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

ANNUAL AUDITED REPORT
FORM X-17A-5
PART III

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FEB 27 2023

FACING PAGE

Washington, DC

Information Required of Brokers and Dealers Pursuant to Rule 17a-5 under the Securities Exchange Act of 1934

REPORT FOR THE PERIOD BEGINNING 01/01/22 AND ENDING 12/31/22

A. REGISTRANT IDENTIFICATION

NAME OF BROKER - DEALER: Citizens Securities, Inc.

TYPE OF REGISTRANT (check all applicable boxes):

- Broker-dealer Security-based swap dealer Major security-based swap participant
 Check here if respondent is also an OTC derivatives dealer

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)
One Citizens Bank Way
Johnston, RI 02919

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT:
Kevin J. Carvalho (401) 260-2067

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*
Deloitte & Touche LLP
200 Berkeley Street
Boston, Massachusetts 02116
PCAOB Registration Date and Number: 10/20/03 #34

FOR OFFICIAL USE ONLY

*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis of the exemption. See 17 CFR 240.17a-5(e)(1)(ii).

CITIZENS SECURITIES, INC.
(An Indirect Wholly-Owned Subsidiary of Citizens Financial Group, Inc.)

OATH OR AFFIRMATION

I, Kevin J. Carvalho, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statements and supplemental schedules pertaining to the firm of Citizens Securities, Inc. as of and for the year ended December 31, 2022, are true and correct. I further swear (or affirm) that neither the company nor any partner, officer, director, or equivalent person, as the case may be, has any proprietary interest in any account classified solely as that of a customer.

STATE OF Rhode Island
COUNTY OF Providence

Sworn to (or affirmed) and subscribed before me
this 23rd day of Feb, 2023
by Kevin John Carvalho

Lisa M. Brice Notary Public's Signature
My Commission Expires 03/23/2026
Lisa M. Brice Notary Name



Kevin J. Carvalho
Signature

Chief Financial Officer
Title

This filing** contains (check all applicable boxes):

- (a) Statement of financial condition.
- (b) Notes to consolidated statement of financial condition.
- (c) Statement of income (loss) or, if there is other comprehensive income in the period(s) presented, a statement of comprehensive income (as defined in § 210.1-02 of Regulation S-X).
- (d) Statement of cash flows.
- (e) Statement of changes in stockholders' or partners' or sole proprietor's equity.
- (f) Statement of changes in liabilities subordinated to claims of creditors.
- (g) Notes to consolidated financial statements.
- (h) Computation of net capital under 17 CFR 240.15c3-1 or 17 CFR 240.18a-1, as applicable.
- (i) Computation of tangible net worth under 17 CFR 240.18a-2.
- (j) Computation for determination of customer reserve requirements pursuant to Exhibit A to 17 CFR 240.15c3-3.
- (k) Computation for determination of security-based swap reserve requirements pursuant to Exhibit B to 17 CFR 240.15c3-3 or Exhibit A to 17 CFR 240.18a-4, as applicable.
- (l) Computation for Determination of PAB Requirements under Exhibit A to § 240.15c3-3.
- (m) Information relating to possession or control requirements for customers under 17 CFR 240.15c3-3.
- (n) Information relating to possession or control requirements for security-based swap customers under 17 CFR 240.15c3-3(p)(2) or 17 CFR 240.18a-4, as applicable.
- (o) Reconciliations, including appropriate explanations, of the FOCUS Report with computation of net capital or tangible net worth under 17 CFR 240.15c3-1, 17 CFR 240.18a-1, or 17 CFR 240.18a-2, as applicable, and the reserve requirements under 17 CFR 240.15c3-3 or 17 CFR 240.18a-4, as applicable, if material differences exist, or a statement that no material differences exist.
- (p) Summary of financial data for subsidiaries not consolidated in the statement of financial condition.
- (q) Oath or affirmation in accordance with 17 CFR 240.17a-5, 17 CFR 240.17a-12, or 17 CFR 240.18a-7, as applicable.
- (r) Compliance report in accordance with 17 CFR 240.17a-5 or 17 CFR 240.18a-7, as applicable.
- (s) Exemption report in accordance with 17 CFR 240.17a-5 or 17 CFR 240.18a-7, as applicable.
- (t) Independent public accountant's report based on an examination of the statement of financial condition.
- (u) Independent public accountant's report based on an examination of the financial report or financial statements under 17 CFR 240.17a-5, 17 CFR 240.18a-7, or 17 CFR 240.17a-12, as applicable.
- (v) Independent public accountant's report based on an examination of certain statements in the compliance report under 17 CFR 240.17a-5 or 17 CFR 240.18a-7, as applicable.
- (w) Independent public accountant's report based on a review of the exemption report under 17 CFR 240.17a-5 or 17 CFR 240.18a-7, as applicable.
- (x) Supplemental reports on applying agreed-upon procedures, in accordance with 17 CFR 240.15c3-1e or 17 CFR 240.17a-12, as applicable.
- (y) Report describing any material inadequacies found to exist or found to have existed since the date of the previous audit, or a statement that no material inadequacies exist, under 17 CFR 240.17a-12(k).
- (z) Other:

**To request confidential treatment of certain portions of this filing, see 17 CFR 240.17a-5(e)(3) or 17 CFR 240.18a-7(d)(2), as applicable.

CITIZENS SECURITIES, INC.
(An Indirect Wholly-Owned Subsidiary of Citizens Financial Group, Inc.)

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CITIZENS SECURITIES, INC.

(SEC I.D. No. 8-48744)

**FINANCIAL STATEMENTS
AND SUPPLEMENTAL SCHEDULES
FOR THE YEAR ENDED DECEMBER 31, 2022 AND
REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

Filed pursuant to Rule 17a-5(e)(3) as a PUBLIC DOCUMENT



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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholder of
Citizens Securities, Inc.
Johnston, Rhode Island

Opinion on the Financial Statements

We have audited the accompanying statement of financial condition of Citizens Securities, Inc., (the "Company"), an indirect wholly-owned subsidiary of Citizens Financial Group, Inc., as of December 31, 2022, and the related statements of operations, changes in stockholder's equity, and cash flows for the year then ended, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2022, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audit. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (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 the financial statements are free of material misstatement, whether due to error or fraud.

Our audit included performing procedures to assess the risks of material misstatement of the 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 financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Report on Supplemental Schedules

The supplemental schedules h, j, and m listed in the accompanying table of contents have been subjected to audit procedures performed in conjunction with the audit of the Company's financial statements. The supplemental schedules are the responsibility of the Company's management. Our audit procedures included determining whether the supplemental schedules reconcile to the financial statements or the underlying accounting and other records, as applicable, and performing procedures to test the completeness and accuracy of the information presented in the supplemental schedules. In forming our opinion on the supplemental schedules, we evaluated whether the supplemental schedules, including their form and content, are presented in compliance with Rule 17a-5 under the Securities Exchange Act of 1934. In our opinion, such schedules are fairly stated, in all material respects, in relation to the financial statements as a whole.

Deloitte & Touche LLP

February 24, 2023

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

CITIZENS SECURITIES, INC.
(An Indirect Wholly-Owned Subsidiary of Citizens Financial Group, Inc.)

STATEMENT OF FINANCIAL CONDITION
AS OF DECEMBER 31, 2022
(IN THOUSANDS, EXCEPT SHARE FIGURES)

ASSETS

Cash, cash equivalents and restricted cash	\$	54,939
Commissions receivable		4,912
Accounts receivable		3,477
Operating lease right-of-use asset		3,364
Fees receivable		2,887
Premises and equipment - net of accumulated depreciation of \$619		2,752
Deferred commissions		1,598
Deferred taxes, net		1,255
Employee loan advances - net of reserves of \$28		915
Prepaid and other assets		1,422
TOTAL ASSETS	\$	77,521

LIABILITIES AND STOCKHOLDER'S EQUITY

LIABILITIES:

Accrued incentive compensation	\$	17,896
Operating lease liability		3,510
Accrued expenses and other liabilities		4,762
TOTAL LIABILITIES		26,168

STOCKHOLDER'S EQUITY:

Common stock, \$0.01 par value - authorized, 8,000 shares; 100 shares issued and outstanding		—
Additional paid-in capital		17,689
Retained earnings		33,664
TOTAL STOCKHOLDER'S EQUITY		51,353
TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY	\$	77,521

See accompanying notes to financial statements.

CITIZENS SECURITIES, INC.
(An Indirect Wholly-Owned Subsidiary of Citizens Financial Group, Inc.)

