**Establishing an Environmental and Social (E&S) Risk Management Framework and Approach for Integrating Knowledge and Awareness of E&S-Related Trends, Issues, Impacts, and Dependencies into Risk Management Practices**

ABA Stonier Graduate School of Banking

2022 Traditional Capstone Project

Jeffrey M. Hansen
SVP, Non-Financial Risk Management
Citizens Financial Group
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Citizens™

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## Executive Summary

The prevalence of Environmental, Social, and Governance (ESG)-related risks has rapidly accelerated, as has interest from investors, customers, colleagues, and regulators seeking to understand how organizations are identifying and responding to ESG-related risks. There is also growth in ESG-related regulation and disclosure requirements. Regulatory bodies and stock exchanges are responding to growing investor demands for uniform ESG information linked to financial performance. In addition to a clear rise in the number of environmental and social issues that banks now need to consider, the internal oversight, governance, and culture for managing these risks require greater focus. There is a case to be made for banks to take a more active role in understanding and addressing ESG-related risks – whether that means reducing or removing risk, adapting and preparing for risk or being more transparent about how the organization is managing risk.

Citizens' strategy, footprint, and stature expose it to a litany of environmental and social risks (E&S), which, if not correctly identified, understood, and mitigated, pose a threat to its ability to achieve its strategic objectives. To that end, Citizens has begun advancing ESG priorities. However, the company needs to institute a formal risk management framework to identify, oversee, and govern E&S risks. Without this formal construct and process, the company runs the risk of deviating from its strategic objectives as E&S risks become more pronounced.

*Recommendation*

This paper puts forth a recommendation that Citizens Bank should proceed with establishing an environmental and social risk management framework and integrate this knowledge and awareness of E&S-related trends, issues, impacts, and dependencies into risk management practices, which will bring about the following benefits:

1. The company will be more informed of the potential impacts of E&S risks on Citizens' strategic priorities.
2. Directly address the mounting pressure from Citizens' stakeholders to embrace E&S considerations.
3. Presents a new angle of risk management considerations that can help both protect the company from unexpected loss or drive out expanded business opportunities.

*Approach*

The approach for this work adapts the Committee of Sponsoring Organizations of the Treadway Commission (COSO) guidance "Enterprise Risk Management: Applying enterprise risk management to environmental, social and governance-related risks" with the specific operating and governance model of Citizens. The approach has two phases:

1. Evaluate risk management practices and expand/enhance to account for E&S considerations.
2. Formalize and execute a prescribed approach for identifying, prioritizing, accepting/mitigating, and governing E&S risks, and their impact on its strategic objectives.

This proposal is not intended to produce a single output but rather lay the foundation for a more informed risk management conversation. Execution against these enhanced protocols will deliver a prioritized list of E&S risks that the company must evaluate for mitigation, acceptance, or pursuit.

Overall, the one-time implementation cost associated with this effort is $216,000. Additionally, this proposal requires the hiring of subject matter experts. This cost can be offset through the leveraging of E&S as a driver for product development, the potential organic growth due to positive stakeholder recognition of Citizens' E&S practices and the protection of the company’s book of business by mitigating E&S risks. From a non-financial perspective, Citizens’ will need to consider several opportunities to build out this program, including training and communication, data collection and evaluation, the introduction of new and enhanced controls, and metrics to track implementation progress and E&S exposure.

## Introduction & Background

*Company Profile & History*

Headquartered in Providence, Rhode Island, Citizens Financial Group (Citizens) is the 16th largest US-chartered bank (see Appendix A), with $188 billion[1] in assets, $153 billion in deposits[2], and over six million customers[3]. The Bank offers 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, Citizens provides an integrated experience that includes mobile and online banking, a 24/7 customer contact center with approximately 2,700 ATMs and 1,000 branches in 11 states across 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, Citizens offers 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. Citizens' peer group competitors within its primary markets include other regional banks, such Fifth Third Bank, PNC, KeyBank, Truist and Regions Bank. Citizens is publicly traded on the New York Stock Exchange under the ticker symbol CFG.

Citizens' roots date back to 1828, with the founding of High Street Bank in Providence, Rhode Island. In 1871, High Street Bank established Citizens Savings Bank, and for the following

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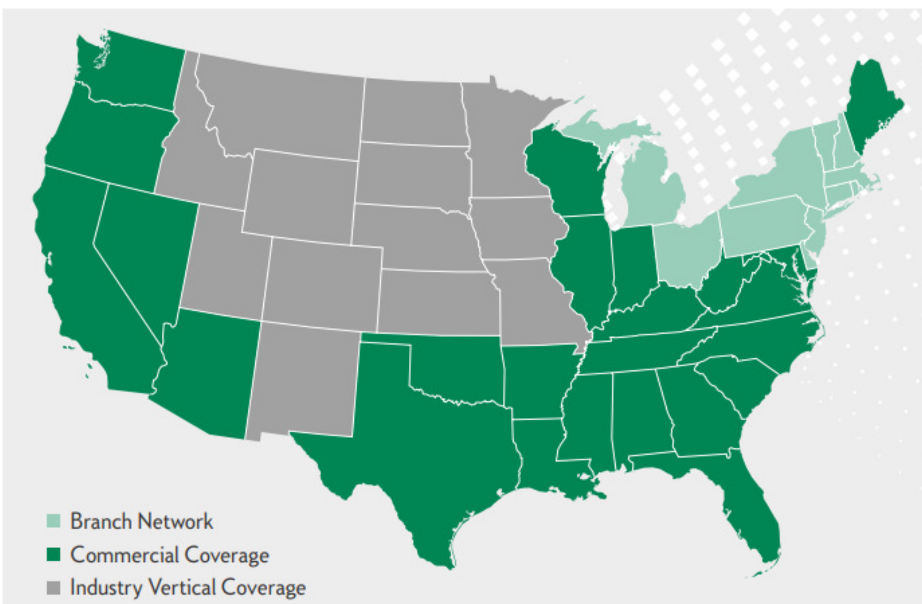
[1] Federal Reserve Statistical Release, Large Commercial Banks, Insured U.S.-Chartered Commercial Banks That Have Consolidated Assets of $300 Million or More, Ranks by Consolidated Assets, As of December 31, 2021, https://www.federalreserve.gov/releases/lbr/current/

[2] Federal Deposit Insurance Corporation, Branch Office Deposits, As of June 30, 2021, https://www7.fdic.gov/sod/sodInstBranchRpt.asp?barItem=1&sZipCode=

[3] Citizens Financial Group Public Website, "Overview of Our Business", https://investor.citizensbank.com/about-us/our-company/our-business.aspx

century, the bank saw modest growth within Rhode Island. By 1981, Citizens had 29 branches in the state and $1.0 billion in assets. In 1988, the Royal Bank of Scotland (RBS) acquired Citizens Bank, setting forward a quarter-century of growth and expansion. Between 1988 and the 2008 financial crisis, Citizens grew to $170 billion in assets, driven primarily through a series of 25 acquisitions. These acquisitions greatly expanded Citizens' footprint throughout New England and into the Mid-Atlantic and the Midwest, transforming itself from a local retail bank into one of the largest retail bank-holding companies in the United States. A few of the more notable acquisitions include:

- The 1999 purchase of State Street Corporation's retail banking business.
- The 2001 purchase of Mellon Financial's retail banking division.
- The 2004 acquisition of Cleveland-based Charter One Financial.




The 2008 financial crisis permanently changed the face of the global banking industry and put a hard stop on Citizens' growth strategy. Between 2008 and 2009, driven by severe losses, the United Kingdom (UK) government took an ownership stake in multiple UK-based banks, including RBS. This stake in RBS was valued at 45.5 billion pounds ($57.09 billion).[4] In 2012, public pressure in the UK grew for RBS to focus its attention on its British operations and divest foreign operations for UK taxpayers to earn back some of the money given to RBS. In February 2013, RBS announced its intention to divest partial ownership of Citizens through an initial public offering. A few months later, in November 2013, RBS announced it would divest all its ownership in Citizens. The following year, in September 2014, Citizens completed its initial public offering (IPO), to that date the largest commercial IPO in US history. By October 2015, RBS had sold down its remaining interest in CFG.

