan nor this Award Agreement shall confer upon the Participant any right to continue to be employed by the Company and the receipt of the Award does not confer any rights on the Participant other than those expressly set forth in this Award Agreement or the Plan.

Section 13. *Section 409A of the Code.* This Award Agreement is intended to comply with the requirements of Section 409A of the Code and the regulations thereunder, and the provisions of this Award Agreement shall be interpreted in a manner that satisfies the requirements of Section 409A of the Code, and this Award Agreement shall be operated

accordingly. If any provision of this Award Agreement or any term or condition of the RSUs would otherwise conflict with this intent, the provision, term or condition shall be interpreted and deemed amended so as to avoid this conflict. Notwithstanding anything else in this Award Agreement, if the Board considers a Participant to be a "specified employee" under Section 409A of the Code at the time of such Participant's "separation from service" (as defined in Section 409A of the Code), and the amount hereunder is "deferred compensation" subject to Section 409A of the Code any distribution that otherwise would be made to such Participant with respect to RSUs as a result of such separation from service shall not be made until the date that is six months after such separation from service, except to the extent that earlier distribution would not result in such Participant's incurring interest or additional tax under Section 409A of the Code. If the Award includes a "series of installment payments" (within the meaning of Section 1.409A-2(b)(2)(iii) of the Treasury Regulations), the Participants' right to the series of installment payments shall be treated as a right to a series of separate payments and not as a right to a single payment. Notwithstanding the foregoing, the tax treatment of the benefits provided under this Award Agreement is not warranted or guaranteed, and in no event shall the Company be liable for all or any portion of any taxes, penalties, interest or other expenses that may be incurred by the Participant on account of non-compliance with Section 409A of the Code.

Section 14. *Miscellaneous*.

(a) *Definitions*. For purposes of this Award Agreement:

i. "**Cause**" means:

(1) any conviction (including a plea of guilty or of nolo contendere or entry into a pre-trial diversion program) of the Participant for the commission of a felony or any conviction of any criminal offense within the scope of Section 19 of the Federal Deposit Insurance Act, 12 U.S.C. § 1829;

(2) the Participant commits an act of gross misconduct, fraud, embezzlement, theft or material dishonesty in connection with the Participant's duties or in the course of the Participant's employment with the Company or any of its affiliates;

(3) failure on the part of the Participant to perform his or her employment duties in any material respect, which is not cured to the reasonable satisfaction of the Company within 30 days after the Participant receives written notice of such failure; or

(4) the Participant engages in Detrimental Activity.

ii. "**Company Affiliate**" means the Company's parents, subsidiaries, affiliates or their respective successors (collectively, the "Company Affiliates" and each a "Company Affiliate").

iii. "**Detrimental Activity**" includes the following:

(1) The Participant's disclosure to any unauthorized person, firm, or corporation or use or attempt to use for his or her own advantage or to the advantage of any other person, firm or corporation, any confidential information relating to the business affairs or trade secrets of the Company or any of its affiliates, howsoever obtained or provided, during the course of, or as a result of, his or her employment (the "**Confidential Information**"). Confidential Information includes, but is not limited to, information relating to employees, customers and suppliers (former, actual and potential), Company contracts, pricing structures, financial and marketing details, business plans, any technical data, designs, formulae, product lines, intellectual property, research activities and any information which may be deemed to be

commercially or price sensitive in nature, whether printed, typed, handwritten, videotaped, transmitted or transcribed on data files or on any other type of media, including but not limited to electronic and digital media, whether or not labeled as “confidential”;

(2) The Participant violates the obligations set forth in Section 9(a) or 9(b) of this Award Agreement.

(3) Making any false or disparaging comments about the Company or any of its subsidiaries, affiliates, employees, officers, or directors; or

(4) Engaging in any activity which in the opinion of the Company is not consistent with providing an orderly handover of the Participant’s responsibilities.

The Participant agrees that the foregoing restrictions are reasonable and necessary to protect the Company’s business and that the grant of this Award, along with the benefits and attributes of the Participant’s employment by the Company, is good and valuable consideration to compensate the Participant for agreeing to these restrictions. Notwithstanding anything to the contrary in this Award Agreement or otherwise, nothing shall limit the Participant’s rights under applicable law to provide truthful information to any governmental entity or to file a charge with or participate in an investigation conducted by any governmental entity. Notwithstanding the foregoing, the Participant agrees to waive his or her right to recover monetary damages in connection with any charge, complaint or lawsuit filed by the Participant or anyone else on the Participant’s behalf (whether involving a governmental entity or not); provided that the Participant is not agreeing to waive, and this Award Agreement shall not be read as requiring the Participant to waive, any right the Participant may have to receive an award for information provided to any governmental entity. The Participant is hereby notified that the immunity provisions in Section 1833 of title 18 of the United States Code provide that an individual cannot be held criminally or civilly liable under any federal or state trade secret law for any disclosure of a trade secret that is made (1) in confidence to federal, state or local government officials, either directly or indirectly, or to an attorney, and is solely for the purpose of reporting or investigating a suspected violation of the law, (2) under seal in a complaint or other document filed in a lawsuit or other proceeding, or (3) to the Participant’s attorney in connection with a lawsuit for retaliation for reporting a suspected violation of law (and the trade secret may be used in the court proceedings for such lawsuit) as long as any document containing the trade secret is filed under seal and the trade secret is not disclosed except pursuant to court order.

iv. “**Disability**” means the Participant is entitled to, and has begun to receive, long-term disability benefits under the long-term disability plan of the Company in which the Participant participates.

v. “**Good Reason**” means any of the following changes, as compared to the Participant's terms of employment prior to a Change of Control:

(1) a material diminution in the Participant’s authority, duties, or responsibilities;

(2) a material diminution in the Participant’s base salary other than a general reduction in base salary that affects all similarly situated employees; or

(3) a relocation of the Participant’s principal place of employment by more than 50 miles from his or her current principal place of employment, unless the new principal place of employment is closer to the Participant's home address.

Provided, however, that the Participant must give written notice to the Company within 30 days of the initial existence of any of the foregoing changes, the Company shall have 30 days upon receipt of such notice to remedy the condition so as to eliminate the Good Reason, and if not remedied, the Participant's employment must terminate no later than 60 days following the expiration of such cure period. Notwithstanding the foregoing, the Participant's continued employment shall not constitute a waiver of the Participant's rights with respect to any circumstance constituting Good Reason under this Award Agreement.

vi. "**Retirement**" means the Participant's age plus years of service (in each case, including completed months) equals or exceeds 65, with a minimum of at least five years of service with the Company.

(b) *Notices*. All notices, requests and other communications under this Award Agreement shall be in writing and shall be delivered in person (by courier or otherwise), mailed by certified or registered mail, return receipt requested, or sent by facsimile transmission or by e-mail or any other form of electronic transmission or delivery approved by the Committee, as follows:

if to the Company, to:

Citizens Financial Group, Inc

600 Washington Blvd.
Stamford, CT 06901
Attention: Corporate Secretary

if to the Participant, to the address that the Participant most recently provided to the Company,

or to such other address, facsimile number, e-mail address or such other form of electronic transmission or delivery as such party may hereafter specify for the purpose by notice to the other parties hereto. All such notices, requests and other communications shall be deemed received on the date of receipt by the recipient thereof if received prior to 5:00 p.m. on a business day in the place of receipt. Otherwise, any such notice, request or communication shall be deemed received on the next succeeding business day in the place of receipt. Notwithstanding anything to the contrary contained in this Award Agreement or in the Plan, the Company may, in its sole discretion, deliver and, by acceptance of this grant, the Participant hereby explicitly and unambiguously consents and agrees to the receipt and delivery of, any notices permitted or required hereunder, documents related to any Awards granted under the Plan and/or any other information (including, without limitation, information required to be delivered to the Participant pursuant to applicable securities laws) regarding the Company and the Subsidiaries or the Plan by electronic means, including but not limited to through the Participant's electronic account, through another on-line or electronic account system established and maintained by the Company or another third party designated by the Company or via the Company website. Such consent shall remain in effect throughout the Participant's term of employment or service with the Company and thereafter until withdrawn in writing by the Participant. The Participant acknowledges that the Participant may receive from the Company a paper copy of any notices or documents delivered electronically at no cost to the Participant by contacting the Company by telephone or in writing.

(c) *Entire Agreement*. This Award Agreement and the Plan (including the terms specified in the Participant's electronic account, as noted in Section 1 and Section 5 above) constitute the entire agreement and understanding between the parties in respect of the subject matter hereof and supersede all prior and contemporaneous arrangements, agreements and understandings, both oral and written, whether in term sheets, presentations or otherwise, between the parties with respect to the subject matter hereof.

(d) *Severability*. If any provision of this Award Agreement is or becomes or is deemed to be invalid, illegal or unenforceable in any jurisdiction, or would disqualify the Plan or this Award Agreement under any law deemed applicable by the Board, such provision shall be construed or deemed amended to conform to applicable laws, or if it cannot be so construed or deemed amended without, in the determination of the Board, materially altering the intent of this Award Agreement, such provision shall be stricken as to such jurisdiction, and the remainder of this Award Agreement shall remain in full force and effect.

(e) *Amendment; Waiver*. No amendment or modification of any provision of this Award Agreement that has a material adverse effect on the Participant shall be effective unless signed in writing by or on behalf of the Company and the Participant, *provided* that the Company may amend or modify this Award Agreement without the Participant's consent in accordance with the provisions of the Plan or as otherwise set forth in this Award Agreement. No waiver of any breach or condition of this Award Agreement shall be deemed to be a waiver of any other or subsequent breach or condition, whether of like or different nature. Any amendment or modification of or to any provision of this Award Agreement, or any waiver of any provision of this Award Agreement, shall be effective only in the specific instance and for the specific purpose for which made or given.

(f) *Assignment*. Neither this Award Agreement nor any right, remedy, obligation or liability arising hereunder or by reason hereof shall be assignable by the Participant.

(g) *Successors and Assigns; No Third-Party Beneficiaries*. This Award Agreement shall inure to the benefit of and be binding upon the Company and the Participant and their respective heirs, successors, legal representatives and permitted assigns. Nothing in this Award Agreement, express or implied, is intended to confer on any Person other than the Company and the Participant, and their respective heirs, successors, legal representatives and permitted assigns, any rights, remedies, obligations or liabilities under or by reason of this Award Agreement.

(h) *Governing Law; Waiver of Jury Trial.* This Award Agreement shall be governed by the laws of the State of Delaware, without application of the conflicts of law principles thereof. By acknowledging this Award Agreement electronically or signing it manually, as applicable, the Participant waives any right that the Participant may have to trial by jury in respect of any litigation based on, arising out of, under or in connection with this Award Agreement or the Plan.

(i) *Discretionary Nature.* The grant of the RSUs does not create any contractual right or other right in the Participant to receive any RSUs or other Awards in the future. Future grants of Awards, if any, shall be at the sole discretion of the Company.

(j) *Participant Undertaking; Acceptance*. The Participant agrees to take whatever additional action and execute whatever additional documents the Company may deem necessary or advisable to carry out or give effect to any of the obligations or restrictions imposed on either the Participant or the RSUs pursuant to this Award Agreement. The Participant acknowledges receipt of a copy of the Plan and this Award Agreement and understands that material definitions and provisions concerning the RSUs and the Participant's rights and obligations with respect thereto are set forth in the Plan. The Participant has read carefully, and understands, the provisions of this Award Agreement and the Plan.

(k) *Dispute Resolution.* Except as provided in Section 9(e) above and the last sentence of this paragraph to the fullest extent permitted by law, the Company and the Participant agree to waive their rights to seek remedies in court, including but not limited to rights to a trial by jury. The Company and each Participant agree that any dispute between or among them and/or their affiliates arising out of, relating to or in connection with this Plan shall be resolved in

accordance with a confidential two-step dispute resolution procedure involving: (a) Step One: non-binding mediation, and (b) Step Two: binding arbitration under the Federal Arbitration Act, 9 U.S.C. § 1, et. seq., or state law, whichever is applicable. Any such mediation or arbitration hereunder shall be under the auspices of the American Arbitration Association ("**AAA**") pursuant to its then current AAA Commercial Arbitration Rules. No arbitration shall be initiated or take place with respect to a given dispute if the parties have successfully achieved a mutually agreed to resolution of the dispute as a result of the Step One mediation. The mediation session(s) and, if necessary, the arbitration hearing shall be held in the city/location selected by the Company in its sole discretion. The arbitration (if the dispute is not resolved by mediation) shall be conducted by a single AAA arbitrator, selected by the Company in its sole discretion. Any award rendered by the arbitrator, including with respect to responsibility for AAA charges (including the costs of the mediator and arbitrator), shall be final and binding, and judgment may be entered on it in any court of competent jurisdiction. In the unlikely event the AAA refuses to accept jurisdiction over a dispute, the Company and each Participant agree to submit to JAMS mediation (formerly known as Judicial Arbitration and Mediation Services) and arbitration applying the JAMS equivalent of the AAA Commercial Arbitration Rules. If AAA and JAMS refuse to accept jurisdiction, the parties may litigate in a court of competent jurisdiction.

(l) *Captions*. Captions provided herein are for convenience only and shall not affect the scope, meaning, intent or interpretation of the provisions of this Award Agreement.

(m) *Nature of Payments*. Any and all grants or deliveries related to the RSUs hereunder shall constitute special incentive payments to the Participant and shall not be taken into account in computing the amount of salary or compensation of the Participant for the purpose of determining any retirement, death or other benefits under (i) any retirement, bonus, life insurance or other employee benefit plan of the Company, or (ii) any agreement between the Company and the Participant, except as such plan or agreement shall otherwise expressly provide.

(n) *Data Privacy*. The Participant understands that the Company and its affiliates and hold certain personal information about the Participant, including but not limited to the Participant's name, home address and telephone number, birthdate, social insurance number or other identification number, compensation, details of all Awards or any other entitlement to Shares for the purpose of administering the Plan (the "Data"). As a condition of receipt of this Award, the Participant explicitly consents to the collection, use, transfer and retention, in electronic or other form, of the Data by and among, as applicable, the Company, its affiliates and any third parties assisting the Company in administration of the Plan (including but not limited to any broker or other third party with whom the Participate may elect to deposit Shares), in each case, for the purpose of administering the Participant's participation in the Plan.

EXHIBIT 10.13

CITIZENS FINANCIAL GROUP, INC.
2014 OMNIBUS INCENTIVE PLAN

Performance Stock Unit Award Agreement
Terms and Conditions

Unless defined in this award agreement (this "**Award Agreement**"), capitalized terms shall have the meanings assigned to them in the Citizens Financial Group, Inc. 2014 Omnibus Incentive Plan (the "**Plan**"). In the event of a conflict among the provisions of the Plan and this Award Agreement, the provisions of the Plan shall prevail.

Section 1. *Grant of PSU Award.* Citizens Financial Group, Inc. (together with its Subsidiaries, the "**Company**") has granted to the Participant (the "**Participant**") an award (the "**Award**") of the target number of performance stock units specified in the Participant's electronic account, effective on the "**Grant Date**" specified in the Participant's electronic account. The Award is subject to the terms and conditions of the Plan and this Award Agreement. The Award is granted under the Plan, the provisions of which are incorporated herein by reference and made a part of this Award Agreement.

Section 2. *Issuance of PSUs*. Each performance stock unit ("**PSU**") shall represent the right to receive one Share upon the vesting of such PSU, as determined in accordance with and subject to the terms of this Award Agreement and the Plan. The number of PSUs that the Participant will actually earn will be determined in accordance with the terms of this Award Agreement and a schedule to be provided to the Participant.

Section 3. *Rights as a Shareholder; Dividend Equivalents*.

(a) The Participant shall have no voting rights or any other rights as a shareholder of the Company with respect to the PSUs unless and until the Participant becomes the record owner of the Shares underlying such PSUs.

(b) If a dividend is declared on Shares during the period commencing on the Grant Date (including such date) and ending on the date on which the Shares underlying PSUs are distributed to the Participant pursuant to Section 7, the Participant shall be credited with dividend equivalents in the form and in an amount equal to the dividend that the Participant would have received had the Shares underlying the PSUs been distributed to the Participant as of the time at which such dividend is paid. Dividend equivalents will be subject to the same vesting and forfeiture restrictions as the PSUs to which they are attributable and will be paid on the same date that the PSUs to which they are attributable are settled in accordance with Section 7.

Section 4. *Restrictions on Transferability*. The PSUs granted hereunder shall not be assigned, sold, exchanged, pledged, hypothecated, transferred, alienated or otherwise disposed of or hedged, in any manner (including through the use of any cash-settled instrument), whether voluntarily or involuntarily, and whether by operation of law or otherwise, other than by will or by the laws of descent and distribution, by the Participant. Any sale, exchange, transfer, assignment, pledge, hypothecation, or other disposition in violation of the provisions of this Section 4 shall be null and void and any PSU which is hedged in any manner shall immediately be forfeited. All of the terms and conditions of the Plan and this Award Agreement shall be binding upon any permitted successors and assigns.

Section 5. *Performance Assessment*.

(a) Except in the event of a Change of Control, the number of PSUs earned by the Participant for the Performance Period will be determined in accordance with a schedule to be provided to the Participant. The Committee shall determine, in its sole discretion, the number of PSUs earned by the Participant.

(b) Promptly following the end of the Performance Period (and no later than 60 days following the end of the Performance Period), the Committee will review and certify in writing (i) whether, and to what extent, performance has been achieved in accordance with a schedule to be provided to the Participant, and (ii) the number of PSUs that the Participant shall earn, if any, subject to compliance with the requirements of Section 6. The Committee's certification shall be final, conclusive and binding on the Participant, and on all other persons, to the maximum extent permitted by law.

Section 6. *Vesting; Change of Control; Vesting and Forfeiture Upon a Termination of Employment*.

(a) *Vesting*. The number of PSUs earned by the Participant, if any, determined as set forth in Section 5(b), will vest and become nonforfeitable following the end of the Performance Period on the vesting date identified in the Participant's electronic account (the "**Vesting Date**"), subject to the Participant's continued service from the Grant Date through the Vesting Date.

(b) *Change of Control*. In the event of a Change of Control prior to the end of the Performance Period:

i. The Committee will review and certify in writing whether, and to what extent, performance has been achieved through the date of the Change of Control, and the number of PSUs that the Participant shall earn, if any, subject to compliance with the requirements of this Section 6(b). The Committee's certification shall be final, conclusive and binding on the Participant, and on all other persons, to the maximum extent permitted by law.

ii. Following the Change of Control, the PSUs will remain subject to forfeiture and conditioned on the Participant's continued service from the Grant Date through the Vesting Date; *provided, however*, that if the Participant is terminated by the Company without Cause, or the Participant resigns from employment with the Company with Good Reason, within 12 months after the Change of Control (a "**Change of Control Termination**"), the PSUs earned by the Participant, as determined by the Committee pursuant to Section 6(b)(i), shall fully vest on the Participant's termination date and shall be distributed to the Participant in accordance with Section 7.

(c) *Vesting and Forfeiture Upon Termination of Employment.*

i. *Termination Without Cause*. If the Participant is terminated by the Company without Cause (other than a Change of Control Termination) on or after the first anniversary of the Performance Period Start Date, the PSUs earned by the Participant as set forth in Section 5(b) shall vest on the Vesting Date in accordance with Section 6(a) as though the Participant was still employed by the Company on the Vesting Date; *provided*, *however*, that the Participant does not engage in any Detrimental Activity during the Participant's post-employment vesting period.

ii. *Retirement; Disability*. If the Participant's employment is terminated by reason of Retirement or Disability, the PSUs earned by the Participant as set forth in Section 5(b) shall vest on the Vesting Date in accordance with Section 6(a) as though the Participant was still employed by the Company on the Vesting Date; *provided*, *however*, that the Participant (A) does

not engage in any Detrimental Activity and (B) does not become employed by any company in the financial services industry, in each case, during the Participant's post-employment vesting period.

iii. *Death*. If the Participant is terminated due to death, the target number of PSUs shall fully vest on the Participant's date of death and shall be distributed to the Participant's Beneficiary in accordance with Section 7.

iv. *Forfeiture*. If the Participant is terminated by the Company with Cause or the Participant resigns for any reason (other than a Change of Control Termination), any unvested PSUs shall be forfeited in their entirety on the Participant's termination date without any payment to the Participant. If the Participant's employment is terminated by the Company without Cause (other than a Change of Control Termination) prior to the first anniversary of the Performance Period Start Date, any unvested PSUs shall be forfeited in their entirety on the Participant's termination date without any payment to the Participant. In addition, if (A) the Participant's employment is terminated by the Company without Cause (other than a Change of Control Termination) and the Participant engages in any Detrimental Activity during the Participant's post-employment vesting period, or (B) the Participant's employment is terminated due to Retirement or Disability and the Participant either (I) engages in any Detrimental Activity, or (II) becomes employed by any company in the financial services industry, in either case, during the Participant's post-employment vesting period, any unvested PSUs shall be forfeited in their entirety on the date that the Participant engages in such Detrimental Activity or becomes employed by any company in the financial services industry, as applicable, without any payment to the Participant.

