Comerica®

# Comerica Incorporated Annual Report 2020

# COMERICA INCORPORATED

Founded in 1849, Comerica Incorporated (NYSE: CMA) is a financial services company headquartered in Dallas, Texas, strategically aligned by three business segments: The Commercial Bank, The Retail Bank and Wealth Management. Comerica focuses on relationships, and helping people and businesses be successful. In addition to Texas, Comerica Bank locations can be found in Arizona, California, Florida and Michigan, with select businesses operating in several other states, as well as in Canada and Mexico. As of December 31, 2020, Comerica had:

$88 billion in assets | $52.3 billion in loans | $72.9 billion in deposits | 432 U.S. banking centers | 7,681 employees (FTE)

## OUR MISSION

We will achieve balanced growth and profitability by delivering a higher level of banking that nurtures lifelong relationships with unwavering integrity and financial prudence.

## OUR VISION

To become the highest performing, most respected and most desired bank in the markets we serve.

## OUR CORE VALUES

Customer-centricity • Collaboration • Integrity

Excellence • Agility • Diversity • Involvement

## OUR PROMISE

We will Raise Your Expectations® of what a bank can be.

## BOARD OF DIRECTORS

**Curtis C. Farmer**
Chairman, President and Chief Executive Officer
Comerica Incorporated and Comerica Bank

**Michael E. Collins** *(1) (3) (4)*
Chair and Senior Counselor, Blake Collins Group
Former Consultant, Federal Reserve Bank of Cleveland
Former Executive Vice President, Federal Reserve Bank of Philadelphia

**Roger A. Cregg** *(1) (3) (4)*
Former President and Chief Executive Officer
AV Homes, Inc.

**T. Kevin DeNicola** *(1) (3) (4)*
Former Chief Financial Officer
KiOR, Inc.

**Jacqueline P. Kane** *(2)*
Retired Executive Vice President of
Human Resources and Corporate Affairs
The Clorox Company

**Richard G. Lindner** *(1) (2) (3)*
Retired Senior Executive Vice President and
Chief Financial Officer
AT&T, Inc.

**Barbara R. Smith** *(2) (5)*
Chairman, President and Chief Executive Officer
Commercial Metals Company

**Robert S. Taubman** *(4)*
Chairman of the Board of Directors, Chief Executive Officer and President
The Taubman Realty Group LLC and The Taubman Company LLC

**Reginald M. Turner, Jr.** *(1) (3) (4)*
Member, Executive Committee
Clark Hill PLC

**Nina G. Vaca** *(2) (4)*
Chairman and Chief Executive Officer
Pinnacle Technical Resources, Inc. and Vaca Industries Inc.

**Michael G. Van de Ven** *(2)*
Chief Operating Officer
Southwest Airlines Co.

*(1) Audit Committee*
*(2) Governance, Compensation and Nominating Committee*
*(3) Qualified Legal Compliance Committee*
*(4) Enterprise Risk Committee*
*(5) Independent Facilitating Director*

## SENIOR LEADERSHIP

**Curtis C. Farmer**
Chairman, President and Chief Executive Officer

**James J. Herzog**
Executive Vice President and Chief Financial Officer

**John D. Buchanan**
Executive Vice President and Chief Legal Officer/General Counsel

**Megan D. Burkhart**
Executive Vice President and Chief Human Resources Officer

**J. McGregor Carr**
Executive Vice President, Wealth Management

**Melinda A. Chausse**
Executive Vice President and Chief Credit Officer

**Megan D. Crespi**
Executive Vice President and Chief Enterprise Technology &
Operations Services Officer

**Cassandra M. McKinney**
Executive Vice President, Retail Bank

**Christine M. Moore**
Executive Vice President and General Auditor

**Jay K. Oberg**
Executive Vice President and Chief Risk Officer

**Peter L. Sefzik**
Executive Vice President, Commercial Bank

**James H. Weber**
Executive Vice President and Chief Experience Officer

# 2020 Company Highlights

**$1.2 BILLION**
in green loans and commitments

of Comerica's executive officers are women or racial/ethnic minorities

**41%** of Comerica's U.S. employees are racial/ethnic minorities

**65%** of Comerica's U.S. employees are female

## LAUNCHED DIVERSITY DIALOGUE SESSIONS AND ALLY SERIES

Ranked among Newsweek's listing of America's Most Responsible Companies

**$1 MILLION** committed over four years to National Business League to launch the Black Capital Access Program

**503** hosted financial education events impacting **35,765** individuals

**$10 MILLION** in deposits moved to Minority Depository Institutions

**50%** GHG reduction achieved early[1]

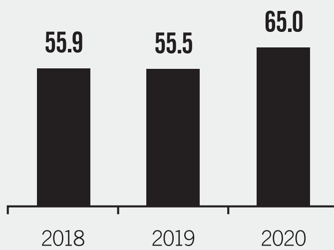
**OVER 30,000 HOURS** of volunteer time equating to **$773,112** donated to nonprofits by Comerica colleagues

5 YEARS

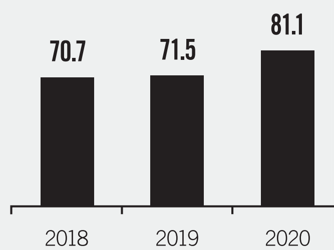
Named Civic 50 Most Community Minded Companies for fifth consecutive year

## FINANCIAL$

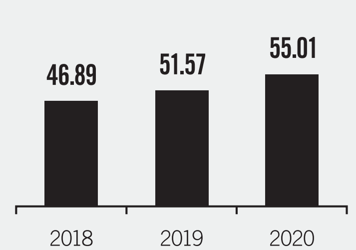
### RECORD DEPOSITS
($ in billions; average)




### RECORD TOTAL ASSETS
($ in billions; average)




### RECORD BOOK VALUE
(dollars per share; period-end)




## COVID-19 RESPONSE

**$11 MILLION** pledged to support business needs and community service organizations[2]

Processed more than

**14,700** Paycheck Protection Program loans providing **$3.9 billion** in funding

**65%** of colleagues were able to work remotely

1 Unaudited data vs. 2012 baseline
2 Support from Comerica Bank & Comerica Charitable Foundation

# TO OUR SHAREHOLDERS

**Curtis C. Farmer**
*Chairman, President and Chief Executive Officer*

To my fellow shareholders,

Very few years in our 171-year history have tested the resolve of our colleagues, customers and communities more than 2020. When I assumed the role of Chairman in January 2020, the fundamentals of the economy were strong, and I was looking forward to working with our executive team to drive forward our relationship banking strategy. Then in March, our focus abruptly shifted to weathering the COVID-19 pandemic. In addition, our country endured an economic recession, racial injustice and political unrest. While many will remember 2020 for its tough times, I will also remember it for how our company and colleagues overcame obstacles to achieve many important accomplishments along the way.

## COVID-19 Response

The challenges presented by the COVID-19 pandemic were met with Comerica's unwavering commitment to raising expectations. We proudly supported our customers, communities and colleagues as we navigated the unprecedented environment together.

We quickly mobilized 65 percent of our employees to a remote work environment and maintained the operation of our more than 430 banking centers, while meeting the safety recommendations of the Centers for Disease Control and Prevention. Additional support for colleagues included Promise Pay to recognize our onsite staff who could not perform their duties from a remote location with additional pay and dependent care stipends.

As a result of the hard work of Comerica colleagues, we successfully processed more than 14,700 Paycheck Protection Program (PPP) applications, resulting in $3.9 billion in critical funds to small and medium-sized businesses. In late October, we began receiving our customers' requests for PPP loan forgiveness and through mid-February over $600 million has been repaid. The second round of PPP commenced in mid-January and as of mid-February, over $500 million has been approved and funded. In addition, our customers' desire to leverage digital channels increased and we responded by enhancing our retail online capabilities for deposits, as well as loan originations. We also extended hardship relief to customers, waiving fees for overdrafts and granting loan deferrals and amendments, as appropriate.

Comerica and the Comerica Charitable Foundation provided $11 million to support community service organizations and small businesses. These funds were deployed to nonprofits delivering services to youth, seniors and other vulnerable populations, particularly organizations addressing food insecurities and access to health care. Comerica Bank also supplied funding to community development financial institutions to support strategic programs designed to meet the needs of small and micro businesses adversely impacted by COVID-19.

Social distancing introduced new ways for our colleagues to make a difference in our communities. Comerica colleagues showed their enduring spirit to serve, completing more than 30,000 volunteer hours – many using the power of technology – equating to more than $773,000 worth of donated time. More than 110 virtual business bootcamps hosted across our markets helped small business owners and entrepreneurs improve the long-term viability of their companies. Throughout the year, Comerica facilitated over 500 financial education events impacting more than 35,000 individuals from low- to moderate-income communities.

## Driving Equity to Achieve Equality

The efforts to support our communities during the pandemic was equally matched by initiatives to further our commitment to racial equity, diversity and inclusion. The racial injustice witnessed in 2020 generated emotions of anger, disappointment and frustration across our country and within our company, prompting necessary reflection to address these important topics. We focused on a two-fold plan aimed on aiding the community and fostering a culturally competent workforce.

Internally, we launched Diversity Dialogue Sessions and the Ally Series to spark meaningful conversations amoung our colleagues and took several steps to end racial injustice. We are partnering with Minority Depository Institutions, which includes collaboration and mentorship, along with the movement of $10 million in deposits to select institutions that focus on under-served communities. Lastly, we joined the National Business League in supporting black-owned businesses across the country with a $1 million commitment to launch the Black Capital Access Program.

These important initiatives, along with our ongoing efforts of embracing diversity and promoting inclusion, earned Comerica national recognition. For instance, DiversityInc ranked Comerica third on its 2020 list of Top Regional Companies for Diversity. For the eighth consecutive year, we received a 100 percent on the 2021 Corporate Equality Index related to LGBTQ workplace equality. We stand committed to fostering a culture focused on equity, diversity and inclusion. There is always more progress to be made and we will remain proactive in addressing diversity issues.

*Comerica partnered with select Minority Depository Institutions including Unity National Bank in Houston (top left), First Independence Bank in Detroit (top right) and Broadway Federal Bank in Los Angeles (bottom).*

## Focus on Sustainability

We continued to make strides in minimizing our impact on the environment to ensure our communities and planet thrive long-term. We achieved our 2020 environmental goals set in 2014 to meaningfully reduce water, waste, paper and greenhouse gas (GHG) emissions. Our GHG reduction efforts reached nearly 52 percent through the third quarter, putting us in preliminary achievement of our 2025 GHG reduction goal of 50 percent and propelling us towards our goal of 100 percent by 2050.

Recently, we furthered our environmental commitment by joining the Partnership for Carbon Accounting Financials to better understand the greenhouse gas footprint of our portfolios. As of year-end, we had more than $1.2 billion in green loans and commitments to customers in 13 different environmentally beneficial categories.

We are proud to report that CDP placed Comerica in its leadership category with an A- rating on its climate change questionnaire. In addition, Comerica ranked high on Newsweek's list of America's Most Responsible Companies and is among Barron's 100 Most Sustainable Companies, as well as one of the Global 100 Most Sustainable Corporations by Corporate Knights.

## Financial Performance

The hallmark of Comerica's success has been our ability to develop meaningful relationships with our customers. While fostering these relationships may have looked different in 2020, we were able to continue to utilize our deep expertise and experience to help our customers navigate these difficult times. Furthermore, we maintained our disciplined credit culture, strong capital base and drive for continuous efficiency improvements. These strengths provide the foundation to continue to deliver long-term shareholder value. This has been demonstrated by our return on equity, which increased to 11 percent in the fourth quarter, and our book value per share, which grew 7 percent over the past year to over $55 per share.

Our financial accomplishments included solid loan performance with year-end loans increasing to $52 billion. In addition, year-end deposits reached an all-time high, increasing 27 percent over 2019. This strong growth, combined with prudent management of loan and deposit pricing, and action taken to deploy excess liquidity, helped offset the pressure of rates dropping to ultra-low levels. In light of the swift deterioration of the economy, we significantly increased our credit reserve and took a large provision in the first quarter. However, credit deterioration was manageable, and our net charge-offs for the year were in line with historical norms. Our disciplined credit culture served us well. Card fees and securities trading income growth was strong, while other fees, such as deposit service charges and commercial lending fees, were impacted by the slowdown in economic activity. Expenses remained well controlled and included COVID-related costs. We returned $378 million to common shareholders through dividends, including an increase in the dividend to $2.72 per share and the repurchase of $189 million of common stock (3.2 million shares) in the first quarter. It proved to be a solid performance, particularly considering the difficult environment.

## Eye Toward the Future

Along with challenges, 2020 included change for Comerica. Following recent retirements, our Management Executive Committee now includes several new leaders, forming a diverse team that includes a mix of long-term employees and recent hires. Their ideas and initiatives to continue driving the bank forward will serve to strengthen our company.

The pandemic has spurred rapid adoption of digital and mobile products and tools for our customers and businesses. The agility of our information technology division has allowed us to successfully adjust daily operations while continuing to move us forward on our digital journey. As we must remain competitive, our ability to develop and adopt technology – both internally and with the products and services we provide our customers – is key to customer satisfaction and, therefore, our success.

Digital transformation has been integral to elevating our customers' experience. How we manage our customer touchpoints and interactions continues to evolve. Feedback from our customers helps us identify gaps and opportunities, as well as respond with improvements to drive higher satisfaction. Also, customer data analytics supports our team's ability to deepen relationships across all business by finding ways to better serve customers.

While there is uncertainty regarding the progression of COVID-19 and the path of economic recovery, the outlook for Comerica remains bright. We find strength in our 171-year history that has seen our company endure economic and political turbulence to continue to serve as a beacon of strength. Our relationship-focused business model and geographic footprint provide diversity and abundant growth opportunities. As an institution, we have struck a balance between growth and conservative management of our balance sheet and credit. We are confident that this is helping us manage through the continued uncertainty and to position us well for the future.

Let me say again how proud I am of our approximately 7,700 employees who have demonstrated their unwavering commitment to serving our customers, communities and each other during this unprecedented time. Their efforts are part of our company's rich history and the resiliency they continue to show will help guide us forward. Lastly, thank you to our shareholders, for your continued support.

Sincerely,

Curtis C. Farmer
Chairman, President and Chief Executive Officer

# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

# FORM 10-K

☒ **Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

**For the fiscal year ended December 31, 2020**

Or

☐ **Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

**For the transition period from _________________________ to _________________________**

**Commission file number 1-10706**

# Comerica Incorporated

(Exact Name of Registrant as Specified in Its Charter)

| **Delaware** | **38-1998421** |
|---|---|
| (State or Other Jurisdiction of Incorporation) | (IRS Employer Identification Number) |

**Comerica Bank Tower**
**1717 Main Street, MC 6404**
**Dallas, Texas 75201**
(Address of Principal Executive Offices) (Zip Code)

**(214) 462-6831**
(Registrant's Telephone Number, Including Area Code)

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

| Title of each class | Trading symbol | Name of each exchange on which registered |
|---|---|---|
| Common Stock, $5 par value | CMA | New York Stock Exchange |

**Securities registered pursuant to Section 12(g) of the Exchange Act:**
None

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

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

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

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

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

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

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

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

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

At June 30, 2020 (the last business day of the registrant's most recently completed second fiscal quarter), the registrant's common stock, $5 par value, held by non-affiliates had an aggregate market value of approximately $5.3 billion based on the closing price on the New York Stock Exchange on that date of $38.10 per share. For purposes of this Form 10-K only, it has been assumed that all common shares Comerica's Trust Department holds for Comerica's employee plans, and all common shares the registrant's directors and executive officers hold, are shares held by affiliates.

At February 5, 2021, the registrant had outstanding 139,286,040 shares of its common stock, $5 par value.

**Documents Incorporated by Reference:**

Part III: Items 10-14—Proxy Statement for the Annual Meeting of Shareholders to be held April 27, 2021.

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**PART I**
**Item 1. Business.**

## GENERAL

Comerica Incorporated ("Comerica") is a financial services company, incorporated under the laws of the State of Delaware in 1973, and headquartered in Dallas, Texas. Based on total assets as reported in the most recently filed Consolidated Financial Statements for Bank Holding Companies (FR Y-9C), it was among the 25 largest commercial United States ("U.S.") financial holding companies. As of December 31, 2020, Comerica owned directly or indirectly all the outstanding common stock of 2 active banking subsidiaries (Comerica Bank, a Texas banking association, and Comerica Bank & Trust, National Association) and 31 non-banking subsidiaries. At December 31, 2020, Comerica had total assets of approximately $88.1 billion, total deposits of approximately $72.9 billion, total loans of approximately $52.3 billion and shareholders' equity of approximately $8.1 billion.

Comerica has strategically aligned its operations into three major business segments: the Commercial Bank, the Retail Bank, and Wealth Management. In addition to the three major business segments, Finance is also reported as a segment.

Comerica operates in three primary geographic markets - Texas, California, and Michigan, as well as in Arizona and Florida, with select businesses operating in several other states, and in Canada and Mexico.

We provide information about the net interest income and noninterest income we received from our various classes of products and services: (1) under the caption, "Analysis of Net Interest Income" on page F-5 of the Financial Section of this report; (2) under the caption "Rate/Volume Analysis" on page F-6 of the Financial Section of this report; and (3) under the caption "Noninterest Income" on pages F-7 through F-8 of the Financial Section of this report.

## COMPETITION

The financial services business is highly competitive. Comerica and its subsidiaries mainly compete in their three primary geographic markets of Texas, California and Michigan, as well as in the states of Arizona and Florida. They also compete in broader, national geographic markets, as well as markets in Mexico and Canada. They are subject to competition with respect to various products and services, including, without limitation, commercial loans and lines of credit, deposits, cash management, capital market products, international trade finance, letters of credit, foreign exchange management services, loan syndication services, consumer lending, consumer deposit gathering, mortgage loan origination, consumer products, fiduciary services, private banking, retirement services, investment management and advisory services, investment banking services, brokerage services, the sale of annuity products, and the sale of life, disability and long-term care insurance products.

Comerica competes largely on the basis of industry expertise, the range of products and services offered, pricing and reputation, customer convenience, quality customer service and responsiveness to customer needs and the overall relationship with our clients. Our competitors are large national and regional financial institutions as well as smaller financial institutions. Some of Comerica's larger competitors, including certain nationwide banks that have a significant presence in Comerica's market area, may make available to their customers a broader array of product, pricing and structure alternatives and, due to their asset size, may more easily absorb credit losses in a larger overall portfolio. Some of Comerica's competitors (larger or smaller) may have more liberal lending policies and processes. Increasingly, Comerica competes with other companies based on financial technology and capabilities, such as mobile banking applications and funds transfer. Further, Comerica's banking competitors may be subject to a significantly different or reduced degree of regulation due to their asset size or types of products offered. They may also have the ability to more efficiently utilize resources to comply with regulations or may be able to more effectively absorb the costs of regulations into their existing cost structure. Comerica believes that the level of competition in all geographic markets will continue to increase in the future.

In addition to banks, Comerica's banking subsidiaries also face competition from other financial intermediaries, including savings and loan associations, consumer and commercial finance companies, leasing companies, venture capital funds, credit unions, investment banks, insurance companies and securities firms. Competition among providers of financial products and services continues to increase as technology advances have lowered the barriers to entry for financial technology companies, with customers having the opportunity to select from a growing variety of traditional and nontraditional alternatives, including crowdfunding, digital wallets and money transfer services. The ability of non-banking financial institutions to provide services previously limited to commercial banks has intensified competition. Because non-banking financial institutions are not subject to many of the same regulatory restrictions as banks and bank holding companies, they can often operate with greater flexibility and lower cost structures.

In addition, the industry continues to consolidate, which affects competition by eliminating some regional and local institutions, while potentially strengthening the franchises of acquirers.