STATEMENT OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 2022
(IN THOUSANDS)

REVENUES:	
Investment management fees	\$ 96,932
Commissions	85,446
Revenue sharing fees	4,582
Customer account fees	2,139
Total revenue from contracts	189,099
Interest and dividend income	665
Other revenue (includes \$12,851 from affiliate)	13,067
TOTAL REVENUES	202,831
EXPENSES:	
Employee compensation and benefits (includes \$1,211 to affiliate)	120,016
Services and management fees to Parent	45,544
Clearing and investment management advisory fees	17,646
Occupancy and equipment (includes \$3,463 to affiliate)	11,701
Regulatory costs	2,960
Outside services	879
Legal and audit	732
Business and travel	618
Office supplies	613
Other expenses	1,722
TOTAL EXPENSES	202,431
INCOME BEFORE INCOME TAXES	400
INCOME TAX EXPENSE	218
NET INCOME	\$ 182

See accompanying notes to financial statements.

CITIZENS SECURITIES, INC.
(An Indirect Wholly-Owned Subsidiary of Citizens Financial Group, Inc.)

STATEMENT OF CHANGES IN STOCKHOLDER'S EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2022
(IN THOUSANDS, EXCEPT SHARE FIGURES)

	Common Stock		Additional Paid-In Capital	Retained Earnings	Total
	Shares	Dollars			
BALANCE - January 1, 2022	100	\$—	\$17,689	\$33,482	\$51,171
Net income	—	—	—	182	182
BALANCE - December 31, 2022	100	\$—	\$17,689	\$33,664	\$51,353

See accompanying notes to financial statements.

CITIZENS SECURITIES, INC.
(An Indirect Wholly-Owned Subsidiary of Citizens Financial Group, Inc.)

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2022
(IN THOUSANDS)

OPERATING ACTIVITIES:

Net income	\$	182
Adjustments to reconcile net income to net change in cash due to operating activities:		
Deferred commissions, net of amortization		3,327
Annual production deferred bonus plan		3,018
Deferred taxes, net		(560)
Amortization of employee loan advances		405
Depreciation and amortization		370
Operating lease expense		298
Share-based compensation		86
(Increase) decrease in operating assets:		
Commissions receivable		(1,352)
Accounts receivable		(3,477)
Fees receivable		(94)
Employee loan advances and repayments, net		46
Prepaid and other assets		(280)
Increase (decrease) in operating liabilities:		
Accrued incentive compensation		(567)
Accrued expenses and other liabilities		39
Net change due to operating activities		1,441
INVESTING ACTIVITIES:		
Capital expenditures, net		(739)
Net change due to investing activities		(739)
FINANCING ACTIVITIES:		
Tax activities associated with share-based compensation		(47)
Net change due to financing activities		(47)
Net change in cash, cash equivalents and restricted cash		655
Cash, cash equivalents and restricted cash at beginning of year		54,284
Cash, cash equivalents and restricted cash at end of year		\$ 54,939

SUPPLEMENTAL CASH FLOW DISCLOSURE

Cash paid during the year for income taxes (including \$996 to affiliate)	\$	1,046
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See accompanying notes to financial statements.

CITIZENS SECURITIES, INC.
(An Indirect Wholly-Owned Subsidiary of Citizens Financial Group, Inc.)

NOTES TO FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2022
(Amounts in thousands, except share data)

1. NATURE OF OPERATIONS

Citizens Securities, Inc. (the "Company"), a Rhode Island corporation incorporated on September 21, 1995, is a registered broker-dealer with the United States Securities and Exchange Commission ("SEC") and is a member of the Financial Industry Regulatory Authority, Inc. ("FINRA"). The Company commenced operations on January 19, 1996 and distributes and sells mutual funds and provides certain insurance, securities, brokerage, and investment advisory services. The Company is registered with FINRA as an introducing broker-dealer and does not hold customer funds or securities. The Company is a wholly-owned subsidiary of Citizens Bank, National Association (the "Parent"), which is a wholly-owned subsidiary of Citizens Financial Group, Inc. ("CFG").

The Company introduces the majority of brokerage transactions for clearance and execution services to National Financial Services Corporation ("NFSC"), an unrelated third party, on a fully-disclosed basis and introduces securities transactions such as annuities and insurance, with product providers, on a direct basis.