Section 7. *Distribution on Vesting*. Subject to the provisions of this Award Agreement, upon the vesting of any of the PSUs, the Company shall deliver to the Participant (or the Participant's Beneficiary, in the event of the Participant's death prior to distribution), as soon as reasonably practicable after the Vesting Date (or the Participant's termination date, as applicable), one Share for each PSU, *provided* that such delivery of Shares shall be made no later than March 15 of the calendar year immediately following the year in which the Vesting Date (or the Participant's termination date, as applicable) occurs. Upon such delivery, such Shares shall be fully assignable, saleable and transferable by the Participant, *provided* that any such assignment, sale, transfer or other alienation with respect to such Shares shall be in accordance with applicable securities laws.

Section 8. *Notice Prior to the Participant's Voluntary Separation from Employment*. In partial consideration for the Participant's eligibility for and receipt of any award granted under the Plan, the Participant agrees to provide the Company with prior notice of the Participant's voluntary separation from employment, regardless of the reason for such separation. Such notice shall be no less than the greater of (a) the notice period applicable to the Participant's employee level as specified in the Company's Separation from Employment Policy as it exists at the time the Participant provides such notice or (b) the period specified in any other written agreement between the Participant and the Company.

Section 9. *Restrictive Covenants*.

(a) *Non-Solicitation of Employees*. In addition to the Participant's obligations detailed in this Agreement, the Participant agrees and reaffirms that, at any time during the Participant's employment and for twelve (12) months following the date the Participant ceases to be employed by the Company for any reason, or if longer, during the remaining vesting period (the "Restricted Period"), the Participant shall not, directly or indirectly, whether for the Participant's own account or for any person or entity other than the Company or any Company Affiliate hire, employ, solicit for employment or hire, or attempt to solicit for employment or hire,

any person who is employed by the Company or any Company Affiliate during the Restricted Period, nor shall the Participant directly or indirectly induce any such employee to terminate his or her employment or accept employment with anyone other than a Company Affiliate, or otherwise interfere with the relationship between the Company and/or any Company Affiliate and any of their employees during the Restricted Period. Anything to the contrary notwithstanding, the Company agrees that the Participant shall not be deemed in violation of this Section 9(a) if an entity with which the Participant is associated hires or engages any employee of the Company or a Company Affiliate, if the Participant was not, directly or indirectly, involved in hiring or identifying such person as a potential recruit or assisting in the recruitment of such employee.

(b) *Non-Solicitation of, and Non-Interference with, Customers and Prospective Clients*. The Participant agrees that during the Participant's employment and during the Restricted Period, the Participant shall not, directly or indirectly, for any person or entity other than the Company or any Company Affiliate, solicit, assist in soliciting for or accept business from any customer of the Company or any Company Affiliate, nor will the Participant induce or encourage any such customer to discontinue or diminish his, her or its relationship or prospective relationship with the Company or any Company Affiliate, or divert business away from the Company or any Company Affiliate; provided, however, that general solicitation through advertisement shall not constitute solicitation for purposes of this provision. Anything to the contrary notwithstanding, the Company agrees that the Participant shall not be deemed in violation of this Section 9(b) if an entity with which the Participant is associated accepts business from a customer or client of the Company or a Company Affiliate, if the Participant was not, directly or indirectly, involved in soliciting or identifying such customer or client as a potential customer or client of the competing entity.

(c) *Representations.* The Participant agrees that all of the foregoing restrictions are reasonable and necessary to protect the Company's and/or any Company Affiliate's business and their Confidential Information and that the Participant's eligibility for and receipt of any award under the Plan, are independently and together good and valuable consideration to compensate him or her for agreeing to all restrictions contained in this Agreement. The Participant also acknowledges, represents and warrants that the Participant's knowledge, skills and abilities are sufficient to permit the Participant to earn a satisfactory livelihood without violating these provisions. Further, the Participant agrees that the Participant shall not, following the termination of the Participant's employment with the Company, represent or hold the Participant out as being in any way connected with the business of the Company or any Company Affiliate.

(d) *Blue Pencil.* It is expressly understood and agreed that although the Participant and the Company consider the restrictions contained in this section to be reasonable, if a final judicial determination is made by an arbitrator or a court of competent jurisdiction that the time or territory or any other restriction contained in this Agreement is an unenforceable restriction against the Participant, the provisions of this Agreement shall not be rendered void but shall be deemed amended to apply as to such maximum time and territory and to such maximum extent as such court may judicially determine or indicate to be enforceable. Alternatively, if an arbitrator or a court of competent jurisdiction finds that any restriction contained in this Agreement is unenforceable, and such restriction cannot be amended so as to make it enforceable, such finding shall not affect the enforceability of any of the other restrictions contained herein.

(e) *Injunctive Relief*. In the event of a breach or threatened breach of this Section 9 or the Participant's engaging in Detrimental Activity, the Participant agrees that the Company will be entitled to injunctive relief in a court of appropriate jurisdiction to remedy any such breach or threatened breach, the Participant acknowledging that damages would be inadequate and insufficient.

Section 10. *Tax Liability; Withholding Requirements*. The Participant shall be solely responsible for any applicable taxes (including, without limitation, income and excise taxes) and penalties, and any interest that accrues thereon, that the Participant incurs in connection with the receipt, vesting or settlement of any PSU granted hereunder. The Company shall be authorized to withhold from the Award the amount (in cash or Shares, or any combination thereof) of applicable withholding taxes due in respect of the Award, its settlement or any payment or transfer under the Award and to take such other action (including providing for elective payment of such amounts in cash or other property by the Participant) as may be necessary in the opinion of the Company to satisfy all obligations for the payment of such taxes; provided, however, that no Shares shall be withheld with a value exceeding the maximum statutory tax rates in the applicable tax jurisdictions.

Section 11. *Recoupment/Clawback*. The Participant hereby acknowledges and agrees that in order to comply with applicable law (including, without limitation, the Dodd-Frank Wall Street Reform and Consumer Protection Act), regulatory authority, and policies of the Company, the Committee retains the right at all times to decrease or terminate all awards and payments under the Plan, and any and all amounts payable under the Plan, or paid under the Plan, shall be subject to clawback, forfeiture, and reduction to the extent determined necessary to comply with applicable law, regulatory authority, and/or policies of the Company, including as a result of risk-related events.

Section 12. *No Right to Continued Employment*. Neither the Plan nor this Award Agreement shall confer upon the Participant any right to continue to be employed by the Company and the receipt of the Award does not confer any rights on the Participant other than those expressly set forth in this Award Agreement or the Plan.

Section 13. *Section 409A of the Code*. This Award Agreement is intended to comply with the requirements of Section 409A of the Code and the regulations thereunder, and the provisions of this Award Agreement shall be interpreted in a manner that satisfies the requirements of Section 409A of the Code, and this Award Agreement shall be operated accordingly. If any provision of this Award Agreement or any term or condition of the PSUs would otherwise conflict with this intent, the provision, term or condition shall be interpreted and deemed amended so as to avoid this conflict. Notwithstanding anything else in this Award Agreement, if the Board considers a Participant to be a “specified employee” under Section 409A of the Code at the time of such Participant’s “separation from service” (as defined in Section 409A of the Code), and the amount hereunder is “deferred compensation” subject to Section 409A of the Code any distribution that otherwise would be made to such Participant with respect to PSUs as a result of such separation from service shall not be made until the date that is six months after such separation from service, except to the extent that earlier distribution would not result in such Participant’s incurring interest or additional tax under Section 409A of the Code. If the Award includes a “series of installment payments” (within the meaning of Section 1.409A-2(b)(2)(iii) of the Treasury Regulations), the Participants’ right to the series of installment payments shall be treated as a right to a series of separate payments and not as a right to a single payment. Notwithstanding the foregoing, the tax treatment of the benefits provided under this Award Agreement is not warranted or guaranteed, and in no event shall the Company be liable for all or any portion of any taxes, penalties, interest or other expenses that may be incurred by the Participant on account of non-compliance with Section 409A of the Code.

Section 14. *Miscellaneous*.

(a) *Definitions*. For purposes of this Award Agreement:

i. “**Cause**” means:

(1) any conviction (including a plea of guilty or of nolo contendere or entry into a pre-trial diversion program) of the Participant for the commission of a felony or any conviction of any criminal offense within the scope of Section 19 of the Federal Deposit Insurance Act, 12 U.S.C. § 1829;

(2) the Participant commits an act of gross misconduct, fraud, embezzlement, theft or material dishonesty in connection with the Participant's duties or in the course of the Participant's employment with the Company or any of its affiliates;

(3) failure on the part of the Participant to perform his or her employment duties in any material respect, which is not cured to the reasonable satisfaction of the Company within 30 days after the Participant receives written notice of such failure; or

(4) the Participant engages in Detrimental Activity.

ii. "**Company Affiliate**" means the Company's parents, subsidiaries, affiliates or their respective successors (collectively, the "Company Affiliates" and each a "Company Affiliate").

iii. "**Detrimental Activity**" includes the following:

(1) The Participant's disclosure to any unauthorized person, firm, or corporation or use or attempt to use for his or her own advantage or to the advantage of any other person, firm or corporation, any confidential information relating to the business affairs or trade secrets of the Company or any of its affiliates, howsoever obtained or provided, during the course of, or as a result of, his or her employment (the "**Confidential Information**"). Confidential Information includes, but is not limited to, information relating to employees, customers and suppliers (former, actual and potential), Company contracts, pricing structures, financial and marketing details, business plans, any technical data, designs, formulae, product lines, intellectual property, research activities and any information which may be deemed to be commercially or price sensitive in nature, whether printed, typed, handwritten, videotaped, transmitted or transcribed on data files or on any other type of media, including but not limited to electronic and digital media, whether or not labeled as "confidential";

(2) The Participant violates the obligations set forth in Section 9(a) or 9(b) of this Award Agreement.

(3) Making any false or disparaging comments about the Company or any of its subsidiaries, affiliates, employees, officers, or directors; or

(4) Engaging in any activity which in the opinion of the Company is not consistent with providing an orderly handover of the Participant's responsibilities.

The Participant agrees that the foregoing restrictions are reasonable and necessary to protect the Company's business and that the grant of this Award, along with the benefits and attributes of the Participant's employment by the Company, is good and valuable consideration to compensate the Participant for agreeing to these restrictions. Notwithstanding anything to the contrary in this Award Agreement or otherwise, nothing shall limit the Participant's rights under applicable law to provide truthful information to any governmental entity or to file a charge with or participate in an investigation conducted by any governmental entity. Notwithstanding the foregoing, the Participant agrees to waive his or her right to recover monetary damages in connection with any charge, complaint or lawsuit filed by the Participant or anyone else on the Participant's behalf (whether involving a governmental entity or not); provided that the Participant is not agreeing to

waive, and this Award Agreement shall not be read as requiring the Participant to waive, any right the Participant may have to receive an award for information provided to any governmental entity. The Participant is hereby notified that the immunity provisions in Section 1833 of title 18 of the United States Code provide that an individual cannot be held criminally or civilly liable under any federal or state trade secret law for any disclosure of a trade secret that is made (1) in confidence to federal, state or local government officials, either directly or indirectly, or to an attorney, and is solely for the purpose of reporting or investigating a suspected violation of the law, (2) under seal in a complaint or other document filed in a lawsuit or other proceeding, or (3) to the Participant's attorney in connection with a lawsuit for retaliation for reporting a suspected violation of law (and the trade secret may be used in the court proceedings for such lawsuit) as long as any document containing the trade secret is filed under seal and the trade secret is not disclosed except pursuant to court order.

iv. "**Disability**" means the Participant is entitled to, and has begun to receive, long-term disability benefits under the long-term disability plan of the Company in which the Participant participates.

v. "**Good Reason**" means any of the following changes, as compared to the Participant's terms of employment prior to a Change of Control:

(1) a material diminution in the Participant's authority, duties, or responsibilities;

(2) a material diminution in the Participant's base salary other than a general reduction in base salary that affects all similarly situated employees; or

(3) a relocation of the Participant's principal place of employment by more than 50 miles from his or her current principal place of employment, unless the new principal place of employment is closer to the Participant's home address.

Provided, however, that the Participant must give written notice to the Company within 30 days of the initial existence of any of the foregoing changes, the Company shall have 30 days upon receipt of such notice to remedy the condition so as to eliminate the Good Reason, and if not remedied, the Participant's employment must terminate no later than 60 days following the expiration of such cure period. Notwithstanding the foregoing, the Participant's continued employment shall not constitute a waiver of the Participant's rights with respect to any circumstance constituting Good Reason under this Award Agreement.

vi. "**Performance Period**" means the period beginning on ____________ and ending on _____________.

vii. "**Performance Period Start Date**" means the date that the Performance Period begins, as set forth in Section 14(a)(vi).

viii. "**Retirement**" means the Participant's age plus years of service (in each case, including completed months) equals or exceeds 65, with a minimum of at least five years of service with the Company.

(b) *Notices.* All notices, requests and other communications under this Award Agreement shall be in writing and shall be delivered in person (by courier or otherwise), mailed by certified or registered mail, return receipt requested, or sent by facsimile transmission or by e-mail or any other form of electronic transmission or delivery approved by the Committee, as follows:

if to the Company, to:

Citizens Financial Group, Inc.

600 Washington Blvd.
Stamford, CT 06901
Attention: Corporate Secretary

if to the Participant, to the address that the Participant most recently provided to the Company,

or to such other address, facsimile number, e-mail address or such other form of electronic transmission or delivery as such party may hereafter specify for the purpose by notice to the other parties hereto. All such notices, requests and other communications shall be deemed received on the date of receipt by the recipient thereof if received prior to 5:00 p.m. on a business day in the place of receipt. Otherwise, any such notice, request or communication shall be deemed received on the next succeeding business day in the place of receipt. Notwithstanding anything to the contrary contained in this Award Agreement or in the Plan, the Company may, in its sole discretion, deliver and, by acceptance of this grant, the Participant hereby explicitly and unambiguously consents and agrees to the receipt and delivery of, any notices permitted or required hereunder, documents related to any Awards granted under the Plan and/or any other information (including, without limitation, information required to be delivered to the Participant pursuant to applicable securities laws) regarding the Company and the Subsidiaries or the Plan by electronic means, including but not limited to through the Participant's electronic account, through another on-line or electronic account system established and maintained by the Company or another third party designated by the Company or via the Company website. Such consent shall remain in effect throughout the Participant's term of employment or service with the Company and thereafter until withdrawn in writing by the Participant. The Participant acknowledges that the Participant may receive from the Company a paper copy of any notices or documents delivered electronically at no cost to the Participant by contacting the Company by telephone or in writing.

(c) *Entire Agreement*. This Award Agreement and the Plan (including the terms specified in the Participant's electronic account, as noted in Section 1 and Section 6 above) constitute the entire agreement and understanding between the parties in respect of the subject matter hereof and supersede all prior and contemporaneous arrangements, agreements and understandings, both oral and written, whether in term sheets, presentations or otherwise, between the parties with respect to the subject matter hereof.

(d) *Severability*. If any provision of this Award Agreement is or becomes or is deemed to be invalid, illegal or unenforceable in any jurisdiction, or would disqualify the Plan or this Award Agreement under any law deemed applicable by the Board, such provision shall be construed or deemed amended to conform to applicable laws, or if it cannot be so construed or deemed amended without, in the determination of the Board, materially altering the intent of this Award Agreement, such provision shall be stricken as to such jurisdiction, and the remainder of this Award Agreement shall remain in full force and effect.

(e) *Amendment; Waiver*. No amendment or modification of any provision of this Award Agreement that has a material adverse effect on the Participant shall be effective unless signed in writing by or on behalf of the Company and the Participant, *provided* that the Company may amend or modify this Award Agreement without the Participant's consent in accordance with the provisions of the Plan or as otherwise set forth in this Award Agreement. No waiver of any breach or condition of this Award Agreement shall be deemed to be a waiver of any other or

subsequent breach or condition, whether of like or different nature. Any amendment or modification of or to any provision of this Award Agreement, or any waiver of any provision of this Award Agreement, shall be effective only in the specific instance and for the specific purpose for which made or given.

(f) *Assignment*. Neither this Award Agreement nor any right, remedy, obligation or liability arising hereunder or by reason hereof shall be assignable by the Participant.

(g) *Successors and Assigns; No Third-Party Beneficiaries*. This Award Agreement shall inure to the benefit of and be binding upon the Company and the Participant and their respective heirs, successors, legal representatives and permitted assigns. Nothing in this Award Agreement, express or implied, is intended to confer on any Person other than the Company and the Participant, and their respective heirs, successors, legal representatives and permitted assigns, any rights, remedies, obligations or liabilities under or by reason of this Award Agreement.

(h) *Governing Law; Waiver of Jury Trial.* This Award Agreement shall be governed by the laws of the State of Delaware, without application of the conflicts of law principles thereof. By acknowledging this Award Agreement electronically or signing it manually, as applicable, the Participant waives any right that the Participant may have to trial by jury in respect of any litigation based on, arising out of, under or in connection with this Award Agreement or the Plan.

(i) *Discretionary Nature.* The grant of the PSUs does not create any contractual right or other right in the Participant to receive any PSUs or other Awards in the future. Future grants of Awards, if any, shall be at the sole discretion of the Company.

(j) *Participant Undertaking; Acceptance*. The Participant agrees to take whatever additional action and execute whatever additional documents the Company may deem necessary or advisable to carry out or give effect to any of the obligations or restrictions imposed on either the Participant or the PSUs pursuant to this Award Agreement. The Participant acknowledges receipt of a copy of the Plan and this Award Agreement and understands that material definitions and provisions concerning the PSUs and the Participant's rights and obligations with respect thereto are set forth in the Plan. The Participant has read carefully, and understands, the provisions of this Award Agreement and the Plan.

(k) *Dispute Resolution.* Except as provided in Section 9(e) above and the last sentence of this paragraph to the fullest extent permitted by law, the Company and the Participant agree to waive their rights to seek remedies in court, including but not limited to rights to a trial by jury. The Company and each Participant agree that any dispute between or among them and/or their affiliates arising out of, relating to or in connection with this Plan shall be resolved in accordance with a confidential two-step dispute resolution procedure involving: (a) Step One: non-binding mediation, and (b) Step Two: binding arbitration under the Federal Arbitration Act, 9 U.S.C. § 1, et. seq., or state law, whichever is applicable. Any such mediation or arbitration hereunder shall be under the auspices of the American Arbitration Association ("**AAA**") pursuant to its then current AAA Commercial Arbitration Rules. No arbitration shall be initiated or take place with respect to a given dispute if the parties have successfully achieved a mutually agreed to resolution of the dispute as a result of the Step One mediation. The mediation session(s) and, if necessary, the arbitration hearing shall be held in the city/location selected by the Company in its sole discretion. The arbitration (if the dispute is not resolved by mediation) shall be conducted by a single AAA arbitrator, selected by the Company in its sole discretion. Any award rendered by the arbitrator, including with respect to responsibility for AAA charges (including the costs of the mediator and arbitrator), shall be final and binding, and judgment may be entered on it in any court of competent jurisdiction. In the unlikely event the AAA refuses to accept jurisdiction over a

dispute, the Company and each Participant agree to submit to JAMS mediation (formerly known as Judicial Arbitration and Mediation Services) and arbitration applying the JAMS equivalent of the AAA Commercial Arbitration Rules. If AAA and JAMS refuse to accept jurisdiction, the parties may litigate in a court of competent jurisdiction.

(l) *Captions*. Captions provided herein are for convenience only and shall not affect the scope, meaning, intent or interpretation of the provisions of this Award Agreement.

(m) *Nature of Payments*. Any and all grants or deliveries related to the PSUs hereunder shall constitute special incentive payments to the Participant and shall not be taken into account in computing the amount of salary or compensation of the Participant for the purpose of determining any retirement, death or other benefits under (i) any retirement, bonus, life insurance or other employee benefit plan of the Company, or (ii) any agreement between the Company and the Participant, except as such plan or agreement shall otherwise expressly provide.

(n) *Data Privacy*. The Participant understands that the Company and its affiliates hold certain personal information about the Participant, including but not limited to the Participant's name, home address and telephone number, birthdate, social insurance number or other identification number, compensation, details of all Awards or any other entitlement to Shares for the purpose of administering the Plan (the "Data"). As a condition of receipt of this Award, the Participant explicitly consents to the collection, use, transfer and retention, in electronic or other form, of the Data by and among, as applicable, the Company, its affiliates and any third parties assisting the Company in administration of the Plan (including but not limited to any broker or other third party with whom the Participate may elect to deposit Shares), in each case, for the purpose of administering the Participant's participation in the Plan.