The period following the financial crisis and the IPO focused on improving returns for stakeholders and working through the post-financial crisis regulatory demands faced by the entire industry. The company established a strategy that is still very much in place today. It was focused on optimizing returns, growing organically and through targeted acquisition, divesting non-core businesses, improving efficiency, and increasing investment in infrastructure and technology[5]. In 2019, the company embarked on a highly visible "Transformation" initiative that focused on efficiency, technology enhancements, customer engagement, and the introduction of the Agile methodology to manage change.

*Strategy & Oversight*

Citizens' strategy centers on three priorities[6]:

1. Expansion: The company strives to be a national franchise, as evidenced by five recent acquisitions (between June and December 2021) that have significantly expanded its

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[4] Reuters Staff, "Royal Bank of Scotland bids farewell to tainted name on July 22," *Reuters*, July 16, 2020, https://www.reuters.com/article/us-britain-rbs-namechange/royal-bank-of-scotland-bids-farewell-to-tainted-name-on-july-22-idUSKCN24H0S2

[5] Citizens Financial Group Public Website, "Overview of Our Business", https://investor.citizensbank.com/about-us/our-company/our-history.aspx

[6] Citizens Financial Group, "2Q21 Financial Results", July 20, 2021, https://investor.citizensbank.com/~/media/Files/C/CitizensBank-IR/reports-and-presentations/2q21-earnings-presentation-final-7-20-21.pdf

physical presence in the New York and Washington, D.C. metro areas, its online banking presence, and its product offering (notably for commercial clients).

a. **HSBC East Coast Branches and National Online Deposit Business**: Announced May 26, 2021, the acquisition includes 80 HSBC branches in the New York City Metro area, Mid-Atlantic/Washington D.C., and Southeast Florida with approximately $9.0 billion in deposits and $2.2 billion in loans.

b. **Investors Bancorp**: Announced July 28, 2021, and headquartered in Short Hills, New Jersey, the acquisition of Investors solidifies Citizens' banking franchise in the greater New York City and Philadelphia metropolitan areas and across New Jersey while adding approximately $27 billion in total assets, $20 billion in deposits, and a sizable commercial and consumer customer base.

c. **Willamette Management Associates**: Announced August 5, 2021, and with offices in Chicago, Atlanta, and Portland, Oregon, Willamette strengthens Citizens' valuation services capabilities for commercial clients.

d. **JMP Group**: Announced September 8, 2021, and headquartered in San Francisco, CA, JMP Group provides corporate finance and strategic advisory capabilities for Citizens' commercial clients.

e. **DH Capital**: Announced December 15, 2021, and headquartered in New York City, DH Capital further expands the Citizens' corporate mergers and acquisitions advisory team by bringing in the digital infrastructure sector expertise. In particular, the DH Capital acquisition complements the JMP deal and rounds out Citizens' technology advisory capabilities.

2. Technology transformation, through end-to-end digital transformation (intended to improve internal efficiencies, increase sales, and drive self-service interactions) and building enhanced solution sets and fee capabilities.
3. Improving the Customer Experience, through changing how the company conducts business with its customers at branches, online, and through its advisory model.

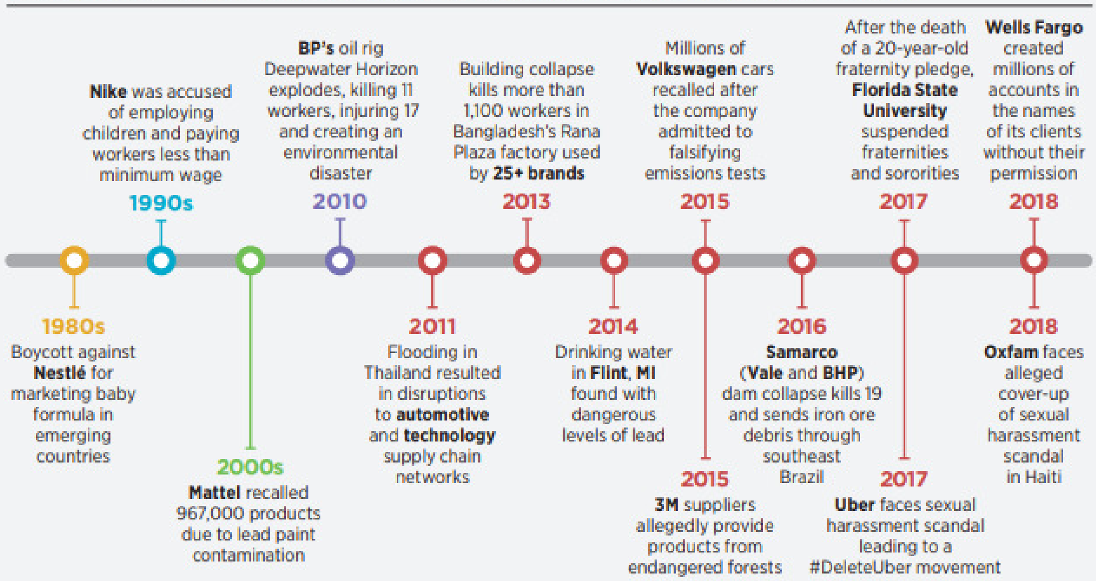
Given its size and product offering, Citizens is overseen by many regulatory agencies. Its primary regulator is the Office of the Comptroller of the Currency (OCC). It is also overseen by the Consumer Financial Protection Board (CFPB), the Federal Reserve Bank, and other more specialized regulatory agencies.

## Strategy & Implementation

*Environment & Social Priorities as a Strategic Focus – Overview of Opportunity*

As stated in the *COSO Framework; Applying Enterprise Risk Management to Environmental, Social and Governance-Related Risks*, "Entities…face an evolving landscape of environmental, social, and governance-related risks that can impact their profitability, success and even survival".[7] The below graphic, also from this *COSO Framework*, outlines examples of organizations that have experienced ESG-related impacts.

Figure 1: Examples of organizations that have experienced ESG-related impacts




Citizens' strategy, footprint, and stature expose it to a litany of environmental and social risks (E&S), which, if not correctly identified, understood, and mitigated, pose a threat to its ability to achieve its strategic objectives. Citizens' primary stakeholders (investors, customers, colleagues, communities, and regulators) are mounting pressure to advance the transition to a low-

[7] Committee of Sponsoring Organizations of the Treadway Commission (COSO), "Enterprise Risk Management: Applying enterprise risk management to environmental, social and governance-related risks", October 2018, https://www.coso.org/Documents/COSO-WBCSD-ESGERM-Guidance-Full.pdf

carbon economy. As a result, they are aligning their purchasing behaviors based on social and environmental impacts. This pressure and alignment will directly influence Citizens' strategic priorities and reputation, which are further outlined in the table below. Deeper still are risks associated with credit and lending decisions, all of which require recognition, quantification, and assessment.

| **Stakeholder** | **E&S Focus / Expectations** |
|---|---|
| Investors | Large institutional investors (e.g., Blackrock) are calling on companies to disclose plans for how their business models will be compatible with a net-zero economy. Focus of assets under management in ESG-dedicated strategies is increasing, as is a rising success of shareholder proposals on environmental and social topics – 14% of such proposals passed in the first half of 2021, more than double the three-year average[8]. |
| Consumers | Consumers, particularly young professionals, mass affluent and affluent – are altering their purchases based on social and environmental impact (e.g., nearly six in 10 consumers are willing to change their shopping habits to reduce their environmental impact[9]). |
| Colleagues | Research shows that more than 70% of employees expect their employer to become involved in debates of the day[10] – junior talent tends to be particularly passionate about E&S issues and want to work for companies that share their values. |
| Communities | Activists are pressuring public companies to take stands on E&S issues, and today, more than 60% of Americans consider climate change to be a "major threat to our country"[11]. Between 2015 and 2020, there was a 136% increase in the percentage of Americans alarmed about climate change[12]. |
| Regulators | Financial regulators have signaled the importance of integrating ESG considerations – climate specifically – into regulations – the U.S. Federal Reserve, for example, has established committees to identify and mitigate climate risks to the financial system, Treasury Secretary Yellen has prioritized the potential risk climate change may pose to U.S. financial stability. In January, 2022, the SEC began pressing select companies on their voluntary climate change disclosures as it moves closer to mandating corporate reporting on greenhouse |