**SUPERVISION AND REGULATION**

Banks, bank holding companies, and financial institutions are highly regulated at both the state and federal level. Comerica is subject to supervision and regulation at the federal level by the Board of Governors of the Federal Reserve System (“FRB”) under the Bank Holding Company Act of 1956, as amended. Comerica Bank is chartered by the State of Texas and at the state level is supervised and regulated by the Texas Department of Banking under the Texas Finance Code. Comerica Bank has elected to be a member of the Federal Reserve System under the Federal Reserve Act and, consequently, is supervised and regulated by the Federal Reserve Bank of Dallas. Comerica Bank & Trust, National Association is chartered under federal law and is subject to supervision and regulation by the Office of the Comptroller of the Currency (“OCC”) under the National Bank Act. Comerica Bank & Trust, National Association, by virtue of being a national bank, is also a member of the Federal Reserve System. Furthermore, given that Comerica Bank is a bank with assets in excess of $10 billion dollars, it is subject to supervision and regulation by the Consumer Financial Protection Bureau ("CFPB") for purposes of assessing compliance with federal consumer financial laws. The deposits of Comerica Bank and Comerica Bank & Trust, National Association are insured by the Deposit Insurance Fund (“DIF”) of the Federal Deposit Insurance Corporation (“FDIC”) to the extent provided by law, and therefore Comerica Bank and Comerica Bank & Trust, National Association are each also subject to regulation and examination by the FDIC. Certain transactions executed by Comerica Bank are also subject to regulation by the U.S. Commodity Futures Trading Commission (“CFTC”). The Department of Labor (“DOL”) regulates financial institutions providing services to plans governed by the Employee Retirement Income Security Act of 1974. Comerica Bank’s Canada branch is supervised by the Office of the Superintendent of Financial Institutions and its Mexico representative office is supervised by the Banco de México.

The FRB supervises non-banking activities conducted by companies directly and indirectly owned by Comerica. In addition, Comerica’s non-banking subsidiaries are subject to supervision and regulation by various state, federal and self-regulatory agencies, including, but not limited to, the Financial Industry Regulatory Authority, Inc. (“FINRA”), the Department of Licensing and Regulatory Affairs of the State of Michigan and the Municipal Securities Rulemaking Board (“MSRB”) (in the case of Comerica Securities, Inc.); the Department of Insurance and Financial Services of the State of Michigan (in the case of Comerica Insurance Services, Inc.); the DOL (in the case of Comerica Securities, Inc. and Comerica Insurance Services, Inc.); and the Securities and Exchange Commission (“SEC”) (in the case of Comerica Securities, Inc. and World Asset Management, Inc.).

Both the scope of the laws and regulations and intensity of supervision to which Comerica’s business is subject have increased over the past decade in response to the financial crisis as well as other factors such as technological and market changes. Many of these changes have occurred as a result of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”) and its implementing regulations, most of which are now in place. In 2018, with the passage of the Economic Growth, Regulatory Relief and Consumer Protection Act (“EGRRCPA”), as described below, there has been some recalibration of the post-financial crisis framework; however, Comerica’s business remains subject to extensive regulation and supervision. Further, it is too soon for Comerica to predict what legislative or regulatory changes may occur as a result of the recent change in leadership resulting from the recent elections, or, if changes occur, the ultimate effect they would have upon the financial condition or results of operations of Comerica.

Comerica is also subject to the disclosure and regulatory requirements of the Securities Act of 1933, as amended, and the Securities Exchange Act of 1934, as amended, both as administered by the SEC, as well as the rules of the New York Stock Exchange.

Described below are material elements of selected laws and regulations applicable to Comerica and its subsidiaries. The descriptions are not intended to be complete and are qualified in their entirety by reference to the full text of the statutes and regulations described. Changes in applicable law or regulation, and in their application by regulatory agencies, cannot be predicted, but they may have a material effect on the business of Comerica and its subsidiaries.

*Economic Growth, Regulatory Relief and Consumer Protection Act*

On May 24, 2018, EGRRCPA was signed into law. Among other regulatory changes, EGRRCPA amended various sections of the Dodd-Frank Act, including section 165 of Dodd-Frank Act, which was revised to raise the asset thresholds for determining the application of enhanced prudential standards for bank holding companies. Under EGRRCPA bank holding companies with less than $100 billion of consolidated assets, including Comerica, are exempt from all of the Dodd-Frank enhanced prudential standards, except risk committee requirements. As a result, Comerica is no longer subject to Dodd-Frank Act supervisory and company-run stress testing or required to file a resolution plan under Section 165(d) of the Dodd-Frank Act. Comerica is not subject to internal liquidity stress testing and buffer requirements, the Comprehensive Capital Analysis and Review (“CCAR”) process or the Liquidity Coverage Ratio. In addition, Comerica is no longer required to pay the supervision and regulation fee assessment under the Dodd-Frank Act.

Banks with less than $100 billion in total consolidated assets, including Comerica Bank, are also exempt from company-run stress testing requirements under the EGRRCPA.

*Requirements for Approval of Activities and Acquisitions*

The Gramm-Leach-Bliley Act expanded the activities in which a bank holding company registered as a financial holding company can engage. Comerica became a financial holding company in 2000. As a financial holding company, Comerica may affiliate with securities firms and insurance companies, and engage in activities that are financial in nature or incidental or complementary to activities that are financial in nature. Activities that are "financial in nature" include, but are not limited to: securities underwriting; securities dealing and market making; sponsoring mutual funds and investment companies (subject to regulatory requirements described below); insurance underwriting and agency; merchant banking; and activities that the FRB determines, in consultation with the Secretary of the United States Treasury, to be financial in nature or incidental to a financial activity. "Complementary activities" are activities that the FRB determines upon application to be complementary to a financial activity and that do not pose a substantial risk to the safety or soundness of depository institutions or the financial system generally.

In order to maintain its status as a financial holding company, Comerica and each of its depository institution subsidiaries must each remain "well capitalized" and "well managed," and Comerica, Comerica Bank and Comerica Bank & Trust, National Association are each "well capitalized" and "well managed" under FRB standards. If Comerica or any subsidiary bank of Comerica were to cease being "well capitalized" or "well managed" under applicable regulatory standards, the FRB could place limitations on Comerica's ability to conduct the broader financial activities permissible for financial holding companies or impose limitations or conditions on the conduct or activities of Comerica or its affiliates. If the deficiencies persisted, the FRB could order Comerica to divest any subsidiary bank or to cease engaging in any activities permissible for financial holding companies that are not permissible for bank holding companies, or Comerica could elect to conform its non-banking activities to those permissible for a bank holding company that is not also a financial holding company.

In addition, the Community Reinvestment Act of 1977 ("CRA") requires U.S. banks to help serve the credit needs of their communities. Comerica Bank's current rating under the CRA is "satisfactory." If any subsidiary bank of Comerica were to receive a rating under the CRA of less than "satisfactory," Comerica would be prohibited from engaging in certain activities.

Federal and state laws impose notice and approval requirements for mergers and acquisitions of other depository institutions or bank holding companies. In many cases, no FRB approval is required for Comerica to acquire a company engaged in activities that are financial in nature or incidental to activities that are financial in nature, as determined by the FRB. Prior approval is required before Comerica may acquire the beneficial ownership or control of more than 5% of any class of voting shares or substantially all of the assets of a bank holding company (including a financial holding company) or a bank. In considering applications for approval of acquisitions, the banking regulators may take several factors into account, including whether Comerica and its subsidiaries are well capitalized and well managed, are in compliance with anti-money laundering laws and regulations, or have CRA ratings of less than "satisfactory."

*Acquisitions of Ownership of Comerica*

Acquisitions of Comerica's voting stock above certain thresholds are subject to prior regulatory notice or approval under federal banking laws, including the Bank Holding Company Act of 1956 and the Change in Bank Control Act of 1978. Under the Change in Bank Control Act, a person or entity generally must provide prior notice to the FRB before acquiring the power to vote 10% or more of Comerica's outstanding common stock. On March 2, 2020, the FRB issued a final rule revising regulations related to control determinations under the Bank Holding Company Act. The final rule expands the number of presumptions for use in such determinations. Investors should be aware of these requirements when acquiring shares of Comerica's stock.

*Capital and Liquidity*

Comerica and its bank subsidiaries are subject to risk-based capital requirements and guidelines imposed by the FRB and/or the OCC. In calculating risk-based capital requirements, a depository institution's or holding company's assets and certain specified off-balance sheet commitments are assigned to various risk categories defined by the FRB, each weighted differently based on the level of credit risk that is ascribed to such assets or commitments, based on counterparty type and asset class. A depository institution's or holding company's capital is divided into three tiers: Common Equity Tier 1 ("CET1"), additional Tier 1, and Tier 2. CET1 capital predominantly includes common shareholders' equity, less certain deductions for goodwill, intangible assets and deferred tax assets that arise from net operating losses and tax credit carry-forwards, if any. Additional Tier 1 capital primarily includes any outstanding noncumulative perpetual preferred stock and related surplus. Comerica has also made the election to permanently exclude accumulated other comprehensive income related to debt and equity securities classified as available-for-sale, cash flow hedges, and defined benefit postretirement plans from CET1 capital. Tier 2 capital primarily includes qualifying subordinated debt and qualifying allowance for credit losses. On September 30, 2020, the federal banking agencies issued a final rule that provides banking organizations that implement the current expected

credit loss ("CECL") standard during the 2020 calendar year the option to delay for two years an estimate of CECL's effect on regulatory capital, relative to the incurred loss methodology's effect on regulatory capital, followed by a three-year transition period. Comerica elected this deferral and at December 31, 2020, $72 million, or a cumulative 11-basis-point benefit to the capital ratios, was deferred. More information is set forth in the "Capital" section located on pages F-19 through F-21.

Entities that engage in trading activities that exceed specified levels also are required to maintain capital to account for market risk. Market risk includes changes in the market value of trading account, foreign exchange, and commodity positions, whether resulting from broad market movements (such as changes in the general level of interest rates, equity prices, foreign exchange rates, or commodity prices) or from position specific factors. From time to time, Comerica's trading activities may exceed specified regulatory levels, in which case Comerica adjusts its risk-weighted assets to account for market risk as required.

Comerica and its bank subsidiaries, like other bank holding companies and banks, currently are required to maintain a minimum CET1 capital ratio, minimum Tier 1 capital ratio and minimum total capital ratio equal to at least 4.5 percent, 6 percent and 8 percent of their total risk-weighted assets (including certain off-balance-sheet items, such as standby letters of credit), respectively. Comerica and its bank subsidiaries are required to maintain a minimum capital conservation buffer of 2.5 percent in order to avoid restrictions on capital distributions and discretionary bonuses. Comerica and its bank subsidiaries are also required to maintain a minimum "leverage ratio" (Tier 1 capital to non-risk-adjusted average total assets) of 4 percent.

To be well capitalized, Comerica's bank subsidiaries are required to maintain a total capital ratio, Tier 1 capital ratio, CET1 capital ratio and a leverage ratio equal to at least 10.0 percent, 8.0 percent, 6.5 percent and 5.0 percent, respectively. For purposes of the FRB's Regulation Y, including determining whether a bank holding company meets the requirements to be a financial holding company, bank holding companies, such as Comerica, must maintain a Tier 1 capital ratio of at least 6.0 percent and a total capital ratio of at least 10.0 percent to be well capitalized. The FRB may require bank holding companies, including Comerica, to maintain capital ratios substantially in excess of mandated minimum levels, depending upon general economic conditions and a bank holding company's particular condition, risk profile and growth plans.

Failure to be well capitalized or to meet minimum capital requirements could result in certain mandatory and possible additional discretionary actions by regulators, including restrictions on Comerica's or its bank subsidiaries' ability to pay dividends or otherwise distribute capital or to receive regulatory approval of applications, or other restrictions on growth.

At December 31, 2020, Comerica met all of its minimum risk-based capital ratio and leverage ratio requirements plus the applicable capital conservation buffer and the applicable well capitalized requirements, as shown in the table below:

| (dollar amounts in millions) | Comerica Incorporated (Consolidated) | Comerica Bank |
|---|---|---|
| December 31, 2020 | | |
| CET1 capital (minimum $3.0 billion (Consolidated)) | $ 6,919 | $ 7,278 |
| Tier 1 capital (minimum $4.0 billion (Consolidated)) | 7,313 | 7,278 |
| Total capital (minimum $5.4 billion (Consolidated)) | 8,833 | 8,547 |
| Risk-weighted assets | 66,931 | 66,759 |
| Adjusted average assets (fourth quarter) | 84,705 | 84,536 |
| CET1 capital to risk-weighted assets (minimum 4.5%) | 10.34 % | 10.90 % |
| Tier 1 capital to risk-weighted assets (minimum 6.0%) | 10.93 | 10.90 |
| Total capital to risk-weighted assets (minimum 8.0%) | 13.20 | 12.80 |
| Tier 1 capital to average assets (minimum 4.0%) | 8.63 | 8.61 |
| Capital conservation buffer (minimum 2.5%) | 4.93 | 4.80 |
| December 31, 2019 | | |
| CET1 capital (minimum $3.1 billion (Consolidated)) | $ 6,919 | $ 7,199 |
| Tier 1 capital (minimum $4.1 billion (Consolidated)) | 6,919 | 7,199 |
| Total capital (minimum $5.5 billion (Consolidated)) | 8,282 | 8,371 |
| Risk-weighted assets | 68,273 | 68,071 |
| Adjusted average assets (fourth quarter) | 72,773 | 72,564 |
| CET1 capital to risk-weighted assets (minimum 4.5%) | 10.13 % | 10.58 % |
| Tier 1 capital to risk-weighted assets (minimum 6.0%) | 10.13 | 10.58 |
| Total capital to risk-weighted assets (minimum 8.0%) | 12.13 | 12.30 |
| Tier 1 capital to average assets (minimum 4.0%) | 9.51 | 9.92 |
| Capital conservation buffer (minimum 2.5%) | 4.13 | 4.30 |

Additional information on the calculation of Comerica's and its bank subsidiaries' CET1 capital, Tier 1 capital, total capital and risk-weighted assets is set forth in the "Capital" section located on pages F-19 through F-21 of the Financial Section

of this report and Note 20 of the Notes to Consolidated Financial Statements located on pages F-96 through F-98 of the Financial Section of this report.

*Federal Deposit Insurance Corporation Improvement Act*

The Federal Deposit Insurance Corporation Improvement Act ("FDICIA") requires, among other things, the federal banking agencies to take "prompt corrective action" with respect to depository institutions that do not meet certain minimum capital requirements. FDICIA establishes five capital tiers: "well capitalized," "adequately capitalized," "undercapitalized," "significantly undercapitalized" and "critically undercapitalized." An institution that fails to remain well capitalized becomes subject to a series of restrictions that increase in severity as its capital condition weakens. Such restrictions may include a prohibition on capital distributions, restrictions on asset growth or restrictions on the ability to receive regulatory approval of applications. The FDICIA also provides for enhanced supervisory authority over undercapitalized institutions, including authority for the appointment of a conservator or receiver for the institution.

As of December 31, 2020, each of Comerica's bank subsidiaries' capital ratios exceeded those required for an institution to be considered "well capitalized" under these regulations.

As an additional means to identify problems in the financial management of depository institutions, FDICIA requires federal bank regulatory agencies to establish certain non-capital-based safety and soundness standards for institutions any such agency supervises. The standards relate generally to, among others, earnings, liquidity, operations and management, asset quality, various risk and management exposures (e.g., credit, operational, market, interest rate, etc.) and executive compensation. The agencies are authorized to take action against institutions that fail to meet such standards.

FDICIA also contains a variety of other provisions that may affect the operations of depository institutions including reporting requirements, regulatory standards for real estate lending, "truth in savings" provisions, the requirement that a depository institution give 90 days prior notice to customers and regulatory authorities before closing any branch, and a prohibition on the acceptance or renewal of brokered deposits by depository institutions that are not well capitalized or are adequately capitalized and have not received a waiver from the FDIC.

*Dividends*

Comerica Incorporated is a legal entity separate and distinct from its banking and other subsidiaries. Since Comerica's consolidated net income and liquidity consists largely of net income of and dividends received from Comerica's bank subsidiaries, Comerica's ability to pay dividends and repurchase shares depends upon its receipt of dividends from these subsidiaries. There are statutory and regulatory requirements applicable to the payment of dividends by subsidiary banks to Comerica, as well as by Comerica to its shareholders. Certain, but not all, of these requirements are discussed below. No assurances can be given that Comerica's bank subsidiaries will, in any circumstances, pay dividends to Comerica.

Comerica Bank and Comerica Bank & Trust, National Association are required by federal law to obtain the prior approval of the FRB and/or the OCC, as the case may be, for the declaration and payment of dividends, if the total of all dividends declared by the board of directors of such bank in any calendar year will exceed the total of (i) such bank's net income (as defined and interpreted by regulation) for that year plus (ii) the retained net income (as defined and interpreted by regulation) for the preceding two years, less any required transfers to surplus or to fund the retirement of preferred stock. At January 1, 2021, Comerica's subsidiary banks could declare aggregate dividends of approximately $12 million from retained net profits of the preceding two years. Comerica's subsidiary banks declared dividends of $498 million in 2020, $1.2 billion in 2019 and $1.1 billion in 2018.

Comerica and its bank subsidiaries must maintain a CET1 capital conservation buffer of 2.5% to avoid becoming subject to restrictions on capital distributions, including dividends.

Furthermore, federal regulatory agencies can prohibit a bank or bank holding company from paying dividends under circumstances in which such payment could be deemed an unsafe and unsound banking practice. Under the FDICIA "prompt corrective action" regime discussed above, which applies to each of Comerica Bank and Comerica Bank & Trust, National Association, a bank is specifically prohibited from paying dividends to its parent company if payment would result in the bank becoming "undercapitalized." In addition, Comerica Bank is also subject to limitations under Texas state law regarding the amount of earnings that may be paid out as dividends to Comerica, and requires prior approval for payments of dividends that exceed certain levels.

FRB supervisory guidance generally provides that a bank holding company should not pay dividends unless (1) the bank holding company's net income over the last four quarters (net of dividends paid) is sufficient to fully fund the dividends, (2) the prospective rate of earnings retention appears consistent with the capital needs, asset quality and overall financial condition of the bank holding company and its subsidiaries and (3) the bank holding company will continue to meet minimum required capital adequacy ratios. The supervisory guidance also provides that a bank holding company should inform the FRB reasonably in advance of declaring or paying a dividend that exceeds earnings for the period for which the dividend is being

paid or that could result in a material adverse change to the bank holding company's capital structure. Bank holding companies also are required to consult with the FRB before redeeming or repurchasing capital instruments (including common stock), or materially increasing dividends.

*Transactions with Affiliates*

Federal banking laws and regulations impose qualitative standards and quantitative limitations upon certain transactions between a bank and its affiliates, including between Comerica and its nonbank subsidiaries, on the one hand, and Comerica's affiliate insured depository institutions, on the other. For example, Section 23A of the Federal Reserve Act limits the aggregate outstanding amount of any insured depository institution's loans and other "covered transactions" with any particular nonbank affiliate (including financial subsidiaries) to no more than 10% of the institution's total capital and limits the aggregate outstanding amount of any insured depository institution's covered transactions with all of its nonbank affiliates to no more than 20% of its total capital. "Covered transactions" are defined by statute to include (i) a loan or extension of credit to an affiliate, (ii) a purchase of securities issued by an affiliate, (iii) a purchase of assets (unless otherwise exempted by the FRB) from the affiliate, (iv) the acceptance of securities issued by the affiliate as collateral for a loan, (v) the issuance of a guarantee, acceptance or letter of credit on behalf of an affiliate and (vi) securities borrowing or lending transactions and derivative transactions with an affiliate, to the extent that either causes a bank or its affiliate to have credit exposure to the securities borrowing/lending or derivative counterparty. Section 23A of the Federal Reserve Act also generally requires that an insured depository institution's loans to its nonbank affiliates be, at a minimum, 100% secured, and Section 23B of the Federal Reserve Act generally requires that an insured depository institution's transactions with its nonbank affiliates be on terms and under circumstances that are substantially the same or at least as favorable as those prevailing for comparable transactions with nonaffiliates. Federal banking laws also place similar restrictions on loans and other extensions of credit by FDIC-insured banks, such as Comerica Bank and Comerica Bank & Trust, National Association, and their subsidiaries to their directors, executive officers and principal shareholders.

*Data Privacy and Cybersecurity Regulation*

Comerica is subject to many U.S. federal, U.S. state and international laws and regulations governing consumer data privacy protection, which require, among other things, maintaining policies and procedures to protect the non-public confidential information of customers and employees. The privacy provisions of the Gramm-Leach-Bliley Act generally prohibit financial institutions, including Comerica and its subsidiaries, from disclosing nonpublic personal financial information of consumer customers to third parties for certain purposes (primarily marketing) unless customers have the opportunity to "opt out" of the disclosure. Other laws and regulations, at the international, federal and state levels, limit Comerica's ability to share certain information with affiliates and non-affiliates for marketing and/or non-marketing purposes, or to contact customers with marketing offers. The Gramm-Leach-Bliley Act also requires banks to implement a comprehensive information security program that includes administrative, technical and physical safeguards to ensure the security and confidentiality of customer records and information. Because we have a limited presence in New York, we are subject to certain requirements of the New York Department of Financial Service's Cybersecurity Requirements for Financial Services Companies, which include maintaining a cybersecurity program and policies and breach notification requirements.