EXHIBIT 10.27

CFG Voluntary Executive Deferred Compensation Plan Third Amendment

The CFG Voluntary Executive Deferred Compensation Plan Amended and Restated September 1, 2014 (the "Plan"), is hereby amended to include employees of Trinity Capital.

SCHEDULE I

EMPLOYERS EFFECTIVE MARCH 4, 2020

The following list represents the Participating Employers, based on the nomenclature and corporate organization of each such employer as of the respective dates each such employer became a Participanting Employer.

Citizens Bank of Pennsylvania
Citizens Bank, NA
Citizens Asset Finance, Inc.
CCO Investment Services, Corp.
Citizens Financial Group, Inc.
CSB Investment Corporation
Franklin American Mortgage Company
Clarfeld Financial Advisors, LLC
Bowstring Advisors
Trinity Capital

Except as amended herein, the Plan is confirmed in all other respects.

Executed this 4nd day of March 2020 by and on behalf of Citizens Financial Group, Inc. by its duly authorized officer.

Citizens Financial Group, Inc.

/s/ Sal J. Di Liberti

Name: Sal J. Di Liberti, Head of Benefits
Date: March 4, 2020

EXHIBIT 10.32

CITIZENS FINANCIAL GROUP, INC.

Deferred Cash Award Agreement
Terms and Conditions

Section 1. *Grant of Deferred Cash Award.* Citizens Financial Group, Inc. (together with its Subsidiaries, the "**Company**") has granted to the recipient, as identified in such recipient's electronic account (the "**Recipient**"), in exchange for the Recipient's services to the Company, a cash award (the "**Award**") in the amount specified in the Recipient's electronic account, effective on the "**Grant Date**" specified in the Recipient's electronic account. The Award is subject to the terms and conditions of this award agreement (the "**Award Agreement**").

Section 2. *Restrictions on Transferability*. The Award granted under this Award Agreement shall not be assigned, sold, exchanged, pledged, hypothecated, transferred, alienated or otherwise disposed of or hedged, in any manner, whether voluntarily or involuntarily, and whether by operation of law or otherwise, other than by will or by the laws of descent and distribution, by the Recipient. Any sale, exchange, transfer, assignment, pledge, hypothecation, or other disposition in violation of the provisions of this Section 2 shall be null and void and any portion of the Award that is hedged in any manner shall immediately be forfeited. All of the terms and conditions of this Award Agreement shall be binding upon any permitted successors and assigns.

Section 3. *Vesting; Change of Control; Vesting and Forfeiture Upon a Termination of Employment.*

(a) *Vesting*. The Award will be subject to the vesting schedule specified in the Recipient's electronic account.

(b) *Change of Control*. If the Recipient is terminated by the Company without Cause, or the Recipient resigns from employment with the Company with Good Reason, within 12 months after a Change of Control (a "**Change of Control Termination**"), the Award shall fully vest on the Recipient's termination date and shall be paid to the Recipient pursuant to Section 4.

(c) *Vesting and Forfeiture Upon Termination of Employment.*

i. *Termination Without Cause*. If the Recipient is terminated by the Company without Cause (other than a Change of Control Termination), the Award shall continue to vest in accordance with Section 3(a) as though the Recipient was still employed by the Company on each applicable vesting date; *provided*, *however*, that the Recipient does not engage in any Detrimental Activity during the Recipient's post-employment vesting period.

ii. *Retirement; Disability*. If the Recipient's employment is terminated due to Retirement or Disability, the Award shall continue to vest in accordance with Section 3(a) as though the Recipient was still employed by the Company on each applicable vesting date, *provided*, *however*, that the Recipient (A) does not engage in any Detrimental Activity and (B) does not become employed by any company in the financial services industry, in each case, during the Recipient's post-employment vesting period.

iii. *Death*. If the Recipient is terminated due to death, the Award shall fully vest on the Recipient's date of death and shall be paid to the Recipient's Beneficiary pursuant to Section 4.

iv. *Forfeiture*. If the Recipient is terminated by the Company with Cause or the Recipient resigns for any reason (other than a Change of Control Termination), any unvested portion of the Award shall be forfeited in its entirety on the Recipient's termination date without any payment to the Recipient. In addition, if (A) the Recipient's employment is terminated by the Company without Cause (other than a Change of Control Termination) and the Recipient engages in Detrimental Activity during the Recipient's post-employment vesting period, or (B) the Recipient's employment is terminated due to Retirement or Disability and the Recipient either (I) engages in any Detrimental Activity, or (II) becomes employed by any company in the financial services industry, in either case, during the Recipient's post-employment vesting period, any unvested portion of the Award shall be forfeited in its entirety on the date that the Recipient engages in such Detrimental Activity or becomes employed by any company in the financial services industry, as applicable, without any payment to the Recipient.

Section 4. *Distribution on Vesting*. Each portion of the Award that becomes vested pursuant to Section 3 shall be paid as soon as reasonably practicable on or after the applicable vesting date in an amount equal to the portion of the Award that became vested on that date; *provided, however*, that such payment shall be made no later than the end of the calendar year in which it vests or, if later, by the 15th day of the third calendar month after the vesting date provided that the Recipient shall not be permitted, directly or indirectly, to designate the taxable year of the payment.

Section 5. *Notice Prior to the Recipient's Voluntary Separation from Employment*. In partial consideration for the Recipient's eligibility for and receipt of the Award, the Recipient agrees to provide the Company with prior notice of the Recipient's voluntary separation from employment, regardless of the reason for such separation. Such notice shall be no less than the greater of (a) the notice period applicable to the Recipient's employee level as specified in the Company's Separation from Employment Policy as it exists at the time the Recipient provides such notice or (b) the period specified in any other written agreement between the Recipient and the Company.

Section 6. *Restrictive Covenants*.

(a) *Non-Solicitation of Employees*. In addition to the Recipient's obligations detailed in this Agreement, the Recipient agrees and reaffirms that, at any time during the Recipient's employment and for twelve (12) months following the date the Recipient ceases to be employed by the Company for any reason, or if longer, during the remaining vesting period (the "Restricted Period"), the Recipient shall not, directly or indirectly, whether for the Recipient's own account or for any person or entity other than the Company or any Company Affiliate hire, employ, solicit for employment or hire, or attempt to solicit for employment or hire, any person who is employed by the Company or any Company Affiliate during the Restricted Period, nor shall the Recipient directly or indirectly induce any such employee to terminate his or her employment or accept employment with anyone other than a Company Affiliate, or otherwise interfere with the relationship between the Company and/or any Company Affiliate and any of their employees during the Restricted Period. Anything to the contrary notwithstanding, the Company agrees that the Recipient shall not be deemed in violation of this Section 6(a) if an entity with which the Recipient is associated hires or engages any employee of the Company or a Company Affiliate, if the Recipient was not, directly or indirectly, involved in hiring or identifying such person as a potential recruit or assisting in the recruitment of such employee.

(b) *Non-Solicitation of, and Non-Interference with, Customers and Prospective Clients*. The Recipient agrees that during the Recipient's employment and during the Restricted Period, the Recipient shall not, directly or indirectly, for any person or entity other than the Company or any Company Affiliate, solicit, assist in soliciting for or accept business from any customer of the Company or any Company Affiliate, nor will the Recipient induce or encourage

any such customer to discontinue or diminish his, her or its relationship or prospective relationship with the Company or any Company Affiliate, or divert business away from the Company or any Company Affiliate; provided, however, that general solicitation through advertisement shall not constitute solicitation for purposes of this provision. Anything to the contrary notwithstanding, the Company agrees that the Recipient shall not be deemed in violation of this Section 6(b) if an entity with which the Recipient is associated accepts business from a customer or client of the Company or a Company Affiliate, if the Recipient was not, directly or indirectly, involved in soliciting or identifying such customer or client as a potential customer or client of the competing entity.

(c) *Representations*. The Recipient agrees that all of the foregoing restrictions are reasonable and necessary to protect the Company's and/or any Company Affiliate's business and their Confidential Information and that the Recipient's eligibility for and receipt of the Award, are independently and together good and valuable consideration to compensate him or her for agreeing to all restrictions contained in this Agreement. The Recipient also acknowledges, represents and warrants that the Recipient's knowledge, skills and abilities are sufficient to permit the Recipient to earn a satisfactory livelihood without violating these provisions. Further, the Recipient agrees that the Recipient shall not, following the termination of the Recipient's employment with the Company, represent or hold the Recipient out as being in any way connected with the business of the Company or any Company Affiliate.

(d) *Blue Pencil*. It is expressly understood and agreed that although the Recipient and the Company consider the restrictions contained in this section to be reasonable, if a final judicial determination is made by an arbitrator or a court of competent jurisdiction that the time or territory or any other restriction contained in this Agreement is an unenforceable restriction against the Recipient, the provisions of this Agreement shall not be rendered void but shall be deemed amended to apply as to such maximum time and territory and to such maximum extent as such court may judicially determine or indicate to be enforceable. Alternatively, if an arbitrator or a court of competent jurisdiction finds that any restriction contained in this Agreement is unenforceable, and such restriction cannot be amended so as to make it enforceable, such finding shall not affect the enforceability of any of the other restrictions contained herein.

(e) *Injunctive Relief*. In the event of a breach or threatened breach of this Section 6 or the Participant's engaging in Detrimental Activity, the Participant agrees that the Company will be entitled to injunctive relief in a court of appropriate jurisdiction to remedy any such breach or threatened breach, the Participant acknowledging that damages would be inadequate and insufficient.

Section 7. *[Repayment Requirement*. If the Recipient's employment is terminated (or notice to terminate is given by the Recipient or the Company) for any reason other than death, Disability, Retirement, or termination by the Company without Cause within 12 months of the date the Recipient commences employment with the Company, any unvested portion of the Award shall be forfeited in its entirety on the Recipient's termination date without any payment to the Recipient and the Recipient shall be required to repay the Company within 14 days of the Recipient's termination date the net value (following any applicable tax and other statutory deductions) of any portion of the Award that the Recipient received pursuant to this Award Agreement.] *[Note: Section 7 only applicable to buy-out awards]*

Section 8. *Tax Liability; Withholding Requirements*. The Recipient shall be solely responsible for any applicable taxes (including, without limitation, income and excise taxes) and penalties, and any interest that accrues thereon, that the Recipient incurs in connection with the receipt, vesting or payment of the Award. The Company shall be authorized to withhold from the Award any payment due or transfer made under the Award or from any compensation or other amount owing to the Recipient the amount (in cash or other property, or any combination thereof)

of applicable withholding taxes due in respect of the Award, its settlement or any payment or transfer under the Award and to take such other action (including providing for elective payment of such amounts in cash or other property by the Recipient) as may be necessary in the opinion of the Company to satisfy all obligations for the payment of such taxes.

Section 9. *Recoupment/Clawback*. The Recipient hereby acknowledges and agrees that in order to comply with applicable law (including, without limitation, the Dodd-Frank Wall Street Reform and Consumer Protection Act), regulatory authority, and policies of the Company, the Committee retains the right at all times to decrease or terminate the Award and payments under the Award, and any and all amounts payable under the Award, or paid under the Award, shall be subject to clawback, forfeiture, and reduction to the extent determined necessary to comply with applicable law, regulatory authority, and/or policies of the Company, including as a result of risk-related events.

Section 10. *No Right to Continued Employment*. The grant of the Award shall not be construed as giving a Recipient the right to be retained in the employ of, or to continue to provide services to, the Company. The receipt of the Award is not intended to confer any rights on the Recipient except as set forth in this Award Agreement.

Section 11. *Section 409A of the Code*. This Award Agreement is intended to comply with the requirements of Section 409A of the Code and the regulations thereunder, and the provisions of this Award Agreement shall be interpreted in a manner that satisfies the requirements of Section 409A of the Code, and this Award Agreement shall be operated accordingly. If any provision of this Award Agreement or any term or condition of the Award would otherwise conflict with this intent, the provision, term or condition shall be interpreted and deemed amended so as to avoid this conflict. Notwithstanding anything else in this Award Agreement, if the Board considers a Recipient to be a “specified employee” under Section 409A of the Code at the time of such Recipient’s “separation from service” (as defined in Section 409A of the Code), and the amount under the Award is “deferred compensation” subject to Section 409A of the Code any distribution that otherwise would be made to such Recipient with respect to the Award as a result of such separation from service shall not be made until the date that is six months after such separation from service, except to the extent that earlier distribution would not result in such Recipient’s incurring interest or additional tax under Section 409A of the Code. If the Award includes a “series of installment payments” (within the meaning of Section 1.409A-2(b)(2)(iii) of the Treasury Regulations), the Recipients’ right to the series of installment payments shall be treated as a right to a series of separate payments and not as a right to a single payment. Notwithstanding the foregoing, the tax treatment of the benefits provided under this Award Agreement is not warranted or guaranteed, and in no event shall the Company be liable for all or any portion of any taxes, penalties, interest or other expenses that may be incurred by the Recipient on account of non-compliance with Section 409A of the Code.

Section 12. *Miscellaneous*.

(a) *Definitions*. For purposes of this Award Agreement:

i. “**Beneficiary**” means a person entitled to receive payments or other benefits that are available under the Award in the event of the Recipient’s death. If no such person can be named or is named by the Recipient, or if no Beneficiary designated by the Recipient is eligible to receive payments or other benefits that are available under the Award at the Recipient’s death, the Recipient’s Beneficiary shall be the Recipient’s estate. A Recipient may designate a Beneficiary or change a previous Beneficiary designation only at such times as prescribed by the Company, in its sole discretion, and only by using forms and following procedures approved or accepted by the Company for that purpose.

ii. “**Board**” means the board of directors of Citizens Financial Group, Inc.

iii. “**Cause**” means:

(1) any conviction (including a plea of guilty or of nolo contendere or entry into a pre-trial diversion program) of the Recipient for the commission of a felony or any conviction of any criminal offense within the scope of Section 19 of the Federal Deposit Insurance Act, 12 U.S.C. § 1829;

(2) the Recipient commits an act of gross misconduct, fraud, embezzlement, theft or material dishonesty in connection with the Recipient’s duties or in the course of the Recipient’s employment with the Company or any of its affiliates;

(3) failure on the part of the Recipient to perform his or her employment duties in any material respect, which is not cured to the reasonable satisfaction of the Company within 30 days after the Recipient receives written notice of such failure; or

(4) the Recipient engages in Detrimental Activity.

iv. “**Change of Control**” means the occurrence of any one or more of the following events:

(1) any person (as described in Section 3(a)(9) of the Exchange Act and used in Sections 13(d) and 14(d) of the Exchange Act, including a “group” as defined in Section 13(d) of the Exchange Act), other than an employee benefit plan or trust maintained by the Company, becomes the beneficial owner (as described in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Company representing more than 50% of the combined voting power of the Company’s outstanding securities entitled to vote generally in the election of directors;

(2) at any time during a period of 12 consecutive months, individuals who at the beginning of such period constituted the Board and any new member of the Board whose election or nomination for election was approved by a vote of at least a majority of the directors then still in office who either were directors at the beginning of such period or whose election or nomination for election was so approved, cease for any reason to constitute a majority of members of the Board; or

(3) the consummation of (A) a merger or consolidation of the Company with any other corporation or entity, other than a merger or consolidation that would result in the voting securities of the Company outstanding immediately prior to such merger or consolidation continuing to represent (either by remaining outstanding or being converted into voting securities of the surviving entity or, if applicable, the ultimate parent thereof) at least 50% of the combined voting power and total fair market value of the securities of the Company or such surviving entity or parent outstanding immediately after such merger or consolidation, or (B) any sale, lease, exchange or other transfer to any person (as such term is described in clause (1) above) of assets of the Company, in one transaction or a series of related transactions, having an aggregate fair market value of more than 50% of the fair market value of the Company and its subsidiaries (the “Company Value”) immediately prior to such transaction(s), but only to the extent that, in connection with such transaction(s) or within a reasonable period thereafter, the Company’s shareholders receive distributions of cash and/or assets having a fair market value that is greater than 50% of the Company Value immediately prior to such transaction(s).

Notwithstanding the foregoing or any provision of this Award Agreement to the contrary, if the Award provides for accelerated distribution on a Change of Control of amounts that constitute

“deferred compensation” (as defined in Section 409A of the Code and the regulations thereunder), if the event that constitutes such Change of Control does not also constitute a change in the ownership or effective control of the Company, or in the ownership of a substantial portion of the Company’s assets (in either case, as defined in Section 409A of the Code), such amount shall not be distributed on such Change of Control but instead shall vest as of the date of such Change of Control and shall be paid on the scheduled payment date specified in the Award Agreement, except to the extent that earlier distribution would not result in the Recipient who holds such Award incurring interest or additional tax under Section 409A of the Code.

v. “**Code**” means the Internal Revenue Code of 1986, as amended from time to time, and the rules, regulations and guidance thereunder. Any reference to a provision in the Code shall include any successor provision thereto.

vi. “**Committee**” means the compensation committee of the Board unless another committee is designated by the Board. If there is no compensation committee of the Board and the Board does not designate another committee, references herein to the “Committee” shall refer to the Board.

vii. “**Company Affiliate**” means the Company’s parents, subsidiaries, affiliates or their respective successors (collectively, the "Company Affiliates" and each a “Company Affiliate”).

viii. “**Detrimental Activity**” includes the following:

(1) The Recipient’s disclosure to any unauthorized person, firm, or corporation or use or attempt to use for his or her own advantage or to the advantage of any other person, firm or corporation, any confidential information relating to the business affairs or trade secrets of the Company or any of its affiliates, howsoever obtained or provided, during the course of, or as a result of, his or her employment (the “**Confidential Information**”). Confidential Information includes, but is not limited to, information relating to employees, customers and suppliers (former, actual and potential), Company contracts, pricing structures, financial and marketing details, business plans, any technical data, designs, formulae, product lines, intellectual property, research activities and any information which may be deemed to be commercially or price sensitive in nature, whether printed, typed, handwritten, videotaped, transmitted or transcribed on data files or on any other type of media, including but not limited to electronic and digital media, whether or not labeled as “confidential”;

(2) The Recipient violates the obligations set forth in Section 6(a) or 6(b) of this Award Agreement.

(3) Making any false or disparaging comments about the Company or any of its subsidiaries, affiliates, employees, officers, or directors; or

(4) Engaging in any activity which in the opinion of the Company is not consistent with providing an orderly handover of the Recipient’s responsibilities.

The Recipient agrees that the foregoing restrictions are reasonable and necessary to protect the Company’s business and that the grant of this Award, along with the benefits and attributes of the Recipient’s employment by the Company, is good and valuable consideration to compensate the Recipient for agreeing to these restrictions. Notwithstanding anything to the contrary in this Award Agreement or otherwise, nothing shall limit the Participant’s rights under applicable law to provide truthful information to any governmental entity or to file a charge with or participate in an investigation conducted by any governmental entity. Notwithstanding the foregoing, the Participant agrees to waive his or her right to recover monetary damages in connection with any

charge, complaint or lawsuit filed by the Participant or anyone else on the Participant's behalf (whether involving a governmental entity or not); provided that the Participant is not agreeing to waive, and this Award Agreement shall not be read as requiring the Participant to waive, any right the Participant may have to receive an award for information provided to any governmental entity. The Participant is hereby notified that the immunity provisions in Section 1833 of title 18 of the United States Code provide that an individual cannot be held criminally or civilly liable under any federal or state trade secret law for any disclosure of a trade secret that is made (1) in confidence to federal, state or local government officials, either directly or indirectly, or to an attorney, and is solely for the purpose of reporting or investigating a suspected violation of the law, (2) under seal in a complaint or other document filed in a lawsuit or other proceeding, or (3) to the Participant's attorney in connection with a lawsuit for retaliation for reporting a suspected violation of law (and the trade secret may be used in the court proceedings for such lawsuit) as long as any document containing the trade secret is filed under seal and the trade secret is not disclosed except pursuant to court order.

ix. "**Disability**" means the Recipient is entitled to, and has begun to receive, long-term disability benefits under the long-term disability plan of the Company in which the Recipient participates.

x. "**Exchange Act**" means the Securities Exchange Act of 1934, as amended.

xi. "**Good Reason**" means any of the following changes as compared to the Recipient's terms of employment prior to a Change of Control:

(1) a material diminution in the Recipient's authority, duties, or responsibilities;

(2) a material diminution in the Recipient's base salary other than a general reduction in base salary that affects all similarly situated employees; or

(3) a relocation of the Recipient's principal place of employment by more than 50 miles from his or her current principal place of employment, unless the new place of employment is closer to the Recipient's home address.