[8] Harvard Law School, "Harvard Law School Forum on Corporate Governance" https://corpgov.law.harvard.edu/2021/08/02/quarterly-review-of-shareholder-activism/

[9] IBM Institute of Value, "Meet the 2020 consumers driving change - Why brands must deliver on omnipresence, agility, and sustainability", https://www.ibm.com/downloads/cas/EXK4XKX8

[10] Kropp, Brian, "9 Work Trends That HR Leaders Can't Ignore in 2021", April 26, 2021, https://www.gartner.com/smarterwithgartner/9-work-trends-that-hr-leaders-cant-ignore-in-2021

[11] Pew Global Attitudes Survey, Spring 2020

[12] Anthony Leiserowitz, Edward Maibach, Seth Rosenthal, John Kotcher, "Climate Change in the American Mind", Yale Program on Climate Change Communication, George Mason University Center for Climate Change Communication, December 2020, https://climatecommunication.yale.edu/wp-content/uploads/2021/02/climate-change-american-mind-december-2020.pdf

| | |
|---|---|
| | gas emissions and climate risks. Most recently, the OCC's Examiner-in-Charge for Large Bank Supervision issued a "Climate Risk Management Questionnaire" to all banks under its purview with the intent of understanding climate risk management and issued proposed guidelines for climate risk management. |

To that end, Citizens has begun advancing ESG priorities and has well documented these in its Corporate Responsibility Report.[13] However, the company needs to institute a formal risk management framework for the identification, oversight, and governance of E&S risks. Without this formal construct and process, the company runs the risk of deviating from its strategic objectives as E&S risk becomes more pronounced. The following pages put forth a strategy for defining such a framework, including financial and non-financial considerations, and discuss how this framework should be implemented. The focus of this paper will be on environmental and social risks, as Citizens' governance structure is mature and fit for purpose.

*Current State*

In a general sense, Citizens has a foundation of sustainability-related efforts that are either in place, underway, or in the planning stages. These efforts generally fall under three categories – business initiatives, risk management initiatives, or enterprise efforts (See Appendix B for examples). This work is well documented in the company's annual Corporate Responsibility Report entitled "Building Tomorrow Together". Furthermore, the company has established an internal governance structure to guide its ESG agenda and strategies, helping to integrate the efforts across the lines of business and monitor its progress.

However, Citizens is currently lacking a formal, intentional construct to understand the company's exposure to E&S risks. The existing E&S risk management activities tend to operate outside formal risk management practices and processes. While Citizens has a mature Enterprise

[13] Citizens Financial Group, "Building Tomorrow Together, Corporate Responsibility Report 2020", https://www.citizensbank.com/assets/pdf/2020-corporate_responsibility.pdf

Risk Management (ERM) Governance Framework and related structures and processes to identify, assess, manage, monitor, and communicate risks, it is not yet intentionally leveraged for E&S risk management practices. Currently, E&S risks may be captured as part of Risk and Control Self Assessments and may be reported to leadership via governance reporting; however, this is inconsistent and subjective.

*Objective & Role in Project*

The objective of this effort is two-fold:

1. Assess Citizens' existing ERM Governance Framework and related structures and processes to determine if they are fit-for-purpose in supporting E&S risk management and enhance as needed; and
2. Establish an approach for integrating knowledge and awareness of E&S-related trends, issues, impacts, and dependencies as they relate to Citizens with ERM tools and processes to better support identifying, defining, assessing, responding to, governing, and disclosing E&S-related risks.

Given ESG-related risks can be complex and intertwined, an authoritative source has been leveraged to baseline the analysis. *Enterprise Risk Management: Applying enterprise risk management to environmental, social, and governance-related risks* is guidance ("guidance") provided jointly by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and the World Business Council for Sustainable Development (WBCSD). It provides a practical approach for identifying and managing E&S-related risks of today and building the necessary systems and structure to adapt and respond to this evolving set of risks. The importance of integrating E&S-related risks into the ERM framework/tools/process is well described in this document:

> "ESG-related risks are often characterized as evolving, interconnected, longer-term or less familiar to an organization and,

> therefore, difficult to manage effectively. However, the potential impact of these risks on an organization's performance can be significant, and so the responsibility for the organization to manage these risks is no different than for any other business risk…integrating ESG-related risks into the core ERM structures and processes of the organization is critical for supporting an entity and its directors to meet their responsibilities."[14]

As the Director of Non-Financial Risk Management Methodology & Framework, my role in this project will be to lead the assessment and enhancement of our ERM Governance Framework and related structures and processes and drive out the strategy for integrating E&S-related information into the company's ERM tools and processes. Given the visibility of E&S and the strategic impacts they pose, this effort will require close collaboration and engagement with senior leaders of the company – notably Risk Management Leadership (including the Chief Risk Officer), the Executive Risk Committee, the ESG Steering Committee (which is accountable to the Executive Risk Committee), and Corporate Strategy.

*Approach*

The first objective is to assess the existing ERM Governance Framework and related structures and processes to determine if they are fit-for-purpose in supporting E&S risk management. Citizens' ERM Governance Framework "sets standards and provides guidance for the identification, assessment, monitoring, and control of material risks that affect or have the potential to affect the value for its shareholders, customers, and colleagues and the safety and soundness of Citizens."[15] The framework is based on the standards of the OCC's "Guidelines Establishing Heightened Standards for Certain Large Insured National Banks, Insured Federal

[14] Committee of Sponsoring Organizations of the Treadway Commission (COSO), "Enterprise Risk Management: Applying enterprise risk management to environmental, social and governance-related risks", October 2018, https://www.coso.org/Documents/COSO-WBCSD-ESGERM-Guidance-Full.pdf

[15] Citizens Bank's "Enterprise Risk Management ("ERM") Governance Framework"

Savings Associations, and Insured Federal Branches; Integration of Regulations."[16] While the ERM Governance Framework has been designed and implemented in a way that supports effective risk management regardless of risk category, it is prudent to assess the framework against the COSO guidance through research, surveys and interviews to:

- Optimize governance structures and processes to identify, assess, manage, monitor, and communicate E&S risks.
- Determine if enhancements are needed to the Citizens' Risk Taxonomy and Materiality Framework to effectively aggregate and measure E&S risks.
- Understand if factors are causing a breakdown in sustainability risk management.
- Enhance the ERM Governance Framework as needed, based on the findings of this assessment.

This first objective will require engagement with a cross-functional team of risk process/framework experts, business representatives, and resources who know and understand E&S risks. Initial indications are that external E&S expertise may be needed, which is discussed in more detail in this report's Financial and Non-Financial sections.

The second objective is to establish an approach for integrating knowledge and awareness of E&S-related trends, issues, impacts, and dependencies related to Citizens with ERM tools and processes to support identifying, defining, assessing, responding to, governing, and disclosing E&S-related risks. This approach has five chapters that mirror the five components described in the *COSO Guidance*. See Appendix C for a high-level timeline and implementation plan.

[16] Federal Register, "OCC Guidelines Establishing Heightened Standards for Certain Large Insured National Banks, Insured Federal Savings Associations, and Insured Federal Branches; Integration of Regulations", September 11, 2014, https://www.occ.treas.gov/news-issuances/federal-register/2014/79fr54518.pdf


1. **Governance and Culture for ESG-related risks**: Governance, or internal oversight, establishes the way decisions are made and how these decisions are executed. Applying ERM to E&S-related risks includes raising the board and executive management's awareness of E&S-related risks – supporting a culture of collaboration among those responsible for risk management of E&S issues. This step is the most critical, as it sets the foundation for the remainder of the approach.