In October 2016, the federal banking regulators issued an advance notice of proposed rulemaking regarding enhanced cyber risk management standards, which would apply to a wide range of large financial institutions, including Comerica, and their third-party service providers. The proposed standards would expand existing cybersecurity regulations and guidance to focus on cyber risk governance and management; management of internal and external dependencies; and incident response, cyber resilience and situational awareness. In addition, the proposal contemplates more stringent standards for institutions with systems that are critical to the financial sector. Comerica continues to monitor the development of this rule.

Data privacy and data protection are areas of increasing state legislative focus. For example, in June of 2018, the Governor of California signed into law the California Consumer Privacy Act of 2018 (the "CCPA"). The CCPA, which became effective on January 1, 2020, applies to for-profit businesses that conduct business in California and meet certain revenue or data collection thresholds. The CCPA will give consumers the right to request disclosure of information collected about them, and whether that information has been sold or shared with others, the right to request deletion of personal information (subject to certain exceptions), the right to opt out of the sale of the consumer's personal information, and the right not to be discriminated against for exercising these rights. The CCPA contains several exemptions, including an exemption applicable to information that is collected, processed, sold or disclosed pursuant to the Gramm-Leach-Bliley Act. The California Attorney General adopted regulations implementing the CCPA on August 14, 2020. Comerica has a physical footprint in California and is required to comply with the CCPA. In addition, similar laws may be adopted by other states where Comerica does business. The federal government may also pass data privacy or data protection legislation.

Like other lenders, Comerica Bank and other of Comerica's subsidiaries use credit bureau data in their underwriting activities. Use of such data is regulated under the Fair Credit Reporting Act ("FCRA"), and the FCRA also regulates reporting

information to credit bureaus, prescreening individuals for credit offers, sharing of information between affiliates, and using affiliate data for marketing purposes. Similar state laws may impose additional requirements on Comerica and its subsidiaries.

*FDIC Insurance Assessments*

The DIF provides deposit insurance coverage for certain deposits up to $250,000 per depositor in each deposit account category. Comerica's subsidiary banks are subject to FDIC deposit insurance assessments to maintain the DIF. The FDIC imposes a risk-based deposit premium assessment system, where the assessment rates for an insured depository institution are determined by an assessment rate calculator, which is based on a number of elements to measure the risk each institution poses to the DIF. The assessment rate is applied to total average assets less tangible equity. Under the current system, premiums are assessed quarterly and could increase if, for example, criticized loans and/or other higher risk assets increase or balance sheet liquidity decreases. For 2020, Comerica's FDIC insurance expense totaled $33 million.

*Anti-Money Laundering Regulations*

Comerica is subject to several federal laws that are designed to combat money laundering, terrorist financing, and transactions with persons, companies or foreign governments designated by U.S. authorities ("AML laws"). This category of laws includes the Bank Secrecy Act, the Money Laundering Control Act, and the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001, or USA PATRIOT Act.

The AML laws and their implementing regulations require insured depository institutions, broker-dealers, and certain other financial institutions to have policies, procedures, and controls to detect, prevent, and report money laundering and terrorist financing. The AML laws and their regulations also provide for information sharing, subject to conditions, between federal law enforcement agencies and financial institutions, as well as among financial institutions, for counter-terrorism purposes. Federal banking regulators are required, when reviewing bank holding company acquisition and bank merger applications, to take into account the effectiveness of the anti-money laundering activities of the applicants. To comply with these obligations, Comerica and its various operating units have implemented appropriate internal practices, procedures, and controls.

*Office of Foreign Assets Control Regulation*

The Office of Foreign Assets Control ("OFAC") is responsible for administering economic sanctions that affect transactions with designated foreign countries, nationals and others, as defined by various Executive Orders and Acts of Congress. OFAC-administered sanctions take many different forms. For example, sanctions may include: (1) restrictions on trade with or investment in a sanctioned country, including prohibitions against direct or indirect imports from and exports to a sanctioned country and prohibitions on U.S. persons engaging in financial transactions relating to, making investments in, or providing investment-related advice or assistance to, a sanctioned country; and (2) a blocking of assets in which the government or "specially designated nationals" of the sanctioned country have an interest, by prohibiting transfers of property subject to U.S. jurisdiction (including property in the possession or control of U.S. persons). OFAC also publishes lists of persons, organizations, and countries suspected of aiding, harboring or engaging in terrorist acts, known as Specially Designated Nationals and Blocked Persons. Blocked assets (e.g., property and bank deposits) cannot be paid out, withdrawn, set off or transferred in any manner without a license from OFAC. Failure to comply with these sanctions could have serious legal and reputational consequences.

*Interstate Banking and Branching*

The Interstate Banking and Branching Efficiency Act (the "Interstate Act"), as amended by the Dodd-Frank Act, permits a bank holding company, with FRB approval, to acquire banking institutions located in states other than the bank holding company's home state without regard to whether the transaction is prohibited under state law, but subject to any state requirement that the bank has been organized and operating for a minimum period of time, not to exceed five years, and the requirement that the bank holding company, prior to and following the proposed acquisition, control no more than 10 percent of the total amount of deposits of insured depository institutions in the U.S. and no more than 30 percent of such deposits in that state (or such amount as established by state law if such amount is lower than 30 percent). The Interstate Act, as amended, also authorizes banks to operate branch offices outside their home states by merging with out-of-state banks, purchasing branches in other states and by establishing *de novo* branches in other states, subject to various conditions. In the case of purchasing branches in a state in which it does not already have banking operations, *de novo* interstate branching is permissible if under the law of the state in which the branch is to be located, a state bank chartered by that state would be permitted to establish the branch. A bank holding company or bank must be well capitalized and well managed in order to take advantage of these interstate banking and branching provisions.

Comerica has consolidated the majority of its banking business into one bank, Comerica Bank, with banking centers in Texas, Arizona, California, Florida and Michigan, as well as Canada.

*Source of Strength and Cross-Guarantee Requirements*

Federal law and FRB regulations require that bank holding companies serve as a source of strength to each subsidiary bank and commit resources to support each subsidiary bank. This support may be required at times when a bank holding company may not be able to provide such support without adversely affecting its ability to meet other obligations. The FRB may require a bank holding company to make capital injections into a troubled subsidiary bank and may charge the bank holding company with engaging in unsafe and unsound practices if the bank holding company fails to commit resources to such a subsidiary bank or if it undertakes actions that the FRB believes might jeopardize the bank holding company's ability to commit resources to such subsidiary bank. Under these requirements, Comerica may in the future be required to provide financial assistance to its subsidiary banks should they experience financial distress. Capital loans by Comerica to its subsidiary banks would be subordinate in right of payment to deposits and certain other debts of the subsidiary banks. In the event of Comerica's bankruptcy, any commitment by Comerica to a federal bank regulatory agency to maintain the capital of its subsidiary banks would be assumed by the bankruptcy trustee and entitled to a priority of payment.

Similarly, under the cross-guarantee provisions of the Federal Deposit Insurance Act, in the event of a loss suffered or anticipated by the FDIC (either as a result of the failure of a banking subsidiary or related to FDIC assistance provided to such a subsidiary in danger of failure), the other banking subsidiaries may be assessed for the FDIC's loss, subject to certain exceptions. An FDIC cross-guarantee claim against a depository institution is superior in right of payment to claims of the holding company and its affiliates against such depository institution.

*Supervisory and Enforcement Powers of Federal and State Banking Agencies*

The FRB and other federal and state banking agencies have broad supervisory and enforcement powers, including, without limitation, and as prescribed to each agency by applicable law, the power to conduct examinations and investigations, impose nonpublic supervisory agreements, issue cease and desist orders, terminate deposit insurance, impose substantial fines and other civil penalties and appoint a conservator or receiver. Failure to comply with applicable laws or regulations could subject Comerica or its banking subsidiaries, as well as officers and directors of these organizations, to administrative sanctions and potentially substantial civil and criminal penalties. Bank regulators regularly examine the operations of bank holding companies and banks, and the results of these examinations, as well as certain supervisory and enforcement actions, are confidential and may not be made public.

*Resolution Plans*

As a depository institution with $50 billion or more of total consolidated assets, Comerica Bank is required to periodically file a resolution plan with the FDIC. On April 16, 2019, the FDIC released an advanced notice of proposed rulemaking ("ANPR") with respect to the FDIC's bank resolution plan requirements meant to better tailor bank resolution plans to a firm's size, complexity and risk profile. The ANPR offers two alternative approaches to resolution planning for commenters to consider and solicits comment on how to tailor the requirements of the rule to reflect differences in size, complexity and other factors among the population of large insured depository institutions, and on whether to increase the current threshold of $50 billion in assets that triggers application of the rule.

*Incentive-Based Compensation*

Comerica is subject to guidance issued by the FRB, OCC and FDIC intended to ensure that the incentive compensation policies of banking organizations do not undermine the safety and soundness of such organizations by encouraging excessive risk-taking. The guidance, which covers senior executives as well as other employees who, either individually or as part of a group, have the ability to expose the banking organization to material amounts of risk, is based upon the key principles that a banking organization's incentive compensation arrangements (i) should provide employees incentives that appropriately balance risk and financial results in a manner that does not encourage employees to expose their organizations to imprudent risk; (ii) should be compatible with effective controls and risk-management; and (iii) should be supported by strong corporate governance, including active and effective oversight by the organization's board of directors. Banking organizations are expected to review regularly their incentive compensation arrangements based on these three principles. Where there are deficiencies in the incentive compensation arrangements, they should be promptly addressed. Enforcement actions may be taken against a banking organization if its incentive compensation arrangements, or related risk-management control or governance processes, pose a risk to the organization's safety and soundness, particularly if the organization is not taking prompt and effective measures to correct the deficiencies. Similar to other large banking organizations, Comerica has been subject to a continuing review of incentive compensation policies and practices by representatives of the FRB, the Federal Reserve Bank of Dallas and the Texas Department of Banking since 2011. As part of that review, Comerica has undertaken a thorough analysis of all the incentive compensation programs throughout the organization, the individuals covered by each plan and the risks inherent in each plan's design and implementation. Comerica has determined that risks arising from employee compensation plans are not reasonably likely to have a material adverse effect on Comerica. It is Comerica's intent to continue monitoring regulations and best practices for sound incentive compensation practices.

In 2016, the FRB, OCC and several other federal financial regulators revised and re-proposed rules to implement Section 956 of the Dodd-Frank Act. Section 956 directed regulators to jointly prescribe regulations or guidelines prohibiting incentive-based payment arrangements, or any feature of any such arrangement, at covered financial institutions that encourage inappropriate risks by providing excessive compensation or that could lead to a material financial loss. This proposal supplements the final guidance issued by the banking agencies in June 2010. Consistent with the Dodd-Frank Act, the proposed rule would impose heightened standards for institutions with $50 billion or more in total consolidated assets, which includes Comerica. For these larger institutions, the proposed rule would require the deferral of at least 40 percent of incentive-based payments for designated executives and significant risk-takers who individually have the ability to expose the institution to possible losses that are substantial in relation to the institution's size, capital or overall risk tolerance. Moreover, incentive-based compensation of these individuals would be subject to potential clawback for seven years following vesting. Further, the rule imposes enhanced risk management controls and governance and internal policy and procedure requirements with respect to incentive compensation. Comerica is monitoring the development of this rule.

*The Volcker Rule*

Comerica is prohibited under the Volcker Rule from (1) engaging in short-term proprietary trading for its own account and (2) having certain ownership interests in and relationships with hedge funds or private equity funds ("Covered Funds"). The Volcker Rule regulations contain exemptions for market-making, hedging, underwriting and trading in U.S. government and agency obligations, and permit certain ownership interests in certain types of Covered Funds to be retained. They also permit the offering and sponsoring of Covered Funds under certain conditions. The Volcker Rule regulations impose significant compliance and reporting obligations on banking entities.

Comerica has compliance programs required by the Volcker Rule and has either divested or received extensions for any holdings in Covered Funds. Additional information on Comerica's portfolio of indirect (through funds) private equity and venture capital investments, which includes the Covered Funds, is set forth in Note 1 of the Notes to Consolidated Financial Statements located on page F-55 of the Financial Section of this report.

In October 2019, the five federal agencies with rulemaking authority with respect to the Volcker Rule finalized changes designed to simplify compliance with the Volcker Rule. The final rule formalized a three-tiered approach to compliance program requirements for banking entities based on their level of trading activity. As a banking entity with “moderate” trading assets and liabilities (less than $20 billion), Comerica is subject to simplified compliance requirements. In June 2020, regulators finalized a rule further modifying the Volcker Rule’s prohibition on banking entities investing in or sponsoring Covered Funds. The final rule modifies three areas of the rule by: streamlining the covered funds portion of the rule; addressing the extraterritorial treatment of certain foreign funds; and permitting banking entities to offer financial services and engage in other activities that do not raise concerns that the Volcker Rule was intended to address. Comerica continues to follow Volcker Rule developments.

*Derivative Transactions*

As a state member bank, Comerica Bank may engage in derivative transactions, as permitted by applicable Texas and federal law. Title VII of the Dodd-Frank Act contains a comprehensive framework for over-the-counter (“OTC”) derivatives transactions. Even though many of the requirements do not impact Comerica directly, since Comerica Bank does not meet the definition of swap dealer or major swap participant, Comerica continues to review and evaluate the extent to which such requirements impact its business indirectly. On November 5, 2018, the CFTC issued a final rule that sets the permanent aggregate gross notional amount threshold for the *de minimis* exception from the definition of swap dealer at $8 billion in swap dealing activity entered into by a person over the preceding 12 months. Comerica's swap dealing activities are currently below this threshold.

The initial margin requirements for non-centrally cleared swaps and security-based swaps will be effective for Comerica’s swap and security-based swap counterparties that are swap dealers or major swap participants on September 1, 2022, at which time such counterparties will be required to collect initial margin from Comerica. The initial margin requirements were issued for the purpose of ensuring safety and soundness of swap trading in light of the risk to the financial system associated with non-cleared swaps activity. Comerica is currently working toward meeting compliance with the initial margin requirements.

*Consumer Financial Protection Bureau and Certain Recent Consumer Finance Regulations*

Comerica is subject to regulation by the CFPB, which has a broad rule-making authority for a wide range of consumer protection laws that apply to all banks and savings institutions and possesses examination and enforcement authority over all banks and savings institutions with more than $10 billion in assets, including Comerica Bank, and their depositary affiliates.

Comerica is also subject to certain state consumer protection laws, and under the Dodd-Frank Act, state attorneys general and other state officials are empowered to enforce certain federal consumer protection laws and regulations. In recent years, state authorities have increased their focus on and enforcement of consumer protection rules. These federal and state

consumer protection laws apply to a broad range of Comerica’s activities and to various aspects of its business and include laws relating to interest rates, fair lending, disclosures of credit terms and estimated transaction costs to consumer borrowers, debt collection practices, the use of and the provision of information to consumer reporting agencies, and the prohibition of unfair, deceptive or abusive acts or practices in connection with the offer, sale or provision of consumer financial products and services.

**UNDERWRITING APPROACH**

The loan portfolio is a primary source of profitability and risk, so proper loan underwriting is critical to Comerica's long-term financial success. Comerica extends credit to businesses, individuals and public entities based on sound lending principles and consistent with prudent banking practice. During the loan underwriting process, a qualitative and quantitative analysis of potential credit facilities is performed, and the credit risks associated with each relationship are evaluated. Important factors considered as part of the underwriting process for new loans and loan renewals include:

- People: Including the competence, integrity and succession planning of customers.
- Purpose: The legal, logical and productive purposes of the credit facility.
- Payment: Including the source, timing and probability of payment.
- Protection: Including obtaining alternative sources of repayment, securing the loan, as appropriate, with collateral and/or third-party guarantees and ensuring appropriate legal documentation is obtained.
- Perspective: The risk/reward relationship and pricing elements (cost of funds; servicing costs; time value of money; credit risk).

Comerica prices credit facilities to reflect risk, the related costs and the expected return, while maintaining competitiveness with other financial institutions. Loans with variable and fixed rates are underwritten to achieve expected risk-adjusted returns on the credit facilities and for the full relationship including the borrower's ability to repay the principal and interest based on such rates.

*Credit Approval and Monitoring*

Approval of new loan exposure and oversight and monitoring of Comerica's loan portfolio is the joint responsibility of the Credit Risk Management and Decisioning department and the Credit Underwriting department (collectively referred to as “Credit”), plus the business units (“Line”). Credit assists the Line with underwriting by providing objective financial analysis, including an assessment of the borrower's business model, balance sheet, cash flow and collateral. The approval of new loan exposure is the joint responsibility of Credit Risk Management and Decisioning and the Line. Each commercial borrower relationship is assigned an internal risk rating by Credit Risk Management and Decisioning. Further, Credit updates the assigned internal risk rating as new information becomes available as a result of periodic reviews of credit quality, a change in borrower performance or approval of new loan exposure. The goal of the internal risk rating framework is to support Comerica's risk management capability, including its ability to identify and manage changes in the credit risk profile of its portfolio, predict future losses and price the loans appropriately for risk. Finally, the Line and Credit (including its Portfolio Risk Analytics department) work together to insure the overall credit risk within the loan portfolio is consistent with the bank’s Credit Risk Appetite.

*Credit Policy*

Comerica maintains a comprehensive set of credit policies. Comerica's credit policies provide Line and Credit Personnel with a framework of sound underwriting practices and potential loan structures. These credit policies also provide the framework for loan committee approval authorities based on its internal risk-rating system and establish maximum exposure limits based on risk ratings and Comerica's legal lending limit. Credit, in conjunction with the Line, monitors compliance with the credit policies and modifies the existing policies as necessary. New or modified policies/guidelines require approval by the Strategic Credit Committee, chaired by Comerica's Chief Credit Officer and comprised of senior credit, market and risk management executives.

*Commercial Loan Portfolio*

Commercial loans are underwritten using a comprehensive analysis of the borrower's operations. The underwriting process includes an analysis of some or all of the factors listed below:

- The borrower's business model and industry characteristics.
- Periodic review of financial statements including financial statements audited by an independent certified public accountant when appropriate.
- The proforma financial condition including financial projections.

- The borrower's sources and uses of funds.
- The borrower's debt service capacity.
- The guarantor's financial strength.
- A comprehensive review of the quality and value of collateral, including independent third-party appraisals of machinery and equipment and commercial real estate, as appropriate, to determine the advance rates.
- Physical inspection of collateral and audits of receivables, as appropriate.

For additional information specific to our Energy loan portfolio and certain leveraged transactions in our commercial portfolio, please see the captions “Energy Lending” and "Leveraged Loans" on pages F-31 through F-32 of the Financial Section of this report.

*Commercial Real Estate (CRE) Loan Portfolio*

Comerica's CRE loan portfolio consists of real estate construction and commercial mortgage loans and includes loans to real estate developers and investors and loans secured by owner-occupied real estate. Comerica's CRE loan underwriting policies are consistent with the approach described above and provide maximum loan-to-value ratios that limit the size of a loan to a maximum percentage of the value of the real estate collateral securing the loan. The loan-to-value percentage varies by the type of collateral and is limited by advance rates established by our regulators. Our loan-to-value limitations are, in certain cases, more restrictive than those required by regulators and are influenced by other risk factors such as the financial strength of the borrower or guarantor, the equity provided to the project and the viability of the project itself. CRE loans generally require cash equity. CRE loans are normally originated with full recourse or limited recourse to all principals and owners. There are limitations to the size of a single project loan and to the aggregate dollar exposure to a single guarantor. For additional information specific to our CRE loan portfolio, please see the caption “Commercial Real Estate Lending” on pages F-29 through F-30 of the Financial Section of this report.

*Consumer and Residential Mortgage Loan Portfolios*

Comerica's consumer and residential mortgage loan underwriting includes an assessment of each borrower's personal financial condition, including a review of credit reports and related FICO scores (a type of credit score used to assess an applicant's credit risk) and verification of income and assets, as applicable. After origination, internal risk ratings are assigned based on payment status and product type.

Comerica does not originate subprime loans. Although a standard industry definition for subprime loans (including subprime mortgage loans) does not exist, Comerica defines subprime loans as specific product offerings for higher risk borrowers, including individuals with one or a combination of high credit risk factors. These credit factors include low FICO scores, poor patterns of payment history, high debt-to-income ratios and elevated loan-to-value. Comerica generally considers subprime FICO scores to be those below 620 on a secured basis (excluding loans with cash or near-cash collateral and adequate income to make payments) and below 660 for unsecured loans. Residential mortgage loans retained in the portfolio are largely relationship based. The remaining loans are typically eligible to be sold on the secondary market. Adjustable-rate loans are limited to standard conventional loan programs. For additional information specific to our residential real estate loan portfolio, please see the caption “Residential Real Estate Lending” on page F-31 of the Financial Section of this report.