The Company's customer base is primarily concentrated in the New England, Mid-Atlantic and Mid-West regions. Revenues are dependent, in part, on customers' investing patterns and requirements, which may vary with changes in local and national economies.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation and Use of Estimates

The financial statements include the accounts of the Company and are prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). The U.S. Dollar is the functional currency of the Company.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain 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.

Cash, Cash Equivalents and Restricted Cash

For the purpose of reporting cash flows, balances include cash and money market investment accounts with an original maturity of less than 90 days and are highly liquid. At December 31, 2022, cash equivalents included \$51,218 of money market mutual funds. Restricted cash represents the cash account balance that is required to be maintained at NFSC, based on clearing services agreements. As of December 31, 2022, \$100 was held at NFSC.

Employee Loan Advances

To recruit and retain financial advisors, the Company, from time to time, offers employee advances to financial advisors who meet specific criteria. Loan advances paid to financial advisors are charged to employee compensation and benefits on a straight-line basis over a five to seven-year period, which represents the period of loan forgiveness. If a financial advisor leaves the employment of the Company before the end of the term of the note, the remaining balance of the advance would be repayable to the Company. The Company maintains a reserve for loan advances made to financial advisors, who have left the Company, prior to full amortization of the note. Any additional provisions for reserves for inactive employees are assessed quarterly and recognized in employee compensation and benefits in the Statement of Operations. Refer to Note 4 for further details.

Premises and Equipment

Premises and equipment are stated at cost, less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Additions to premises and equipment are recorded at cost. The cost of major additions, improvements and betterments is

CITIZENS SECURITIES, INC.

(An Indirect Wholly-Owned Subsidiary of Citizens Financial Group, Inc.)

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2022

(Amounts in thousands, except share data)

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. The Company evaluates premises and equipment for impairment when events or changes in circumstances indicate that the carrying value of such assets may not be recoverable. Refer to Note 6 for further details.

Leases

The Company determines if an arrangement is a lease at inception. At commencement, the Company recognizes a right-of-use asset and a corresponding lease liability based on the present value of the lease payments over the non-cancelable lease term. 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. As the Company's lease does not specify an implicit rate, the Company uses the incremental borrowing rate based on information available at the lease commencement date to determine the present value of the lease payments.

In its normal course of business, the Company may lease equipment and office 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 may include rental payments based on an index or are adjusted periodically for inflation. When the Company has lease agreements that contain lease and non-lease components, these components are accounted for as a single lease component. Leases with an initial term of 12 months or less are recognized in occupancy expense in the Statement of Operations on a straight-line basis over the remaining lease term. Refer to Note 7 for further details.

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.

Revenue Sources and Recognition

The Company generates commission revenues by providing transactional-based securities and brokerage services to domestic customers and earns fee-based revenues on customers' assets under management.

The Company primarily clears securities transactions through its clearing broker, NFSC, on a fully disclosed basis. NFSC records customers' securities transactions on a settlement date basis, which is generally two business days after trade date. Therefore, the Company is exposed to off-balance sheet risk of loss on such transactions in the event customers and other counterparties are unable to fulfill contractual obligations. Revenues are impacted by certain factors such as product type, commission rates, sales volume, investment markets and customer cancellations.

The Company 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.

A description of the components of revenue from contracts with customers is presented below:

- **Commissions** - Commissions revenue represents commissions received from sales of mutual funds, annuities, traditional life insurance products, unit investment trusts, market-linked certificate of deposits, structured notes and other brokerage-related transactions. Revenue is recognized on a trade date basis and when the risk of reversal due to the customer exercising a right of cancellation is remote.

The Company earns commissions on asset-based fees such as 12b-1 fees, annuity and insurance trails and renewals based on investment balances in future periods and are recognized at a point in time when the asset balance is known, or the renewal occurs. For the period ended December 31, 2022, the Company recognized 12b-1 fees and trail commissions of \$14,851 related to services provided in previous reporting periods.

- **Investment Management Fees** - The Company receives investment management advisory fees based

CITIZENS SECURITIES, INC.
(An Indirect Wholly-Owned Subsidiary of Citizens Financial Group, Inc.)

NOTES TO FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2022
(Amounts in thousands, except share data)

on the value of assets under management and recognizes them over the period (typically monthly) in which the related service is provided based on prior period asset balances.