   Notably, special attention needs to be given to climate risk governance, given the topic's immaturity and specialized nature. Given climate risk manifests itself through all risk stripes, there needs to be a coordinating body that seeks to identify and evaluate climate risks and opportunities and integrate them into the ERM Governance Framework, risk taxonomy, and Strategic Planning process. This "Climate Risk Management Office" will drive coordination with dependent processes, programs, and departments (such as Corporate Strategy, Corporate Responsibility, Property Services, Credit Risk, Business Resilience, and Model Risk). This office will own the Climate Risk Management policy and program, guiding identification, measurement, reporting, and governance of climate-related risks and establishing criteria and processes to prioritize climate risks and mitigation. Additionally, the Climate Risk Management Office will manage the Climate Risk Training program and serve as the climate-change research engine for the organization.

This office will define and map Citizens mandatory or voluntary climate-related requirements, such as the company's commitment to reduce greenhouse gas emissions. This activity will help ground the Board in its climate obligations and requirements and raise awareness to specific items that may not previously have been considered climate related.

Parallel to this effort is identifying opportunities for further embedding E&S into Citizens' culture and core values (notably related to mission/value statements, the tone from senior leaders, and their consideration of E&S risks). This chapter also involves enhancing how the Board is kept current on E&S risks impacting the company. Lastly, this chapter will also drive out decision-making regarding the extent that Citizens will disclose its E&S (particularly climate) commitments and exposures and the degree to which Citizens will adhere to existing disclosure frameworks, such as the Task Force on Climate-Related Financial Disclosures (TCFD)[17].

2. **Strategy and objective-setting for E&S-related risks**: This chapter intends to improve understanding of E&S-related themes, shifts, and dependencies and their potential impact on Citizens' strategic objectives. Strong knowledge of the business context, strategy, and objectives serves as the anchor to all ERM activities necessary to effectively manage risks. Integrating E&S issues into Citizens' business context sharpens the ability to identify and respond to threats. Applying ERM practices to E&S-related topics includes examining Citizens' business model to understand impacts and dependencies in the short, medium, and

[17] Task Force on Climate Related Financial Disclosures website, https://www.fsb-tcfd.org/

long term promotes a comprehensive assessment of the feasibility to meet the company's strategic objectives.

The success of this chapter hinges on strong stakeholder engagement. This chapter requires strong collaboration from business and risk leaders, and a well-versed facilitator in E&S themes, trends, and impacts. This collaboration intends to identify E&S themes, emerging risks, or considerations that align most closely to the strategic goals of Citizens Bank – things like business interruption, social movements, changes in legislation, and climate change and its impact on lending. This list will then be prioritized based on the potential impact on the company's strategy.

3. **Performance for E&S-related risks**: Having completed chapter two, participants should have a strong understanding of E&S themes and trends, particularly as they relate to Citizens' strategy. This next chapter evaluates these themes and trends for risks that may impact delivery against strategic priorities. This chapter is broken into three steps, aligning with traditional risk management practices of identification, assessment, and mitigation.
    a. *Identifies risk*: There are multiple approaches for identifying E&S-related risks: megatrend analysis, strength/weakness/opportunity/threat analysis, impacts, and dependency mapping, stakeholder engagement, and E&S materiality assessments. These tools can help identify and express E&S issues in terms of how a risk threatens the achievement of Citizens' strategy and business objectives. Applying these approaches through collaboration between risk management, business leaders, and sustainability practitioners elevates E&S-related risks to the risk inventory, maps them to the risk taxonomy (recently enhanced as part of objective one) for categorization and aggregation, and positions them for appropriate assessment and response.

b. *Assesses and prioritizes risks*: As with any company, Citizens has limited resources and cannot respond equally to all risks identified across the company. For that reason, it is necessary to prioritize the risks. Applying ERM to E&S-related risks includes assessing risk severity in a language management can use to effectively prioritize. To that end, while approaches for qualifying or quantifying a risk will differ by risk, all risks should be assessed against Citizens' "Materiality Framework" (which at this point has been reviewed and enhanced as part of the first objective). This common framework describes the risk impact on strategic priorities. Furthermore, leveraging E&S subject-matter expertise (which may need to be externally sourced) is critical to ensure emerging or longer-term E&S-related risks are not ignored or discounted but instead assessed and prioritized appropriately.

c. *Implements risk responses*: At this stage, Citizens' management will determine which risks identified in subchapter 3a and assessed for impact in 3b, it intends to monitor, accept, deploy resources against to mitigate or potentially pursue as an opportunity. These responses will need to be supported by business cases that articulate who owns the risk, the rationale for the response, and cross and functional considerations. Any risk that intends to be mitigated or pursued as an opportunity should have next steps defined.

4. **Review and revision of E&S-related risks**: The activities described in chapters two and three will usher in the inaugural E&S risk assessment leveraging ERM practices and tools at Citizens Bank. However, ERM is not a one-time activity, and these E&S risks must continue through ongoing review, challenge, and revision. This recurring cadence is critical given the pace at which E&S risks are evolving. By leveraging the enhanced ERM processes and governance channels (as performed in objective one), these E&S risks will receive appropriate, ongoing

attention and remain a critical input into strategic planning. In addition, as the complexity and demands of the E&S risk landscape evolve and the company's needs require deeper insights and information, ERM programs must be evaluated for improvements to keep pace. This will require ongoing program, tooling, and personnel assessment to ensure the ERM function can deliver the necessary information for key stakeholders.

5. **Information, communication and reporting for E&S-related risks**: The final chapter of this effort involves technology, communication, and reporting – all necessary items for effective governance. While Citizens has effective technology to support its current ERM framework, it must continue to monitor industry progress related to data and technology enhancements specific to E&S risks and enter appropriate relationships to mature its program.

   The first step within this chapter will be to evaluate existing governance reporting to determine how best to incorporate E&S-related risk management topics. This will be a collaborative effort across the business teams that manage the reports, contributing departments with E&S-related responsibilities and the team responsible for developing and delivering the reports.

   Next, communication and reporting channels and mechanisms must keep pace with the demands of its stakeholders. As discussed earlier, Citizens has five primary stakeholders – investors, consumers, colleagues, communities, and regulators. Each of these requires its own set of communication channels and reporting requirements to ensure proper positioning of the messages and effective delivery. To meet these requirements, this effort will compile a complete list of existing communication channels for internal and external communication and reporting, assess their effectiveness, and implement adjustments as needed (change/add/remove). The reporting must continue to evolve as new technology is introduced and new data is sourced. Many E&S reporting (aka disclosure) examples exist, which will be evaluated for best practices. Additionally, engagement will occur with subject matter experts from Marketing, Corporate Affairs, Investor Relations, the Enterprise Data Office, and others to develop an effective reporting suite that satisfies the needs of Citizens' stakeholders.

This approach for integrating and formalizing E&S into Citizens' risk management practices and conversation will require strong coordination of and collaboration with several key stakeholders. The roadmap described above will need to be flexible and adapt to the ebb and flow of the company's operating model. However, the outcome will help drive a strong and ongoing conversation about E&S risks and their potential impact on Citizens' strategy.