Provided, however, that the Recipient must give written notice to the Company within 30 days of the initial existence of any of the foregoing changes, the Company shall have 30 days upon receipt of such notice to remedy the condition so as to eliminate the Good Reason, and if not remedied, the Recipient's employment must terminate no later than 60 days following the expiration of such cure period. Notwithstanding the foregoing, the Recipient's continued employment shall not constitute a waiver of the Recipient's rights with respect to any circumstance constituting Good Reason under this Award Agreement.

xii. **"Retirement**" means the Recipient's age plus years of service (in each case, including completed months) equals or exceeds 65, with a minimum of at least five years of service with the Company.

(b) *Notices.* All notices, requests and other communications under this Award Agreement shall be in writing and shall be delivered in person (by courier or otherwise), mailed by certified or registered mail, return receipt requested, or sent by facsimile transmission or by e-mail or any other form of electronic transmission or delivery approved by the Committee, as follows:

if to the Company, to:

Citizens Financial Group, Inc.
600 Washington Blvd.
Stamford, CT 06901
Attention: Corporate Secretary

if to the Recipient, to the address that the Recipient most recently provided to the Company,

or to such other address, facsimile number, e-mail address or such other form of electronic transmission or delivery as such party may hereafter specify for the purpose by notice to the other parties hereto. All such notices, requests and other communications shall be deemed received on the date of receipt by the recipient thereof if received prior to 5:00 p.m. on a business day in the place of receipt. Otherwise, any such notice, request or communication shall be deemed received on the next succeeding business day in the place of receipt. Notwithstanding anything to the contrary contained in this Award Agreement, the Company may, in its sole discretion, deliver and, by acceptance of this grant, the Recipient hereby explicitly and unambiguously consents and agrees to the receipt and delivery of, any notices permitted or required hereunder, documents related to the Award and/or any other information (including, without limitation, information required to be delivered to the Recipient pursuant to applicable securities laws) regarding the Company and the Subsidiaries or the Award by electronic means, including but not limited to through the Recipient's electronic account, through another on-line or electronic account system established and maintained by the Company or another third party designated by the Company or via the Company website. Such consent shall remain in effect throughout the Recipient's term of employment or service with the Company and thereafter until withdrawn in writing by the Recipient. The Recipient acknowledges that the Recipient may receive from the Company a paper copy of any notices or documents delivered electronically at no cost to the Recipient by contacting the Company by telephone or in writing.

(c) *Entire Agreement*. This Award Agreement (including the terms specified in the Recipient's electronic account, as noted in Section 1 and Section 3) constitutes the entire agreement and understanding between the parties in respect of the subject matter hereof and supersedes all prior and contemporaneous arrangements, agreements and understandings, both oral and written, whether in term sheets, presentations or otherwise, between the parties with respect to the subject matter hereof.

(d) *Severability*. If any provision of this Award Agreement is or becomes or is deemed to be invalid, illegal or unenforceable in any jurisdiction, or would disqualify this Award Agreement under any law deemed applicable by the Board, such provision shall be construed or deemed amended to conform to applicable laws, or if it cannot be so construed or deemed amended without, in the determination of the Board, materially altering the intent of this Award Agreement, such provision shall be stricken as to such jurisdiction, and the remainder of this Award Agreement shall remain in full force and effect.

(e) *Amendment; Waiver*. No amendment or modification of any provision of this Award Agreement that has a material adverse effect on the Recipient shall be effective unless signed in writing by or on behalf of the Company and the Recipient; provided, however, that the Company may amend or modify this Award Agreement without the Recipient's consent to the extent any such amendment or modification is made to cause the Award to comply with applicable law, stock market or exchange rules and regulations or accounting or tax rules and regulations, to impose any "clawback" or recoupment provisions on the Awards in accordance

with Section 9, or as otherwise set forth in this Award Agreement. No waiver of any breach or condition of this Award Agreement shall be deemed to be a waiver of any other or subsequent breach or condition, whether of like or different nature. Any amendment or modification of or to any provision of this Award Agreement, or any waiver of any provision of this Award Agreement, shall be effective only in the specific instance and for the specific purpose for which made or given.

(f) *Administration; Determinations.* The Award Agreement shall be administered by the Committee, which shall be appointed by the Board. All decisions of the Committee shall be final, conclusive and binding upon all parties, including the Company, its shareholders, and the Recipient.

(g) *Dissolution or Liquidation*. In the event of the dissolution or liquidation of the Company, the Award will terminate immediately prior to the consummation of such action, unless otherwise determined by the Company.

(h) *Assignment*. Neither this Award Agreement nor any right, remedy, obligation or liability arising hereunder or by reason hereof shall be assignable by the Recipient.

(i) *Successors and Assigns; No Third-Party Beneficiaries*. This Award Agreement shall inure to the benefit of and be binding upon the Company and the Recipient and their respective heirs, successors, legal representatives and permitted assigns. Nothing in this Award Agreement, express or implied, is intended to confer on any person other than the Company and the Recipient, and their respective heirs, successors, legal representatives and permitted assigns, any rights, remedies, obligations or liabilities under or by reason of this Award Agreement.

(j) *Governing Law; Waiver of Jury Trial.* This Award Agreement shall be governed by the laws of the State of Delaware, without application of the conflicts of law principles thereof. By acknowledging this Award Agreement electronically or signing it manually, as applicable, the Recipient waives any right that the Recipient may have to trial by jury in respect of any litigation based on, arising out of, under or in connection with this Award Agreement.

(k) *Unfunded Obligation*. The Award is an unfunded obligation and does not create and will not be construed to create a trust or separate fund of any kind or a fiduciary relationship between the Company and the Recipient or any other person. To the extent that the Recipient becomes vested in the Award and acquires a right to receive payments from the Company pursuant to this Award Agreement, that right will be no greater than the right of any unsecured general creditor of the Company.

(l) *Discretionary Nature.* The grant of the Award does not create any contractual right or other right in the Recipient to receive any other Awards in the future. Future grants of Awards, if any, shall be at the sole discretion of the Company.

(m) *Recipient Undertaking; Acceptance*. The Recipient agrees to take whatever additional action and execute whatever additional documents the Company may deem necessary or advisable to carry out or give effect to any of the obligations or restrictions imposed on either the Recipient or the Award pursuant to this Award Agreement. The Recipient acknowledges receipt of a copy of this Award Agreement. The Recipient has read carefully, and understands, the provisions of this Award Agreement.

(n) *Dispute Resolution.* Except as provided in Section 6(e) above and the last sentence of this paragraph to the fullest extent permitted by law, the Company and the Recipient agree to waive their rights to seek remedies in court, including but not limited to rights to a trial by

jury. The Company and the Recipient agree that any dispute between or among them and/or their affiliates arising out of, relating to or in connection with this Award shall be resolved in accordance with a confidential two-step dispute resolution procedure involving: (a) Step One: non-binding mediation, and (b) Step Two: binding arbitration under the Federal Arbitration Act, 9 U.S.C. § 1, et. seq., or state law, whichever is applicable. Any such mediation or arbitration hereunder shall be under the auspices of the American Arbitration Association ("**AAA**") pursuant to its then current AAA Commercial Arbitration Rules. No arbitration shall be initiated or take place with respect to a given dispute if the parties have successfully achieved a mutually agreed to resolution of the dispute as a result of the Step One mediation. The mediation session(s) and, if necessary, the arbitration hearing shall be held in the city/location selected by the Company in its sole discretion. The arbitration (if the dispute is not resolved by mediation) shall be conducted by a single AAA arbitrator, selected by the Company in its sole discretion. Any award rendered by the arbitrator, including with respect to responsibility for AAA charges (including the costs of the mediator and arbitrator), shall be final and binding, and judgment may be entered on it in any court of competent jurisdiction. In the unlikely event the AAA refuses to accept jurisdiction over a dispute, the Company and the Recipient agree to submit to JAMS mediation and arbitration applying the JAMS equivalent of the AAA Commercial Arbitration Rules. If AAA and JAMS refuse to accept jurisdiction, the parties may litigate in a court of competent jurisdiction.

(o) *Captions*. Captions provided herein are for convenience only and shall not affect the scope, meaning, intent or interpretation of the provisions of this Award Agreement.

(p) *Nature of Payments*. The Award granted hereunder shall constitute special incentive payments to the Recipient and shall not be taken into account in computing the amount of salary or compensation of the Recipient for the purpose of determining any retirement, death or other benefits under (i) any retirement, bonus, life insurance or other employee benefit plan of the Company, or (ii) any agreement between the Company and the Recipient, except as such plan or agreement shall otherwise expressly provide.

(q) *Data Privacy*. The Recipient understands that the Company and its affiliates hold certain personal information about the Recipient, including but not limited to the Recipient's name, home address and telephone number, birthdate, social insurance number or other identification number, compensation, and details of the Award for purposes of administration (the "Data"). As a condition of receipt of this Award, the Recipient explicitly consents to the collection, use, transfer and retention, in electronic or other form, of the Data by and among, as applicable, the Company, its affiliates and any third parties assisting the Company in administration of the Award, in each case, for the purpose of administering the Award.

EXHIBIT 10.39

EXECUTIVE EMPLOYMENT AGREEMENT

This EXECUTIVE EMPLOYMENT AGREEMENT (the "Agreement") is made as of August 25, 2011, by and between RBS Citizens, N.A. ("RBS" or the "Company") and Susan LaMonica ("Executive") (certain capitalized terms used herein being defined in Section 14).

WHEREAS the Company desires to employ Executive and to enter into this Agreement embodying the terms of such employment; and

WHEREAS Executive desires to accept such employment and enter into this Agreement;

NOW, THEREFORE, in consideration of the promises and mutual covenants herein and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties agree as follows:

Section 1. Employment At-Will.

(a) Executive's employment with the Company shall be strictly "at-will" and not for any fixed term. Executive understands and acknowledges that no statement, whether written or verbal, by the Company or any of its officers, employees or representatives may in any way modify, alter, or change the strictly "at-will" nature of her employment relationship with the Company. Both Executive and the Company retain the right to terminate employment at any time, for any reason or no reason. Executive understands and agrees that, as an at-will employee, the Company may terminate her employment without advance notice. Executive may terminate her employment for any reason (a "Resignation") effective sixty (60) days following her delivery of written Notice of Termination to the Board (the "Notice Period").

(b) Upon receipt of a Resignation from Executive, the Company may, in its sole discretion, waive, or shorten the Notice Period requirement or, direct Executive not to report to work unless otherwise requested by the Company (the "Garden Leave"). During any period of Garden Leave:

(i) Executive will remain an employee of the Company and will continue to be paid her then Base Salary and continue to be eligible for Employee Benefits excluding any Discretionary Deferred Award and/or other incentive compensation;

(ii) Executive will be expected to continue to undertake such duties and responsibilities as are assigned to Executive by the Board, including duties to assist the Company with her transition from the Company and maintaining the Company's business, business relationships, and goodwill. Notwithstanding the foregoing, the Company reserves the right to suspend any or all of Executive's duties and powers and to relocate her office to her personal residence for all or part of her Garden Leave;

(iii) Executive will remain bound by all fiduciary duties and obligations owed to the Company and required to comply with all Company policies and practices and the provisions of this Agreement;

(iv) Executive must be reasonably available upon notice and during normal business hours to answer questions and provide advice to the Company, if requested, and must be available for work in accordance with clause (ii) above, except that the Company is not obliged to provide her with any work or request any advice from her;

(v) Executive may not, without the prior written consent of the Company or except in the discharge of duties and responsibilities in accordance with clause (ii) above, contact or attempt to

contact any client, customer, agent, professional adviser, employee, supplier or broker of the Company or of any Subsidiary or Affiliate of the Company;

(vi) Executive will not be permitted to work for any other organization or on her own behalf without the Company's prior written consent, but may search for other employment opportunities;

(vii) All other terms and conditions of Executive's employment (both express and implied) and of this Agreement will remain in full force and effect until the end of the Garden Leave, except the terms of Sections 7, 8, 9, 10, and 11 shall survive termination of this Agreement; and

(viii) All payments under this Section 1(b) shall be subject to Executive's execution, delivery and non-revocation of a release in a form to be prepared and supplied by the Company.

Section 2. Position.

(a) *Position*. During Executive's employment, she shall serve as Human Resources Director for Citizens Financial Group and RBS Americas or in such other capacity as the Company requires. In this position, Executive shall report directly to Elaine Arden, Group Human Resources Director and Ellen Alemany, Head of RBS Americas and Chairman and CEO of CFG or to such other person as the Company or the Board may specify from time to time. Notwithstanding anything else contained within this Agreement, the Company shall be entitled from time to time to appoint one or more persons to act jointly with Executive, in its sole discretion.

(b) *Best Efforts*. During Executive's employment, Executive shall: (i) devote her full professional time, attention, skill and energy to the performance of her duties for RBS and its affiliates, including The Royal Bank of Scotland, plc located in North America and The Royal Bank of Scotland Group Plc (the "Group"); (ii) use her best efforts to dutifully, faithfully and efficiently perform her duties hereunder, comply with the Group's policies, procedures, bylaws, rules, code of conduct and practices, as the same may be amended from time to time, and obey all reasonable and lawful directions given by or under the authority of the Board; (iii) refrain from engaging in any other business, profession or occupation for compensation or otherwise which would conflict, directly or indirectly, with the rendition of services to the Company, without the prior written consent of the Board; except that Executive may engage in charitable and community activities and manage her personal investments provided that such activities do not materially interfere with the performance of her duties hereunder or conflict with the conditions of his employment; and (iv) refrain from engaging in any conduct prejudicial to the interests and reputation of the Group but instead endeavor to promote and extend the business of the Group and protect and further its interests and reputation.

(c) *Directorships*. Executive may be required, in the sole discretion of the Company, to perform services for any Group Company and may be required to undertake the role and duties of an officer or non-executive director of other companies in the Group. No additional remuneration will be paid in respect of these appointments.

(d) *Location*. During the period of Executive's employment, Executive shall be based in Stamford, Connecticut but may be relocated within a fifty (50) mile radius of Stamford, Connecticut at the Company’s sole discretion. Additionally, Executive may be required to travel elsewhere in the world in the performance of her duties.

Section 3. Remuneration.

(a) *Base Salary*. The Company shall pay Executive a base salary (the "Base Salary") at the initial annual rate of $450,000, in substantially equal installments as it is earned not less frequently than monthly in accordance with the Company's usual payroll practices. Executive may receive increases in

Executive's Base Salary as may be determined from time to time in the sole discretion of the Remuneration Committee.

(b) *Discretionary Deferred Award*. Executive will be eligible to take part in the incentive program for the business unit (the "Discretionary Award Program"). The Discretionary Award Program rewards performance during the financial year from January 1 to December 31, and is based on achievement against a mix of targets, which may include personal, team, business, Company targets and external economic considerations. The Company may in its absolute discretion provide Executive an award of such amount, at such intervals and subject to such conditions as the Company may in its sole discretion determine appropriate from time to time. Any such award may be paid in cash, shares or any other form, may be deferred in full or in part as provided in accordance with the Company's deferral plan as that plan may be in effect and amended from time to time (the "Deferral Plan"), and may be forfeited or reduced in such circumstances and on such terms as the Company, acting in good faith and in its sole discretion, determines appropriate. The exercise of discretion in one financial year shall not bind the Company or act as a precedent for its exercise of discretion in any other financial year. If, on or before the date when an award might otherwise have been payable, Executive's employment has terminated or either party has given notice under this Agreement to terminate Executive's employment, Executive will not be entitled to receive any such award (whether in cash, shares or any other form). The Company reserves the right to change the rules of any award schemes, or to cancel such schemes, at any time without prior notice. In the event of any conflict, the rules of any relevant award scheme and the Deferral Plan (both as they may be amended from time to time) shall take precedence over the terms of this Agreement. Currently the target discretionary award for your position is 200% of your annual base salary, which will be prorated for 2011 with no guarantee.

Section 4. Incentive Compensation Plans.

(a) *Executive Long-Term Incentive Plans*. Executive shall, at the absolute discretion of the Remuneration Committee, be eligible to participate in The Royal Bank of Scotland's Long-Term Incentive Plan ("LTIP") as that plan may be in effect from time to time, subject to the rules of that plan as they may be amended from time to time in the Company's sole discretion. Notwithstanding the above, for calendar year 2011 only, subject to the terms and performance measures set forth in the 2011 LTIP and Remuneration Committee approval, and provided you have not resigned, given notice of your intent to resign or been terminated for Wrongful Conduct (as defined below) prior to the day the Company grants any award to all employees generally, you shall be eligible for a long-term incentive grant of at least 110% of your base salary.

Section 5. Other Employee Benefits, Vacation and Perquisites.

(a) *Employee Benefits*. Executive may participate in and receive benefits under any and all executive welfare and health benefit plans (including but not limited to group healthcare (medical, vision and dental), life insurance, and short-term and long-term disability plans) and other executive benefit plans (including but not limited to savings and 401(k) if any, that are offered to other similarly situated executives of the Company based in the United States, to the extent she is eligible thereunder and in accordance with all other terms and conditions of such plans, policies, programs and practices (collectively, the "Employee Benefits"). Generally, Employee Benefits shall start on the first date of the month immediately following the Executive's commencement of performance, unless otherwise provided in accordance with the terms of the applicable plan document, program, policy or practice. Copies of all pertinent plan, program or policy documents will be provided to Executive on request, to the extent the same are within the Company's control. The Company will not have any liability to pay any benefit to Executive under any insurance plan or program unless it receives payment of the benefit from the insurer. All benefits and the plans, programs, policies, or practices relating to them may be changed at any time by the Company within its sole discretion.

(b) *Paid Time Off*. Executive shall be eligible to accrue 27 days of paid time off ("PTO") annually, which may be scheduled as time off away from work in accordance with the Company's PTO policy as applicable in the United States. For 2011, Executive's PTO will be pro-rated based on the 1st of the month following date of hire, provided that date of hire occurs on or before September 30th; if date of hire is subsequent to September 30th, Executive will not be eligible to accrue PTO until the beginning of the next calendar year.

(c) *Reimbursement of Business Expenses*. Reasonable, customary and necessary travel, entertainment and other business expenses incurred by Executive in the performance of her duties hereunder shall be reimbursed by the Company in accordance with the Company's policies, subject to such reasonable substantiation and documentation as may be required by RBS from time to time.

(d) *Sickness*. Executive will be eligible for all payments in respect of short and long-term disability generally made available from time to time in accordance with the then applicable disability plans. Unless required under applicable federal or state law, Executive does not have any contractual or other right to payment in respect of any period of absence due to sickness or incapacity and any such payments will be made at the Company's sole discretion. Executive shall at any time (including during any period of incapacity) at the request and expense of the Company submit to medical examinations by a medical practitioner nominated by the Company, to the extent permitted by applicable federal and state law. Executive agrees, and hereby authorizes, that the results of any such medical examination be disclosed to the Company, subject to the provisions of the United States Health Insurance Portability and Accountability Act of 1996.

(e) *Severance*. In accordance with the Company's guidelines for severance awards to employees at Executive's level, in the event that Executive is made redundant or otherwise has her employment terminated without cause and for reasons unrelated to poor performance, Executive shall be entitled to receive an amount equivalent to at least 26 weeks of her then current base salary. The award of any amount above the 26 week minimum shall be made at the Company's sole discretion.

Section 6. Staff Dealing.

Executive is subject to the Company's Staff Dealing Rules (and divisional rules where applicable) which may require prior permission be obtained before she is permitted to deal in most types of securities transactions. Requests must be submitted in writing on the appropriate Company form. The Company also operates a closed period during which Executive will not be permitted to deal in Group shares. Failure to abide by these rules will constitute serious misconduct and may lead to criminal proceedings and/or the immediate termination of Executive's employment.

Section 7. Non-Solicitation.

(a) *Non-Solicitation of Employees*. Executive agrees that, at any time during her employment and the Restricted Period, Executive shall not, directly or indirectly, whether for her own account or for any other person or entity hire, employ, solicit for employment or hire, or attempt to solicit for employment or hire, any person who was employed by the Company or any member of the Group at any time within one year prior to the time of the act of solicitation (and who, in the case of the Restricted Period following the Executive's termination of employment, was also employed by the Company or any of its Subsidiaries or Affiliates on the date the Restricted Period begins) ("Covered Employee"). Executive further agrees not to otherwise interfere with the relationship between any Covered Employee and the Company. Anything to the contrary notwithstanding, the Company agrees that Executive shall not be deemed in violation of this subsection 7(b) if an entity with which Executive is associated hires or engages any employee of the Company or any of its subsidiaries, if Executive was not, directly or indirectly, involved in hiring or identifying such person as a potential recruit or assisting in the recruitment of such employee.