- *Revenue Sharing Fees* - The Company receives fees from investment product sponsors for marketing allowances and revenue sharing arrangements directly related to customer sales and assets under administration for mutual funds and annuities. These fees are recognized at a point in time, when the asset balance is known, and the fees are reasonably estimable.
- *Customer Account Fees* - The Company recognizes customer account fees, on a monthly basis, as services are provided.

Deferred Commissions

For certain investment management advisory fees that are received over a period of time, as opposed to immediately upon sale, the Company will pay its financial advisors an amount that represents an estimate of such fees to be earned over the initial twelve months of the contract. Such payments are recorded as an asset on the Statement of Financial Condition and are amortized over the respective period. Payouts to the financial advisors for the remaining terms of such income are paid out on the same basis as the related income is received. These investment management advisory compensation deferrals and amortization are recognized in the Statement of Operations within employee compensation and benefits. Refer to Note 5 for further details.

Fair Value

Certain assets and liabilities are measured at fair value on the Company's Statement of Financial Condition. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants on the measurement date.

Fair value measurements are classified within one of three levels in the valuation hierarchy based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

- *Level 1* - Inputs to the valuation methodology are unadjusted quoted prices in active markets for identical assets or liabilities.
- *Level 2* - Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets; 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 financial instrument.
- *Level 3* - Unobservable inputs to the valuation methodology that are supported by little or no market information and that are significant to the fair value measurement.

Financial instruments categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. Refer to Note 12 for further details.

Incentive Compensation

The Company maintains two incentive compensation plans for which it provides additional compensation to its financial advisors. The two plans are as follows:

- The annual production deferred bonus plan is calculated based on current year commission sales. The bonus amount is expensed on a straight-line basis over a five-year period and the Company applies a forfeiture rate against the total of the accrual awards, which is based on the historical forfeitures under this plan. The bonus is paid out in full after a four-year vesting period has elapsed. If a financial advisor terminates employment with the Company, the entire amount of the compensation accrued for under the plan is forfeited.
- The incentive compensation plan reflects the accrual and payment of commissions based on the sale of investment products through the Company. Commissions under this plan are paid out on a monthly, quarterly and annual basis, depending on when they are earned.

CITIZENS SECURITIES, INC.
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NOTES TO FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2022
(Amounts in thousands, except share data)

In addition, the Company maintains an annual bonus plan which involves the award of cash and restricted stock units from CFG to certain executives of the Company. A restricted stock unit is the right to receive shares of CFG stock on a future date, which may be subject to time-based vesting conditions. Time-based restricted stock units granted generally become vested ratably over a three-year period.

The Company measures compensation expense related to restricted stock units based upon the fair value of the awards on the grant date, adjusted for forfeitures as they occur. Compensation expense is accrued on a straight-line basis over the requisite service period (i.e., vesting period) of the award. Refer to Note 9 for further details.

3. RELATED PARTY TRANSACTIONS

The Company maintains a sweep account with its Parent, which is linked to the Company's main operating cash account. As of December 31, 2022, the account balance was \$6,845.

The Company has entered into investment services agreements with its Parent. The Company provides securities brokerage, insurance and investment advisory services to customers at bank branches of the Parent.

The Company and the Parent entered into an affiliate agreement that provides for the Company to be compensated, by the Parent, for deposit sharing services. For the year ended December 31, 2022, revenue generated from this agreement was \$12,851 and is included in other revenue within the Statement of Operations.

The Parent provides support services to the Company and allocates direct and indirect costs attributable to the Company. Such costs include, but are not limited to, costs of bank personnel servicing the Company, facilities, communication and data line expenses, data center and technology, risk and audit, tax and general overhead. Included in the Statement of Operations were \$45,544 of Parent service costs included in services and management fee to Parent, \$1,211 of referral incentives included in employee compensation and benefits, and \$3,463 of rental charges included in occupancy and equipment for the year ended December 31, 2022.

4. EMPLOYEE LOAN ADVANCES

The following table is a roll forward of active employee loan advances through December 31, 2022:

	Active Employee Loans	
	Gross Loans	Accumulated Amortization
Balance as of December 31, 2021	\$ 2,936	\$ (1,592)
New employee loans originated	225	—
Employee loan amortization	—	(408)
Transfers to inactive status	(650)	303
Employee loan reversals	(863)	863
Balance as of December 31, 2022	\$ 1,648	\$ (834)

Employee loan amortization is included as a component of employee compensation and benefits expense on the Statement of Operations.