## Financial Analysis

Establishing an E&S risk management framework and integrating knowledge and awareness of E&S into risk management practices requires a financial investment. The investment to be considered and disclosed is broken into four categories:

1. Implementation Costs
2. E&S Product Development
3. Portfolio Protection
4. Organic Growth

*Implementation Costs*

Implementation costs consist of the expenses needed to put the program in place. These include external consulting fees, the hiring and staffing of subject matter experts, and technology changes. Using an external consultant will quickly infuse E&S expertise and industry best practices into Citizens, where in-house E&S (particularly climate) knowledge is limited. The consultant will need to act in several ways, including the development of an implementation roadmap, development and delivery of training to key Citizens colleagues (including the Executive Risk Committee and Board of Directors), the hosting and facilitating of E&S risk identification and prioritization workshops, and leading an E&S gap assessment of Citizens' existing risk management framework, policies, and procedures. These external consulting fees can be considered one-time, given the expectation that Citizens' colleagues will develop the necessary skills and resources to carry the program through into the future. However, Citizens needs to strengthen its E&S ranks by hiring and onboarding three (3) full-time employees (FTE) into the Risk Management division who have experience with E&S in the financial services industry; one E&S Director with two direct reports. Given the specialized nature of this skill set, these candidates will demand a higher salary. It's also possible an external executive hiring firm may be needed and therefore is included in the budgeted numbers.

| | 2022 | | | 2023 | | | 2024 | | |
|---|---|---|---|---|---|---|---|---|---|
| **Category** | **Baseline (B)** | **B+10%** | **B+10%** | **Baseline (B)** | **B+10%** | **B+10%** | **Baseline (B)** | **B+10%** | **B+10%** |
| External Consultant - Roadmapping | 12,500 | 13,750 | 15,625 | -- | | | -- | | |
| External Consultant – Training, Development & Delivery | 50,000 | 55,000 | 62,500 | -- | | | -- | | |
| External Consultant – E&S Workshops | 30,000 | 33,000 | 37,500 | -- | | | -- | | |
| External Consultant – Gap Assessment | 6,000 | 6,600 | 7,500 | -- | | | -- | | |
| FTE (3) – Salary + Benefits | 600,000 | 660,000 | 750,000 | 618,000 | 679,800 | 772,500 | 637,000 | 700,700 | 796,250 |
| Executive Hiring Firm (3% of salary) | 18,000 | 19,800 | 22,500 | -- | | | -- | | |
| Technology Enhancements | 100,000 | 110,000 | 125,000 | 100,000 | 110,000 | 125,000 | 100,000 | 110,000 | 125,000 |

NOTE: The costs above are based on consultant proposals for similar-type work. Additionally, it should be noted that, given the nascent nature of this topic, there is the possibility of some variability in the costs. Therefore, each year includes forecasts of baseline plus 10% and 25%.

The training line-item is a vital topic. It is needed to ensure colleagues, executives, and board members are equipped with the skills and expertise to understand E&S risks and apply that understanding to how they may impact the bank's operations and strategy. Due to the broad range of dependencies across financial and non-financial risks, E&S risks cannot be linearly assessed. Instead, E&S risks must be identified by investigating cause-effect relationships and common triggers. E&S risks must be considered for every risk type, i.e., within each risk type, an examination must be made of the extent E&S risks are apt to change the assessment of the respective risk type, ideally considering second-round effects. Highly qualified personnel are required to perform this identification. Specialize training will be required. With this being a relatively new topic within the risk management space, a sizeable investment in external training support is essential to ensure colleagues, executives, and board members are well positioned to understand E&S risks.

Lastly, technology and process enhancements are needed to support E&S risk management reporting and expectations. For example, clear decision criteria and control mechanisms must be anchored in the lending process and tools: E&S factors must be captured, analyzed, and assessed over the course of lending, like the examination of reputational risks in the "Know-Your-Customer" (KYC) process. This means that assessments must be implemented not only when granting loans but also regularly, surveying all corporate customers. Furthermore, risk technology platforms, such as Citizens' risk system-of-record, Archer, must be enhanced to accommodate E&S-type risks, and downstream governance reporting must also be configured.

The line-items described above are intended to put forth the minimum requirements necessary to stand up and integrate E&S considerations into the existing risk management framework/processes of Citizens. As E&S risk management matures, there will be more sophisticated needs and expectations that will require data collection, analysis, and assessment. These costs are not included in this business case. Still, they are being called out as future considerations when executive leadership feels the appropriate foundation is in place or internal or external factors demand maturity acceleration. These "next-phase" items include conducting scenario analyses using macro-economic models to reveal E&S (particularly climate change) vulnerabilities to the company's loan portfolio; conducting a capital stress test considering client climate-risk exposure; and adhering to new and enhanced E&S disclosure requirements.

*E&S Product Development*

The second financial category is E&S Product Development. Depending on where the bank wants to take this, there's an opportunity to monetize its focus on E&S by introducing new products. Implementing an E&S Risk Management framework provides the proper structure to develop and offer new, sustainability-related products to customers. While slightly out of scope from this proposal, this specific cost analysis demonstrates the value such a framework can bring by encouraging creative product development within the parameters of strong risk management practices. For the sake of demonstration, an analysis has been prepared for a simple checking account, where the deposited funds are used to support loans that align with low-risk, environmentally conscious opportunities/projects. The financial analysis is based on prior product cost/revenue assessments. The product will require two FTEs (one product manager and one sales associate) and one-time marketing support and legal engagement expenses. Below is a breakdown of these costs over the next three years:

| **Category** | **2022** | **2023** | **2024** |
|---|---|---|---|
| FTE (2) | 300,000 | 309,000 | 319,000 |
| Marketing Expense | 150,000 | -- | -- |
| Legal Expense | 50,000 | -- | -- |

Given stakeholder attention on E&S, there is strong reason to believe this product will be well-received. While the expense aspect of this product is predictable, the revenue component is more challenging to forecast. Based on approximate projections using information from other product launches, the initial estimate is deposits could reach $250 million in 2022 and then increase to $1.45 billion by the end of 2023. See below for a breakdown of the anticipated deposits, cost of funds, and, most importantly, net interest margin.

| **Category** | **2022** | **2023** | **2024** |
|---|---|---|---|
| End of Period Balance | 250,000,000 | 850,000,000 | 1,450,000,000 |
| Cost of funds | 40,000 | 340,000 | 1,640,000 |
| NIM Revenue | 527,000 | 4,829,000 | 12,665,000 |

This project's projected net interest margin (NIM) over the next three years pays for the expenses necessary to support this product and, more broadly, implement this E&S risk framework. This is a single product too, and creative product developers will quickly define additional E&S products that compound this revenue. For example, there's a strong case to build a climate-finance business to provide capital to companies to either strengthen their resilience to long-term climate hazards or decarbonize their activities. "It's crucial for banks to play a role in climate finance – it's the logical outcome of their commitments to the Paris Agreement, and it fulfills a critical part of their contract with society.[18]"

*Portfolio Protection*

The third financial category is portfolio protection, intended to prevent or mitigate a future loss – whether due to extreme weather events that impact the company's mortgage portfolio and strategy (physical risk), or the business sectors it provides loans (transition risk). More specifically, it accounts for the risk management activities that will blossom out of this effort, which will naturally protect the company's credit and investment portfolio, preventing losses and protecting assets. Given the nascent understanding and maturity of E&S risks and their financial impact on the balance sheet, this category is challenging to quantify. However, as the company gains experience managing these types of risks, it will mature its risk management practices and improve its ability to track, quantify and mitigate financial exposure of E&S risks.

This financial category also accounts for the potential monetary penalties that may be avoided because of regulatory scrutiny. While highly unlikely in the short term, the likelihood of this risk increases if action is not taken to manage E&S risks properly. Of note, in December 2021, the OCC announced draft principles[19] designed to support the identification and management of climate-related risks by banks with more than $100 billion in total consolidated assets. This

[18] McKinsey & Company, "McKinsey's Global Banking Annual Review", December 1, 2021, https://www.mckinsey.com/industries/financial-services/our-insights/global-banking-annual-review

[19] Office of the Comptroller of the Currency, News Release 2021-138 – OCC Seeks Feedback on Principles for Climate-Related Financial Risk Management for Large Banks, December 16, 2021, https://occ.gov/news-issuances/news-releases/2021/nr-occ-2021-138.html?source=email

publication demonstrates the heightened interest by Citizens' primary regulator on climate-change-related risk management – which further emphasizes the importance of this body of work.

*Organic Growth*

The final financial category is organic growth – the growth of Citizens' account base driven by positive reputational outcomes that will occur through stakeholder acknowledgment of its E&S risk management practices and business activities. This, too, is difficult to quantify but is directly correlated to stakeholder expectations discussed earlier in this paper. By embedding E&S risk attention into the Citizens' culture and business operations, it is to be expected that stakeholders will respond favorably (or, if proper attention is not paid to E&S, the opposite is likely to occur). To that end, given stakeholder interest and pressure to pursue positive E&S priorities, Citizens might want to consider augmenting its existing marketing strategy to promote the work (current and future) it's doing in this space. Citizens primary brand color is green, which can quickly be leveraged to promote the company's work to address climate change. The financial impact of this depends on the degree by which Citizens wishes to promote this activity, ranging from the simple promotion of climate risk management practices within existing marketing or promoting the company as a climate risk management ambassador and thought leader through dedicated marketing strategies.