## HUMAN CAPITAL RESOURCES

Comerica’s relationship banking strategy relies heavily on the personal relationships and the quality of service provided by employees. Accordingly, Comerica aims to attract, develop and retain employees who can drive financial and strategic growth objectives and build long-term shareholder value. Key items related to Comerica’s human capital resources are described below.

<u>Structure</u>. As of December 31, 2020, Comerica and its subsidiaries had 7,429 full-time and 441 part-time employees, primarily located in Comerica’s core markets of Michigan, Texas, California, Arizona and Florida. Comerica’s Chief Human Resources Officer reports directly to the Chairman, President and CEO and manages all aspects of the employee experience, including talent acquisition, diversity and inclusion, learning and development, talent management, compensation and benefits.

The Board of Directors and the Governance, Compensation and Nominating Committee are regularly updated on Comerica’s talent development and human capital management strategies. To enhance the Board’s understanding of Comerica's talent pipeline, the Board routinely meets with high-potential employees in formal and informal settings.

<u>Productivity</u>. Comerica carefully manages the size of its workforce and reallocates resources, as needed. As of December 31, 2020, Comerica’s total employee headcount, on a full-time equivalent basis, was 14 percent lower than as of December 31, 2015. Additionally, for 2020, Comerica managed an average of $15 million of loans and deposits per employee.

Diversity. Comerica has an organization-wide focus to improve recruitment and retention of women and ethnic minorities especially in leadership positions through its diversity outreach, diversity awareness and learning program and leadership development programs. As of December 31, 2020, Comerica's U.S. colleagues had the following attributes:

| | Female (%) | Minority (%) |
|---|---|---|
| Employees | 65 | 41 |
| Officials and Managers(1) | 52 | 28 |
| Executive Officers(2) | 38 | 23 |

(1) Based on EEO-1 job classifications.
(2) Using Securities and Exchange Commission definition.

Comerica was recognized in 2020 as the DiversityInc. No. 3 Top Regional Company for Diversity and LATINA *Style*'s Top 50 Best Company for Latinas to Work in the U.S, as well as receiving a perfect score of 100% on the Human Rights Campaign's Corporate Equality Index (for LGBTQ equality).

Compensation and Benefits. Comerica strives to provide pay, benefits, and services that help meet the varying needs of its employees. Compensation and benefits include market-competitive pay, retirement programs, broad-based bonuses, an employee stock purchase plan, health and welfare benefits, financial counseling, paid time off, family leave and flexible work schedules. Effective January 2018, Comerica increased its minimum wage to $15 per hour, and in 2020, further increased its minimum wage to $16.50 per hour. Comerica periodically reviews compensation and benefits by grade level and position to ensure similar positions are paid comparatively and to ensure that Comerica has a competitive and valuable offering to meet the well-being and needs of its employees.

Attraction, Development and Retention. Comerica measures the success of its talent acquisition strategy on speed and quality of acquisition, diversity of new colleagues, retention, and overall performance metrics. Each of these metrics is tracked for each of the key business lines. Sourcing strategies and support structures are modified to ensure that performance targets are met consistently.

Comerica has also created internal programs to support the development and retention of its colleagues, including internal Leadership Development and Emerging Leaders programs designed to train high potential employees, Com-Tech college courses to help re-skill Technology colleagues, a Managing Essentials Certificate series for managers, and organizational change management learning for all colleagues. In 2020, over 6,900 skills-based courses were offered to Comerica colleagues and an average of 24 hours of training per employee were completed. Comerica also supports its employees' involvement in external development programs. For example, starting in October 2020, Comerica is a participant in the CEO Action for Race and Equity Fellows Program, where one or more Comerica colleagues will commit one year to the Fellows Program while still being employed by Comerica receiving their full salary and benefits.

Comerica's investment in its employees has resulted in a long-tenured workforce, with average tenure of 12.5 years of service. Of the approximately 1,485 open employee positions filled in 2020, 58% were filled by external hires and 42% were filled by internal hires. Employee turnover for 2020 was 11.6%. In 2020, Comerica conducted our first enterprise-wide employee engagement survey, and nearly 6,700 colleagues participated.

COVID-19. In 2020, in response to the COVID-19 pandemic, over 65 percent of Comerica's colleagues were able to work remotely, and colleagues whose functions required them to be physically present were eligible for additional "Promise Pay" of up to $175 per week from late March through early June. Comerica also provided stipends to help cover unexpected dependent- and elder-care costs, no-cost health care benefits pertaining to COVID-19 and free telehealth visits and outplacement assistance for spouses of employees. While not a direct response to COVID-19, Comerica did not reduce salaries or any other benefits during this time to support our colleagues through the pandemic.

**AVAILABLE INFORMATION**

Comerica maintains an Internet website at *www.comerica.com* where the Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and all amendments to those reports are available without charge, as soon as reasonably practicable after those reports are filed with or furnished to the SEC. The Code of Business Conduct and Ethics for Employees, the Code of Business Conduct and Ethics for Members of the Board of Directors and the Senior Financial Officer Code of Ethics adopted by Comerica are also available on the Internet website and are available in print to any shareholder who requests them. Such requests should be made in writing to the Corporate Secretary at Comerica Incorporated, Comerica Bank Tower, 1717 Main Street, MC 6404, Dallas, Texas 75201.

In addition, pursuant to regulations adopted by the FRB, Comerica makes additional regulatory capital-related disclosures. Under these regulations, Comerica satisfies a portion of these requirements through postings on its website, and Comerica has done so and expects to continue to do so without also providing disclosure of this information through filings with the SEC.

Where we have included web addresses in this report, such as our web address and the web address of the SEC, we have included those web addresses as inactive textual references only. Except as specifically incorporated by reference into this report, information on those websites is not part hereof.

**Item 1A. Risk Factors.**

This report includes forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995. In addition, Comerica may make other written and oral communications from time to time that contain such statements. All statements regarding Comerica's expected financial position, strategies and growth prospects and general economic conditions Comerica expects to exist in the future are forward-looking statements. The words, “anticipates,” “believes,” “contemplates,” “feels,” “expects,” “estimates,” “seeks,” “strives,” “plans,” “intends,” “outlook,” “forecast,” “position,” “target,” “mission,” “assume,” “achievable,” “potential,” “strategy,” “goal,” “aspiration,” “opportunity,” “initiative,” “outcome,” “continue,” “remain,” “maintain,” “on track,” “trend,” “objective,” “looks forward,” “projects,” “models” and variations of such words and similar expressions, or future or conditional verbs such as “will,” “would,” “should,” “could,” “might,” “can,” “may” or similar expressions, as they relate to Comerica or its management, are intended to identify forward-looking statements.

Comerica cautions that forward-looking statements are subject to numerous assumptions, risks and uncertainties, which change over time. Forward-looking statements speak only as of the date the statement is made, and Comerica does not undertake to update forward-looking statements to reflect facts, circumstances, assumptions or events that occur after the date the forward-looking statements are made. Actual results could differ materially from those anticipated in forward-looking statements and future results could differ materially from historical performance.

In addition to factors mentioned elsewhere in this report or previously disclosed in Comerica's SEC reports (accessible on the SEC's website at *www.sec.gov* or on Comerica's website at *www.comerica.com*), the factors contained below, among others, could cause actual results to differ materially from forward-looking statements, and future results could differ materially from historical performance.

**CREDIT RISK**

- **Unfavorable developments concerning credit quality could adversely affect Comerica's financial results.**

  Although Comerica regularly reviews credit exposure related to its customers and various industry sectors in which it has business relationships, default risk may arise from events or circumstances that are difficult to detect or foresee. Under such circumstances, as occurred in 2020 during the COVID-19 pandemic, Comerica could experience an increase in the level of provision for credit losses, nonperforming assets, net charge-offs and reserve for credit losses, which could adversely affect Comerica's financial results.

- **Declines in the businesses or industries of Comerica's customers - in particular the energy industry - could cause increased credit losses or decreased loan balances, which could adversely affect Comerica.**

  Comerica's business customer base consists, in part, of customers in volatile businesses and industries such as the automotive, commercial real estate, residential real estate and energy industries. These industries are sensitive to global economic conditions, supply chain factors and/or commodities prices. Any decline in one of these businesses or industries could cause increased credit losses, which in turn could adversely affect Comerica. Further, any decline in these businesses or industries could cause decreased borrowings, either due to reduced demand or reductions in the borrowing base available for each customer loan.

  In particular, in 2020, energy markets, which were already experiencing stress prior to the pandemic, were further impacted by the rapid decline in demand resulting from social distancing policies. Energy prices and demand improved in the latter half of 2020 as the economy began to recover, but energy markets remain uncertain. Loans in the Energy business line were $1.6 billion, or approximately 3 percent of total loans, at December 31, 2020. At December 31, 2020, the reserve allocation for Energy loans was approximately 8 percent of the Energy portfolio. If oil and gas prices continue to remain depressed for a prolonged period of time, Comerica's energy portfolio could experience increased credit losses, which could adversely affect Comerica's financial results. Furthermore, a prolonged period of low oil prices could also have a negative impact on the Texas economy, which could have a material adverse effect on Comerica’s business, financial condition and results of operations. For more information regarding Comerica's energy portfolio, please see “Energy Lending” beginning on pages F-31 through F-32 of this report.

  For more information regarding certain of Comerica's other lines of business, please see "Concentrations of Credit Risk," "Commercial Real Estate Lending," "Automotive Lending- Dealer," "Automotive Lending- Production," and "Residential Real Estate Lending" on pages F-29 through F-31 of the Financial Section of this report.

  Additionally, certain industries have been particularly susceptible to the effects of the pandemic, such as retail commercial real estate, retail goods and services, hotels, arts/recreation, airlines, restaurants and bars, childcare, coffee shops, cruise lines, education, gasoline and convenience stores, religious organizations, senior living, freight and travel

arrangements, and Comerica has outstanding loans to clients in these industries, as described below under "Other Sectors Most at Risk due to Economic Stress Resulting from COVID-19 Impacts" on page F-32 of the Financial Section of this report.

- **Changes in customer behavior due to outside factors may adversely impact Comerica's business, financial condition and results of operations.**

  Individual, economic, political, industry-specific conditions and other factors outside of Comerica's control, such as pandemics, fuel prices, energy costs, tariffs, real estate values or other factors that affect customer income levels, could alter predicted customer borrowing, repayment, investment and deposit practices. Such a change in these practices could materially adversely affect Comerica's ability to anticipate business needs and meet regulatory requirements.

  Further, difficult economic conditions may negatively affect consumer confidence levels. A decrease in consumer confidence levels would likely aggravate the adverse effects of these difficult market conditions on Comerica, Comerica's customers and others in the financial institutions industry.

**MARKET RISK**

- **Governmental monetary and fiscal policies may adversely affect the financial services industry, and therefore impact Comerica's financial condition and results of operations.**

  Monetary and fiscal policies of various governmental and regulatory agencies, in particular the FRB, affect the financial services industry, directly and indirectly. The FRB regulates the supply of money and credit in the U.S., and its monetary policies determine in a large part Comerica's cost of funds for lending and investing and the return that can be earned on such loans and investments. Changes in such policies, including changes in interest rates, such as decreases in the federal funds rate in 2020, or changes in the FRB's balance sheet, influence the origination of loans, the value of investments, the generation of deposits and the rates received on loans and investment securities and paid on deposits. Changes in monetary and fiscal policies are beyond Comerica's control and difficult to predict. Comerica's financial condition and results of operations could be materially adversely impacted by changes in governmental monetary and fiscal policies.

- **Fluctuations in interest rates and their impact on deposit pricing could adversely affect Comerica's net interest income and balance sheet.**

  The operations of financial institutions such as Comerica are dependent to a large degree on net interest income, which is the difference between interest income from loans and investments and interest expense on deposits and borrowings. Prevailing economic conditions and the trade, fiscal and monetary policies of the federal government and various regulatory agencies all affect market rates of interest and the availability and cost of credit, which in turn significantly affect financial institutions' net interest income and the market value of its investment securities. The Federal Reserve lowered interest rates significantly in 2020. A continued low interest rate environment will adversely affect the interest income Comerica earns on loans and investments. For a discussion of Comerica's interest rate sensitivity, please see, “Market and Liquidity Risk” beginning on page F-33 of the Financial Section of this report.

  Deposits make up a large portion of Comerica’s funding portfolio. Comerica's funding costs may increase if it raises deposit rates to avoid losing customer deposits, or if it loses customer deposits and must rely on more expensive sources of funding. Higher funding costs will reduce Comerica's net interest margin and net interest income.

  Volatility in interest rates can also result in disintermediation, which is the flow of funds away from financial institutions into direct investments, such as federal government and corporate securities and other investment vehicles, which, because of the absence of federal insurance premiums and reserve requirements, generally pay higher rates of return than financial institutions. Comerica's financial results could be materially adversely impacted by changes in financial market conditions.

- **Interest rates on Comerica's outstanding financial instruments might be subject to change based on developments related to LIBOR, which could adversely affect its revenue, expenses, and the value of those financial instruments.**

  On July 27, 2017, the United Kingdom’s Financial Conduct Authority, which regulates LIBOR, publicly announced that it intends to stop persuading or compelling banks to submit LIBOR rates after 2021. Comerica has substantial exposure to LIBOR-based products, including loans, securities, derivatives and hedges, and Comerica and the banking industry are preparing to transition away from the widespread use of LIBOR to alternative rates. Comerica began indexing new retail adjustable rate mortgages to SOFR (Secured Overnight Financing Rate) in third quarter 2020. During fourth quarter 2020, Comerica began the process of incorporating fallback language in legacy LIBOR-based commercial loans and updated International Swaps and Derivative Association (ISDA) protocols in interest rate derivatives. Comerica continues to monitor market developments and regulatory updates, including recent

announcements from the ICE Benchmark Administrator to extend the cessation date for several USD LIBOR tenors to June 30, 2023, as well as collaborate with regulators and industry groups on the transition.

The market transition away from LIBOR to an alternative reference rate is complex and could have a range of adverse effects on our business, financial condition and results of operations. In particular, any such transition could:

- adversely affect the interest rates paid or received on, and the revenues and expenses associated with, Comerica's floating rate obligations, loans, deposits, derivatives, and other financial instruments tied to LIBOR rates, or other securities or financial arrangements given LIBOR's historical role in determining market interest rates globally;
- adversely affect the value of Comerica's floating rate obligations, loans, deposits, derivatives, and other financial instruments tied to LIBOR rates, or other securities or financial arrangements given LIBOR's historical role in determining market interest rates globally;
- prompt inquiries or other actions from regulators in respect to Comerica's preparation and readiness for the replacement of LIBOR with an alternative reference rate;
- result in disputes, litigation or other actions with counterparties regarding the interpretation and enforceability of certain fallback language in LIBOR-based securities; and
- require the transition to or development of appropriate systems and analytics to effectively transition Comerica's risk management processes from LIBOR-based products to those based on the applicable alternative pricing benchmark, such as SOFR.

Approximately 73 percent of Comerica's loans at December 31, 2020 were tied to LIBOR, which excludes the impact of interest rate swaps converting floating-rate loans to fixed. More information regarding the LIBOR transition is available on pages F-34 through F-35 under "LIBOR Transition."

The manner and impact of this transition, as well as the effect of these developments on Comerica's funding costs, loan and investment and trading securities portfolios, asset-liability management, and business, is uncertain.

**LIQUIDITY RISK**

- **Comerica must maintain adequate sources of funding and liquidity to meet regulatory expectations, support its operations and fund outstanding liabilities.**

Comerica's liquidity and ability to fund and run its business could be materially adversely affected by a variety of conditions and factors, including financial and credit market disruptions and volatility, a lack of market or customer confidence in financial markets in general, or deposit competition based on interest rates, which may result in a loss of customer deposits or outflows of cash or collateral and/or adversely affect Comerica's ability to access capital markets on favorable terms.

Other conditions and factors that could materially adversely affect Comerica's liquidity and funding include a lack of market or customer confidence in, or negative news about, Comerica or the financial services industry generally which also may result in a loss of deposits and/or negatively affect Comerica's ability to access the capital markets; the loss of customer deposits to alternative investments; counterparty availability; interest rate fluctuations; general economic conditions; and the legal, regulatory, accounting and tax environments governing Comerica's funding transactions. Many of the above conditions and factors may be caused by events over which Comerica has little or no control. There can be no assurance that significant disruption and volatility in the financial markets will not occur in the future. Further, Comerica's customers may be adversely impacted by such conditions, which could have a negative impact on Comerica's business, financial condition and results of operations.

Further, if Comerica is unable to continue to fund assets through customer bank deposits or access funding sources on favorable terms, or if Comerica suffers an increase in borrowing costs or otherwise fails to manage liquidity effectively, Comerica's liquidity, operating margins, financial condition and results of operations may be materially adversely affected.

- **Reduction in our credit ratings could adversely affect Comerica and/or the holders of its securities.**

Rating agencies regularly evaluate Comerica, and their ratings are based on a number of factors, including Comerica's financial strength as well as factors not entirely within its control, such as conditions affecting the financial services industry generally. There can be no assurance that Comerica will maintain its current ratings. In March 2020, S&P Global Ratings revised each of Comerica Incorporated and Comerica Bank's outlook from "Stable" to "Negative," and in April 2020, Fitch Ratings downgraded Comerica Incorporated and Comerica Bank's long-term issuer default ratings by one notch from "A" to "A-." While recent credit rating actions have had little to no detrimental impact on

Comerica's profitability, borrowing costs, or ability to access the capital markets, future downgrades to Comerica's or its subsidiaries' credit ratings could adversely affect Comerica's profitability, borrowing costs, or ability to access the capital markets or otherwise have a negative effect on Comerica's results of operations or financial condition. If such a reduction placed Comerica's or its subsidiaries' credit ratings below investment grade, it could also create obligations or liabilities under the terms of existing arrangements that could increase Comerica's costs under such arrangements. Additionally, a downgrade of the credit rating of any particular security issued by Comerica or its subsidiaries could negatively affect the ability of the holders of that security to sell the securities and the prices at which any such securities may be sold.

- **The soundness of other financial institutions could adversely affect Comerica.**

  Comerica's ability to engage in routine funding transactions could be adversely affected by the actions and commercial soundness of other financial institutions. Financial services institutions are interrelated as a result of trading, clearing, counterparty or other relationships. Comerica has exposure to many different industries and counterparties, and it routinely executes transactions with counterparties in the financial industry, including brokers and dealers, commercial banks, investment banks, mutual and hedge funds, and other institutional clients. As a result, defaults by, or even rumors or questions about, one or more financial services institutions, or the financial services industry generally, have led, and may further lead, to market-wide liquidity problems and could lead to losses or defaults by us or by other institutions. Many of these transactions could expose Comerica to credit risk in the event of default of its counterparty or client. In addition, Comerica's credit risk may be impacted when the collateral held by it cannot be monetized or is liquidated at prices not sufficient to recover the full amount of the financial instrument exposure due to Comerica. There is no assurance that any such losses would not adversely affect, possibly materially, Comerica.

**TECHNOLOGY RISK**

- **Comerica faces security risks, including denial of service attacks, hacking, social engineering attacks targeting Comerica’s colleagues and customers, malware intrusion or data corruption attempts, and identity theft that could result in the disclosure of confidential information, adversely affect its business or reputation, and create significant legal and financial exposure.**

  Comerica’s computer systems and network infrastructure and those of third parties, on which Comerica is highly dependent, are subject to security risks and could be susceptible to cyber attacks, such as denial of service attacks, hacking, terrorist activities or identity theft. Comerica’s business relies on the secure processing, transmission, storage and retrieval of confidential, proprietary and other information in its computer and data management systems and networks, and in the computer and data management systems and networks of third parties. In addition, to access Comerica’s network, products and services, its customers and other third parties may use personal mobile devices or computing devices that are outside of its network environment and are subject to their own cybersecurity risks.

  Cyber attacks could include computer viruses, malicious or destructive code, phishing attacks, denial of service or information, ransomware, improper access by employees or vendors, attacks on personal email of employees, ransom demands to not expose security vulnerabilities in Comerica's systems or the systems of third parties, or other security breaches, and could result in the destruction or exfiltration of data and systems. As cyber threats continue to evolve, Comerica may be required to expend significant additional resources to continue to modify or enhance its protective measures or to investigate and remediate any information security vulnerabilities or incidents. Despite efforts to ensure the integrity of Comerica’s systems and implement controls, processes, policies and other protective measures, Comerica may not be able to anticipate all security breaches, nor may it be able to implement guaranteed preventive measures against such security breaches. Cyber threats are rapidly evolving and Comerica may not be able to anticipate or prevent all such attacks and could be held liable for any security breach or loss.