CITIZENS SECURITIES, INC.
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NOTES TO FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2022
(Amounts in thousands, except share data)

The following table is a roll forward of inactive employee loan advances through December 31, 2022:

	Inactive Employees	
	Gross Loans	Accumulated Amortization
Balance as of December 31, 2021	\$ 385	\$ (363)
Transfers from active status	650	(303)
Employee loan payments	—	(308)
Employee loan write-downs/reversals	(550)	587
Decrease in employee loan reserves	—	3
Balance as of December 31, 2022	\$ 485	\$ (384)

Included in accumulated amortization for inactive employee loans are payments, reserves for inactive employee loan advances, write-downs and reversals. As of December 31, 2022, there were two inactive loans outstanding that were not making routine payments.

The following table is a roll forward of reserves for inactive employee loan advances through December 31, 2022, the activity for which is reflected in accumulated amortization in the inactive employee table above:

	Inactive Employee - Reserves
Balance as of December 31, 2021	\$ 31
Provision for employee loans	(3)
Balance as of December 31, 2022	\$ 28

5. DEFERRED COMMISSIONS

During the year ended December 31, 2022, the Company deferred \$4,268 of investment advisory commissions, which were paid to financial advisors, and amortized \$7,596 of previously deferred commissions over a twelve-month period. Deferred commission expense and amortization are both recognized in the Statement of Operations as components of employee compensation and benefits expense.

As of December 31, 2022, the Company has \$1,598 of deferred commissions reported in the Statement of Financial Condition.

CITIZENS SECURITIES, INC.
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NOTES TO FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2022
(Amounts in thousands, except share data)

6. PREMISES, EQUIPMENT AND SOFTWARE

Premises, equipment and software are stated at cost, less accumulated depreciation and amortization. Depreciation and amortization are computed using the straight-line method over the estimated useful life of the assets, typically five to ten years.

	<u>Cost</u>
Building improvements	\$ 2,365
Furniture and fixtures	520
Equipment	486
Total premises and equipment	3,371
Less: accumulated depreciation	(619)
<u>Premises and equipment, net</u>	<u>\$ 2,752</u>

In September 2022, a hurricane caused significant damage to the Naples Wealth Center retail office space resulting in an impairment loss of \$528. The fair value of the assets were measured based on prices for similar assets and the impairment loss was recognized in the Statement of Operations within other expenses. The Company expects the majority of the damages will be recovered through insurance.

Capitalized software assets are reported as a component of prepaid and other assets in the Statement of Financial Condition.

	<u>Cost</u>
Software	\$ 207
Less: accumulated amortization	(158)
<u>Software, net</u>	<u>\$ 49</u>

7. LEASES

The Company has two operating leases associated with retail office space with a weighted average remaining lease term of 8.8 years, a weighted average discount rate of 2.2% and both leases have options to extend the terms an additional ten years. Operating lease cost is recognized on a straight-line basis over the lease term in the Statement of Operations within occupancy and equipment.

At December 31, 2022, lease liabilities maturing under non-cancelable operating leases are presented below for the years ended December 31, except as noted:

2023	\$ 368
2024	412
2025	422
2026	433
2027	444
Thereafter	1,802
Total lease payments	3,881
Less: interest	(371)
<u>Total lease liability</u>	<u>\$ 3,510</u>

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NOTES TO FINANCIAL STATEMENTS
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Supplemental information related to the Company's operating lease arrangements, for the year ended December 31, 2022, is presented below:

Cash paid for amounts included in measurement of liabilities:

Operating cash flows from operating leases	\$	223
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Supplemental non-cash information on lease liabilities arising from obtaining right-of-use assets:

Right-of-use assets in exchange for new operating lease liabilities	\$	1,811
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8. ACCRUED INCENTIVE COMPENSATION

As of December 31, 2022, the total accrued amounts under each of the incentive compensation plans are as follows:

Accrued incentive plan	\$	8,794
Annual production deferred bonus plan		7,699
Annual bonus plan		1,403
Total	\$	17,896

The amounts are included in the Statement of Financial Condition, in the accrued incentive compensation line.