(b) *Non-Interference with Customers and Vendors*. Executive agrees that during her employment and the Restricted Period, Executive shall not, directly or indirectly, whether for her own account or for any other person or entity, solicit or otherwise have any contact with, whether or not initiated by Executive, any person or entity who is a customer or vendor of the Company or any of its Subsidiaries or Affiliates (and who, in the case of the Restricted Period, was also a customer or vendor of the Company or any of its Subsidiaries or Affiliates on the date Executive's employment ends), to transact business similar to that in which the Company or any member of the Group was engaged on the date the Restricted Period begins; provided, however, that general solicitation through advertisement shall not constitute solicitation for purposes of this provision.

(c) *Representations*. Executive agrees that all of the foregoing restrictions are reasonable and necessary to protect the Company's business and its Confidential Information and that her employment by the Company, along with the benefits and attributes of that employment, is good and valuable consideration to compensate him or her for agreeing to all restrictions contained in this Agreement. Executive also acknowledges, represents and warrants that her knowledge, skills and abilities are sufficient to permit Executive to earn a satisfactory livelihood without violating these provisions. Further, Executive agrees that she shall not, following the termination of her employment with the Company, represent or hold herself out as being in any way connected with the business of the Group.

(d) *Blue Pencil*. It is expressly understood and agreed that although Executive and the Company consider the restrictions contained in this Section 7 and in Section 8 to be reasonable, if a final judicial determination is made by an arbitrator or a court of competent jurisdiction that the time or territory or any other restriction contained in this Agreement is an unenforceable restriction against Executive, the provisions of this Agreement shall not be rendered void but shall be deemed amended to apply as to such maximum time and territory and to such maximum extent as such court may judicially determine or indicate to be enforceable. Alternatively, if an arbitrator or a court of competent jurisdiction finds that any restriction contained in this Agreement is unenforceable, and such restriction cannot be amended so as to make it enforceable, such finding shall not affect the enforceability of any of the other restrictions contained herein.

Section 8. Confidentiality; Ownership of Materials; Duty to Return Company Property.

(a) *Confidential Information*. Executive may not at any time (whether during her employment or after its termination) disclose to any unauthorized person, firm or corporation or use or attempt to use for her own advantage or to the advantage of any other person, firm or corporation, any confidential information relating to the business affairs or trade secrets of the Company or any member of the Group, or any confidential information about (howsoever obtained) or provided by any third party received during the course of or as a result of her employment (the "Confidential Information"). Confidential Information includes, but is not limited to, information relating to employees, customers and suppliers (former, actual and potential), Group contracts, pricing structures, financial and marketing details, business plans, any technical data, designs, formulae, product lines, intellectual property, research activities and any Group information which may be deemed to be commercially or price sensitive in nature, whether printed, typed, handwritten, videotaped, transmitted or transcribed on data files or on any other type of media, whether or not labeled as "confidential". It also includes, without limitation, any information contained in documents marked "confidential" or documents of a higher security classification and other information which, because of its nature or the circumstances in which Executive receives it, Executive should reasonably consider to be confidential. The Company reserves the right to modify the categories of Confidential Information from time to time.

(b) *No Copies*. Executive is not permitted to make any copy, abstract, summary or précis of the whole or any part of any document belonging to a member of the Group unless she has been

authorized to do so by the Company, and shall not at any time use or permit to be used any such items otherwise than for the benefit of the Company in the performance of her services hereunder.

(c) *Exclusions*. The provisions of this Section 8 shall not apply to:

(i) information or knowledge which subsequently comes into the public domain other than by way of unauthorized use or disclosure by Executive;

(ii) the discharge by Executive of his/his duties hereunder or where her use or disclosure of the information has otherwise been properly authorized by the Company;

(iii) any information which Executive discloses in accordance with applicable public interest disclosure legislation;

(iv) any disclosure required by law or by any court, arbitrator, mediator or administrative or legislative body (including any committee thereof) with jurisdiction to order Executive to disclose or make accessible any information; or

(v) any litigation, arbitration or mediation involving this Agreement, including, but not limited to, the enforcement of this Agreement.

(d) *Due Care*. Executive shall exercise all due care and diligence and shall take all reasonable steps to prevent the publication or disclosure by Executive of any Confidential Information relating, in particular, but not limited to, actual or proposed transactions, of any employee, customer, client or supplier (whether former, actual or potential) of any member of the Group including partnerships, companies, bodies, and corporations having accounts with or in any way connected to or in discussion with any member of the Group and all other matters relating to such customers, clients or suppliers and connections.

(e) *Duty to Return Confidential Information and Other Company Property.*

(i) All reports, files, notes, memoranda, e-mails, accounts, documents or other material (including all notes and memoranda of any Confidential Information and any copies made or received by Executive in the course of her employment (whether during or after) are and shall remain the sole property of the Company or the appropriate member of the Group and, following her termination of employment or at any other time upon the Company's request, to the extent within her possession or control, shall be surrendered by Executive to the duly authorized representative of the Company.

(ii) Executive agrees that upon termination of her employment with the Company for any reason, or at any other time upon the Company's request, she will return to the Company immediately all memoranda, books, papers, plans, information, letters and other data, all copies thereof or therefrom, in any way relating to the business of the Group, all other property of the Company (including, but not limited to, company car, credit cards, equipment, correspondence, data, disks, tapes, records, specifications, software, models, notes, reports and other documents together with any extracts or summaries, removable drives or other computer equipment, keys and security passes) or of any member of the Group in her possession or under her control and Executive further agrees that Executive will not retain or use for her own account at any time any trade names, trademark or other proprietary business designation used or owned in connection with the business of the Company or its affiliates.

(iii) Anything to the contrary notwithstanding in this subsection 8(e), Executive shall be entitled to retain (1) papers and other materials of a personal nature, including, but not limited to, photographs, correspondence, personal diaries, calendars and rolodexes, files containing personal materials and phone books, all exclusive of client contact and other business information, (2) copies of

information showing her compensation or relating to reimbursement of expenses, (3) copies of information that she reasonably believes may be needed for tax purposes or relating to any investigation or claim in which she is a witness, party or target, and (4) copies of plans, programs and agreements relating to her employment, or termination thereof, with the Company.

(f) *Declaration of Secrecy*. Executive will be required to sign a Declaration of Secrecy in such form as may be required by the Company from time to time.

(g) *Reasonableness*. Executive agrees that the undertakings set forth in this Section 8 and in Section 9 are reasonable and necessary to protect the legitimate business interests of the Group both during, and after the termination of, her employment, and that the benefits Executive receives under this Agreement are sufficient compensation for these restrictions.

Section 9. Intellectual Property and Developments.

(a) Executive agrees that all Developments are the sole and exclusive property of the Company and hereby assigns all rights to such Developments to the Company in all countries. Executive agrees, at the Company's expense at any time during her employment or thereafter, to sign all appropriate documents and carry out all such reasonable acts as will be necessary to identify and preserve the legal protection of all Developments; however, the Company will have no obligation to compensate Executive for her time spent in connection with any assistance provided unless otherwise required by law. Notwithstanding the foregoing, Executive understands that no provision in this Agreement is intended to require assignment of any of her rights in an invention for which Executive can prove no equipment, supplies, facilities or Confidential Information or trade secret information of the Company was used, which invention was developed entirely on her own time, and which invention Executive can prove: (a) does not relate to the business of the Company or the actual or demonstrably anticipated research or development of the Company; or (b) does not result from any work performed by Executive for the Company. To the extent compatible with applicable state law, these provisions do not apply to any invention which is required to be assigned by the Company to the United States Government. Executive waives all moral rights in all Intellectual Property which is owned by the Company, or will be owned by the Company, pursuant to this Section 9.

(b) Executive agrees to promptly submit to the Company written disclosures of all inventions, whether or not patentable, which are made, conceived or authored by Executive, alone or jointly with others, while Executive is employed by the Company.

Section 10. Certain Agreements.

(a) *Data Protection*. Executive shall familiarize herself with and abide by the Company's Data Protection policy, procedures and accountabilities. Executive acknowledges that any breach of these procedures may result in the immediate termination of her employment.

(b) *Personal Information*. Executive acknowledges and agrees that the Company is permitted to hold personal information about her as part of its personnel and other business records and, in accordance with applicable law, may use such information in the course of the Company's business.

(c) *Credit Data*. The Company reserves the right, upon five (5) days prior written notice, to, and Executive agrees that the Company may, in accordance with applicable law, carry out searches about Executive through credit reference agencies or through the Company's customer records at any time during her employment for purposes of identifying any serious debt or other significant financial difficulties of Executive for the purposes of detecting, eliminating or mitigating any particular risk of employee fraud or theft. The Company will only retain the information about Executive which the Company obtains from these searches in accordance with applicable law and for so long as is needed for the purposes set out

above (subject to any legal (including any regulatory) obligation which requires the Company to retain that information for a longer period). The credit reference agency will record details of the search but these will not be available for use by lenders to assess the ability of Executive to obtain credit. Executive has the right of access to her personal records held by credit reference agencies. The Company will supply the names and addresses of such agencies upon request, to help Executive to exercise her right of access to such records.

(d) *Indebtedness*. For the reasons referred to above, the Company expects Executive to manage her personal finances responsibly. The Company requires that Executive draw to the attention of her manager any serious debt or significant financial difficulties that she may have, including those which result in court action being taken against Executive.

Section 11. Remedies.

The Company and Executive agree that it is impossible to measure solely in money the damages which will accrue to the Company by reason of her failure to observe any of her obligations of Sections 7, 8 or 9 of this Agreement. Therefore, if the Company shall institute any action or proceeding to enforce such provisions, Executive hereby waives the claim or defense that there is an adequate remedy at law and agrees in any such action or proceeding not to interpose the claim or defense that such remedy exists at law. Without limiting any other remedies that may be available to the Company, Executive hereby specifically affirms the appropriateness of injunctive or other equitable relief in any such action and acknowledges that nothing contained within this Agreement shall preclude the Company from seeking or receiving any other relief, including without limitation, any form of injunctive or equitable relief. Executive also agrees that, should she violate the provisions of Section 7 and its subsections such that the Company shall be forced to undertake any efforts to defend, confirm or declare the validity of the covenants contained within Section 7 of this Agreement, the time restrictions set forth therein shall be extended for a period of time equal to the pendency of any court proceedings, including appeals. Further, Executive agrees that, should the Company undertake any efforts to defend, confirm or declare the validity of any of the covenants contained in Sections 7, 8 or 9 of this Agreement, the Company shall be entitled to recover from Executive all of its reasonable attorneys' fees and costs incurred in prosecuting or defending any such action or engaging in any such efforts, provided that the Company is the prevailing party.

Section 12. No Conflicts.

(a) Executive represents and warrants to the Company that on the Commencement Date, to the best of Executive's knowledge, Executive's acceptance of employment with, and performance of Executive's duties for, the Company will not conflict with or result in a violation or breach of, or constitute a default under, any contract, agreement or understanding to which Executive is, or was, a party or of which Executive is aware and that there are no restrictions, covenants, agreements or limitations on Executive's right or ability to enter into and perform the terms of this Agreement.

Section 13. Miscellaneous.

(a) *Governing Law*. This Agreement shall be governed by and construed in accordance with the laws of the State of Connecticut, without regard for the conflict of laws provisions thereof.

(b) *Entire Agreement and Amendments; Survivorship; Strict Construction*.

(i) This Agreement contains the entire understanding and agreement of the parties with respect to the subject matter hereof. There are no restrictions, agreements, promises, warranties, covenants or undertakings between the parties with respect to the subject matter herein other than those

expressly set forth herein. This Agreement may not be altered, modified, or amended except by written instrument signed by the parties hereto, which attaches a copy of this Agreement.

(ii) The respective rights and obligations of the parties hereunder shall survive any termination of this Agreement to the extent necessary to the intended preservation of such rights and obligations.

(c) *No Waiver*. The failure of a party to insist upon strict adherence to any term of this Agreement on any occasion shall not be considered a waiver of such party's rights or deprive such party of the right thereafter to insist upon strict adherence to that term or any other term of this Agreement.

(d) *Severability*. In the event that any one or more of the provisions of this Agreement shall be or become invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions of this Agreement shall not be affected thereby.

(e) *Assignment*. This Agreement shall not be assignable by Executive. This Agreement shall be freely assignable by the Company without restriction.

(f) *Successors; Binding Agreement*. This Agreement shall inure to the benefit of and be binding upon personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees, legatees and permitted assigns.

(g) *Notice*. For the purpose of this Agreement, notices and all other communications provided for in the Agreement shall be in writing and shall be deemed to have been duly given when delivered or three (3) business days after mailing registered mail, return receipt requested, postage prepaid or by recognized courier, addressed to the respective addresses set forth on the execution page of this Agreement, provided that all notices to the Company shall be directed to the attention of the Board with a copy to the Secretary of the Company, and with a copy to the Secretary of the Royal Bank of Scotland Group plc, 36 St Andrew Square, Edinburgh, EH2 2YB, or to such other address as either party may have furnished to the other in writing in accordance herewith, except that notice of change of address shall be effective only upon receipt.

(h) *Withholding Taxes; Deductions*. The Company may withhold from any amounts payable under this Agreement such federal, state and local taxes as may be required to be withheld pursuant to any applicable law or regulation. Executive agrees that the Company may, at any time during, or in any event upon termination of her employment, deduct from her remuneration, any monies due by her to the Company for any overpayment made and/or outstanding loans, advances, relocation expenses and/or salary paid in respect of excess Vacation that was taken but not earned, unless otherwise prohibited by law.

(i) *Counterparts; Effectiveness*. This Agreement may be signed in counterparts, each of which shall be an original, with the same effect as if the signatures thereto and hereto were upon the same instrument. This Agreement shall become effective when each party hereto shall have received a counterpart hereof signed by the other party hereto, including by fax or electronic pdf.

Section 14. Defined Terms.

"Affiliate" has the meaning accorded such term under Rule 12b-2 under the Securities Exchange Act of 1934, as in effect on the Commencement Date;

"Agreement" has the meaning set forth in the Recitals;

"Board" means the board of directors of the Company from time to time, or any duly authorized committee of the board of directors of the Company from time to time;

"Base Salary" has the meaning set forth in Section 3;

"Commencement Date" has the meaning set forth in Section 1;

"Group" means the Company, and each of the Company's Parents, Subsidiaries and Affiliates;

"Confidential Information" has the meaning set forth in Section 8;

"Covered Employee" has the meaning set forth in Section 7;

"Deferral Plan" means The Royal Bank of Scotland Group plc Deferral Plan or any successor plans;

"Developments" means all inventions, whether or not patentable, Confidential Information, computer programs, copyright works, mask works, trademarks and other intellectual property made, conceived or authored by Executive, alone or jointly with others, while employed by the Company, whether or not during normal business hours or on the Company's premises, that are within the existing or contemplated scope of the Company's business at the time such Developments are made, conceived, or authored or which result from or are suggested by any work Executive or others may do for or on behalf of the Company;

"Employee Benefits" has the meaning set forth in Section 5;

"Person" means any individual, corporation, partnership, trust or any other entity or organization;

"RBSG" means the Royal Bank of Scotland Group Plc;

"Remuneration Committee" means the remuneration committee of the RBS Board or any committee empowered by the Board in substitution for the Remuneration Committee;

"Restricted Period" means the twelve (12) month period following the date that Executive ceases employment with the Company; and

“Subsidiary" of any Person means any other Person of which securities or other ownership interests having voting power to elect a majority of the board of directors or other Persons performing similar functions are at the time directly or indirectly owned by such Person.

[The remainder of this page has intentionally been left blank. Signature page follows.]

IN WITNESS WHEREOF, the parties hereto have duly executed this Agreement as of the day and year first above written.

Susan LaMonica

/s/ Susan LaMonica

By: Ellen Alemany

/s/ Ellen Alemany

EXECUTIVE AGREEMENT ADDENDUM

This EXECUTIVE EMPLOYMENT AGREEMENT ADDENDUM (the "Addendum") is made as of July 15, 2014 by and between Citizens Financial Group, Inc. (the "Company") and Susan LaMonica ("Executive").

This Addendum is a supplement to your offer letter dated August 25, 2011. The terms of this Addendum shall be incorporated by reference therein and become terms and conditions of your continued employment. The terms of this Addendum shall supersede any conflicting terms found in your offer letter. This Addendum may not be altered, modified, or amended except by written instrument signed by the parties hereto.

TERMS AND CONDITIONS:

Section 1. At-Will Employment and Notice of Intent to Leave.

(a) Executive's employment with the Company shall be strictly "at-will" and not for any fixed term. Executive understands and acknowledges that no statement, whether written or verbal, by the Company or any of its officers, employees or representatives may in any way modify, alter, or change the strictly "at-will" nature of her employment relationship with the Company. Both Executive and the Company retain the right to terminate Executive's employment at any time, for any reason or no reason. Executive understands and agrees that, as an at-will employee, the Company may terminate her employment without advance notice. Executive may terminate her employment for any reason (a "Resignation") effective 90 days following her delivery of written notice of termination to the Company's Board of Directors (the "Notice Period").

(b) Upon receipt of a Resignation from Executive, the Company may, in its sole discretion, waive the Notice Period, in which case Executive will be permitted to terminate immediately. Under such circumstances the Company will not be obliged to pay in lieu of notice. Alternatively, the Company may direct Executive not to report to work unless otherwise requested by the Company ("Garden Leave"). During any period of Garden Leave:

(i) Executive will remain an employee of the Company and will continue to be paid her then base salary and continue to be eligible for employee benefits, excluding any discretionary award;

(ii) Executive will be expected to continue to undertake such duties and responsibilities as are assigned to Executive by the Company's Board or Chief Executive Officer, including duties to assist the Company with her transition from the Company and maintaining the Company's business, business relationships, and goodwill. Notwithstanding the foregoing, the Company reserves the right to suspend any or all of Executive's duties and powers and to relocate her office to her personal residence for all or part of her Garden Leave;

(iii) Executive will remain bound by all fiduciary duties and obligations owed to the Company and required to comply with all Company policies and practices; and

(iv) Executive may not, without the prior written consent of the Company or except in the discharge of duties and responsibilities in accordance with clause (ii) above, contact or attempt to contact any client, customer, agent, professional adviser, employee, supplier or broker of the Company or any of its parents or subsidiaries.

Section 2. Non-Solicitation.

(a) *Non-Solicitation of Employees*. Executive agrees that, at any time during her employment with the Company, its parents, subsidiaries, affiliates or any successor organization, and during the 12

month period following Executive's termination of employment for any reason ("Restricted Period"), Executive shall not, directly or indirectly, hire, employ, solicit for employment or hire, or attempt to solicit for employment or hire, any person who is employed by the Company or any of its parents, subsidiaries or affiliates during the Restricted Period, nor shall Executive directly or indirectly induce any Company employee to terminate his or her employment or accept employment with anyone other than the Company, or otherwise interfere with the relationship between the Company and any of its employees, during the Restricted Period.

(b) *Non-Solicitation of, and Non-Interference with, Customers and Vendors*. Executive agrees that during her employment with the Company and during the Restricted Period, Executive shall not, directly or indirectly, for any person or entity other than the Company, solicit or assist in soliciting for business any customer of the Company, its parents, subsidiaries or affiliates nor will Executive induce or encourage any such customer to terminate its relationship with the Company, its parents, subsidiaries or affiliates or to divert business away from the Company, its parents, subsidiaries or affiliates, *provided, however,* that general solicitation through advertisement shall not constitute solicitation for purposes of this provision.

(c) *Representations*. Executive agrees that all of the foregoing restrictions are reasonable and necessary to protect the Company's business and its Confidential Information and that her employment by the Company, along with the benefits and attributes of that employment, is good and valuable consideration to compensate her for agreeing to all restrictions contained in this Addendum. Executive also acknowledges, represents and warrants that her knowledge, skills and abilities are sufficient to permit Executive to earn a satisfactory livelihood without violating these provisions.

(d) *Blue Pencil*. It is expressly understood and agreed that although Executive and the Company consider the restrictions contained in this Section 2 to be reasonable, if a final judicial determination is made by an arbitrator or a court of competent jurisdiction that the time or territory or any other restriction contained in this Addendum is an unenforceable restriction against Executive, the provisions of this Addendum shall not be rendered void but shall be deemed amended to apply as to such maximum time and territory and to such maximum extent as such court may judicially determine or indicate to be enforceable. Alternatively, if an arbitrator or a court of competent jurisdiction finds that any restriction contained in this Addendum is unenforceable, and such restriction cannot be amended so as to make it enforceable, such finding shall not affect the enforceability of any of the other restrictions contained herein.

Section 3. Confidentiality; Ownership of Materials; Duty to Return Company Property.