  Although Comerica has programs in place related to business continuity, disaster recovery and information security to maintain the confidentiality, integrity, and availability of its systems, business applications and customer information, such disruptions may still give rise to interruptions in service to customers and loss or liability to Comerica, including loss of customer data. Like other financial services firms, Comerica and its third party providers continue to be the subject of cyber attacks. Although to this date Comerica has not experienced any material losses or other material consequences related to cyber attacks, future cyber attacks could be more disruptive and damaging, and Comerica may not be able to anticipate or prevent all such attacks. Further, cyber attacks may not be detected in a timely manner.

  Cyber attacks or other information or security breaches, whether directed at Comerica or third parties, may result in a material loss or have material consequences. Furthermore, the public perception that a cyber attack on Comerica’s systems has been successful, whether or not this perception is correct, may damage its reputation with customers and third parties with whom it does business. Hacking of personal information and identity theft risks, in particular, could cause serious reputational harm. A successful penetration or circumvention of system security could cause Comerica serious negative consequences, including loss of customers and business opportunities, costs associated with

maintaining business relationships after an attack or breach; significant business disruption to Comerica's operations and business, misappropriation, exposure, or destruction of its confidential information, intellectual property, funds, and/or those of its customers; or damage to Comerica's or Comerica's customers' and/or third parties' computers or systems, and could result in a violation of applicable privacy laws and other laws, litigation exposure, regulatory fines, penalties or intervention, loss of confidence in Comerica's security measures, reputational damage, reimbursement or other compensatory costs, additional compliance costs, and could adversely impact its results of operations, liquidity and financial condition. In addition, although Comerica maintains insurance coverage that may cover certain cyber losses (subject to policy terms and conditions), we may not have adequate insurance coverage to compensate for losses from a cybersecurity event.

- **Cybersecurity and data privacy are areas of heightened legislative and regulatory focus.**

  As cybersecurity and data privacy risks for banking organizations and the broader financial system have significantly increased in recent years, cybersecurity and data privacy issues have become the subject of increasing legislative and regulatory focus. The federal bank regulatory agencies have proposed enhanced cyber risk management standards, which would apply to a wide range of large financial institutions and their third-party service providers, including Comerica and its bank subsidiaries, and would focus on cyber risk governance and management, management of internal and external dependencies, and incident response, cyber resilience and situational awareness. Several states have also proposed or adopted cybersecurity legislation and regulations, which require, among other things, notification to affected individuals when there has been a security breach of their personal data. For more information regarding cybersecurity regulation, refer to the "Supervision and Regulation" section of this report.

  Comerica receives, maintains and stores non-public personal information of Comerica's customers and counterparties, including, but not limited to, personally identifiable information and personal financial information. The sharing, use, disclosure and protection of this information are governed by federal and state law. Both personally identifiable information and personal financial information is increasingly subject to legislation and regulation, the intent of which is to protect the privacy of personal information that is collected and handled. For example, in June of 2018, the Governor of California signed into law the CCPA. The CCPA, which became effective on January 1, 2020, applies to for-profit businesses that conduct business in California and meet certain revenue or data collection thresholds, including Comerica. For more information regarding data privacy regulation, refer to the "Supervision and Regulation" section of this report.

  Comerica may become subject to new legislation or regulation concerning cybersecurity or the privacy of personally identifiable information and personal financial information or of any other information Comerica may store or maintain. Comerica could be adversely affected if new legislation or regulations are adopted or if existing legislation or regulations are modified such that Comerica is required to alter its systems or require changes to its business practices or privacy policies. If cybersecurity, data privacy, data protection, data transfer or data retention laws are implemented, interpreted or applied in a manner inconsistent with Comerica's current practices, it may be subject to fines, litigation or regulatory enforcement actions or ordered to change its business practices, policies or systems in a manner that adversely impacts Comerica's operating results.

**OPERATIONAL RISK**

- **Comerica's operational or security systems or infrastructure, or those of third parties, could fail or be breached, which could disrupt Comerica's business and adversely impact Comerica's results of operations, liquidity and financial condition, as well as cause legal or reputational harm.**

  The potential for operational risk exposure exists throughout Comerica's business and, as a result of its interactions with, and reliance on, third parties, is not limited to Comerica's own internal operational functions. Comerica's operations rely on the secure processing, storage and transmission of confidential and other information on its technology systems and networks. These networks are subject to infrastructure failures, ongoing system maintenance and upgrades and planned network outages. The increased use of mobile and cloud technologies, as well as the increase in remote work due to the COVID-19 pandemic, can heighten these and other operational risks. Any failure, interruption or breach in security of these systems could result in failures or disruptions in Comerica's customer relationship management, general ledger, deposit, loan and other systems.

  Comerica relies on its employees and third parties in its day-to-day and ongoing operations, who may, as a result of human error, misconduct, malfeasance or failure, or breach of Comerica's or of third-party systems or infrastructure, expose Comerica to risk. For example, Comerica's ability to conduct business may be adversely affected by any significant disruptions to Comerica or to third parties with whom Comerica interacts or upon whom it relies. Although Comerica has programs in place related to business continuity, disaster recovery and information security to maintain the confidentiality, integrity and availability of its systems, business applications and customer information, such disruptions may still give rise to interruptions in service to customers and loss or liability to Comerica, including loss

of customer data. In addition, Comerica’s ability to implement backup systems and other safeguards with respect to third-party systems is more limited than with respect to its own systems.

Comerica’s financial, accounting, data processing, backup or other operating or security systems and infrastructure may fail to operate properly or become disabled or damaged as a result of a number of factors, including events that are wholly or partially beyond its control, which could adversely affect its ability to process transactions or provide services. Such events may include sudden increases in customer transaction volume and/or customer activity; electrical, telecommunications or other major physical infrastructure outages; natural disasters such as earthquakes, tornadoes, hurricanes and floods; disease pandemics; cyber attacks; and events arising from local or larger scale political or social matters, including wars and terrorist acts.

The occurrence of any failure or interruption in Comerica's operations or information systems, or any security breach, could cause reputational damage, jeopardize the confidentiality of customer information, result in a loss of customer business, subject Comerica to regulatory intervention or expose it to civil litigation and financial loss or liability, any of which could have a material adverse effect on Comerica.

- **Comerica relies on other companies to provide certain key components of its delivery systems, and certain failures could materially adversely affect operations.**

  Comerica faces the risk of operational disruption, failure or capacity constraints due to its dependency on third party vendors for components of its delivery systems. Third party vendors provide certain key components of Comerica's delivery systems, such as cloud-based computing, networking and storage services, payment processing services, recording and monitoring services, internet connections and network access, clearing agency services, card processing services and trust processing services. While Comerica conducts due diligence prior to engaging with third party vendors and performs ongoing monitoring of vendor controls, it does not control their operations. Further, while Comerica's vendor management policies and practices are designed to comply with current regulations, these policies and practices cannot eliminate this risk. In this context, any vendor failure to properly deliver these services could adversely affect Comerica’s business operations, and result in financial loss, reputational harm, and/or regulatory action.

- **Legal and regulatory proceedings and related matters with respect to the financial services industry, including those directly involving Comerica and its subsidiaries, could adversely affect Comerica or the financial services industry in general.**

  Comerica has been, and may in the future be, subject to various legal and regulatory proceedings. It is inherently difficult to assess the outcome of these matters, and there can be no assurance that Comerica will prevail in any proceeding or litigation. Any such matter could result in substantial cost and diversion of Comerica's efforts, which by itself could have a material adverse effect on Comerica's financial condition and operating results. Further, adverse determinations in such matters could result in fines or actions by Comerica's regulators that could materially adversely affect Comerica's business, financial condition or results of operations.

  Comerica establishes reserves for legal claims when payments associated with the claims become probable and the costs can be reasonably estimated. Comerica may still incur legal costs for a matter even if it has not established a reserve. In addition, due to the inherent subjectivity of the assessments and unpredictability of the outcome of legal proceedings, the actual cost of resolving a legal claim may be substantially higher than any amounts reserved for that matter. The ultimate resolution of a pending legal proceeding, depending on the remedy sought and granted, could adversely affect Comerica's results of operations and financial condition.

- **Comerica may incur losses due to fraud.**

  Fraudulent activity can take many forms and has escalated as more tools for accessing financial services emerge, such as real-time payments. Fraud schemes are broad and continuously evolving. Examples include but are not limited to: debit card/credit card fraud, check fraud, mechanical devices attached to ATM machines, social engineering and phishing attacks to obtain personal information, impersonation of our clients through the use of falsified or stolen credentials, employee fraud, information theft and other malfeasance. Increased deployment of technologies, such as chip card technology, defray and reduce aspects of fraud; however, criminals are turning to other sources to steal personally identifiable information in order to impersonate the consumer to commit fraud. Many of these data compromises have been widely reported in the media. Further, as a result of the increased sophistication of fraud activity, Comerica continues to invest in systems, resources, and controls to detect and prevent fraud. This will result in continued ongoing investments in the future.

- **Controls and procedures may not prevent or detect all errors or acts of fraud.**

  Controls and procedures are designed to provide reasonable assurance that information required to be disclosed in reports Comerica files or submits under the Exchange Act is accurately accumulated and communicated to management, and recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures or internal controls and procedures, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met, due to certain inherent limitations. These limitations include the realities that judgments in decision making can be faulty, that alternative reasoned judgments can be drawn, that breakdowns can occur because of an error or mistake, or that controls may be fraudulently circumvented. Accordingly, because of the inherent limitations in control systems, misstatements due to error or fraud may occur and not be detected.

**COMPLIANCE RISK**

- **Changes in regulation or oversight may have a material adverse impact on Comerica's operations.**

  Comerica is subject to extensive regulation, supervision and examination by the U.S. Treasury, the Texas Department of Banking, the FDIC, the FRB, the OCC, the CFPB, the CFTC, the SEC, FINRA, DOL, MSRB and other regulatory bodies. Such regulation and supervision governs and limits the activities in which Comerica may engage. Regulatory authorities have extensive discretion in their supervisory and enforcement activities, including the imposition of restrictions on Comerica's operations and ability to make acquisitions, investigations and limitations related to Comerica's securities, the classification of Comerica's assets and determination of the level of Comerica's allowance for loan losses. Any change in such regulation and oversight, whether in the form of regulatory policy, regulations, legislation or supervisory action, may have a material adverse impact on Comerica's business, financial condition or results of operations. The impact of any future legislation or regulatory actions may adversely affect Comerica's businesses or operations. It is too soon for Comerica to predict what legislative or regulatory changes may occur as a result of the change in leadership resulting from the recent elections, or, if changes occur, the ultimate effect they would have upon the financial condition or results of operations of Comerica.

- **Compliance with stringent capital requirements may adversely affect Comerica.**

  Comerica is required to satisfy stringent regulatory capital standards, as set forth in the “Supervision and Regulation” section of this report. These requirements, and any other new laws or regulations related to capital and liquidity, could adversely affect Comerica's ability to pay dividends or make share repurchases, or could require Comerica to reduce business levels or to raise capital, including in ways that may adversely affect its results of operations or financial condition and/or existing shareholders. Maintaining higher levels of capital may reduce Comerica's profitability and otherwise adversely affect its business, financial condition, or results of operations.

- **Tax regulations could be subject to potential legislative, administrative or judicial changes or interpretations.**

  Federal income tax treatment of corporations may be clarified and/or modified by legislative, administrative or judicial changes or interpretations at any time. Any such changes could adversely affect Comerica, either directly, or indirectly as a result of effects on Comerica's customers. For example, the current administration has indicated it may propose increases to the federal corporate statutory tax rate. An increase in the federal corporate tax rate may increase Comerica’s tax provision expense. We are unable to predict whether these changes, or other proposals, will ultimately be enacted.

**STRATEGIC RISK**

- **Damage to Comerica’s reputation could damage its businesses.**

  Reputational risk is an increasing concern for businesses as customers are interested in doing business with companies they admire and trust. Such risks include compliance issues, operational challenges, or a strategic, high profile event. Comerica's business is based on the trust of its customers, communities, and entire value chain, which makes managing reputational risk extremely important. News or other publicity that impairs Comerica's reputation, or the reputation of the financial services industry generally, can therefore cause significant harm to Comerica’s business and prospects. Further, adverse publicity or negative information posted on social media websites regarding Comerica, whether or not true, may result in harm to Comerica’s prospects.

- **Comerica may not be able to utilize technology to efficiently and effectively develop, market, and deliver new products and services to its customers.**

  The financial services industry experiences rapid technological change with regular introductions of new technology-driven products and services. The ability to access and use technology is an increasingly important competitive factor in the financial services industry, and having the right technology is a critically important component to customer

satisfaction. As well, the efficient and effective utilization of technology enables financial institutions to reduce costs. Comerica's future success depends, in part, upon its ability to address the needs of its customers by using technology to market and deliver products and services that will satisfy customer demands, meet regulatory requirements, and create additional efficiencies in Comerica's operations. Comerica may not be able to effectively develop new technology-driven products and services or be successful in marketing or supporting these products and services to its customers, which could have a material adverse impact on Comerica's financial condition and results of operations.

- **Competitive product and pricing pressures within Comerica's markets may change.**

  Comerica operates in a very competitive environment, which is characterized by competition from a number of other financial institutions in each market in which it operates. Comerica competes largely on the basis of industry expertise, the range of products and services offered, pricing and reputation, customer convenience, quality customer service and responsiveness to customer needs and the overall relationship with our clients. Our competitors are large national and regional financial institutions as well as smaller financial institutions. Some of Comerica's larger competitors, including certain nationwide banks that have a significant presence in Comerica's market area, may make available to their customers a broader array of product, pricing and structure alternatives and, due to their asset size, may more easily absorb credit losses in a larger overall portfolio. Some of Comerica's competitors (larger or smaller) may have more liberal lending policies and processes. Increasingly, Comerica competes with other companies based on financial technology and capabilities, such as mobile banking applications and funds transfer.

  Additionally, the financial services industry is subject to extensive regulation. For more information, see the "Supervision and Regulation" section of this report. Such regulations may require significant additional investments in technology, personnel or other resources or place limitations on the ability of financial institutions, including Comerica, to engage in certain activities. Comerica's competitors may be subject to a significantly different or reduced degree of regulation due to their asset size or types of products offered. They may also have the ability to more efficiently utilize resources to comply with regulations or may be able to more effectively absorb the costs of regulations into their existing cost structure.

  In addition to banks, Comerica's banking subsidiaries also face competition from other financial intermediaries, including savings and loan associations, consumer and commercial finance companies, leasing companies, venture capital funds, credit unions, investment banks, insurance companies and securities firms. Competition among providers of financial products and services continues to increase as technology advances have lowered the barriers to entry for financial technology companies, with customers having the opportunity to select from a growing variety of traditional and nontraditional alternatives, including crowdfunding, digital wallets and money transfer services. The ability of non-banking financial institutions to provide services previously limited to commercial banks has intensified competition. Because non-banking financial institutions are not subject to many of the same regulatory restrictions as banks and bank holding companies, they can often operate with greater flexibility and lower cost structures.

  If Comerica is unable to compete effectively in products and pricing in its markets, business could decline, which could have a material adverse effect on Comerica's business, financial condition or results of operations.

- **The introduction, implementation, withdrawal, success and timing of business initiatives and strategies may be less successful or may be different than anticipated, which could adversely affect Comerica's business.**

  Comerica makes certain projections and develops plans and strategies for its banking and financial products. If Comerica does not accurately determine demand for its banking and financial product needs, it could result in Comerica incurring significant expenses without the anticipated increases in revenue, which could result in a material adverse effect on its business.

- **Management's ability to maintain and expand customer relationships may differ from expectations.**

  The financial services industry is very competitive. Comerica not only vies for business opportunities with new customers, but also competes to maintain and expand the relationships it has with its existing customers. While management believes that it can continue to grow many of these relationships, Comerica will continue to experience pressures to maintain these relationships as its competitors attempt to capture its customers. Failure to create new customer relationships and to maintain and expand existing customer relationships to the extent anticipated may adversely impact Comerica's earnings.

- **Management's ability to retain key officers and employees may change.**

  Comerica's future operating results depend substantially upon the continued service of its executive officers and key personnel. Comerica's future operating results also depend in significant part upon its ability to attract and retain qualified management, financial, technical, marketing, sales and support personnel. Competition for qualified personnel is intense, and Comerica cannot ensure success in attracting or retaining qualified personnel. There may be

only a limited number of persons with the requisite skills to serve in these positions, and it may be increasingly difficult for Comerica to hire personnel over time.

Further, Comerica's ability to retain key officers and employees may be impacted by legislation and regulation affecting the financial services industry. In 2016, the FRB, OCC and several other federal financial regulators revised and re-proposed rules to implement Section 956 of the Dodd-Frank Act. Section 956 directed regulators to jointly prescribe regulations or guidelines prohibiting incentive-based payment arrangements, or any feature of any such arrangement, at covered financial institutions that encourage inappropriate risks by providing excessive compensation or that could lead to a material financial loss. Consistent with the Dodd-Frank Act, the proposed rule would impose heightened standards for institutions with $50 billion or more in total consolidated assets, which includes Comerica. For these larger institutions, the proposed rule would require the deferral of at least 40 percent of incentive-based payments for designated executives and significant risk-takers who individually have the ability to expose the institution to possible losses that are substantial in relation to the institution's size, capital or overall risk tolerance. Moreover, incentive-based compensation of these individuals would be subject to potential clawback for seven years following vesting. Further, the rule imposes enhanced risk management controls and governance and internal policy and procedure requirements with respect to incentive compensation. Accordingly, Comerica may be at a disadvantage to offer competitive compensation compared to other financial institutions (as referenced above) or companies in other industries, which may not be subject to the same requirements.

Comerica's business, financial condition or results of operations could be materially adversely affected by the loss of any of its key employees, or Comerica's inability to attract and retain skilled employees.

- **Any future strategic acquisitions or divestitures may present certain risks to Comerica's business and operations.**

Difficulties in capitalizing on the opportunities presented by a future acquisition may prevent Comerica from fully achieving the expected benefits from the acquisition, or may cause the achievement of such expectations to take longer to realize than expected.

Further, the assimilation of any acquired entity's customers and markets could result in higher than expected deposit attrition, loss of key employees, disruption of Comerica's businesses or the businesses of the acquired entity or otherwise adversely affect Comerica's ability to maintain relationships with customers and employees or achieve the anticipated benefits of the acquisition. These matters could have an adverse effect on Comerica for an undetermined period. Comerica would be subject to similar risks and difficulties in connection with any future decisions to downsize, sell or close units or otherwise change the business mix of Comerica.

**GENERAL RISK**

- **The COVID-19 pandemic has and will likely continue to adversely impact our business, and the ultimate impact on our business and financial results will depend on future developments, which are highly uncertain and cannot be predicted, including the scope and duration of the pandemic and actions taken by governmental authorities in response to the pandemic.**

The COVID-19 pandemic has negatively impacted the global economy, disrupted global supply chains, lowered equity market valuations, created significant volatility and disruption in financial markets, and increased unemployment levels. In addition, the pandemic has resulted in temporary closures of many businesses and the institution of social distancing and sheltering in place requirements in many states and communities. As a result, the demand for our products and services has been, and is expected to continue to be, significantly impacted. Furthermore, the pandemic has influenced and could further influence the recognition of credit losses in our loan portfolios and has increased and could further increase our allowance for credit losses, particularly as some businesses remain closed or are forced to close again and as more customers may draw on their lines of credit or seek additional loans to help finance their businesses. Certain industries have been particularly susceptible to the effects of the pandemic, such as retail commercial real estate, retail goods and services, hotels, arts/recreation, airlines, restaurants and bars, childcare, coffee shops, cruise lines, education, gasoline and convenience stores, religious organizations, senior living, freight and travel arrangements, and Comerica has outstanding loans to clients in these industries, as described below under "Other Sectors Most at Risk due to Economic Stress Resulting from COVID-19 Impacts" on page F-32. Similarly, because of changing economic and market conditions affecting issuers, the securities we hold may lose value. We have temporarily closed and/or limited access to certain of our branches and offices or may do so in the future, and our business operations may also be disrupted if significant portions of our workforce are unable to work effectively long-term, including because of illness, quarantines, government actions, or other restrictions in connection with the pandemic. In response to the pandemic, we have also enacted hardship relief assistance for customers experiencing financial difficulty as a result of COVID-19, including fee and penalty waivers, loan deferrals or other scenarios that may help our customers. As of December 31, 2020, pandemic-related payment deferrals totaled $141 million,

representing approximately 100 obligors and consisting of 42 percent commercial loans and 58 percent retail loans, primarily residential mortgages.