9. SHARE-BASED COMPENSATION

The following table presents the activity related to the Company's incentive compensation from CFG share-based awards for the year ended December 31, 2022:

	CFG Shares - Underlying Awards	Weighted Average - Grant Price
Outstanding, January 1, 2022	2,450	\$ 39.34
Granted	1,884	48.56
Vested and distributed	(1,377)	38.10
Outstanding, December 31, 2022	2,957	\$ 45.79

Share-based compensation expense for the year ended December 31, 2022 was \$86 and total unrecognized compensation expense for non-vested awards was \$57 as of December 31, 2022. The unrecognized expense is expected to be recognized over a weighted-average period of approximately one year. There were no share-based compensation costs capitalized during the year ended December 31, 2022.

The income tax benefit recognized in earnings based on the share-based compensation expense amounted to \$29 for the year ended December 31, 2022.

10. NET CAPITAL REQUIREMENTS

The Company is subject to the SEC Uniform Net Capital Rule ("Rule 15c3-1"), which requires the maintenance of minimum net capital, as defined, and requires that the ratio of aggregate indebtedness to net capital, both defined, shall not exceed 15-to-1. At December 31, 2022, the Company had net capital of

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\$25,235, which was in excess of the required net capital of \$1,528 by \$23,707. The Company's ratio of aggregate indebtedness to net capital was 0.91 to 1. Refer to the computation of net capital schedule on page 21 for further details.

11. INCOME TAXES

The Company, along with other affiliates, is included in the consolidated federal tax return filed by CFG and in certain combined and unitary state returns. The Company also files in a number of state jurisdictions on a stand alone basis. For federal taxes and for taxes in states in which the Company is included in a combined or unitary return, the Company computes its current and deferred tax provision using the applicable consolidated, combined or unitary tax rate. The Company settles its income tax provision (benefit) with CFG by agreement through intercompany accounts. At December 31, 2022, the Company's income taxes payable, net of \$137, is included in accrued expenses and other liabilities in the Statement of Financial Condition, which includes a payable to CFG of approximately \$381 and a receivable related to state stand-alone filings of approximately \$244.

Deferred income taxes reflect the net effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

The components of income tax expense for the year ended December 31, 2022, were as follows:

Current income taxes:	
Federal	\$ 531
State	247
<hr/>	
Total current income tax expense	778
Deferred income taxes:	
Federal	(468)
State	(92)
<hr/>	
Total deferred income tax provision	(560)
<hr/>	
Total income tax expense	\$ 218

The effective income tax rate differed from the U.S. federal income tax rate of 21% primarily as a result of the impact of state taxes.

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The tax effects of temporary differences that give rise to significant portions of deferred taxes for the year ended December 31, 2022, are as follows:

Deferred tax assets:

Deferred compensation	1,809
State net operating loss carryforwards	489
Accrued expenses not currently deductible	86
Deferred income	64
Total deferred tax assets	2,448
Valuation allowance	(31)
Total deferred tax assets, net of valuation allowance	2,417

Deferred tax liabilities:

Depreciation	(891)
Prepaid expenses	\$ (271)
Total deferred tax liabilities	(1,162)

Total deferred tax assets, net	\$ 1,255
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At December 31, 2022, the Company had a valuation allowance of \$31 against the deferred tax asset related to state net operating losses, 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 asset related to this item. The valuation allowance was unchanged during the year ending December 31, 2022.

The Company, as part of certain consolidated or combined returns, is subject to examination by the Internal Revenue Service and various state and local tax jurisdictions. With few exceptions, the Company is no longer subject to income tax examinations for years prior to 2019. The Company recognizes interest and penalties related to unrecognized tax benefits within income tax expense in the Statement of Operations.

There were no uncertain tax positions relating to the Company as of and during the year ended December 31, 2022.

12. FAIR VALUE MEASUREMENTS

The valuation techniques used to measure the Company's assets and liabilities at fair value depend upon the specific nature of the asset and liabilities. The following is a description of the valuation methodologies and summary of assets measured at fair value in the Statement of Financial Condition on a recurring basis at December 31, 2022:

Money Market Mutual Funds - Fair value is determined based upon unadjusted quoted market prices and is considered a Level 1 fair value measurement.

	2022			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Assets - money market mutual funds	\$ 51,218	\$ —	\$ —	\$ 51,218

There were no transfers between Levels 1 and 2 during the year ended December 31, 2022.