(a) *Confidential Information*. Executive may not at any time (whether during her employment with the Company or after termination for any reason) disclose to any unauthorized person, firm or corporation or use or attempt to use for her own advantage or to the advantage of any other person, firm or corporation, any confidential information relating to the business affairs or trade secrets of the Company or any of its parents, subsidiaries or affiliates, or any confidential information about (howsoever obtained) or provided by any third party received during the course of or as a result of her employment (the "Confidential Information"). Confidential Information includes, but is not limited to, information relating to employees, customers and suppliers (former, actual and potential), Company contracts, pricing structures, financial and marketing details, business plans, any technical data, designs, formulae, product lines, intellectual property, research activities and any Company or Company affiliate information which may be deemed to be commercially or price sensitive in nature, whether printed, typed, handwritten, videotaped, transmitted or transcribed on data files or on any other type of media, whether or not labeled as "confidential". It also includes, without limitation, any information contained in documents marked "confidential" or documents of a higher security classification and other information which, because of its nature or the circumstances in which Executive receives it, Executive should reasonably consider to be

confidential. The Company reserves the right to modify the categories of Confidential Information from time to time.

(b) *Exclusions*. The provisions of this Section 3 shall not apply to:

(i) information or knowledge which subsequently comes into the public domain other than by way of unauthorized use or disclosure by Executive;

(ii) the discharge by Executive of her duties hereunder or where her use or disclosure of the information has otherwise been properly authorized by the Company;

(iii) any information which Executive discloses in accordance with applicable public interest disclosure legislation; or

(iv) any disclosure required by law or by any court, arbitrator, mediator or administrative or legislative body (including any committee thereof) with jurisdiction to order Executive to disclose or make accessible any information.

(c) *Due Care*. Executive shall exercise all due care and diligence and shall take all reasonable steps to prevent the publication or disclosure by Executive of any Confidential Information relating, in particular, but not limited to, actual or proposed transactions, of any employee, customer, client or supplier (whether former, actual or potential) of any member of the Company, including partnerships, companies, bodies, and corporations having accounts with or in any way connected to or in discussion with any member of the Company and all other matters relating to such customers, clients or suppliers and connections.

(d) *Duty to Return Confidential Information and Other Company Property*. All reports, files, notes, memoranda, e-mails, accounts, documents or other material (including all notes and memoranda of any Confidential Information and any copies made or received by Executive in the course of her employment (whether during or after) are and shall remain the sole property of the Company and, following her termination of employment or at any other time upon the Company's request, to the extent within her possession or control, shall be surrendered by Executive to the duly authorized representative of the Company.

(e) *Reasonableness*. Executive agrees that the undertakings set forth in this Section 3 are reasonable and necessary to protect the legitimate business interests of the Company and its members both during, and after the termination of, Executive's employment, and that the benefits Executive receives through continued employment are sufficient compensation for these restrictions.

Section 4. Intellectual Property and Developments.

(a) Executive agrees that all developments and intellectual property are the sole and exclusive property of the Company and hereby assigns all rights to such developments and intellectual property to the Company. Executive agrees, at the Company's expense at any time during her employment or thereafter, to sign all appropriate documents and carry out all such reasonable acts as will be necessary to identify and preserve the legal protection of all developments and intellectual property; however, the Company will have no obligation to compensate Executive for her time spent in connection with any assistance provided unless otherwise required by law. Notwithstanding the foregoing, Executive understands that no provision in this Section is intended to require assignment of any of her rights in an invention for which Executive can prove no equipment, supplies, facilities or Confidential Information or trade secret information of the Company was used, which invention was developed entirely on her own time, and which invention Executive can prove: (i) does not relate to the business of the Company or the actual or demonstrably anticipated research or development of the Company; or (ii) does not result from

any work performed by Executive for the Company. To the extent compatible with applicable state law, these provisions do not apply to any invention which is required to be assigned by the Company to the United States Government. Executive waives all moral rights in all Intellectual Property which is owned by the Company, or will be owned by the Company, pursuant to this Section 4.

(b) Executive agrees to promptly submit to the Company written disclosures of all inventions, whether or not patentable, which are made, conceived or authored by Executive, alone or jointly with others, while Executive is employed by the Company.

Section 5. Certain Agreements.

(a) *Data Protection*. Executive shall familiarize herself with the Company's Data Protection policy, procedures and accountabilities. Executive acknowledges that any breach of these procedures may result in the immediate termination of her employment.

(b) *Personal Information*. Executive acknowledges and agrees that the Company is permitted to hold personal information about her as part of its personnel and other business records and, in accordance with applicable law, may use such information in the course of the Company's business.

(c) *Credit Data*. The Company reserves the right, upon five (5) days prior written notice, to, and Executive agrees that the Company may, in accordance with applicable law, carry out searches about Executive through credit reference agencies or through the Company's customer records at any time during her employment for purposes of identifying any serious debt or other significant financial difficulties of Executive for the purposes of detecting, eliminating or mitigating any particular risk of employee fraud or theft. The Company will only retain the information about Executive which the Company obtains from these searches in accordance with applicable law and for so long as is needed for the purposes set out above (subject to any legal (including any regulatory) obligation which requires the Company to retain that information for a longer period). The credit reference agency will record details of the search but these will not be available for use by lenders to assess the ability of Executive to obtain credit. Executive has the right of access to her personal records held by credit reference agencies. The Company will supply the names and addresses of such agencies upon request, to help Executive to exercise her right of access to such records.

(d) *Indebtedness*. For the reasons referred to above, the Company expects Executive to manage her personal finances responsibly. The Company requires that Executive draw to the attention of her manager any serious debt or significant financial difficulties that she may have, including those which result in court action being taken against Executive.

Section 6. Medical Exams.

Executive shall at any time (including during any period of incapacity) at the request and expense of the Company submit to medical examinations by a medical practitioner nominated by the Company, to the extent permitted by applicable federal and state law. Executive agrees, and hereby authorizes, that the results of any such medical examination be disclosed to the Company, subject to the provisions of the United States Health Insurance Portability and Accountability Act of 1996.

Section 7. Tax Compliance.

All compensation paid to Executive is intended to, and reasonably believed to, comply with Internal Revenue Code Section 409A as well as other tax related laws and regulations to the extent it does not fall into any applicable exclusion.

Section 8. Remedies.

The Company and Executive agree that it is impossible to measure solely in money the damages which will accrue to the Company by reason of her failure to observe any of her obligations of Sections 2, 3 or 4 of this Addendum. Therefore, if the Company shall institute any action or proceeding to enforce such provisions, Executive hereby waives the claim or defense that there is an adequate remedy at law and agrees in any such action or proceeding not to interpose the claim or defense that such remedy exists at law. Without limiting any other remedies that may be available to the Company, Executive hereby specifically affirms the appropriateness of injunctive or other equitable relief in any such action and acknowledges that nothing contained within this Addendum shall preclude the Company from seeking or receiving any other relief, including without limitation, any form of injunctive or equitable relief. Executive also agrees that, should she violate the provisions of Section 2 and its subsections such that the Company shall be forced to undertake any efforts to defend, confirm or declare the validity of the covenants contained within Section 2 of this Addendum, the time restrictions set forth therein shall be extended for a period of time equal to the pendency of any court proceedings, including appeals. Further, Executive agrees that, should the Company undertake any efforts to defend, confirm or declare the validity of any of the covenants contained in Sections 2, 3 and 4 of this Addendum, the Company shall be entitled to recover from Executive all of its reasonable attorneys' fees and costs incurred in prosecuting or defending any such action or engaging in any such efforts.

Section 9. Dispute Resolution; Mediation and Arbitration.

Except as provided in the last sentence of this paragraph to the fullest extent permitted by law, the Company and Executive agree to waive their rights to seek remedies in court, including but not limited to rights to a trial by jury. The Company and Executive agree that any dispute between or among them or their subsidiaries, affiliates or related entities arising out of, relating to or in connection with this Addendum or her employment with the Company, including but not limited to claims for discrimination or other alleged violations of any federal, state or local employment and labor law statutes, ordinances or regulations, will be resolved in accordance with a confidential two-step dispute resolution procedure involving: (a) Step One: non-binding mediation, and (b) Step Two: binding arbitration under the Federal Arbitration Act, 9 U.S.C. § 1, et. seq., or state law, whichever is applicable. Any such mediation or arbitration hereunder shall be under the auspices of the American Arbitration Association ("AAA") pursuant to its then current Labor Arbitration Rules and Mediation Procedures (the "AAA Labor Rules"). Disputes encompassed by this Section 9 include claims for discrimination arising under local, state or federal statutes or ordinances and claims arising under any state's labor laws. Notwithstanding anything to the contrary in the AAA Labor Rules, the mediation process (Step One) may be ended by either party to the dispute upon notice to the other party that it desires to terminate the mediation and proceed to the Step Two arbitration; *provided, however,* that neither party may so terminate the mediation process prior to the occurrence of at least one mediation session with the mediator. No arbitration shall be initiated or take place with respect to a given dispute if the parties have successfully achieved a mutually agreed to resolution of the dispute as a result of the Step One mediation. The mediation session(s) and, if necessary, the arbitration hearing shall be held in the city nearest to Executive's office location during the course of Executive's employment with the Company or an alternative location mutually agreeable to Executive and the Company. The arbitration (if the dispute is not resolved by mediation) will be conducted by a single AAA arbitrator, mutually selected by the parties, as provided for by the AAA Labor Rules. The Company will be responsible for the AAA charges, including the costs of the mediator and arbitrator. The Company and Executive agree that the arbitrator shall apply the substantive law of the State of New York to all state law claims and federal law to any federal law claims, that discovery shall be conducted in accordance with the AAA Labor Rules or as otherwise permitted by law as determined by the arbitrator. In accordance with the AAA Labor Rules (a copy of which is available through AAA's website, www.adr.org), the arbitrator's award shall consist of a written statement as to the disposition of each claim and the relief, if any, awarded on each claim. The Company and Executive understand that the right to appeal or to seek modification of any ruling or award by the arbitrator is limited under state and federal law. Any award rendered by the arbitrator will be final and binding, and judgment may be entered on it in any court of

competent jurisdiction. Nothing contained herein shall restrict either party from seeking temporary injunctive relief in a court of law to the extent set forth in Section 6 hereof.

In the unlikely event the AAA refuses to accept jurisdiction over a dispute, Executive and the Company agree to submit to Judicial-Arbitration-Mediation Services ("JAMS") mediation and arbitration applying the JAMS equivalent of the AAA Labor Rules. If AAA and JAMS refuse to accept jurisdiction, the parties may litigate in a court of competent jurisdiction.

Section 10. Severance. In the event Executive is made redundant or otherwise has her employment terminated without cause and for reasons unrelated to poor performance, Executive shall be entitled to receive a minimum severance payment amounting to 26 weeks of Executive's base salary at the time of Executive's exit contingent upon Executive executing, and not revoking, the Company's standard release agreement then in use.

Section 11. Miscellaneous.

(a) *Governing Law*. This Addendum shall be governed by and construed in accordance with the laws of the State of New York, without regard for the conflict of laws provisions thereof.

(b) *No Waiver*. The failure of a party to insist upon strict adherence to any term of this Addendum on any occasion shall not be considered a waiver of such party's rights or deprive such party of the right thereafter to insist upon strict adherence to that term or any other term of this Addendum.

(c) *Severability*. In the event that any one or more of the provisions of this Addendum shall be or become invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions of this Addendum shall not be affected thereby.

(d) *Counterparts; Effectiveness*. This Addendum may be signed in counterparts, each of which shall be an original, with the same effect as if the signatures thereto and hereto were upon the same instrument. This Addendum shall become effective when each party hereto shall have received a counterpart hereof signed by the other party hereto including by fax or electronic pdf.

ACCEPTED AND AGREED:

/s/ Susan LaMonica
Susan LaMonica

SECOND ADDENDUM TO
EXECUTIVE EMPLOYMENT AGREEMENT

This SECOND ADDENDUM TO EXECUTIVE EMPLOYMENT AGREEMENT (this "Second Addendum") is made as of August 11, 2017 by and between Citizens Financial Group, Inc., together with its subsidiaries and any and all successor entities (the "Company") and Susan LaMonica ("Executive").

This Second Addendum is a supplement to Executive's employment agreement dated August 25, 2011 (the "Initial Agreement") and the first addendum to that agreement (the "First Addendum", collectively, the "Original Agreement"), and the terms of this Second Addendum shall be incorporated by reference therein and shall become terms and conditions of Executive's continued employment. The terms of this Second Addendum shall supersede any conflicting terms found in the Original Agreement. This Second Addendum may not be altered, modified, or amended except by written instrument signed by the parties hereto. To the extent capitalized terms are not defined herein, the definitions included in the Original Agreement, as applicable, shall govern.

Section 1. Change of Control Severance

(a) In the event Executive's employment is terminated by the Company without Cause (other than by reason of Executive's death or disability) or the Executive resigns with Good Reason, in each case within 24 months following a Change of Control, Executive shall receive a payment equivalent to: (i) two times the sum of (A) Executive's Base Salary at the time of termination and (B) the average cash bonus paid to Executive during the prior three years; plus (ii) a pro-rata bonus for the year in which termination occurs, based on the average cash bonus paid to Executive during the prior three years (together, the "COC Severance Payment").

(b) Any COC Severance Payment made in accordance with this section shall be in lieu of and not in addition to any payments to which Executive may otherwise have been entitled in accordance with other sections of this Second Addendum or the Original Agreement and shall be in full and final settlement of all claims Executive may have arising out of or in connection with his employment or its termination, other than with respect to any outstanding equity held by Executive, which shall be treated as provided for in the applicable Company stock plan and award agreements governing such awards.

Section 2. Payment of Severance

The severance set forth in Section 10 of the First Addendum or the COC Severance Payment set forth in this Second Addendum, whichever is applicable, shall be paid in a lump sum, subject to execution and non-revocation of a standard release in a form acceptable to the Company, within seventy (70) days of the termination of Executive's employment. If the period between the termination of Executive's employment and the latest possible effective date of the Standard Release spans two calendar years, the payment shall be paid by the Company in the second calendar year.

Section 3. Definitions

(a) "Cause" means: (i) any conviction (including a plea of guilty or of nolo contendere or entry into a pre-trial diversion program) of Executive for the commission of a felony or any conviction of any criminal offense within the scope of Section 19 of the Federal Deposit Insurance Act, 12 U.S.C. § 1829; (ii) Executive commits an act of gross misconduct, fraud, embezzlement, theft or material dishonesty in connection with the Executive's duties or in the course of Executive's employment with the Company or any of its affiliates; (iii) failure on the part of Executive to perform his employment duties in any material respect, which is not cured to the reasonable satisfaction of the Company within 30 days after Executive receives written notice of such failure; (iv) Executive violates Sections 7, 8 and/or 9 of the Initial Agreement and/or Section 2, 3 and/or 4 of the First Addendum (non-solicitation of employees, customers

and clients; confidentiality; ownership of materials; duty to return company property); or (v) Executive makes any material false or disparaging comments about the Company or any of its subsidiaries, affiliates, employees, officers, or directors, or engages in any activity which in the opinion of the Company is not consistent with providing an orderly handover of Executive's responsibilities.

(b) "Good Reason" means any of the following changes, as compared to Executive's terms of employment prior to a Change of Control:

(i) a material diminution in Executive's authority, duties, or responsibilities;

(ii) a material diminution in Executive's base salary other than a general reduction in base salary that affects all similarly situated employees; or

(iii) a relocation of Executive's principal place of employment by more than 50 miles from his or her current principal place of employment, unless the new principal place of employment is closer to Executive's home address.

Provided, however, that Executive's must give written notice to the Company within 30 days of the initial existence of any of the foregoing changes, the Company shall have 30 days upon receipt of such notice to remedy the condition so as to eliminate the Good Reason, and if not remedied, Executive's employment must terminate no later than 60 days following the expiration of such cure period. Notwithstanding the foregoing, the Executive's continued employment shall not constitute a waiver of the Executive's rights with respect to any circumstance constituting Good Reason under this Second Addendum.

(c) "Change of Control" means the occurrence of any one or more of the following events:

(i) any Person (as defined in Section 3(a)(9) of the Exchange Act of 1934, as amended and used in Sections 13(d) and 14(d) thereof, including "group" as defined in Section 13(d) thereof), other than an employee benefit plan or trust maintained by the Company, becomes the Beneficial Owner (as defined in Rule 13d-3 under the Exchange Act of 1934, as amended), directly or indirectly, of securities of the Company representing more than 50% of the combined voting power of the Company's outstanding securities entitled to vote generally in the election of directors;

(ii) at any time during a period of 12 consecutive months, individuals who at the beginning of such period constituted the Board of Directors of the Company (the "Board") and any new member of the Board whose election or nomination for election was approved by a vote of at least a majority of the directors then still in office who either were directors at the beginning of such period or whose election or nomination for election was so approved, cease for any reason to constitute a majority of members of the Board; or

(iii) the consummation of (A) a merger or consolidation of the Company with any other corporation or entity, other than a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior to such merger or consolidation continuing to represent (either by remaining outstanding or being converted into voting securities of the surviving entity or, if applicable, the ultimate parent thereof) at least 50% of the combined voting power and total fair market value of the securities of the Company or such surviving entity or parent outstanding immediately after such merger or consolidation, or (B) any sale, lease, exchange or other transfer to any Person of assets of the Company, in one transaction or a series of related transactions, having an aggregate fair market value of more than 50% of the fair market value of the Company and its subsidiaries (the "Company Value") immediately prior to such transaction(s), but only to the extent that, in connection with such transaction(s) or within a reasonable period thereafter, the Company's shareholders receive distributions

of cash and/or assets having a fair market value that is greater than 50% of the Company Value immediately prior to such transaction(s).

Section 4. Section 280G

(a) If the aggregate of all amounts and benefits due to Executive under this Second Addendum or the Original Agreement or any other plan, program, agreement or arrangement of the Company or any of its Affiliates, which, if received by Executive in full, would constitute "parachute payments," as such term is defined in and under Section 280G of the Internal Revenue Code of 1986, as amended (the "Code"), (collectively, "Change of Control Benefits"), reduced by all federal, state and local taxes applicable thereto, including the excise tax imposed pursuant to Section 4999 of the Code, is less than the amount Executive would receive, after all such applicable taxes, if Executive received aggregate Change of Control Benefits equal to an amount which is $1.00 less than three (3) times Executive's "base amount," as defined in and determined under Section 280G of the Code, then such Change of Control Benefits shall be reduced or eliminated to the extent necessary so that the Change of Control Benefits received by the Executive will not constitute parachute payments. If a reduction in the Change of Control Benefits is necessary, reduction shall occur in the following order unless the Executive elects in writing a different order, subject to the Company's consent (which shall not be unreasonably withheld or delayed): (i) severance payment based on multiple of Base Salary and/or annual bonus; (ii) other cash payments; (iii) any annual incentive compensation paid as severance; (iv) acceleration of vesting of stock options with an exercise price that exceeds the then fair market value of stock subject to the option, provided such options are not permitted to be valued under Treasury Regulations Section 1.280G-1 Q/A – 24(c); (v) any equity awards accelerated or otherwise valued at full value, provided such equity awards are not permitted to be valued under Treasury Regulations Section 1.280G-1 Q/A – 24(c); (vi) acceleration of vesting of stock options with an exercise price that exceeds the then fair market value of stock subject to the option, provided such options are permitted to be valued under Treasury Regulations Section 1.280G-1 Q/A – 24(c); (vii) acceleration of vesting of all other stock options and equity awards; and (viii) within any category, reductions shall be from the last due payment to the first.

(b) It is possible that after the determinations and selections made pursuant to Section 4(a) above, Executive will receive Change of Control Benefits that are, in the aggregate, either more or less than the amounts contemplated by Section 4(a) above (hereafter referred to as an "Excess Payment" or "Underpayment," respectively). If there is an Excess Payment, Executive shall promptly repay the Company an amount consistent with this Section 4(b). If there is an Underpayment, the Company shall pay Executive an amount consistent with this Section 4(b).

(c) The determinations with respect to this Section 4 shall be made by an independent auditor (the "Auditor") compensated by the Company. The Auditor shall be the Company's regular independent auditor, unless the regular independent auditor is unable or unwilling to makes such determinations, in which event the Auditor shall be a nationally-recognized United States public accounting firm chosen by the Company.