As well, we are a lender for the Small Business Administration's Paycheck Protection Program ("PPP") and other SBA, Federal Reserve or United States Treasury programs that have been or may be created in the future in response to the pandemic. These programs are new and their effects on Comerica's business are uncertain. The extent to which the COVID-19 pandemic impacts our business, results of operations, and financial condition, as well as our regulatory capital and liquidity ratios, will depend on future developments, which are highly uncertain and cannot be predicted, including the scope and duration of the pandemic and actions taken by governmental authorities and other third parties in response to the pandemic.

- **General political, economic or industry conditions, either domestically or internationally, may be less favorable than expected.**

  Local, domestic, and international events including economic, financial market, political and industry specific conditions affect the financial services industry, directly and indirectly. The economic environment and market conditions in which Comerica operates continue to be uncertain. The U.S. economy contracted into a recession with unusual speed and force in the first half of 2020, ending the longest expansionary period in U.S. history. The U.S. government and the Federal Reserve responded to the pandemic with unprecedented measures. In addition to the Federal Reserve reducing the target federal funds rate to zero to 0.25 percent, Congress passed the Coronavirus Aid, Relief, and Economic Security Act that included an estimated $2 trillion stimulus package. Although the U.S. economy began to recover in third quarter 2020 as social distancing policies loosened, economic metrics in fourth quarter 2020 indicate an uneven path to recovery. In December 2020, Congress amended the Coronavirus Aid, Relief, and Economic Security Act with the Consolidated Appropriations Act of 2021 to provide an additional $900 billion of stimulus relief to mitigate the continued impacts of the pandemic. While certain factors point to improving economic conditions, uncertainty remains regarding the path of the economic recovery, the mitigating impacts of government interventions, the success of vaccine distribution and the efficacy of administered vaccines, as well as the effects of the change in leadership resulting from the recent elections. Conditions related to inflation, recession, unemployment, volatile interest rates, international conflicts, changes in trade policies and other factors, such as real estate values, energy prices, state and local municipal budget deficits, government spending and the U.S. national debt, outside of our control may, directly and indirectly, adversely affect Comerica.

- **Methods of reducing risk exposures might not be effective.**

  Instruments, systems and strategies used to hedge or otherwise manage exposure to various types of credit, market, liquidity, technology, operational, compliance, financial reporting and strategic risks could be less effective than anticipated. As a result, Comerica may not be able to effectively mitigate its risk exposures in particular market environments or against particular types of risk, which could have a material adverse impact on Comerica's business, financial condition or results of operations.

  For more information regarding risk management, please see "Risk Management" on pages F-22 through F-38 of the Financial Section of this report.

- **Catastrophic events may adversely affect the general economy, financial and capital markets, specific industries, and Comerica.**

  Acts of terrorism, cyber-terrorism, political unrest, war, civil disturbance, armed regional and international hostilities and international responses to these hostilities, natural disasters (including tornadoes, hurricanes, earthquakes, fires, droughts and floods), global health risks or pandemics, or the threat of or perceived potential for these events could have a negative impact on us. Comerica’s business continuity and disaster recovery plans may not be successful upon the occurrence of one of these scenarios, and a significant catastrophic event anywhere in the world could materially adversely affect Comerica's operating results.

  In particular, certain of the regions where Comerica operates, including California, Texas, and Florida, are known for being vulnerable to natural disasters, the nature and severity of which may be impacted by climate change. These types of natural catastrophic events have at times disrupted the local economies, Comerica's business and customers, and have caused physical damage to Comerica's property in these regions.

  Further, catastrophic events may have an impact on Comerica's customers and in turn, on Comerica.

  In addition, these events have had and may continue to have an adverse impact on the U.S. and world economy in general and consumer confidence and spending in particular, which could harm Comerica's operations. Any of these events could increase volatility in the U.S. and world financial markets, which could harm Comerica's stock price and may limit the capital resources available to Comerica and its customers. This could have a material adverse impact on

Comerica's operating results, revenues and costs and may result in increased volatility in the market price of Comerica's common stock.

- **Changes in accounting standards could materially impact Comerica's financial statements.**

  From time to time accounting standards setters change the financial accounting and reporting standards that govern the preparation of Comerica's financial statements. These changes can be difficult to predict and can materially impact how Comerica records and reports its financial condition and results of operations. In some cases, Comerica could be required to apply a new or revised standard retroactively, resulting in changes to previously reported financial results, or a cumulative charge to retained earnings.

- **Comerica's accounting policies and processes are critical to the reporting of financial condition and results of operations. They require management to make estimates about matters that are uncertain.**

  Accounting policies and processes are fundamental to how Comerica records and reports its financial condition and results of operations. Management must exercise judgment in selecting and applying many of these accounting policies and processes so they comply with U.S. Generally Accepted Accounting Principles ("GAAP"). In some cases, management must select the accounting policy or method to apply from two or more alternatives, any of which may be reasonable under the circumstances, yet may result in the Company reporting materially different results than would have been reported under a different alternative.

  Management has identified certain accounting policies as being critical because they require management's judgment to make difficult, subjective or complex judgments about matters that are uncertain. Materially different amounts could be reported under different conditions or using different assumptions or estimates. Comerica has established detailed policies and control procedures that are intended to ensure these critical accounting estimates and judgments are well controlled and applied consistently. In addition, the policies and procedures are intended to ensure that the process for changing methodologies occurs in an appropriate manner. Because of the uncertainty surrounding management's judgments and the estimates pertaining to these matters, Comerica cannot guarantee that it will not be required to adjust accounting policies or restate prior period financial statements. See "Critical Accounting Policies" on pages F-39 through F-43 of the Financial Section of this report and Note 1 of the Notes to Consolidated Financial Statements located on pages F-52 through F-64 of the Financial Section of this report.

- **Comerica's stock price can be volatile.**

  Stock price volatility may make it more difficult for shareholders to resell their common stock when they want and at prices they find attractive. Comerica's stock price can fluctuate significantly in response to a variety of factors including, among other things:

  - Actual or anticipated variations in quarterly results of operations.
  - Recommendations or projections by securities analysts.
  - Operating and stock price performance of other companies that investors deem comparable to Comerica.
  - News reports relating to trends, concerns and other issues in the financial services industry.
  - Perceptions in the marketplace regarding Comerica and/or its competitors.
  - New technology used, or services offered, by competitors.
  - Significant acquisitions or business combinations, strategic partnerships, joint ventures or capital commitments by or involving Comerica or its competitors.
  - Changes in dividends and capital returns.
  - Changes in government regulations.
  - Cyclical fluctuations.
  - Geopolitical conditions such as acts or threats of terrorism or military conflicts.
  - Activity by short sellers and changing government restrictions on such activity.

  General market fluctuations, including real or anticipated changes in the strength of the economy; industry factors and general economic and political conditions and events, such as economic slowdowns or recessions; interest rate changes, oil price volatility or credit loss trends, among other factors, could also cause Comerica's stock price to decrease regardless of operating results.

  For the above and other reasons, the market price of Comerica's securities may not accurately reflect the underlying value of the securities, and investors should consider this before relying on the market prices of Comerica's securities when making an investment decision.

**Item 1B. Unresolved Staff Comments.**

None.

**Item 2. Properties.**

The executive offices of Comerica are located in the Comerica Bank Tower, 1717 Main Street, Dallas, Texas 75201. Comerica Bank occupies six floors of the building, plus additional space on the building's lower level. Comerica does not own the Comerica Bank Tower space, but has naming rights to the building and leases the space from an unaffiliated third party. The lease for such space used by Comerica and its subsidiaries extends through September 2028. Comerica's Michigan headquarters are located in a 10-story building in the central business district of Detroit, Michigan at 411 W. Lafayette, Detroit, Michigan 48226. Such building is owned by Comerica Bank. As of December 31, 2020, Comerica, through its banking affiliates, operated at a total of 546 locations. This includes banking centers, trust services locations, and/or loan production or other financial services offices, primarily in the States of Texas, Michigan, California, Florida and Arizona. Of the 546 locations, 217 were owned and 329 were leased. As of December 31, 2020, affiliates also operated from leased spaces in Denver, Colorado; Wilmington, Delaware; Oakbrook Terrace, Illinois; Boston, Massachusetts; Minneapolis, Minnesota; Morristown, New Jersey; New York, New York; Memphis, Tennessee; McLean, Virginia; Bellevue, Washington; Monterrey, Mexico; Toronto, Ontario, Canada and Windsor, Ontario, Canada. Comerica and its subsidiaries own, among other properties, a check processing center in Livonia, Michigan, and three buildings in Auburn Hills, Michigan, used mainly for lending functions and operations.

**Item 3. Legal Proceedings.**

Please see Note 21 of the Notes to Consolidated Financial Statements located on pages F-98 through F-99 of the Financial Section of this report.

**Item 4. Mine Safety Disclosures.**

Not applicable.

## PART II

### Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

*Market Information, Holders of Common Stock and Dividends*

The common stock of Comerica Incorporated is traded on the New York Stock Exchange (NYSE Trading Symbol: CMA). At February 5, 2021, there were approximately 8,629 record holders of Comerica's common stock.

Subject to approval of the Board of Directors, applicable regulatory requirements and the Series A Preferred Stock dividend preference, Comerica expects to continue its policy of paying regular cash dividends on a quarterly basis. A discussion of dividend restrictions applicable to Comerica is set forth in Notes 13 and 20 of the Notes to Consolidated Financial Statements located on pages F-85 and F-96 through F-98 of the Financial Section of this report, in the "Capital" section on pages F-19 through F-21 of the Financial Section of this report and in the "Supervision and Regulation" section of this report.

*Performance Graph*

Our performance graph is available under the caption "Performance Graph" on page F-2 of the Financial Section of this report.

*Purchases of Equity Securities by the Issuer and Affiliated Purchasers*

In March 2020, as the economic climate grew increasingly uncertain, Comerica suspended its share repurchase program, with a focus on deploying capital to meet customers' growing financing requirements, resulting in no share repurchases under the program for the remainder of the year. As of December 31, 2020, a total of 87.2 million shares have been authorized for repurchase under the share repurchase program since its inception in 2010. There is no expiration date for Comerica's share repurchase program.

The following table summarizes Comerica's share repurchase activity for the year ended December 31, 2020.

| *(shares in thousands)* | Total Number of Shares Purchased as Part of Publicly Announced Repurchase Plans or Programs | Remaining Repurchase Authorization (a) | Total Number of Shares Purchased (b) | Average Price Paid Per Share |
|---|---|---|---|---|
| Total first quarter 2020 | 3,227 | 4,870 | 3,322 | $ 58.70 |
| Total second quarter 2020 | — | 4,870 | 6 | 28.63 |
| Total third quarter 2020 | — | 4,870 | 7 | 37.94 |
| October 2020 | — | 4,870 | 4 | 38.26 |
| November 2020 | — | 4,870 | — | — |
| December 2020 | — | 4,870 | — | — |
| Total fourth quarter 2020 | — | 4,870 | 4 | 38.26 |
| Total 2020 | 3,227 | 4,870 | 3,339 | $ 58.58 |

(a) *Maximum number of shares that may yet be purchased under the publicly announced plans or programs.*

(b) *Includes approximately 112,000 shares (including 4,000 shares in the quarter ended December 31, 2020) purchased pursuant to deferred compensation plans and shares purchased from employees to pay for taxes related to restricted stock vesting under the terms of an employee share-based compensation plan during the year ended December 31, 2020. These transactions are not considered part of Comerica's repurchase program.*

### Item 6. Selected Financial Data.

Reference is made to the caption "Selected Financial Data" on page F-3 of the Financial Section of this report.

### Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Reference is made to the sections entitled "2020 Overview," "Results of Operations," "First Quarter 2021 Outlook," "Strategic Lines of Business and Markets," "Balance Sheet and Capital Funds Analysis," "Risk Management," "Critical Accounting Policies," "Supplemental Financial Data" and "Forward-Looking Statements" on pages F-4 through F-46 of the Financial Section of this report.

### Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

Reference is made to the subheadings entitled "Market and Liquidity Risk," "Operational Risk," "Technology Risk," "Compliance Risk" and "Strategic Risk" on pages F-33 through F-38 of the Financial Section of this report.

**Item 8. Financial Statements and Supplementary Data.**

Reference is made to the sections entitled “Consolidated Balance Sheets,” “Consolidated Statements of Income,” “Consolidated Statements of Comprehensive Income,” “Consolidated Statements of Changes in Shareholders' Equity,” “Consolidated Statements of Cash Flows,” “Notes to Consolidated Financial Statements,” “Report of Management,” “Reports of Independent Registered Public Accounting Firm,” and “Historical Review” on pages F-47 through F-116 of the Financial Section of this report.

**Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.**

None.

**Item 9A. Controls and Procedures.**

*Disclosure Controls and Procedures*

As required by Rule 13a-15(b) of the Exchange Act, management, including the Chief Executive Officer and Chief Financial Officer, conducted an evaluation as of the end of the period covered by this Annual Report on Form 10-K, of the effectiveness of our disclosure controls and procedures as defined in Exchange Act Rule 13a-15(e). Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that Comerica's disclosure controls and procedures were effective as of the end of the period covered by this Annual Report on Form 10-K.

*Internal Control over Financial Reporting*

Management's annual report on internal control over financial reporting and the related attestation report of Comerica's registered public accounting firm are included on pages F-110 and F-111 in the Financial Section of this report.

As required by Rule 13a-15(d) of the Exchange Act, management, including the Chief Executive Officer and Chief Financial Officer, conducted an evaluation of our internal control over financial reporting to determine whether any changes occurred during the last quarter of the fiscal year covered by this Annual Report on Form 10-K that have materially affected, or are reasonably likely to materially affect, Comerica's internal control over financial reporting. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that there has been no such change during the last quarter of the fiscal year covered by this Annual Report on Form 10-K that has materially affected, or is reasonably likely to materially affect, Comerica's internal control over financial reporting.

**Item 9B. Other Information.**

None.

**PART III**

**Item 10. Directors, Executive Officers and Corporate Governance.**

Comerica has a Senior Financial Officer Code of Ethics that applies to the Chief Executive Officer, the Chief Financial Officer, the Chief Accounting Officer and the Treasurer. The Senior Financial Officer Code of Ethics is available on Comerica's website at *www.comerica.com.* If any substantive amendments are made to the Senior Financial Officer Code of Ethics or if Comerica grants any waiver, including any implicit waiver, from a provision of the Senior Financial Officer Code of Ethics to the Chief Executive Officer, the Chief Financial Officer, the Chief Accounting Officer or the Treasurer, we will disclose the nature of such amendment or waiver on our website.

The remainder of the response to this item will be included under the sections captioned “Information About Nominees,” “Board and Committee Governance,” “Committees and Meetings of Directors,” and “Executive Officers” of Comerica's definitive Proxy Statement relating to the Annual Meeting of Shareholders to be held on April 27, 2021, which sections are hereby incorporated by reference.

**Item 11. Executive Compensation.**

The response to this item will be included under the sections captioned “Compensation Committee Interlocks and Insider Participation,” “Compensation Discussion and Analysis,” “Compensation of Directors,” “Governance, Compensation and Nominating Committee Report,” “2020 Summary Compensation Table,” “2020 Grants of Plan-Based Awards,” “Outstanding Equity Awards at Fiscal Year-End 2020,” “2020 Option Exercises and Stock Vested,” “Pension Benefits at Fiscal Year-End 2020,” “2020 Nonqualified Deferred Compensation,” “Potential Payments upon Termination or Change of Control at Fiscal Year-End 2020” and "Pay Ratio Disclosure" of Comerica's definitive Proxy Statement relating to the Annual Meeting of Shareholders to be held on April 27, 2021, which sections are hereby incorporated by reference.

**Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.**

The response to this item will be included under the sections captioned “Security Ownership of Certain Beneficial Owners,” “Security Ownership of Management” and "Securities Authorized for Issuance Under Equity Compensation Plans" of Comerica's definitive Proxy Statement relating to the Annual Meeting of Shareholders to be held on April 27, 2021, which sections are hereby incorporated by reference.

**Item 13. Certain Relationships and Related Transactions, and Director Independence.**

The response to this item will be included under the sections captioned “Director Independence,” “Transactions with Related Persons,” and “Information about Nominees” of Comerica's definitive Proxy Statement relating to the Annual Meeting of Shareholders to be held on April 27, 2021, which sections are hereby incorporated by reference.

**Item 14. Principal Accountant Fees and Services.**

The response to this item will be included under the section captioned “Independent Registered Public Accounting Firm” of Comerica's definitive Proxy Statement relating to the Annual Meeting of Shareholders to be held on April 27, 2021, which section is hereby incorporated by reference.

## PART IV

### Item 15. Exhibits and Financial Statement Schedules.

The following documents are filed as a part of this report:

1. Financial Statements: The financial statements that are filed as part of this report are included in the Financial Section on pages F-47 through F-113.

2. All of the schedules for which provision is made in the applicable accounting regulations of the SEC are either not required under the related instruction, the required information is contained elsewhere in the Form 10-K, or the schedules are inapplicable and therefore have been omitted.

3. Exhibits:

| | |
|---|---|
| 2 | (not applicable) |
| 3.1 | Restated Certificate of Incorporation of Comerica Incorporated (filed as Exhibit 3.2 to Registrant's Current Report on Form 8-K dated August 4, 2010, and incorporated herein by reference). |
| 3.2 | Certificate of Amendment to Restated Certificate of Incorporation of Comerica Incorporated (filed as Exhibit 3.2 to Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2011, and incorporated herein by reference). |
| 3.3 | Amended and Restated Bylaws of Comerica Incorporated (filed as Exhibit 3.3 to Registrant's Current Report on Form 8-K dated November 3, 2020, and incorporated herein by reference). |
| 3.4 | Certificate of Designations of 5.625% Fixed-Rate Reset Non-Cumulative Perpetual Preferred Stock, Series A, dated May 26, 2020, of Comerica Incorporated (including the form of 5.625% Fixed-Rate Reset Non-Cumulative Perpetual Preferred Stock, Series A Certificate of Comerica Incorporated attached as Exhibit A thereto) (filed as Exhibit 3.1 to Registrant's Current Report on Form 8-K dated May 26, 2020, and incorporated herein by reference). |
| 4 | [Reference is made to Exhibits 3.1, 3.2, 3.3 and 3.4 in respect of instruments defining the rights of security holders. In accordance with Regulation S-K Item No. 601(b)(4)(iii), the Registrant is not filing copies of instruments defining the rights of holders of long-term debt because none of those instruments authorizes debt in excess of 10% of the total assets of the Registrant and its subsidiaries on a consolidated basis. The Registrant hereby agrees to furnish a copy of any such instrument to the SEC upon request.] |
| 4.1 | Deposit Agreement, dated May 26, 2020, among Comerica Incorporated, Computershare Inc., Computershare Trust Company, N.A. and the holders from time to time of the depositary receipts issued thereunder (including the form of depositary share receipt attached as Exhibit A thereto) (filed as Exhibit 4.1 to Registrant's Current Report on Form 8-K dated May 26, 2020, and incorporated herein by reference). |
| 4.2 | Description of Registrant's Securities |
| 9 | (not applicable) |
| 10.1† | Comerica Incorporated 2018 Long-Term Incentive Plan (filed as Exhibit 10.1 to Registrant's Current Report on Form 8-K dated April 24, 2018, and incorporated herein by reference). |
| A† | Form of Standard Comerica Incorporated Restricted Stock Unit Agreement (cliff vesting) under the Comerica Incorporated 2018 Long-Term Incentive Plan (filed as Exhibit 10.2 to Registrant's Current Report on Form 8-K dated April 24, 2018, and incorporated herein by reference). |
| B† | Form of Standard Comerica Incorporated Restricted Stock Unit Agreement (non-cliff vesting) under the Comerica Incorporated 2018 Long-Term Incentive Plan (filed as Exhibit 10.3 to Registrant's Current Report on Form 8-K dated April 24, 2018, and incorporated herein by reference). |
| C† | Form of Standard Comerica Incorporated Restricted Stock Unit Agreement (2020 non-cliff vesting) under the Comerica Incorporated 2018 Long-Term Incentive Plan (filed as Exhibit 10.1I to Registrant's Current Report on Form 8-K dated November 3, 2020, and incorporated herein by reference). |
| D† | Form of Standard Comerica Incorporated Non-Qualified Stock Option Agreement under the Comerica Incorporated 2018 Long-Term Incentive Plan (filed as Exhibit 10.4 to Registrant's Current Report on Form 8-K dated April 24, 2018, and incorporated herein by reference). |
| E† | Form of Standard Comerica Incorporated Senior Executive Long-Term Performance Restricted Stock Unit Award Agreement under the Comerica Incorporated 2018 Long-Term Incentive Plan (filed as Exhibit 10.5 to Registrant's Current Report on Form 8-K dated April 24, 2018, and incorporated herein by reference). |

F† Form of Standard Comerica Incorporated Senior Executive Long-Term Performance Restricted Stock Unit Award Agreement under the Comerica Incorporated 2018 Long-Term Incentive Plan (2019 version) (filed as Exhibit 10.1G to Registrant's Annual Report on Form 10-K for the year ended December 31, 2018), and incorporated herein by reference.