It should be noted that the overall financial assessment of this business case depends on compatibility with the external consultant and the ability to attract talent at a specific price-point. Citizens has strong relationships with most top, international consulting and hiring firms, firms with deep experience with this type of work, and a strong understanding of the Citizens culture and means of doing business. The mitigant to poor compatibility is to leverage our existing relationships, obtain a series of proposals, carefully interview each firm, and evaluate for best fit. By assessing multiple firms, Citizens can develop a diverse understanding of expertise and options for consideration when implementing such a program – and, as a result, define a well-informed scope of work. Attracting specialized E&S talent at a reasonable price point, especially considering the recent "Great Resignation" phenomenon, is a risk that Citizens needs to address head-on. In partnership with internal resources, external consultants will lay a strong foundation for this program, but dedicated E&S risk management expertise is necessary to ensure the program maintains momentum and delivers against the needs of all stakeholders.

Regardless of these minor risks, "doing nothing and waiting is not an option. Banks that do not act now will hardly have the chance to integrate regulatory requirements regarding sustainability into their frameworks in good time, let alone adapt to the changed market requirements."[20]

[20] KPMG International, "ESG Risks in Banks – Effective Strategies to Use Opportunities and Mitigate Risks", May 2021, https://assets.kpmg/content/dam/kpmg/xx/pdf/2021/05/esg-risks-in-banks.pdf

**Non-Financial Analysis**

The nascent nature of E&S risk management practices, particularly climate change management, presents several non-financial hurdles that need to be accounted for when rolling out an E&S risk management framework. These hurdles include cultural resistance against a sensitive topic steeped in partisan politics, an extended planning horizon, and a lack of climate-related data. In combination, these hurdles can quickly squash any attempt at implementing an effective E&S risk management framework. "As scientific evidence about the causes of climate change has mounted, and as a consensus has evolved in the scientific community, the public has remained divided and large, important parts of the political class have been indifferent."[21] A driving reason for this division and reluctance to act is the sheer size of the situation and the magnitude of the work needed to address it effectively. It's effortless not to act and plug our collective brains in the ground, but eventually, the timeframe for these risks to manifest will creep closer and closer. Therefore, to address these hurdles, an implementation plan, including extensive communication and education, must be developed that includes specific activities that target the individual risks while addressing the situation in totality.

The implementation plan will have two primary components: enabling climate-risk data collection and education/communication. It is no secret that the collection and availability of climate-related data are in their very early stages. The Financial Stability Board released a paper in July 2021 that examined "the availability of data with which to monitor and assess climate-related risks to financial stability."[22] This report spoke of seven limitations and gaps in the

[21] Kamarck, Elaine, "The Challenging Politics of Climate Change", *Brookings*, September 23, 2019, https://www.brookings.edu/research/the-challenging-politics-of-climate-change/

[22] Financial Stability Board, "The Availability of Data With Which to Monitor and Assess Climate-Related Risks to Financial Stability", July 7, 2021, https://www.fsb.org/2021/07/the-availability-of-data-with-which-to-monitor-and-assess-climate-related-risks-to-financial-stability/

availability of climate-related data, including inconsistent reporting standards, a lack of granularity and consistency related to physical risk drivers, jurisdictional differences in how transition risk is reported, poor means of collecting data in emerging markets (where, in many cases, climate change is most acute), and, most relevant to the challenges faced by Citizens, a lack of financial institutions' exposures, and immature forward-looking metrics and scenario analysis. To address these data and information gaps, Citizens must develop processes and technology to collect this data and the means to analyze it. This should begin with developing a Climate Change policy. The policy, which would be owned by the previously referenced Climate Risk Management Office, will demonstrate a commitment by the company to effectively manage climate risk and serve as a strong advocate against internal resistance. At its core, the policy will drive out business requirements around de-risking both its operational profile (recognize where operations are at risk of a climate-driven event) and its credit portfolio profile (both understanding where loans supporting real-estate exposed to climate risk events as well as a transition away from loaning to carbon-intensive sectors). The policy will establish the means for identifying, measuring, reporting, and governing climate-related risks while also developing the criteria and processes to prioritize climate risks and mitigation.

*Data Collection*

With the policy in place, the Climate Risk Management office can begin taking strides to establish mechanisms for collecting climate-related data. As referenced earlier, there are two types of data that need to be considered:

1) Data on Citizens' exposure to the drivers of physical risks - The data set includes information about the company's carbon emissions, location of its operational and data centers in higher-risk areas (i.e., flood zones, tornado, and earthquake-prone regions). It also includes data about the company's credit portfolio and exposure to intensifying

weather/climate events. This data is generally available and can be collected through engagement with Property Services, Credit Risk and Model Development. Citizens should also engage with its insurance partners to understand where there are increasing claims driven by climate change and compare that to its operations and loan profile. Following the collection of this data, the company can aggregate it and produce a map of its locations and its Commercial and Residential Real Estate credit portfolio over areas of heightened physical risk. This can allow for a strong visual of where the company's operations may be at risk and drive a discussion around workplace and lending strategies.

2) Data on Citizens' customer base needed to understand transition risks - This data includes, but is not limited to, customer carbon emissions and carbon reduction goals, exposure to carbon-intensive industries, investments in green technology, customer contracts duration, client E&S commitments, and financial instruments' maturities. This second data set will require much more effort, as it has a dependency on relationship management and customer cooperation. Three specific things are needed to drive success – 1) subject matter experts to help identify which data elements should be collected, 2) the establishment of seamless data collection processes and technology, and 3) an extensive education and communication program targeted at the Commercial Bank Relationship Managers. There will likely be resistance to this new requirement, which will need to be addressed head-on. The most effective way to manage this resistance is early and often communication (both top-down and bottom-up) and the inclusion of Relationship Managers in the development of the related processes. Furthermore, there should be consideration of small incentives to promote the data collection. The execution of this targeted education and communication program will

include the rollout of the process and technology enhancements, thus beginning the collection of customer climate risk data.

*Training & Communication*

Engagement with Commercial Bank Relationship Managers is one component of the communication plan. The second component is a company-wide roadshow and training program intended to promote buy-in from across the Enterprise. This roadshow and program will specifically address the two other primary risks associated with this endeavor – cultural resistance and a lack of interest given an extended planning horizon of these climate-related risks. As discussed in the Financial Analysis, external consultants will be an effective partner when developing this communication and training program. The program must be built to promote E&S risk awareness and present it so Citizens' employees can relate. Furthermore, it must be designed sustainably to build on the early momentum.

*Partnerships*

Lastly, to further reflect the seriousness by which Citizens is taking this responsibility to curb climate change, it should join the Partnership for Carbon Accounting Financials (PCAF). "PCAF is a global partnership of financial institutions that work together to develop and implement a harmonized approach to assess and disclose the greenhouse gas (GHG) emissions associated with their loans and investments. The harmonized accounting approach provides financial institutions with the starting point required to set science-based targets and align their portfolio with the Paris Climate Agreement. PCAF enables transparency and accountability and has developed an open-source global GHG accounting standard for financial institutions, the Global GHG Accounting and Reporting Standard for the Financial Industry." [23] Joining PCAF

[23] Partnership for Carbon Accounting Financials, https://carbonaccountingfinancials.com/about#about

will be a public expression of this commitment to act against climate change. It also provides a network and standards to build an infrastructure to collect, assess and disclose emissions information.

Another partnership Citizens should consider is the Risk Management Association's (RMA) Climate Risk Consortium. Currently, the consortium consists of 22 large banks (those with over $100 billion in assets) and intends to develop standards for banks to integrate climate risk management throughout their operations and help prepare the industry for its role in transitioning economies to a low-carbon future. Joining this consortium will provide Citizens with access to climate-risk subject matter experts within the financial services industry, a range of surveys and position papers on the topic and put Citizens at the table when developing a consistent set of standards and terminology for use within the industry.