Section 5. Tax Compliance

All compensation paid to Executive is intended to, and is reasonably believed to, comply with Section 409A of the Code ("Section 409A") as well as other tax related laws and regulations to the extent it does not fall into any applicable exclusion, and shall be interpreted and construed consistent with that intent. Notwithstanding the foregoing, the Company makes no representations that the terms of this Second Addendum or the Original Agreement (and any compensation payable thereunder) comply with Section 409A, and in no event shall the Company be liable for any taxes, interest, penalties or other expenses that may be incurred by Executive on account of non-compliance with Section 409A. No expenses eligible for reimbursement, or in-kind benefits to be provided, during any calendar year shall affect the amounts eligible for reimbursement in any other calendar year, to the extent subject to the

requirements of Section 409A, and no such right to reimbursement or right to in-kind benefits shall be subject to liquidation or exchange for any other benefit. For purposes of Section 409A, each payment in a series of installment payments, if any, provided under this Second Addendum or the Original Agreement shall be treated as a separate payment. Any payments under this Second Addendum or the Original Agreement that may be excluded from Section 409A either as separation pay due to an involuntary separation from service or as a short-term deferral shall be excluded from Section 409A to the maximum extent possible. Any payments to be made under this Second Addendum or the Original Agreement upon a termination of employment shall only be made if such termination of employment constitutes a "separation from service" under Section 409A. Notwithstanding the foregoing and any provision in this Second Addendum to the contrary, if on the date of his termination of employment, Executive is deemed to be a "specified employee" within the meaning of Section 409A and any payment or benefit provided to Executive in connection with his termination of employment is determined to constitute "nonqualified deferred compensation" within the meaning of Section 409A, then such payment or benefit due upon, or within the six-month period following, a termination of Executive's employment (whether under this Second Addendum, Executive's Original Agreement, any other plan, program, payroll practice or any equity grant) and which do not otherwise qualify under the exemptions under Treas. Reg. Section 1.409A-1 (including, without limitation, payments that constitute "separation pay" within the meaning of Section 409A), shall be paid or provided to Executive in a lump sum on the earlier of (a) the date which is six months and one day after Executive's "separation from service" (as such term is defined in Section 409A) for any reason other than death, and (b) the date of Executive's death, and any remaining payments and benefits shall be paid or provided in accordance with the payment dates specified in this Second Addendum for such payment or benefit.

Section 6. Miscellaneous

(a) *Governing Law*. This Second Addendum shall be governed by and construed in accordance with New York law without giving effect to the conflict of laws provisions thereof.

(b) *No Waiver*. The failure of a party to insist upon strict adherence to any term of this Second Addendum on any occasion shall not be considered a waiver of such party's rights or deprive such party of the right thereafter to insist upon strict adherence to that term or any other term of this Second Addendum.

(c) *Severability*. In the event that any one or more of the provisions of this Second Addendum shall be or become invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions of this Second Addendum shall not be affected thereby.

(d) *Counterparts; Effectiveness*. This Second Addendum may be signed in counterparts, each of which shall be an original, with the same effect as if the signatures thereto and hereto were upon the same instrument. This Second Addendum shall become effective when each party hereto shall have received a counterpart hereof signed by the other party hereto, including by fax or electronic pdf.

[signature page follows]

IN WITNESS WHEREOF, Executive duly executed this Second Addendum as of the day and year first above written.

ACCEPTED AND AGREED:

/s/ Susan LaMonica
Susan LaMonica

CITIZENS FINANCIAL GROUP, INC.
SUBSIDIARIES

Name of Subsidiary	Jurisdiction of Organization
1215 Financial Center Associates, Ltd.	OH
5801 Southfield Service Drive Corp.	DE
CFG Service Corp.	DE
Citizens Asset Finance, Inc.	NY
Citizens Bank, National Association	United States
Citizens Capital Markets, Inc.	MA
Citizens Charitable Foundation	RI
Citizens Funding Corp.	NH
Citizens Insurance Holdings, Inc.	RI
Citizens One Community Development Corporation	NY
Citizens One NMTC CDE Corp.	DE
Citizens One NMTC CDE, LLC I	DE
Citizens One NMTC CDE, LLC II	DE
Citizens One NMTC CDE, LLC III	DE
Citizens One NMTC CDE, LLC IV	DE
Citizens One NMTC CDE, LLC V	DE
Citizens RI Investment Corp. IV	RI
Citizens Securities, Inc.	RI
Citizens Ventures, Incorporated	MA
Clarfeld Financial Advisors, LLC	DE
Connecticut Realty Investors, Inc.	CT
Court Street Holding, Inc.	MA
CSB Investment Corp.	RI
Estate Preservation Services, LLC	NY
ICX Corporation	OH
Lexington Savings Corp.	MA
Mass Investment Corp.	RI
Minuteman Investments Corporation	MA
Montgomery Service Corporation	PA
New England Acceptance Corporation	NH
PA Investment Corp. I	RI
PA Investment Corp. II	RI
PA Investment Corp. V	DE
RBS Citizens Insurance Agency, Inc.	OH
RI Realty Trust, Inc.	MA
Servco, Inc.	OH
Thistle Group Holding Co.	PA
West Register Citizens Corp.	DE
Windsor Realty Corp.	DE

EXHIBIT 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statement No. 333-227792 on Form S-3 and Registration Statement No. 333-198966 on Form S-8 of our reports dated February 23, 2021, relating to the consolidated financial statements of Citizens Financial Group, Inc. and its subsidiaries and the effectiveness of Citizens Financial Group, Inc. and its subsidiaries' internal control over financial reporting, appearing in this Annual Report on Form 10-K of Citizens Financial Group, Inc. for the year ended December 31, 2020.

/s/ Deloitte & Touche LLP

Boston, Massachusetts

February 23, 2021

EXHIBIT 31.1

CERTIFICATION PURSUANT TO

SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Bruce Van Saun, certify that:

1. I have reviewed this Annual Report on Form 10-K of Citizens Financial Group, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

Date: February 23, 2021

/s/ Bruce Van Saun
Bruce Van Saun
Chief Executive Officer

EXHIBIT 31.1

EXHIBIT 31.2

CERTIFICATION PURSUANT TO

SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, John F. Woods, certify that:

1. I have reviewed this Annual Report on Form 10-K of Citizens Financial Group, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c. Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d. Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal controls over financial reporting.

Date: February 23, 2021

/s/ John F. Woods

John F. Woods
Chief Financial Officer

EXHIBIT 32.1

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,

AS ADOPTED PURSUANT TO SECTION 906

OF THE SARBANES-OXLEY ACT OF 2002

Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned Chief Executive Officer of Citizens Financial Group, Inc. (the "Company"), does hereby certify that:

1. The Annual Report on Form 10-K of the Company for the year ended December 31, 2020 (the “Form 10-K”) fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

2. The information contained in the Form 10-K fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: February 23, 2021

/s/ Bruce Van Saun
Bruce Van Saun
Chief Executive Officer

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff on request.

EXHIBIT 32.2

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,

AS ADOPTED PURSUANT TO SECTION 906

OF THE SARBANES-OXLEY ACT OF 2002

Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned Chief Financial Officer of Citizens Financial Group, Inc. (the "Company"), does hereby certify that:

1. The Annual Report on Form 10-K of the Company for the year ended December 31, 2020 (the “Form 10-K”) fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

2. The information contained in the Form 10-K fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: February 23, 2021

/s/ John F. Woods
John F. Woods
Chief Financial Officer

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff on request.

EXHIBIT 4.8

David Lindenauer
Executive Vice President and Treasurer

Citizens Financial Group, Inc.
1 Citizens Plaza
Providence, Rhode Island 02903

Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549

February 23, 2021

Subject: Citizens Financial Group, Inc. Annual Report on Form 10-K for the fiscal year ended December 31, 2020 – File No. 001-36636

Dear Sirs:

Neither Citizens Financial Group, Inc. (the “Company”) nor any of its consolidated subsidiaries has outstanding any instrument with respect to its long-term debt, other than those filed as an exhibit to the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2020, under which the total amount of securities authorized exceeds 10% of the total assets of the registrant and its subsidiaries on a consolidated basis. In accordance with paragraph (b)(4)(iii) of Item 601 of Regulation S-K (17 CFR Sec. 229.601), the Company hereby agrees to furnish to the Securities and Exchange Commission, upon request, a copy of each instrument that defines the rights of holders of such long term debt not filed or incorporated by reference as an exhibit to the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2020.

Very truly yours,

CITIZENS FINANCIAL GROUP, INC.

/s/ David Lindenauer

David Lindenauer
Executive Vice President and Treasurer

DESCRIPTION OF THE SECURITIES
REGISTERED PURSUANT TO SECTION 12 OF THE
SECURITIES EXCHANGE ACT OF 1934

Citizens Financial Group, Inc. (“Citizens,” “we,” “our,” “us,” and the “Company”) has three classes of securities registered under Section 12 of the Securities Exchange Act of 1934, as amended (the “Exchange Act”): (i) Common Stock, par value $0.01 per share; (ii) Depositary Shares each representing a $1/40^{th}$ Interest in a share of our 6.350% Fixed-to-Floating Rate Non-Cumulative Perpetual Preferred Stock, Series D, par value $25.00 per share (the “Series D Preferred Stock”); and (iii) Depositary Shares each representing a $1/40^{th}$ Interest in a share of our 5.000% Fixed-Rate Non-Cumulative Perpetual Preferred Stock, Series E, par value $25.00 per share (the “Series E Preferred Stock”).

Authorized Capital Stock

Citizens’ authorized capital stock consists of 1,000,000,000 shares of common stock, par value $0.01 per share and 100,000,000 shares of preferred stock, par value $25.00 per share. All outstanding shares of our capital stock are fully paid and non-assessable.

Description of Common Stock

The following description of our common stock is a summary and does not purport to be complete and is qualified in its entirely by the applicable provisions of federal law governing bank holding companies, Delaware law and our amended and restated certificate of incorporation and bylaws. Our amended and restated certificate of incorporation and bylaws are incorporated by reference as Exhibits to our Annual Report on Form 10-K.

Voting rights

The holders of common stock are entitled to one vote per share on all matters to be voted upon by the stockholders, except on matters relating solely to terms of preferred stock.

For the election of directors, we have adopted a majority voting standard in uncontested elections and a plurality voting standard in contested elections. There are no cumulative voting rights.

Dividend rights

Subject to preferences that may be applicable to any outstanding preferred stock, the holders of common stock are entitled to receive ratably such dividends, if any, as may be declared from time to time by our Board of Directors (the “Board”) out of funds legally available therefor.

Rights upon liquidation

In the event of liquidation, dissolution or winding up, the holders of common stock are entitled to share ratably in all assets remaining after payment of liabilities, subject to prior distribution rights of preferred stock, if any, then outstanding.

Other rights

The holders of our common stock have no preemptive or conversion rights or other subscription rights. There are no redemption or sinking fund provisions applicable to the common stock.

Listing

Our common stock is traded on the New York Stock Exchange under the trading symbol “CFG.”

Description of Depositary Shares Representing Interests in Shares of Preferred Stock

The description set forth below of certain provisions of the deposit agreement and of the depositary shares and depositary receipts does not purport to be complete and is subject to and qualified in its entirety by reference to the forms of deposit agreement and depositary receipts relating to each series of preferred stock.

Citizens has the following depositary shares registered under Section 12 of the Exchange Act:

- Depositary Shares each representing 1/40th interest in a share of our Series D Preferred Stock; and
- Depositary Shares each representing 1/40th interest in a share of our Series E Preferred Stock.

We refer to the above series of preferred stock represented by depositary shares (the "Depositary Shares"), collectively, as the "Preferred Stock."

General

Our Depositary Shares represent fractional interests in shares of the applicable series of Preferred Stock. Each Depositary Share represents a 1/40th ownership interest in a share of the applicable series of Preferred Stock, and are evidenced by a depositary receipt. We have deposited the underlying shares of Preferred Stock represented by the Depositary Shares with a depositary pursuant to a deposit agreement among us, Computershare Inc. and its wholly-owned subsidiary Computershare Trust Company, N.A., jointly acting as depositary, and the holders from time to time of the depositary receipts. Subject to the terms of the deposit agreement, each holder of a Depositary Share is entitled to all the rights and preferences of the shares of the applicable series of Preferred Stock (including dividend, voting, redemption and liquidation rights) in proportion to the applicable fraction of a share of the applicable series of Preferred Stock represented by each Depositary Share.

Dividends and Other Distributions

Each dividend on a Depositary Share is in an amount equal to 1/40th of the dividend declared on each share of the applicable series of Preferred Stock.

The depositary distributes all dividends and other cash distributions received in respect of Preferred Stock to the holders of record of the Depositary Shares in proportion to the number of Depositary Shares held by each holder. In the event of a distribution other than in cash, the depositary distributes property received by it to the holders of record of the Depositary Shares in proportion to the number of Depositary Shares held by each holder, unless the depositary determines that this distribution is not feasible, in which case the depositary may, with our approval, adopt a method of distribution that it deems equitable and practicable, including the sale of the property and distribution of the net proceeds from that sale to the holders of the Depositary Shares.

Record dates for the payment of dividends and other matters relating to the Depositary Shares are the same as the corresponding record dates for the applicable series of Preferred Stock.

The amounts distributed to holders of the Depositary Shares are reduced by any amounts required to be withheld by the depositary or by us on account of taxes or other governmental charges.

Redemption of the Depositary Shares

If we redeem any series of Preferred Stock represented by the Depositary Shares, the Depositary Shares will be redeemed from the proceeds received by the depositary resulting from the redemption of the applicable series of Preferred Stock held by the depositary. The redemption price per Depositary Share will be equal to 1/40th of the redemption price per share payable with respect to the Preferred Stock (equivalent to $25 per Depositary Share), plus any declared and unpaid dividends, without accumulation of any undeclared dividends, on the shares of the Preferred Stock. Whenever we redeem shares of Preferred Stock held by the depositary, the depositary will redeem, as of the same redemption date, the number of the Depositary Shares representing shares of the Preferred Stock so redeemed.

In case of any redemption of less than all of the outstanding Depositary Shares, the Depositary Shares to be redeemed will be selected either pro rata or by lot. In any case, the depositary will redeem the Depositary Shares only in increments of 40 Depositary Shares and any integral multiple thereof. The depositary will provide notice of redemption to record holders of the Depositary Shares not less than 30 and not more than 60 days prior to the date fixed for redemption of the Preferred Stock and the related Depositary Shares.

Voting Rights of the Depositary Shares

Because each Depositary Share represents a 1/40th interest in the applicable series of Preferred Stock, holders of Depositary Shares are entitled to 1/40th of a vote per Depositary Share under those limited circumstances in which holders of the applicable series of Preferred Stock are entitled to a vote.

When the depositary receives notice of any meeting at which the holders of the applicable series of Preferred Stock are entitled to vote, the depositary will mail (or otherwise transmit by an authorized method) the information contained in the notice to the record holders of the Depositary Shares relating to the applicable series of Preferred Stock. Each record holder of the Depositary Shares on the record date, which will be the same date as the record date for the applicable series of Preferred Stock, may instruct the depositary to vote the amount of the Preferred Stock represented by the holder's Depositary Shares. To the extent possible, the depositary will vote the amount of the Preferred Stock represented by the Depositary Shares in accordance with the instructions it receives. We will agree to take all reasonable actions that the depositary determines are necessary to enable the depositary to vote as instructed. If the depositary does not receive specific instructions from the holders of any Depositary Shares, it will vote all Depositary Shares held by it proportionately with instructions received.

Charges of Depositary

We have agreed to pay all transfer and other taxes and governmental charges arising solely from the existence of the depositary arrangements. We have agreed to pay associated charges of the depositary in connection with the initial deposit of the applicable series of Preferred Stock and any redemption of the applicable series of Preferred Stock. Holders of the Depositary Shares will pay transfer, income, and other taxes and governmental charges and such other charges as are expressly provided in the deposit agreement to be for their accounts. If these charges have not been paid by the holders of the Depositary Shares, the depositary may refuse to transfer Depositary Shares, withhold dividends and distributions, and sell the Depositary Shares.

Listing

The Depositary Shares representing the Series D Preferred Stock and the Series E Preferred Stock are traded on the New York Stock Exchange under the trading symbols "CFG PrD" and "CFG PrE", respectively.

Form and Notices

Each series of Preferred Stock has been issued in registered form to the depositary, and the Depositary Shares have been issued in book-entry only form through The Depository Trust Company ("DTC"). The depositary will forward to the holders of the Depositary Shares all reports, notices, and communications from us that are delivered to the depositary and that we are required to furnish to the holders of the applicable series of Preferred Stock.

Depositary

Computershare Inc. and Computershare Trust Company, N.A. are the joint depositary for the Depositary Shares. We may terminate such appointment and may appoint a successor depositary at any time and from time to time, provided that we will use our best efforts to ensure that there is, at all relevant times when the Preferred Stock is outstanding, a person or entity appointed and serving as such depositary.

Description of Preferred Stock

As described above, we have Depositary Shares registered under Section 12 of the Exchange Act that represent interests in the Preferred Stock. This section describes the Preferred Stock, interests in which are represented by the Depositary Shares. The following description of our Preferred Stock is a summary and does not purport to be complete and is qualified in its entirely by the applicable provisions of federal law governing bank holding companies, Delaware law, the Certificate of Designations for the applicable series of Preferred Stock, which are included as Exhibits to our amended and restated certificate of incorporation, and our amended and restated certificate of incorporation and bylaws. Our amended and restated certificate of incorporation and bylaws are incorporated by reference as Exhibits to this Annual Report on Form 10-K.

Other than as described below, the terms of the Series D Preferred Stock and the Series E Preferred Stock are substantially similar.

General

Under our amended and restated certificate of incorporation, we have authority to issue up to 100,000,000 shares of preferred stock, par value $25.00 per share. Our Board is authorized without further stockholder action to cause the issuance of shares of preferred stock. Any additional preferred stock may be issued from time to time in one or more series, each with such voting powers, full or limited, or no voting powers, and such designations, preferences and relative, participating, optional or other special rights, and qualifications, limitations or restrictions thereof, as our Board (or a duly authorized committee) may determine prior to the time of issuance.

The Preferred Stock is not be convertible into, or exchangeable for, shares of our common stock or any other class or series of our other securities and are not be subject to any sinking fund or any other obligation of us for their repurchase or retirement. The Preferred Stock represents non-withdrawable capital, not be an account of an insurable type, and not insured or guaranteed by the Federal Deposit Insurance Corporation any other governmental agency or instrumentality.

Dividends

Holders of Preferred Stock are entitled to receive, when, as and if declared by our Board (or a duly authorized committee of our Board), only out of funds legally available therefor, non-cumulative cash dividends payable quarterly in arrears at the rate specified below:

- Series D Preferred Stock : cash dividends at a per annum rate equal to 6.350% until April 6, 2024 (the "*fixed rate period*"), and quarterly thereafter (the "*floating rate period*") at the rate equal to the three month LIBOR (as defined below) plus 3.642%; and
- Series E Preferred Stock: cash dividends at a per annum rate equal to 5.000%.

Each date on which dividends are payable is a "*dividend payment date,*" and dividends for each dividend payment date are payable with respect to the dividend period (or portion thereof) ending on the day preceding such respective dividend payment date, in each case to holders of record on the 15th calendar day before such dividend payment date or such other record date not more than 30 nor less than 10 days preceding such dividend payment date fixed for that purpose by our Board (or a duly authorized committee of our Board) in advance of payment of each particular dividend. For the Series E Preferred Stock and the Series D Preferred Stock during the fixed rate period, if any such date is not a business day, then such date will nevertheless be a dividend payment date, but dividends on the Preferred Stock, when, as and if declared, will be paid on the next succeeding business day (without adjustment in the amount of the dividend per share of the applicable series of Preferred Stock). For the Series D Preferred Stock during the floating rate period, if any such date that would otherwise be a dividend payment date is not a business day, then the next succeeding business day will be the applicable dividend payment date and dividends on the Series D Preferred Stock, when, as and if declared, will be paid on such next succeeding business day, unless such day falls in the next calendar month, in which case the dividend payment date will be brought forward to the immediately preceding day that is a business day.

The amount of the dividend per share of the Series D Preferred Stock will be calculated (a) for each dividend period (or portion thereof) in the fixed rate period, on the basis of a 360-day year consisting of twelve 30-day months, and (b) for each dividend period (or portion thereof) in the floating rate period, based on the actual number of days in the dividend period and a 360-day year. The amount of the dividend per share of the Series E Preferred Stock will be calculated for each dividend period (or portion thereof) on the basis of a 360-day year consisting of twelve 30-day months. We will not pay interest or any sum of money instead of interests on any dividend payment date that may be in arrears on any series of Preferred Stock.

Dividends on shares of Preferred Stock will not be cumulative and will not be mandatory. If our Board (or a duly authorized committee of our Board) does not declare a dividend on a series of Preferred Stock in respect of a dividend period, then holders of that series of Preferred Stock shall not be entitled to receive any dividends not declared by our Board (or a duly authorized committee of our Board) and no interest, or sum of money in lieu of interest, shall be payable in respect of any dividend not so declared, whether or not our Board (or a duly authorized committee of our Board) declares a dividend on that series of Preferred Stock or any other series of our preferred stock or on our common stock for any future dividend period.