G† Form of Standard Comerica Incorporated Senior Executive Long-Term Performance Restricted Stock Unit Award Agreement under the Comerica Incorporated 2018 Long-Term Incentive Plan (2020 version).

H† Form of Standard Comerica Incorporated Restricted Stock Agreement (cliff vesting) under the Comerica Incorporated 2018 Long-Term Incentive Plan (filed as Exhibit 10.6 to Registrant's Current Report on Form 8-K dated April 24, 2018, and incorporated herein by reference).

I† Form of Standard Comerica Incorporated Restricted Stock Agreement (non-cliff vesting) under the Comerica Incorporated 2018 Long-Term Incentive Plan (filed as Exhibit 10.7 to Registrant's Current Report on Form 8-K dated April 24, 2018, and incorporated herein by reference).

J† Form of Standard Comerica Incorporated Restricted Stock Agreement (cliff vesting) under the Comerica Incorporated 2018 Long-Term Incentive Plan (2-year version) (filed as Exhibit 10.1H to Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2020, and incorporated herein by reference).

10.2† Comerica Incorporated 2006 Amended and Restated Long-Term Incentive Plan (filed as Exhibit 10.1 to Registrant's Annual Report on Form 10-K for the year ended December 31, 2016, and incorporated herein by reference).

A† Form of Standard Comerica Incorporated Non-Qualified Stock Option Agreement under the Comerica Incorporated Amended and Restated 2006 Long-Term Incentive Plan (filed as Exhibit 10.7 to Registrant's Annual Report on Form 10-K for the year ended December 31, 2006, and incorporated herein by reference).

B† Form of Standard Comerica Incorporated Non-Qualified Stock Option Agreement under the Comerica Incorporated Amended and Restated 2006 Long-Term Incentive Plan (2011 version) (filed as Exhibit 10.44 to Registrant's Annual Report on Form 10-K for the year ended December 31, 2010, and incorporated herein by reference).

C† Form of Standard Comerica Incorporated Non-Qualified Stock Option Agreement under the Comerica Incorporated Amended and Restated 2006 Long-Term Incentive Plan (2012 version) (filed as Exhibit 10.1C to Registrant's Annual Report on Form 10-K for the year ended December 31, 2011, and incorporated herein by reference).

D† Form of Standard Comerica Incorporated Non-Qualified Stock Option Agreement under the Comerica Incorporated Amended and Restated 2006 Long-Term Incentive Plan (2014 version) (filed as Exhibit 10.1 to Registrant's Current Report on Form 8-K dated January 21, 2014, and incorporated herein by reference).

E† Form of Standard Comerica Incorporated Non-Qualified Stock Option Agreement under the Comerica Incorporated Amended and Restated 2006 Long-Term Incentive Plan (2014 version 2) (filed as Exhibit 10.1 to Registrant's Current Report on Form 8-K dated July 22, 2014, and incorporated herein by reference).

F† Form of Standard Comerica Incorporated Non-Qualified Stock Option Agreement under the Comerica Incorporated Amended and Restated 2006 Long-Term Incentive Plan (2015 version) (filed as Exhibit 10.2 to Registrant's Current Report on Form 8-K dated November 10, 2015, and incorporated herein by reference).

G† Form of Standard Comerica Incorporated Non-Qualified Stock Option Agreement under the Comerica Incorporated Amended and Restated 2006 Long-Term Incentive Plan (2017 version) (filed as Exhibit 10.1G to Registrant's Annual Report on Form 10-K for the year ended December 31, 2016, and incorporated herein by

H† Form of Standard Comerica Incorporated Restricted Stock Award Agreement (non-cliff vesting) under the Amended and Restated Comerica Incorporated 2006 Long-Term Incentive Plan (2014 version 2) (filed as Exhibit 10.2 to Registrant's Current Report on Form 8-K dated July 22, 2014, and incorporated herein by reference).

I† Form of Standard Comerica Incorporated Restricted Stock Award Agreement (non-cliff vesting) under the Amended and Restated Comerica Incorporated 2006 Long-Term Incentive Plan (2017 version) (filed as Exhibit 10.1M to Registrant's Annual Report on Form 10-K for the year ended December 31, 2016, and incorporated herein by reference).

J† Form of Standard Comerica Incorporated Restricted Stock Award Agreement (cliff vesting) under the Comerica Incorporated 2006 Amended and Restated Long-Term Incentive Plan (2017 version) (filed as Exhibit 10.1Q to Registrant's Annual Report on Form 10-K for the year ended December 31, 2016, and incorporated herein by reference).

K† Form of Standard Comerica Incorporated Restricted Stock Unit Agreement under the Amended and Restated Comerica Incorporated 2006 Long-Term Incentive Plan (2011 version) (filed as Exhibit 10.47 to Registrant's Annual Report on Form 10-K for the year ended December 31, 2010, and incorporated herein by reference).

L† Form of Standard Comerica Incorporated Restricted Stock Unit Award Agreement under the Amended and Restated Comerica Incorporated 2006 Long-Term Incentive Plan (2018 version - non-cliff vesting) (filed as Exhibit 10.2 to Registrant's Current Report on Form 8-K dated November 8, 2017, and incorporated herein by reference).

M† Form of Standard Comerica Incorporated Restricted Stock Unit Award Agreement under the Amended and Restated Comerica Incorporated 2006 Long-Term Incentive Plan (2018 version - cliff vesting) (filed as Exhibit 10.3 to Registrant's Current Report on Form 8-K dated November 8, 2017, and incorporated herein by reference).

N† Form of Standard Comerica Incorporated Senior Executive Long-Term Performance Restricted Stock Unit Award Agreement under the Amended and Restated Comerica Incorporated 2006 Long-Term Incentive Plan (2018 version) (filed as Exhibit 10.1Y to Registrant's Annual Report on Form 10-K for the year ended December 31, 2017, and incorporated herein by reference).

10.3† Amended and Restated Sterling Bancshares, Inc. 2003 Stock Incentive and Compensation Plan effective April 30, 2007 (filed as Exhibit 10.1 to Sterling Bancshares, Inc.'s Current Report on Form 8-K dated August 14, 2007 (File No. 000-20750), and incorporated herein by reference).

10.4† Comerica Incorporated Amended and Restated Employee Stock Purchase Plan (amended and restated October 22, 2013) (filed as Exhibit 10.5 to Registrant's Annual Report on Form 10-K for the year ended December 31, 2013, and incorporated herein by reference).

10.5† Comerica Incorporated 2016 Management Incentive Plan (filed as Exhibit 10.1 to Registrant's Current Report on Form 8-K dated May 2, 2016, and incorporated herein by reference).

10.6† Form of Standard Comerica Incorporated No Sale Agreement under the Comerica Incorporated Amended and Restated Management Incentive Plan (filed as Exhibit 10.5 to Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2004, and incorporated herein by reference).

10.7† Supplemental Retirement Income Account Plan (formerly known as the Amended and Restated Benefit Equalization Plan for Employees of Comerica Incorporated) (amended and restated October 13, 2016, with amendments effective January 1, 2017) (filed as Exhibit 10.1 to Registrant's Current Report on Form 8-K dated January 24, 2017, and incorporated herein by reference).

10.8† 1999 Comerica Incorporated Amended and Restated Deferred Compensation Plan (amended and restated on July 26, 2011) (filed as Exhibit 10.1 to Registrant's Current Report on Form 8-K dated July 26, 2011, and incorporated herein by reference).

10.9† 1999 Comerica Incorporated Amended and Restated Common Stock Deferred Incentive Award Plan (amended and restated on July 26, 2011) (filed as Exhibit 10.2 to Registrant's Current Report on Form 8-K dated July 26, 2011, and incorporated herein by reference).

10.10† Sterling Bancshares, Inc. Deferred Compensation Plan (as Amended and Restated) (filed as Exhibit 4.4 to Registrant's Registration Statement on Form S-8 dated July 28, 2011 (Registration No. 333-175857) and incorporated herein by reference).

10.11† Amended and Restated Comerica Incorporated Non-Employee Director Fee Deferral Plan (amended and restated effective July 1, 2020) (filed as Exhibit 10.11 to Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2020, and incorporated herein by reference).

10.12† Amended and Restated Comerica Incorporated Common Stock Non-Employee Director Fee Deferral Plan (amended and restated effective July 1, 2020)(filed as Exhibit 10.12 to Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2020, and incorporated herein by reference).

10.13† Comerica Incorporated Amended and Restated Incentive Plan for Non-Employee Directors (amended and restated effective May 15, 2014) (filed as Exhibit 10.3 to Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2015, and incorporated herein by reference).

A† Form of Standard Comerica Incorporated Non-Employee Director Restricted Stock Unit Agreement under the Comerica Incorporated Amended and Restated Incentive Plan for Non-Employee Directors (filed as Exhibit 10.2 to Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2005, and incorporated herein by reference).

B† Form of Standard Comerica Incorporated Non-Employee Director Restricted Stock Unit Agreement under the Comerica Incorporated Amended and Restated Incentive Plan for Non-Employee Directors (Version 2) (filed as Exhibit 10.6 to Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2006, and incorporated herein by reference).

C† Form of Standard Comerica Incorporated Non-Employee Director Restricted Stock Unit Agreement under the Comerica Incorporated Amended and Restated Incentive Plan for Non-Employee Directors (Version 2.5) (filed as Exhibit 10.48 to Registrant's Annual Report on Form 10-K for the year ended December 31, 2010, and incorporated herein by reference).

D† Form of Standard Comerica Incorporated Non-Employee Director Restricted Stock Unit Agreement under the Comerica Incorporated Amended and Restated Incentive Plan for Non-Employee Directors (Version 3) (filed as Exhibit 10.1 to Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2009, and incorporated herein by reference).

E† Form of Standard Comerica Incorporated Non-Employee Director Restricted Stock Unit Agreement under the Comerica Incorporated Amended and Restated Incentive Plan for Non-Employee Directors (Version 4) (filed as Exhibit 10.4 to Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2011, and incorporated herein by reference).

10.14† 2015 Comerica Incorporated Incentive Plan for Non-Employee Directors (filed as Exhibit 10.4 to Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2015, and incorporated herein by reference).

A† Form of Standard Comerica Incorporated Non-Employee Director Restricted Stock Unit Agreement under the 2015 Comerica Incorporated Incentive Plan for Non-Employee Directors (filed as Exhibit 10.1 to Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2015, and incorporated herein by reference).

10.15† Form of Indemnification Agreement between Comerica Incorporated and certain of its directors and officers (filed as Exhibit 10.6 to Registrant's Annual Report on Form 10-K for the year ended December 31, 2002, and incorporated herein by reference).

10.16† Supplemental Pension and Retiree Medical Agreement with Ralph W. Babb Jr. (filed as Exhibit 10.2 to Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 1998, and incorporated herein by reference).

10.17A† Restrictive Covenants and General Release Agreement by and between Michael H. Michalak and Comerica Incorporated dated January 8, 2019 (filed as Exhibit 10.1 to Registrant's Current Report on Form 8-K dated January 11, 2019, and incorporated herein by reference).

10.17B† Restrictive Covenants and General Release Agreement by and between Muneera S. Carr and Comerica Incorporated dated September 30, 2019 (filed as Exhibit 10.1 to Registrant's Current Report on Form 8-K dated September 30, 2019, and incorporated herein by reference).

10.17C† Restrictive Covenants and General Release Agreement by and between Ralph W. Babb, Jr. and Comerica Incorporated dated December 17, 2019 (filed as Exhibit 10.1 to Registrant's Current Report on Form 8-K dated December 17, 2019, and incorporated herein by reference).

10.18† Form of Change of Control Employment Agreement (BE4 and Higher Version without gross-up or window period-current) (filed as Exhibit 10.10 to Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2018, and incorporated herein by reference).

A† Schedule of Named Executive Officers Party to Change of Control Employment Agreement (BE4 and Higher Version without gross-up or window period-current).

10.19† Form of Change of Control Employment Agreement (BE4 and Higher Version without gross-up or window period-2015 version) (filed as Exhibit 10.2 to Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2015, and incorporated herein by reference).

A† Schedule of Named Executive Officers Party to Change of Control Employment Agreement (BE4 and Higher Version without gross-up or window period-2015 version).

10.20† Form of Change of Control Employment Agreement (BE4 and Higher Version) (filed as Exhibit 10.1 to Registrant's Current Report on Form 8-K dated November 18, 2008, and incorporated herein by reference).

A† Schedule of Named Executive Officers Party to Change of Control Employment Agreement (BE4 and Higher Version).

10.21† Form of Change of Control Employment Agreement (BE4 and Higher Version without gross-up or window period-2009 version) (filed as Exhibit 10.42 to Registrant's Annual Report on Form 10-K for the year ended December 31, 2009, and incorporated herein by reference).

10.22† Form of Change of Control Employment Agreement (BE2-BE3 Version) (filed as Exhibit 10.22 to Registrant's Annual Report on Form 10-K for the year ended December 31, 2019, and incorporated herein by reference).

13 (not applicable)

14 (not applicable)

16 (not applicable)

18 (not applicable)

| | |
|---|---|
| 21 | Subsidiaries of Registrant. |
| 22 | (not applicable) |
| 23.1 | Consent of Ernst & Young LLP. |
| 24 | (not applicable) |
| 31.1 | Chairman, President and CEO Rule 13a-14(a)/15d-14(a) Certification of Periodic Report (pursuant to Section 302 of the Sarbanes-Oxley Act of 2002). |
| 31.2 | Executive Vice President and CFO Rule 13a-14(a)/15d-14(a) Certification of Periodic Report (pursuant to Section 302 of the Sarbanes-Oxley Act of 2002). |
| 32 | Section 1350 Certification of Periodic Report (pursuant to Section 906 of the Sarbanes-Oxley Act of 2002). |
| 33 | (not applicable) |
| 34 | (not applicable) |
| 35 | (not applicable) |
| 95 | (not applicable) |
| 96 | (not applicable) |
| 99 | (not applicable) |
| 101 | Financial statements from the Registrant's Annual Report on Form 10-K for the year ended December 31, 2020, formatted in Inline XBRL: (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Income, (iii) the Consolidated Statements of Changes in Shareholders' Equity, (iv) the Consolidated Statements of Cash Flows and (v) the Notes to Consolidated Financial Statements. |
| 104 | The cover page from the Registrant's Annual Report on Form 10-K for the year ended December 31, 2020, formatted in Inline XBRL (included in Exhibit 101). |
| † | Management contract or compensatory plan or arrangement. |
| | File No. for all filings under Exchange Act, unless otherwise noted: 1-10706. |

**Item 16. Form 10-K Summary.**

Not applicable.

# FINANCIAL REVIEW AND REPORTS

## Comerica Incorporated and Subsidiaries


| | |
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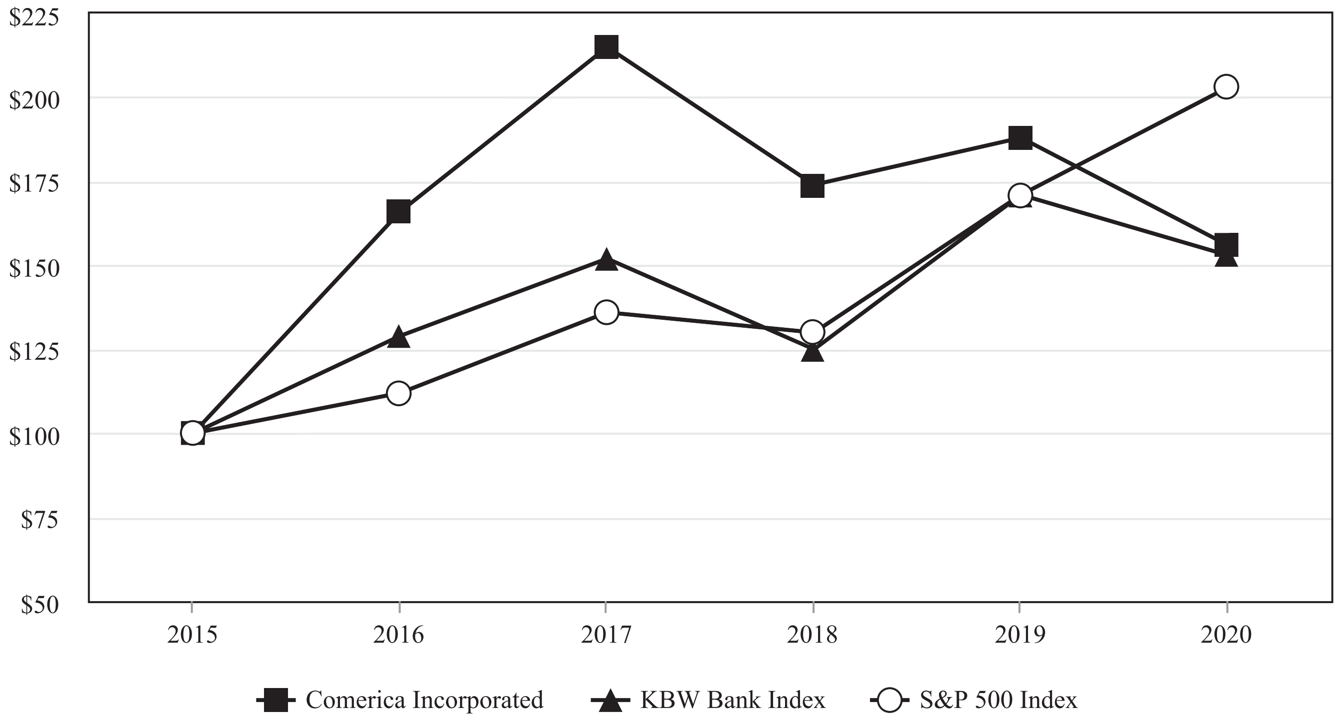
**PERFORMANCE GRAPH**

The graph shown below compares the total returns (assuming reinvestment of dividends) of Comerica Incorporated common stock, the S&P 500 Index and the KBW Bank Index. The graph assumes $100 invested in Comerica Incorporated common stock (returns based on stock prices per the NYSE) and each of the indices on December 31, 2015 and the reinvestment of all dividends during the periods presented.

**Comparison of Five Year Cumulative Total Return**
**Among Comerica Incorporated, KBW Bank Index and S&P 500 Index**
**(Assumes $100 Invested on 12/31/15 and Reinvestment of Dividends)**




| | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 |
|---|---|---|---|---|---|---|
| Comerica Incorporated | 100 | 166 | 215 | 174 | 188 | 156 |
| KBW Bank Index | 100 | 129 | 152 | 125 | 171 | 153 |
| S&P 500 Index | 100 | 112 | 136 | 130 | 171 | 203 |

The performance shown on the graph is not necessarily indicative of future performance.