*Measures to Evaluate*

There are several measures to analyze the company's success at rolling out an E&S risk management framework. These measures include stakeholder sentiment, risk appetite metrics, key risk indicators, and controls and associated testing results.

*Stakeholder Sentiment*

Understanding stakeholder sentiment in response to Citizens E&S risk management practices is critical to ensuring the company stays on track with its strategic priorities and commitments. The most effective means to understand this sentiment is to issue surveys to each stakeholder population. Surveys allow for an efficient means to collect a consistent set of data that can then be analyzed to understand progress and areas of opportunities. This survey can be positioned as a "materiality assessment" to capture the prevailing interests and concerns of internal and external stakeholders. The results of this materiality analysis will help inform Citizens' strategy and progress against it as well as support its efforts to:

- Understand and address gaps in internal and external perceptions
- Efficiently allocate resources to priority issues
- Build trust with stakeholders
- Improve transparency and accountability

Through this data collection exercise, Citizens can understand where it is effectively progressing and where areas of opportunity exist as it relates to E&S topics, including risk management.

Additionally, a supplement to the employee stakeholder data collection is the issuance of surveys to all training attendees to gauge effectiveness. It's important that the surveys be issued quickly following the conclusion of the training. The survey should be designed to capture effectiveness of the content and delivery, as well as the ability to capture comments.

*Risk Appetite Metrics and Key Performance Indictors*

Citizens Risk Appetite framework is the most visible construct to monitor progress against its E&S goals. Citizens Risk Appetite framework, statement and metrics establish, measure, and monitor the amount of risk the company is willing to take in pursuit of its strategy and is regularly reported to the Executive Risk Committee, the Risk Committee of the Board, and the Board of Directors. To that end, during the Risk Appetite refresh, the company should understand the priorities identified in the *Approach* section, *S*tep 3, and build the necessary measures around it. For example, suppose the reduction of climate emissions is a priority. The refresh should promote a metric that tracks the company's actual emissions to ensure that the activities driving that reduction perform satisfactorily. From a credit risk perspective, understanding and establishing limits regarding customers in carbon-intensive industries or those with operations in high-risk climate locations is critical to help shift the company from the exposures of both physical and transition risk. To do this, Citizens will need to classify its portfolio segments and risk-rate each. It can then quantify exposure within those sectors, establish exposure goals, build strategies to achieve those goals, monitor performance, and adjust accordingly. Sitting behind these enterprise risk appetite tolerances would be Key Risk Indicators (KRI), which would measure any areas of risk that may prevent accomplishing these goals. For example, a KRI can be built that measures the number of new loans to customers in carbon-intensive industries. Understanding where activities conflict with that priority is critical if the strategy is to shift away from that business. Exposing this will allow for a very targeted discussion to understand the transaction and if there can be any offset. All of this is a bit hypothetical at this point, given the work needed to understand the company's E&S priorities. The broader point remains – the company's Risk Appetite Framework and Statement are logical places to measure and monitor its progress towards its goals while ensuring its stays within the parameters of its risk appetite. This will ensure senior visibility of progress to collect the necessary data and drive action-oriented behavior by the relationship managers.

*Controls and Testing*

To ensure the effective and efficient collection of data, the company must prepare procedures that document a consistent process that accounts for 1) what data is being collected, 2) who is collecting it, 3) where it is being aggregated, 4) timeframe to collect the data and the refresh frequency and 5) how the data should be collected. With the formalization of this procedure, a series of controls can be established to ensure these activities are occurring in alignment with the requirements. The centralized Monitoring and Testing team can then test the performance of these controls – through sampling and monitoring – to ensure these tasks are being performed and are meeting the company’s needs.

## Conclusion

This paper has put forth a recommendation that Citizens Bank should proceed with establishing an E&S risk management framework and integrate this knowledge and awareness of E&S-related trends, issues, impacts, and dependencies into risk management practices. This investment is needed to directly address the growing demands of all Citizens' stakeholders. This effort will expand Citizens' risk management function by formalizing an approach for the identification, assessment, mitigation/acceptance, and governance of these complicated risks. Due to the broad range of dependencies across financial and non-financial risks, E&S risks cannot be assessed linearly, but instead require unique approaches and to properly manage them. E&S risks must be identified by investigating cause-effect relationships and common triggers. Only with the requisite experience, framework, and programs can Citizens properly manage these E&S risks and their impact on its strategic plan. As previously stated, "doing nothing and waiting is not an option. Banks that do not act now will hardly have the chance to integrate regulatory requirements regarding sustainability into their frameworks in good time, let alone adapt to the changed market requirements."[24]

[24] KPMG International, "ESG Risks in Banks – Effective Strategies to Use Opportunities and Mitigate Risks", May 2021, https://assets.kpmg/content/dam/kpmg/xx/pdf/2021/05/esg-risks-in-banks.pdf

# Appendix A – Largest US-Banks By Consolidated Assets (as of 12/31/2021)

**INSURED U.S.-CHARTERED COMMERCIAL BANKS THAT HAVE CONSOLIDATED ASSETS of $300 MILLION or MORE, RANKED by CONSOLIDATED ASSETS**
**As of December 31, 2021**