For the Company's financial assets and liabilities not measured at fair value, the carrying values reported in the Statement of Financial Condition approximate fair value.

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13. CONTINGENCIES

The Company, from time to time, is involved in litigation or other proceedings related to various claims. Legal reserves have been established when it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Once established, reserves are adjusted when there is additional information available or when an event occurs requiring a change. Based on information currently available, the advice from legal counsel and the established legal reserves, management believes that the aggregate liabilities, if any, arising from such proceedings are not expected to have a material adverse effect on the Company's financial statements.

14. SUBSEQUENT EVENTS

The Company has evaluated events that have occurred subsequent to December 31, 2022 through February 24, 2023 and has determined that there are no subsequent events that would require disclosure or adjustment in the financial statements.

SUPPLEMENTAL SCHEDULES

CITIZENS SECURITIES, INC.
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COMPUTATION OF NET CAPITAL (SCHEDULE H)
AS OF DECEMBER 31, 2022
(IN THOUSANDS)

COMPUTATION OF NET CAPITAL

TOTAL STOCKHOLDER'S EQUITY	<u>\$ 51,353</u>
DEDUCTIONS AND/OR CHARGES - NON-ALLOWABLE ASSETS	
Firm receivables	10,313
Non-allowable cash	6,845
Premises and equipment - net	2,752
Deferred commissions	1,598
Income taxes	1,399
Employee loan advances - net	915
Other assets	<u>1,400</u>
Total non-allowable assets	<u>25,222</u>
NET CAPITAL BEFORE HAIRCUTS ON SECURITIES POSITIONS	26,131
HAIRCUT ON SECURITIES	<u>(896)</u>
NET CAPITAL	<u>\$ 25,235</u>
COMPUTATION OF BASIC NET CAPITAL REQUIREMENT	
MINIMUM NET CAPITAL REQUIREMENT	
(Representing 6-2/3% of aggregate indebtedness)	<u>\$ 1,528</u>
MINIMUM DOLLAR NET CAPITAL REQUIREMENT OF	
INTRODUCING BROKER OR DEALER	<u>\$ 100</u>
NET CAPITAL REQUIREMENT	<u>\$ 1,528</u>
EXCESS NET CAPITAL	<u>\$ 23,707</u>
COMPUTATION OF AGGREGATE INDEBTEDNESS	
AGGREGATE INDEBTEDNESS	<u>\$ 22,914</u>
RATIO OF AGGREGATE INDEBTEDNESS TO NET CAPITAL	0.91 to 1

Note: There are no material differences between the amounts reported above and amounts reported in the Company's unaudited FOCUS Report IIA, as of December 31, 2022, which was filed on January 26, 2023.

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**COMPUTATION FOR DETERMINATION OF RESERVE REQUIREMENTS
PURSUANT TO RULE 15C3-3 (SCHEDULE J)
FOR THE YEAR ENDED DECEMBER 31, 2022**

The Company is exempt from the provisions of Rule 15c3-3 under the Securities Exchange Act of 1934, in that the Company's activities are limited to those set forth in the conditions for exemption appearing in Section (k)(2)(ii) of the Rule.

The Company is also exempt from the provisions of Rule 15c3-3 under the Securities Exchange Act of 1934 because the Company's other business activities contemplated by Footnote 74 of the SEC Release No. 34-70073 adopting amendments to 17 C.F.R. § 240.17a-5 are limited to effecting securities transactions via subscriptions on a subscription way basis where the funds are payable to the issuer or its agent and not to the Company.

CITIZENS SECURITIES, INC.
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INFORMATION RELATING TO POSSESSION OR CONTROL REQUIREMENTS
FOR CUSTOMERS (SCHEDULE M)
FOR THE YEAR ENDED DECEMBER 31, 2022

The Company does not carry customer accounts or otherwise hold customer funds and, accordingly, is exempt from the provisions of SEC Rule 15c3-3, pursuant to Section (k)(2)(ii) of the Rule.

The Company is also exempt from the provisions of Rule 15c3-3 under the Securities Exchange Act of 1934 because the Company's other business activities contemplated by Footnote 74 of the SEC Release No. 34-70073 adopting amendments to 17 C.F.R. § 240.17a-5 are limited to effecting securities transactions via subscriptions on a subscription way basis where the funds are payable to the issuer or its agent and not to the Company.