In the case of the Series D Preferred Stock, "*three-month LIBOR*" for each dividend determination date related to the floating rate period will be determined by the calculation agent as follows:

(i) The rate for deposits in U.S. dollars having an index maturity of three months as such rate is displayed on Bloomberg on page BBAM1 (or any other page as may replace such page on such service or any successor service for the purpose of displaying the London interbank rates of major banks for U.S. dollars) ("*Bloomberg BBAM1*") as of 11:00 a.m., London time, on such dividend determination date. If no such rate so appears, three-month LIBOR

on such dividend determination date will be determined in accordance with provision described in clause (ii) or (iii) below.

(ii) With respect to a dividend determination date on which no rate is displayed on Bloomberg BBAM1 as specified in clause (i) above, the calculation agent shall request the principal London offices of each of four major reference banks (which may include affiliates of the underwriters for the offering of the Series D Preferred Stock) in the London interbank market, as selected by us, and identified to the calculation agent, to provide the calculation agent with its offered quotation for deposits in U.S. dollars having an index maturity of three months, commencing on the first day of the related dividend period, to prime banks in the London interbank market at approximately 11:00 a.m., London time, on such dividend determination date and in a principal amount that is representative for a single transaction in U.S. dollars in such market at such time. If at least two such quotations are so provided, then three-month LIBOR on such dividend determination date will be the arithmetic mean calculated by the calculation agent of such quotations. If fewer than two such quotations are so provided, then three-month LIBOR on such dividend determination date will be the arithmetic mean calculated by the calculation agent of the rates quoted at approximately 11:00 a.m., in New York City, on such dividend determination date by three major banks (which may include affiliates of the underwriters for the offering of the Series D Preferred Stock) in New York City selected by us, and identified to the calculation agent, for loans in U.S. dollars to leading European banks, having an index maturity of three months and in a principal amount that is representative for a single transaction in U.S. dollars in such market at such time; provided, however, that if the banks so selected by us are not quoting as mentioned in this sentence, but a LIBOR Event (as defined below) has not occurred, three-month LIBOR determined as of a dividend determination date shall be three-month LIBOR in effect on such dividend determination date, or, in the case of the dividend period beginning April 6, 2024, the most recent three-month LIBOR that can be determined.

(iii) Notwithstanding clauses (i) and (ii) above, if we, in our sole discretion, determine that three month LIBOR has been permanently discontinued or is no longer viewed as an acceptable benchmark for securities like the Series D Preferred Stock and we have notified the calculation agent of such determination (a "*LIBOR Event*"), the calculation agent will use, as directed by us, as a substitute for three-month LIBOR (the "*Alternative Rate*") for each future dividend determination date, the alternative reference rate selected by the central bank, reserve bank, monetary authority or any similar institution (including any committee or working group thereof) that is consistent with market practice regarding a substitute for three-month LIBOR. As part of such substitution, the calculation agent will, as directed by us, make such adjustments to the Alternative Rate or the spread thereon, as well as the business day convention, dividend determination dates and related provisions and definitions ("*Adjustments*"), in each case that are consistent with market practice for the use of such Alternative Rate. Notwithstanding the foregoing, if we determine that there is no alternative reference rate selected by the central bank, reserve bank, monetary authority or any similar institution (including any committee or working group thereof) that is consistent with market practice regarding a substitute for three-month LIBOR, we may, in our sole discretion, appoint an independent financial advisor ("*IFA*") to determine an appropriate Alternative Rate and any Adjustments, and the decision of the IFA will be binding on us, the calculation agent and the holders of Series D Preferred Stock. If a LIBOR Event has occurred, but for any reason an Alternative Rate has not been determined or there is no such market practice for the use of such Alternative Rate (and, in each case, an IFA has not determined an appropriate Alternative Rate and Adjustments or an IFA has not been appointed), three-month LIBOR determined as of a dividend determination date shall be three-month LIBOR in effect on such dividend determination date; provided, however, that if this sentence is applicable with respect to the first dividend determination date related to the floating rate period, the dividend rate, business day convention and manner of calculating dividends applicable during the fixed rate period will remain in effect during the floating rate period.

The establishment of three-month LIBOR for each dividend period in the floating rate period by the calculation agent (including, for the avoidance of doubt, at the direction of us in the case of clause (iii)) or IFA, as applicable, shall (in the absence of manifest error) be final and binding. For the avoidance of doubt, any adjustments made pursuant to clause (iii) of the definition of three-month LIBOR shall not be subject to the vote or consent of the holders of the Series D Preferred Stock.

"*Dividend determination date*" means, with respect to a dividend period during the floating rate period, the second London banking day prior to the beginning of such dividend period.

"*London banking day*" means a day that is a Monday, Tuesday, Wednesday, Thursday or Friday and any day on which dealings in deposits in U.S. dollars are transacted in the London interbank market.

Redemption

The Preferred Stock is perpetual and has no maturity date. The Preferred Stock is redeemable at our option, subject to receipt of any required regulatory approval, in whole or in part as follows:

- the Series D Preferred Stock is redeemable on any dividend payment date on or after the dividend payment date on April 6, 2024 at a cash redemption price of $1,000 per share (equivalent to $25 per Depositary Share), plus any declared and unpaid dividends, without regard to any undeclared dividends, to, but excluding, the redemption date; and
- the Series E Preferred Stock is redeemable on any dividend payment date on or after the dividend payment date on January 6, 2025 at a cash redemption price of $1,000 per share (equivalent to $25 per Depositary Share), plus any declared and unpaid dividends, without regard to any undeclared dividends, to, but excluding, the redemption date

Also, we may, redeem the shares of Preferred Stock, in whole but not in part, at any time within 90 days following a Regulatory Capital Treatment Event (as defined in the Certificate of Designations for such series), in each case, at a cash redemption price equal to the stated amount, together with any declared and unpaid dividends, without regard to any undeclared dividends, to but excluding the redemption date.

The Preferred Stock is not subject to any mandatory redemption, sinking fund or other similar provisions. Holders of the Preferred Stock have no right to require redemption of any shares of Preferred Stock.

Restrictions on Dividends, Redemption and Repurchases

So long as any shares of Preferred Stock remains outstanding, unless dividends on all outstanding shares of Preferred Stock for the most recently completed dividend period have been paid in full or declared and a sum sufficient for the payment thereof has been set aside for payment, (i) no dividend may be declared or paid or set aside for payment, and no distribution may be made, on any junior stock (as defined in the Certificate of Designations for such series), (ii) no monies may be paid or made available for a sinking fund for the redemption or retirement of junior stock (a "*junior stock sinking fund payment*"), and (iii) no shares of junior stock shall be purchased, redeemed or otherwise acquired for consideration by us, directly or indirectly, other than:

- any junior stock sinking fund payment, or any purchase, redemption or other acquisition of shares of junior stock, as a result of (x) a reclassification of junior stock for or into other junior stock, (y) the exchange or conversion of one share of junior stock for or into another share of junior stock or (z) the purchase of fractional interests in shares of junior stock under the conversion or exchange provisions of junior stock or the security being converted or exchanged;
- any junior stock sinking fund payment, or any purchase, redemption or other acquisition of shares of junior stock, through the use of the proceeds of a substantially contemporaneous sale of other shares of junior stock;
- repurchases, redemptions or other acquisitions of shares of junior stock in connection with (1) any employment contract, benefit plan or other similar arrangement with or for the benefit of any one or more employees, officers, directors or consultants or (2) a dividend reinvestment or stockholder stock purchase plan;
- any declaration of a dividend in connection with any stockholders' rights plan, or the issuance of rights, stock or other property under any stockholders' rights plan, or the redemption or repurchase of rights pursuant to the plan; or
- any dividend paid on junior stock in the form of stock, warrants, options or other rights where the dividend stock or the stock issuable upon exercise of such warrants, options or other rights is the same stock as that on which the dividend is being paid or is other junior stock.

However, the foregoing does not restrict the ability of us or any of our affiliates to engage in any market-making transactions or purchases in connection with the distribution of securities in the ordinary course of business.

The Certificate of Designations for each series also has provisions in case of partial payments on the Preferred Stock or other series of preferred stock that rank equally with the Preferred Stock.

Dividends on the Preferred Stock will not be declared, paid or set aside for payment if and to the extent such act would cause us to fail to comply with applicable laws and regulations.

Liquidation Rights

In the event of any liquidation, dissolution or winding up of the Company, whether voluntary or involuntary, holders of Preferred Stock will be entitled to receive out of our assets legally available for distribution to our stockholders (*i.e.*, after satisfaction of all our liabilities to creditors, if any) an amount equal to $1,000 per share, plus any dividends that have been declared but not paid prior to the date of payment of distributions to stockholders, without regard to any undeclared dividends (the "*liquidation preference*").

If our assets are not sufficient to pay the liquidation preference in full to all holders of all holders of any class or series of our stock that ranks on a parity with the Preferred Stock in the distribution of assets on liquidation, dissolution or winding up of the Company, the amounts paid to the holders of the Preferred Stock and to the holders of all liquidation preference parity stock shall be *pro rata* in accordance with the respective aggregate liquidation preferences of the Preferred Stock and all such liquidation preference parity stock.

Voting Rights

Except as indicated below or otherwise required by law, the holders of the Preferred Stock do not have any voting rights.

Right to Elect Two Directors on Nonpayment of Dividends. Whenever dividends on any shares of the Preferred Stock, shall have not been declared and paid for the equivalent of three semi-annual or six full quarterly dividend payments, whether or not for consecutive dividend periods (a "*nonpayment*"), the holders of such shares, voting together as a class with holders of any and all other series of voting preferred stock then outstanding, are entitled to vote for the election of a total of two additional members of our Board (the "*preferred stock directors*"), provided that the election of any such directors shall not cause us to violate the corporate governance requirement of the New York Stock Exchange (or any other exchange on which our securities may be listed) that listed companies must have a majority of independent directors and provided further that our board of directors shall at no time include more than two preferred stock directors. In that event, the number of directors on our board of directors shall automatically increase by two, and the new directors shall be elected at a special meeting called at the request of the holders of record of at least 20% of the Preferred Stock or of any other series of voting preferred stock (unless such request is received less than 90 days before the date fixed for the next annual or special meeting of the stockholders, in which event such election shall be held at such next annual or special meeting of stockholders), and at each subsequent annual meeting. These voting rights will continue until dividends on the shares of the Preferred Stock for at least two consecutive semi-annual or four consecutive quarterly dividend periods, as applicable, following the nonpayment shall have been fully paid.

If and when dividends for at least two consecutive semi-annual or four consecutive quarterly dividend periods, as applicable, following a nonpayment have been paid in full on the Preferred Stock, the holders of the Preferred Stock shall be divested of the foregoing voting rights (subject to revesting in the event of each subsequent nonpayment), the term of office of each preferred stock director so elected shall terminate and the number of directors on the board of directors shall automatically decrease by two. In determining whether dividends have been paid for at least two consecutive semi-annual or four consecutive quarterly dividend periods, as applicable, following a nonpayment, we may take account of any dividend we elect to pay for any dividend period after the regular dividend payment date for that period has passed. Any preferred stock director may be removed at any time without cause by the holders of record of a majority of the outstanding shares of the Preferred Stock. So long as a nonpayment shall continue, any vacancy in the office of a preferred stock director (other than prior to the initial election after a nonpayment) may be filled by the written consent of the preferred stock director remaining in office, or if none remains in office, by a vote of the holders of record of a majority of the outstanding shares of Preferred Stock; provided that the filling of any such vacancy shall not cause us to violate the corporate governance requirement of the New York Stock Exchange (or any other exchange on which our securities may be listed) that listed companies must have a majority of independent directors. Any such vote to remove, or to fill a vacancy in the office of, a preferred stock director may be taken only at a special meeting called at the request of the holders of record of at least 20% of the Series E Preferred Stock or of any other series of voting preferred stock (unless such request is received less than 90 days before the date fixed for the next annual or special meeting of the stockholders, in which event such election shall be held at such next annual or special meeting of stockholders). The preferred stock directors shall each be entitled to one vote per director on any matter.

Other Voting Rights

So long as any shares of Preferred Stock are outstanding, in addition to any other vote or consent of stockholders required by law or by our amended and restated certificate of incorporation, the vote or consent of the holders of at least two thirds of the shares of Preferred Stock at the time outstanding, voting together as a single class with any other series of preferred stock entitled to vote thereon (to the exclusion of all other series of preferred stock), given in person or by proxy, either in writing without a meeting or by vote at any meeting called for the purpose, will be necessary for effecting or validating:

- Amendment of Certificate of Incorporation, By-laws or Certificate of Designations. Any amendment, alteration or repeal of any provision of our certificate of incorporation, by-laws or the certificate of designations for the Preferred Stock that would alter or change the voting powers, preferences or special rights of the Preferred Stock so as to affect them adversely; provided, however, that the amendment of the certificate of incorporation so as to authorize or create, or to increase the authorized amount of, any class or series of stock that does not rank senior to the Preferred Stock in either the payment of dividends (whether such dividends are cumulative or non-cumulative) or in the distribution of assets on any liquidation, dissolution or winding up of the Company shall not be deemed to affect adversely the voting powers, preferences or special rights of the Preferred Stock;

- Authorization of Senior Stock. Any amendment or alteration of the certificate of incorporation to authorize or create, or increase the authorized amount of, any shares of any class or series or any securities convertible into shares of any class or series of our capital stock ranking prior to the Preferred Stock in the payment of dividends or in the distribution of assets on any liquidation, dissolution or winding up of the Company; or

- Share Exchanges, Reclassifications, Mergers and Consolidations and Other Transactions. Any consummation of (x) a binding share exchange or reclassification involving the Preferred Stock or (y) a merger or consolidation of Citizens Financial Group, Inc. with another entity (whether or not a corporation), unless in each case (A) the shares of Preferred Stock remain outstanding or, in the case of any such merger or consolidation with respect to which we are not the surviving or resulting entity, the shares of Preferred Stock are converted into or exchanged for preference securities of the surviving or resulting entity or its ultimate parent, and (B) such shares remaining outstanding or such preference securities, as the case may be, have such rights, preferences, privileges and voting powers, and limitations and restrictions thereof, taken as a whole, as are not materially less favorable to the holders thereof than the rights, preferences, privileges and voting powers, and restrictions and limitations thereof, of the Preferred Stock immediately prior to such consummation, taken as a whole.

If an amendment, alteration, repeal, share exchange, reclassification, merger or consolidation described above would adversely affect one or more but not all series of voting preferred stock, then only the series affected and entitled to vote shall vote to the exclusion of all other series of preferred stock. If all series of preferred stock are not equally affected by the proposed amendment, alteration, repeal, share exchange, reclassification, merger or consolidation described above, there shall be required a two-thirds approval of each series that will have a diminished status.

Without the consent of the holders of the Preferred Stock, so long as such action does not adversely affect the rights, preferences, privileges and voting powers of the Preferred Stock, we may amend, alter, supplement or repeal any terms of the Preferred Stock:

- to cure any ambiguity, or to cure, correct or supplement any provision contained in the certificate of designations for the Series E Preferred Stock that may be defective or inconsistent; or

- to make any provision with respect to matters or questions arising with respect to the Preferred Stock that is not inconsistent with the provisions of the certificate of designations, including, without limitation, in the case of the Series D Preferred Stock, to implement the terms of clause (iii) of the definition of three-month LIBOR following the occurrence of a LIBOR Event.

The foregoing voting provisions will not apply if, at or prior to the time when the act with respect to which the vote would otherwise be required shall be effected, all outstanding shares of the Preferred Stock have been redeemed or called for redemption on proper notice and sufficient funds have been set aside by us for the benefit of the holders of the Preferred Stock to effect the redemption unless in the case of a vote or consent required to authorize senior stock if all outstanding shares of the Preferred Stock are being redeemed with the proceeds from the sale of the stock to be authorized.

Under current provisions of the Delaware General Corporation Law, the holders of issued and outstanding preferred stock are entitled to vote as a class, with the consent of the majority of the class being required to approve an amendment to our amended and restated certificate of incorporation if the amendment would increase or decrease the aggregate number of authorized shares of such class or increase or decrease the par value of the shares of such class.

No Preemptive and Conversion Rights

Holders of the Preferred Stock do not have any preemptive rights. The Preferred Stock is not convertible into or exchangeable for property or shares of any other series or class of our capital stock.

Anti-Takeover Effects of Some Provisions

Some provisions of our amended and restated certificate of incorporation and amended and restated bylaws could make the following more difficult:

- acquisition of control of us by means of a proxy contest or otherwise, or
- removal of our incumbent officers and directors.

These provisions, as well as our ability to issue preferred stock, are designed to discourage coercive takeover practices and inadequate takeover bids. These provisions are also designed to encourage persons seeking to acquire control of us to first negotiate with our Board. We believe that the benefits of increased protection give us the potential ability to negotiate with the proponent of an unfriendly or unsolicited proposal to acquire or restructure us, and that the benefits of this increased protection outweigh the disadvantages of discouraging those proposals, because negotiation of those proposals could result in an improvement of their terms.

Election and Removal of Directors. The number of directors that will constitute the Board will be fixed from time to time by resolution of our Board, excluding any directors elected by holders of preferred stock pursuant to provisions applicable in the case of certain events involving the non-payment of dividends. Our Board currently has 14 members.

Our amended and restated certificate of incorporation and amended and restated bylaws provide that directors may be removed, with or without cause, by an affirmative vote of holders of shares representing a majority of the outstanding shares then entitled to vote at an election of directors. Any vacancy occurring on our Board and any newly created directorship may be filled only by a vote of a majority of the remaining directors in office or by the sole director remaining in office.

Limits on Written Consents. Our amended and restated certificate of incorporation and amended and restated bylaws provide that stockholder action, other than actions by the holders of one or more classes of Preferred Stock, can be taken only at an annual or special meeting of stockholders and cannot be taken by written consent in lieu of a meeting.

Super-Majority Approval Requirement. The Delaware General Corporation Law generally provides that the affirmative vote of the holders of a majority of the total voting power of the shares entitled to vote on any matter is required to amend a corporation's certificate of incorporation or bylaws, unless either a corporation's certificate of incorporation or bylaws require a greater percentage. Our amended and restated certificate of incorporation and amended and restated bylaws provide that the affirmative vote of holders of 75% of the total voting power of our outstanding common stock eligible to vote in the election of directors, voting together as a single class, will be required to amend, alter, change or repeal specified provisions, including those relating to voting rights, the structure and authority of the Board, meetings of stockholders, indemnification of directors and officers, amendment of our amended and restated certificate of incorporation and amended and restated bylaws, and certain other provisions. This requirement of a super-majority vote to approve amendments to our amended and restated certificate of incorporation and amended and restated bylaws could enable a minority of our stockholders to effectively exercise veto power over any such amendments.

Other Limitations on Stockholder Actions. Our amended and restated bylaws also impose some procedural requirements on stockholders who wish to:

- make nominations in the election of directors,
- propose that a director be removed;
- propose any repeal or change in our amended and restated bylaws; or
- propose any other business to be bought before an annual or special meeting of stockholders.

Under these procedural requirements, in order to bring a proposal before a meeting of stockholders, a stockholder must generally deliver timely notice of a proposal pertaining to a proper subject for presentation at the meeting to our corporate secretary along with the following:

- a description of the business or nomination to be brought before the meeting and the reasons for conducting such business at the meeting;
- the stockholder's name and address;
- any material interest of the stockholder in the proposal;
- the number of shares beneficially owned by the stockholder and evidence of such ownership; or
- description of all agreements, arrangements and understandings between the stockholder and any other person (including the names of such persons) in connection with the proposal.

To be timely, a stockholder must generally deliver notice to the corporate secretary:

- in connection with an annual meeting of stockholders, not less than 120 days nor more than 150 days prior to the first anniversary of the date on which the annual meeting of stockholders was held in the immediately preceding year, but in the event that the date of the annual meeting is more than 30 days before or more than 70 days after the anniversary date of the preceding annual meeting of stockholders, a stockholder notice will be timely if received by us not later than the close of business (A) no earlier than 120 days prior to the annual meeting and (B) no later than 70 days prior to the date of the meeting or the 10th day following the day on which we first publicly announce the date of the annual meeting; or
- in connection with the election of a director at a special meeting of stockholders, (A) not earlier than 150 days prior to the date of the special meeting nor (B) later than the later of 120 days prior to the date of the special meeting or the 10th day following the day on which public announcement of the date of the special meeting was first made;

In order to submit a nomination for our Board, a stockholder must also submit any information with respect to the nominee that we would be required to include in a proxy statement, as well as some other information.

A stockholder may also submit a nomination for our Board or the proposal of other business by submitting a proposal to us in compliance with Rule 14a-8 under the Exchange Act, and such stockholder's proposal has been included in a proxy statement that has been prepared by us to solicit proxies for the meeting of stockholders.

If a stockholder fails to follow the required procedures, the stockholder's proposal or nomination will be ineligible and will not be voted on by our stockholders.