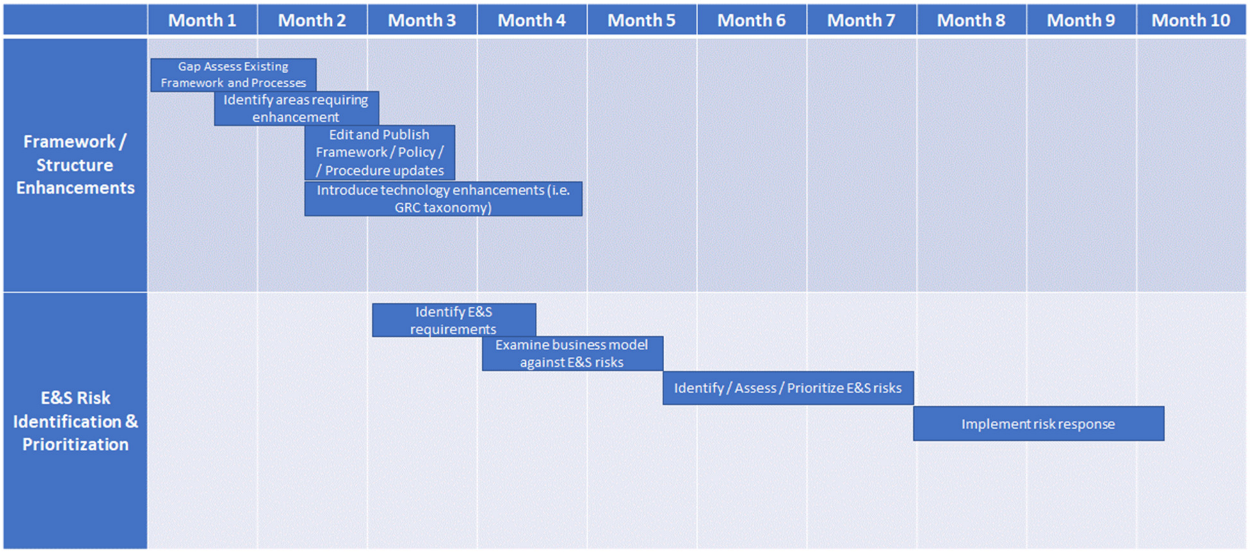
| Bank Name / Holding Co Name | Nat'l Rank | Bank ID | Bank Location | Charter | Consol Assets (Mil $) | Domestic Assets (Mil $) | Pct Domestic Assets | Pct Cumulative Assets | Domestic Branches | Foreign Branches | IBF |
|---|---|---|---|---|---|---|---|---|---|---|---|
| JPMORGAN CHASE BK NA/JPMORGAN CHASE & CO | 1 | 852218 | COLUMBUS, OH | NAT | 3,306,982 | 2,615,272 | 79 | 15 | 4,794 | 34 | Y |
| BANK OF AMER NA/BANK OF AMER CORP | 2 | 480228 | CHARLOTTE, NC | NAT | 2,519,525 | 2,389,484 | 95 | 27 | 4,083 | 24 | Y |
| WELLS FARGO BK NA/WELLS FARGO & CO | 3 | 451965 | SIOUX FALLS, SD | NAT | 1,779,504 | 1,756,403 | 99 | 35 | 4,859 | 11 | Y |
| CITIBANK NA/CITIGROUP | 4 | 476810 | SIOUX FALLS, SD | NAT | 1,669,227 | 1,010,539 | 61 | 43 | 668 | 148 | Y |
| U S BK NA/U S BC | 5 | 504713 | CINCINNATI, OH | NAT | 564,155 | 551,740 | 98 | 46 | 2,271 | 1 | N |
| PNC BK NA/PNC FNCL SVC GROUP | 6 | 817824 | WILMINGTON, DE | NAT | 551,903 | 546,861 | 99 | 48 | 2,741 | 1 | N |
| TRUIST BK/TRUIST FC | 7 | 852320 | CHARLOTTE, NC | SNM | 528,514 | 528,448 | 100 | 51 | 2,518 | 0 | N |
| GOLDMAN SACHS BK USA/GOLDMAN SACHS GROUP THE | 8 | 2182786 | NEW YORK, NY | SMB | 434,075 | 394,486 | 91 | 53 | 2 | 2 | N |
| T D BK NA/TD GRP US HOLDS LLC | 9 | 497404 | WILMINGTON, DE | NAT | 423,649 | 423,649 | 100 | 55 | 1,153 | 0 | N |
| CAPITAL ONE NA/CAPITAL ONE FC | 10 | 112837 | MC LEAN, VA | NAT | 381,300 | 381,295 | 100 | 56 | 322 | 0 | N |
| BANK OF NY MELLON/BANK OF NY MELLON CORP | 11 | 541101 | NEW YORK, NY | SMB | 356,225 | 243,678 | 68 | 58 | 2 | 14 | Y |
| STATE STREET B&TC/STATE STREET CORP | 12 | 35301 | BOSTON, MA | SMB | 311,063 | 209,384 | 67 | 59 | 2 | 10 | N |
| FIFTH THIRD BK NA/FIFTH THIRD BC | 13 | 723112 | CINCINNATI, OH | NAT | 209,697 | 209,572 | 100 | 60 | 1,134 | 1 | N |
| SILICON VALLEY BK/SVB FNCL GRP | 14 | 802866 | SANTA CLARA, CA | SMB | 208,581 | 197,585 | 95 | 61 | 20 | 1 | N |
| MORGAN STANLEY BK NA/MORGAN STANLEY | 15 | 1456501 | SALT LAKE CITY, UT | NAT | 191,917 | 191,917 | 100 | 62 | 0 | 0 | N |
| CITIZENS BK NA/CITIZENS FNCL GRP | 16 | 3303298 | PROVIDENCE, RI | NAT | 188,070 | 188,070 | 100 | 63 | 944 | 1 | N |
| HSBC BK USA NA/HSBC N AMER HOLDS | 17 | 413208 | TYSONS, VA | NAT | 187,057 | 187,056 | 100 | 64 | 132 | [illegible] | Y |
| KEYBANK NA/KEYCORP | 18 | 280110 | CLEVELAND, OH | NAT | 183,978 | 183,977 | 100 | 65 | 1,019 | 0 | N |

## Appendix B – Overview of Sustainability Initiatives at Citizens

| Business Initiatives | Risk Management Initiatives | Enterprise Efforts |
| --- | --- | --- |
| • Launched Commercial Bank Green Deposit offering<br>• Participated in the funding of eight U.S. wind farm projects since mid-2015, with investments totaling approx. $403MM at the end of 2020<br>• Maintain "Outstanding" CRA rating from the OCC, with $1.065 billion in total equity and loan commitments to Community Development initiatives or qualified activities<br>• Offer ESG-linked investment solutions<br>• Merchant business opportunity related to sustainable home solutions | • Enterprise Risk Reputational (ERR) risk reviews include ongoing assessment of select environmental and social topics (e.g., immigration detention centers, gun manufacturers) and assessment on an as needed basis on others (e.g., fracking, payday lending)<br>• High risk environmental and social sectors identified in Commercial Credit Policy (e.g., Oil and Gas), which requires completion of Environmental, Social and Ethical (ESE) Risk Screening for customers or potential credit transactions considered to represent an ESE risk concern<br>• Ongoing frontline risk assessment practices (e.g., via New Business Initiative reviews and Risk & Control Self Assessments) – across Commercial and Consumer – include consideration of reputation risks<br>• Appointed Director of Strategic Initiatives and Chief Administrative Officer for Commercial Risk responsible for key activities that support CFG's ESG strategy | • Announced targets to reduce Scope 1 and Scope 2 greenhouse gas emissions by 30% by 2025 and by 50% by 2035, based on 2016 baselines<br>• Measure and track environmental performance and report performance through CDP [25]<br>• In 2020, donated $175K across five nonprofits focused on helping drive responsible use and protection of the natural environment through delivery of conservation and sustainable practices<br>• Engage with stakeholders on our environmental agenda, e.g., via annual shareholder outreach, Corporate Responsibility Report)<br>• Identified climate change as a priority issue (i.e., high stakeholder concern and high impact on the company) via 2020 ESG materiality assessment<br>• Established ESG Executive Steering Committee |

[25] CDP is a not-for-profit charity that runs the global disclosure system for investors, companies, cities, states and regions to manage their environmental

### Appendix C – Hight Level Timeline and Implementation Plan




| Phase | Key Activity | Month | Responsible Party | Contributing Group(s) |
|---|---|---|---|---|
| Framework / Structure Enhancements | Gap assess existing Enterprise Risk Management Governance Framework, risk policies and supporting procedures/processes against E&S risk drivers | Months 1 & 2 | Non-Financial Risk Management (NFRM) Methodology & Framework (M&F) | 1. Second Line of Defense (2LOD) functions<br>2. External Consultant |
| | Hire and Staff Climate Risk Management Office (reports into NFRM M&F) | Months 1 through 4 | Human Resources | 1. NFRM M&F |
| | Identify E&S documentation and process gaps and enhancements needed to close gaps | Months 1 & 2 | NFRM M&F | 1. 2LOD functions<br>2. External Consultant |
| | Edit and Publish impacted Framework/Policy/Procedure to account for E&S in risk management activities | Months 2 & 3 | NFRM M&F | 1. 2LOD functions<br>2. External Consultant |
| | Define and implement required technology enhancements | Months 2 & 4 | NFRM M&F | 1. GRC Development Team<br>2. Tech teams supporting other 2LOD platforms<br>3. 2LOD functions |

| | | | | |
|---|---|---|---|---|
| | Identify E&S voluntary and mandatory requirements & commitments | Months 3 & 4 | Climate Risk Management Office | 1. Corporate Strategy<br>2. Corporate Responsibility<br>3. Commercial Division<br>4. Consumer Division<br>5. Property Services<br>6. External Consultant |
| | Examine business model against requirements | Months 4 & 5 | Climate Risk Management Office | 1. Corporate Strategy<br>2. Corporate Responsibility<br>3. Commercial Division<br>4. Consumer Division<br>5. Property Services<br>6. External Consultant |
| E&S Risk Identification and Prioritization | Identify, Assess and Prioritize E&S Risks | Months 5 through 7 | Climate Risk Management Office | 1. Corporate Strategy<br>2. Corporate Responsibility<br>3. Commercial Division<br>4. Consumer Division<br>5. Property Services<br>6. External Consultant<br>7. Executive Risk Committee |
| | Implement Risk Response | Months 8 through 10 | Climate Risk Management Office | 1. Corporate Strategy<br>2. Corporate Responsibility<br>3. Commercial Division<br>4. Consumer Division<br>5. Property Services<br>6. External Consultant<br>7. Executive Risk Committee |

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