## SELECTED FINANCIAL DATA

*(dollar amounts in millions, except per share data)*

| **Years Ended December 31** | **2020** | **2019** | **2018** | **2017** | **2016** |
|---|---|---|---|---|---|
| **EARNINGS SUMMARY** | | | | | |
| Net interest income | **$ 1,911** | $ 2,339 | $ 2,352 | $ 2,061 | $ 1,797 |
| Provision for credit losses | **537** | 74 | (1) | 74 | 248 |
| Noninterest income | **1,001** | 1,010 | 976 (a) | 1,107 | 1,051 |
| Noninterest expenses | **1,784** | 1,743 | 1,794 (b) | 1,860 (b) | 1,930 (b) |
| Provision for income taxes | **117** | 334 | 300 | 491 (c) | 193 |
| Net income | **474** | 1,198 | 1,235 | 743 | 477 |
| Preferred stock dividends | **13** | — | — | — | — |
| Net income attributable to common shares | **459** | 1,191 | 1,227 | 738 | 473 |
| **PER SHARE OF COMMON STOCK** | | | | | |
| Diluted earnings per common share | **$ 3.27** | $ 7.87 | $ 7.20 | $ 4.14 | $ 2.68 |
| Cash dividends declared | **2.72** | 2.68 | 1.84 | 1.09 | 0.89 |
| Common shareholders' equity | **55.01** | 51.57 | 46.89 | 46.07 | 44.47 |
| Tangible common equity (d) | **50.43** | 47.07 | 42.89 | 42.34 | 40.79 |
| Market value | **55.86** | 71.75 | 68.69 | 86.81 | 68.11 |
| Average diluted shares *(in millions)* | **140** | 151 | 171 | 178 | 177 |
| **YEAR-END BALANCES** | | | | | |
| Total assets | **$88,129** | $73,402 | $70,818 | $71,567 | $72,978 |
| Total earning assets | **82,227** | 67,767 | 65,513 | 65,880 | 67,518 |
| Total loans | **52,291** | 50,369 | 50,163 | 49,173 | 49,088 |
| Total deposits | **72,869** | 57,295 | 55,561 | 57,903 | 58,985 |
| Total medium- and long-term debt | **5,728** | 7,269 | 6,463 | 4,622 | 5,160 |
| Total common shareholders' equity | **7,656** | 7,327 | 7,507 | 7,963 | 7,796 |
| Total shareholders' equity | **8,050** | 7,327 | 7,507 | 7,963 | 7,796 |
| **AVERAGE BALANCES** | | | | | |
| Total assets | **$81,146** | $71,488 | $70,724 | $71,452 | $71,743 |
| Total earning assets | **75,419** | 66,134 | 65,410 | 66,300 | 66,545 |
| Total loans | **51,631** | 50,511 | 48,766 | 48,558 | 48,996 |
| Total deposits | **65,038** | 55,481 | 55,935 | 57,258 | 57,741 |
| Total medium- and long-term debt | **6,549** | 6,955 | 5,842 | 4,969 | 4,917 |
| Total common shareholders' equity | **7,453** | 7,308 | 7,809 | 7,952 | 7,674 |
| Total shareholders' equity | **7,691** | 7,308 | 7,809 | 7,952 | 7,674 |
| **CREDIT QUALITY** | | | | | |
| Total allowance for credit losses | **$ 992 (d)** | $ 668 | $ 701 | $ 754 | $ 771 |
| Total nonperforming loans | **350** | 204 | 229 | 410 | 590 |
| Foreclosed property and other repossessed assets | **9** | 11 | 1 | 5 | 17 |
| Total nonperforming assets | **359** | 215 | 230 | 415 | 607 |
| Net credit-related charge-offs | **196** | 107 | 51 | 92 | 157 |
| Net credit-related charge-offs as a percentage of average total loans | **0.38%** | 0.21% | 0.11% | 0.19% | 0.32% |
| Allowance for loan losses as a percentage of total period-end loans | **1.81** | 1.27 | 1.34 | 1.45 | 1.49 |
| Allowance for credit losses as a percentage of total period-end loans | **1.90** | 1.33 | 1.40 | 1.53 | 1.57 |
| Allowance for loan losses as a multiple of total nonperforming loans | **2.7x** | 3.1x | 2.9x | 1.7x | 1.2x |
| Allowance for credit losses as a multiple of total nonperforming loans | **2.8x** | 3.3x | 3.1x | 1.8x | 1.3x |
| **RATIOS** | | | | | |
| Net interest margin | **2.54%** | 3.54% | 3.58% | 3.11% | 2.71% |
| Return on average assets | **0.58** | 1.68 | 1.75 | 1.04 | 0.67 |
| Return on average common shareholders' equity | **6.18** | 16.39 | 15.82 | 9.34 | 6.22 |
| Dividend payout ratio | **79.78** | 33.71 | 25.17 | 25.77 | 32.48 |
| Average common shareholders' equity as a percentage of average assets | **9.18** | 10.22 | 11.04 | 11.13 | 10.70 |
| Common equity tier 1 capital as a percentage of risk-weighted assets (e) | **10.34** | 10.13 | 11.14 | 11.68 | 11.09 |
| Tier 1 capital as a percentage of risk-weighted assets (e) | **10.93** | 10.13 | 11.14 | 11.68 | 11.09 |
| Common equity ratio | **8.69** | 9.98 | 10.60 | 11.13 | 10.68 |
| Tangible common equity as a percentage of tangible assets (e) | **8.02** | 9.19 | 9.78 | 10.32 | 9.89 |

(a) *Effective January 1, 2018, adoption of "Topic 606: Revenue from Contracts with Customers" (Topic 606) resulted in a change in presentation which records certain costs in the same category as the associated revenues. The effect of this change was to reduce noninterest income and expenses by $145 million for the year ended December 31, 2018.*

(b) *Noninterest expenses included restructuring charges of $53 million, $45 million and $93 million in 2018, 2017 and 2016, respectively.*

(c) *The provision for income taxes for 2017 was impacted by a $107 million charge to adjust deferred taxes as a result of the enactment of the Tax Cuts and Jobs Act.*

(d) *Allowance for credit losses for December 31, 2020 calculated using the CECL model effective first quarter 2020.*

(e) *See Supplemental Financial Data section for reconciliations of non-GAAP financial measures and regulatory ratios.*

## 2020 OVERVIEW

Comerica Incorporated (the Corporation) is a financial holding company headquartered in Dallas, Texas. The Corporation's major business segments are the Commercial Bank, the Retail Bank and Wealth Management. The core businesses are tailored to each of the Corporation's three primary geographic markets: Michigan, California and Texas. Information about the activities of the Corporation's business and market segments is provided in Note 22 to the consolidated financial statements.

As a financial institution, the Corporation's principal activity is lending to and accepting deposits from businesses and individuals. The primary source of revenue is net interest income, which is principally derived from the difference between interest earned on loans and investment securities and interest paid on deposits and other funding sources. The Corporation also provides other products and services that meet the financial needs of customers which generate noninterest income, the Corporation's secondary source of revenue. Growth in loans, deposits and noninterest income is affected by many factors, including economic conditions in the markets the Corporation serves, the financial requirements and economic health of customers, and the ability to add new customers and/or increase the number of products used by current customers. Success in providing products and services depends on the financial needs of customers and the types of products desired.

The accounting and reporting policies of the Corporation and its subsidiaries conform to generally accepted accounting principles (GAAP) in the United States (U.S.). The Corporation's consolidated financial statements are prepared based on the application of accounting policies, the most significant of which are described in Note 1 to the consolidated financial statements. The most critical of these significant accounting policies are discussed in the “Critical Accounting Policies” section of this financial review.

***Full-Year 2020 compared to Full-Year 2019***

- Net income decreased $724 million, or 60 percent, to $474 million, driven by increased provision for credit losses in light of the forecasted impacts related to the COVID-19 pandemic and lower net interest income resulting from a lower rate environment. Diluted net income per common share was $3.27 in 2020 compared to $7.87 in 2019.
- Average loans increased $1.1 billion, or 2 percent, to $51.6 billion. The increase primarily reflected increases in Mortgage Banker Finance, Commercial Real Estate and smaller increases in Business, Retail and Corporate Banking, partially offset by decreases in National Dealer Services and Energy. In 2020, the Corporation participated as a lender in the Small Business Administration's Paycheck Protection Program (PPP), created in response to the COVID-19 pandemic. Average PPP loans for 2020 were $2.5 billion.
- Average securities increased $1.3 billion, or 11 percent, to $13.4 billion, as a portion of excess liquidity was invested in $1.8 billion of U.S. Treasury bonds and $500 million of mortgage-backed securities in the third quarter 2020.
- Average deposits increased $9.6 billion, or 17 percent, to a record level of $65.0 billion, driven by customers conserving cash in an uncertain economy. Average noninterest-bearing deposits increased $6.4 billion, or 24 percent, while average interest-bearing deposits increased $3.2 billion, or 11 percent.
- Net interest income decreased $428 million to $1.9 billion and the net interest margin decreased 100 basis points to 2.54 percent, primarily reflecting the impact of lower interest rates.
- The provision for credit losses increased $463 million to $537 million in 2020 from $74 million in 2019, reflecting credit migration and the forecasted impact of the COVID-19 pandemic, including the economic impacts of social distancing which peaked during the first half of 2020, and pressures on Energy.
- Noninterest income was relatively stable at $1.0 billion, reflecting decreases in service charges on deposit accounts and commercial lending fees, partially offset by increases in securities trading income and card fees.
- Noninterest expenses increased $41 million to $1.8 billion, primarily due to increases in operational losses, outside processing fee expense (net of cloud computing accounting classification change) and FDIC insurance expense, as well as additional expenses related to COVID-19, which included compensation and stipends to colleagues, charitable contributions, cleaning supplies, personal protective equipment and PPP technology costs.
- The provision for income taxes decreased $217 million to $117 million, primarily due to lower pre-tax income.
- The Corporation repurchased approximately 3.2 million shares of common stock prior to the suspension of the share repurchase program in first quarter 2020 and issued cash dividends of $2.72 per share, returning a total of $567 million to common shareholders.
- The Corporation issued $400 million of 5.625% non-cumulative perpetual preferred stock in second quarter 2020, resulting in preferred dividends declared of $13 million.

## RESULTS OF OPERATIONS

The following provides a comparative discussion of the Corporation's consolidated results of operations for 2020 compared to 2019. A comparative discussion of results for 2019 compared to 2018 is provided in the "Results of Operations" section beginning on page F-6 of the Corporation's 2019 Annual Report. For a discussion of the Critical Accounting Policies that affect the consolidated results of operations, see the "Critical Accounting Policies" section of this financial review.

### Analysis of Net Interest Income

*(dollar amounts in millions)*

| Years Ended December 31 | 2020 | | | 2019 | | | 2018 | | |
|---|---|---|---|---|---|---|---|---|---|
| | Average Balance | Interest | Average Rate | Average Balance | Interest | Average Rate | Average Balance | Interest | Average Rate |
| Commercial loans (a) | **$ 32,144** | **$ 1,099** | **3.42%** | $ 32,053 | $ 1,544 | 4.81% | $ 30,534 | $ 1,416 | 4.64% |
| Real estate construction loans | **3,912** | **147** | **3.76** | 3,325 | 184 | 5.54 | 3,155 | 164 | 5.21 |
| Commercial mortgage loans | **9,839** | **320** | **3.25** | 9,170 | 447 | 4.88 | 9,131 | 429 | 4.69 |
| Lease financing | **594** | **20** | **3.37** | 557 | 19 | 3.44 | 470 | 18 | 3.82 |
| International loans | **1,028** | **37** | **3.61** | 1,019 | 52 | 5.13 | 1,021 | 51 | 4.97 |
| Residential mortgage loans | **1,905** | **66** | **3.45** | 1,929 | 74 | 3.85 | 1,983 | 75 | 3.77 |
| Consumer loans | **2,209** | **84** | **3.80** | 2,458 | 119 | 4.85 | 2,472 | 109 | 4.41 |
| Total loans (b) | **51,631** | **1,773** | **3.44** | 50,511 | 2,439 | 4.83 | 48,766 | 2,262 | 4.64 |
| Mortgage-backed securities (c) | **9,820** | **221** | **2.30** | 9,348 | 230 | 2.44 | 9,099 | 214 | 2.28 |
| U.S. Treasury securities (d) | **3,612** | **70** | **1.98** | 2,772 | 67 | 2.43 | 2,711 | 51 | 1.86 |
| Total investment securities | **13,432** | **291** | **2.21** | 12,120 | 297 | 2.44 | 11,810 | 265 | 2.19 |
| Interest-bearing deposits with banks | **10,203** | **28** | **0.27** | 3,360 | 69 | 2.05 | 4,700 | 91 | 1.94 |
| Other short-term investments | **153** | **1** | **0.72** | 143 | 2 | 1.26 | 134 | 1 | 0.96 |
| Total earning assets | **75,419** | **2,093** | **2.79** | 66,134 | 2,807 | 4.24 | 65,410 | 2,619 | 3.99 |
| Cash and due from banks | **878** | | | 887 | | | 1,135 | | |
| Allowance for loan losses | **(900)** | | | (667) | | | (695) | | |
| Accrued income and other assets | **5,749** | | | 5,134 | | | 4,874 | | |
| Total assets | **$ 81,146** | | | $ 71,488 | | | $ 70,724 | | |
| Money market and interest-bearing checking deposits | **$ 26,798** | **72** | **0.27** | $ 23,417 | 214 | 0.91 | $ 22,378 | 111 | 0.50 |
| Savings deposits | **2,454** | **1** | **0.03** | 2,166 | 1 | 0.05 | 2,199 | 1 | 0.04 |
| Customer certificates of deposit | **2,626** | **27** | **1.02** | 2,522 | 30 | 1.18 | 2,090 | 10 | 0.46 |
| Other time deposits | **17** | **—** | **2.00** | 705 | 17 | 2.44 | 2 | — | 1.86 |
| Foreign office time deposits (e) | **90** | **1** | **0.42** | 27 | — | 1.39 | 25 | — | 1.19 |
| Total interest-bearing deposits | **31,985** | **101** | **0.31** | 28,837 | 262 | 0.91 | 26,694 | 122 | 0.46 |
| Short-term borrowings | **314** | **1** | **0.32** | 369 | 9 | 2.39 | 62 | 1 | 1.93 |
| Medium- and long-term debt | **6,549** | **80** | **1.23** | 6,955 | 197 | 2.82 | 5,842 | 144 | 2.47 |
| Total interest-bearing sources | **38,848** | **182** | **0.47** | 36,161 | 468 | 1.29 | 32,598 | 267 | 0.82 |
| Noninterest-bearing deposits | **33,053** | | | 26,644 | | | 29,241 | | |
| Accrued expenses and other liabilities | **1,554** | | | 1,375 | | | 1,076 | | |
| Shareholders' equity | **7,691** | | | 7,308 | | | 7,809 | | |
| Total liabilities and shareholders' equity | **$ 81,146** | | | $ 71,488 | | | $ 70,724 | | |
| Net interest income/rate spread | | **$ 1,911** | **2.32** | | $ 2,339 | 2.95 | | $ 2,352 | 3.17 |
| Impact of net noninterest-bearing sources of funds | | | **0.22** | | | 0.59 | | | 0.41 |
| Net interest margin (as a percentage of average earning assets) | | | **2.54%** | | | 3.54% | | | 3.58% |

*(a) Includes PPP loans with average balance of $2.5 billion, interest income of $63 million and average yield of 2.49% for the year ended December 31, 2020.*

*(b) Nonaccrual loans are included in average balances reported and in the calculation of average rates.*

*(c) Average balances included $213 million, $(36) million and $(263) million of unrealized gains and losses for the years ended December 31, 2020, 2019 and 2018, respectively; yields calculated gross of these unrealized gains and losses.*

*(d) Average balances included $90 million, $30 million and $(37) million of unrealized gains and losses for the years ended December 31, 2020, 2019 and 2018, respectively; yields calculated gross of these unrealized gains and losses.*

*(e) Includes substantially all deposits by foreign depositors; deposits are primarily in excess of $100,000.*

## Rate/Volume Analysis

*(in millions)*

| Years Ended December 31 | 2020/2019 | | | 2019/2018 | | |
|---|---|---|---|---|---|---|
| | Decrease Due to Rate | Increase (Decrease) Due to Volume (a) | Net (Decrease) Increase | Increase (Decrease) Due to Rate | Increase (Decrease) Due to Volume (a) | Net Increase (Decrease) |
| **Interest Income:** | | | | | | |
| Commercial loans | **$ (447)** | **$ 2** | **$ (445)** | $ 54 | $ 74 | $ 128 |
| Real estate construction loans | **(59)** | **22** | **(37)** | 11 | 9 | 20 |
| Commercial mortgage loans | **(149)** | **22** | **(127)** | 16 | 2 | 18 |
| Lease financing | **—** | **1** | **1** | (2) | 3 | 1 |
| International loans | **(15)** | **—** | **(15)** | 1 | — | 1 |
| Residential mortgage loans | **(7)** | **(1)** | **(8)** | 1 | (2) | (1) |
| Consumer loans | **(26)** | **(9)** | **(35)** | 11 | (1) | 10 |
| Total loans | **(703)** | **37** | **(666)** | 92 | 85 | 177 |
| Mortgage-backed securities | **(14)** | **5** | **(9)** | 15 | 1 | 16 |
| U.S. Treasury securities | **(12)** | **15** | **3** | 17 | (1) | 16 |
| Total investment securities | **(26)** | **20** | **(6)** | 32 | — | 32 |
| Interest-bearing deposits with banks | **(59)** | **18** | **(41)** | 5 | (27) | (22) |
| Other short-term investments | **(1)** | **—** | **(1)** | — | 1 | 1 |
| Total interest income | **(789)** | **75** | **(714)** | 129 | 59 | 188 |
| **Interest Expense:** | | | | | | |
| Money market and interest-bearing checking deposits | **(151)** | **9** | **(142)** | 96 | 7 | 103 |
| Customer certificates of deposit | **(4)** | **1** | **(3)** | 10 | 10 | 20 |
| Other time deposits | **(16)** | **(1)** | **(17)** | — | 17 | 17 |
| Foreign office time deposits | **—** | **1** | **1** | — | — | — |
| Total interest-bearing deposits | **(171)** | **10** | **(161)** | 106 | 34 | 140 |
| Short-term borrowings | **(8)** | **—** | **(8)** | — | 8 | 8 |
| Medium- and long-term debt | **(110)** | **(7)** | **(117)** | 16 | 37 | 53 |
| Total interest expense | **(289)** | **3** | **(286)** | 122 | 79 | 201 |
| Net interest income | **$ (500)** | **$ 72** | **$ (428)** | $ 7 | $ (20) | $ (13) |

*(a) Rate/volume variances are allocated to variances due to volume.*

Net interest income is the difference between interest earned on assets and interest paid on liabilities. Gains and losses related to risk management interest rate swaps that convert fixed rate debt to a floating rate and qualify as fair value hedges are included in interest expense on medium- and long-term debt. Additionally, the portion of gains and losses on risk management interest rate swaps that convert variable-rate loans to fixed rates through cash flow hedges that relate to the earnings effect of the hedged loans during the period are included in loan interest income. Refer to the Analysis of Net Interest Income and the Rate/Volume Analysis tables above for an analysis of net interest income for the years ended December 31, 2020, 2019 and 2018 and details of the components of the change in net interest income for 2020 compared to 2019 as well as 2019 compared to 2018.

Net interest income was $1.9 billion, a decrease of $428 million, and net interest margin decreased 100 basis points to 2.54 percent, both primarily reflecting the impact of lower interest rates. Average earning assets increased $9.3 billion, primarily reflecting increases of $6.8 billion in lower-yielding interest-bearing deposits with banks and $2.5 billion in PPP loans. Average funding sources increased $2.7 billion, reflecting a $3.2 billion increase in interest-bearing deposits, partially offset by a $406 million decrease in medium- and long-term debt.

The Corporation utilizes various asset and liability management strategies to manage net interest income exposure to interest rate risk. Refer to the "Market and Liquidity Risk" section of this financial review for additional information regarding the Corporation's asset and liability management policies and the "Balance Sheet and Capital Funds Analysis" section for further discussion on changes in earning assets and interest-bearing liabilities.

## Provision for Credit Losses

The provision for credit losses, which includes the provision for loan losses and the provision for credit losses on lending-related commitments, calculated under the current expected credit loss (CECL) model for the twelve months ended December 31, 2020, increased $463 million to $537 million, primarily driven by credit migration and the forecasted impact of the COVID-19 pandemic in the first half of 2020, including the economic impacts of social distancing, as well as pressures on

Energy. Net loan charge-offs increased $89 million to $196 million, or 0.38 percent of average total loans, compared to $107 million, or 0.21 percent. Energy net loan charge-offs increased $39 million to $125 million, while general Middle Market net loan charge-offs increased by $37 million to $38 million.

An analysis of the allowance for credit losses and a summary of nonperforming assets are presented under the "Credit Risk" subheading in the "Risk Management" section of this financial review. Further information about the adoption of CECL is presented in Note 1 to the consolidated financial statements.

**Noninterest Income**

| *(in millions)*<br>**Years Ended December 31** | | **2020** | | **2019** | | **2018** |
|---|---|---|---|---|---|---|
| Card fees | **$** | **270** | $ | 257 | $ | 244 |
| Fiduciary income | | **209** | | 206 | | 206 |
| Service charges on deposit accounts | | **185** | | 203 | | 211 |
| Commercial lending fees | | **77** | | 91 | | 85 |
| Bank-owned life insurance | | **44** | | 41 | | 39 |
| Foreign exchange income | | **40** | | 44 | | 47 |
| Letter of credit fees | | **37** | | 38 | | 40 |
| Brokerage fees | | **21** | | 28 | | 27 |
| Net securities losses | | **—** | | (7) | | (19) |
| Other noninterest income (a) | | **118** | | 109 | | 96 |
| Total noninterest income | **$** | **1,001** | $ | 1,010 | $ | 976 |

*(a) The table below provides further details on certain categories included in other noninterest income.*

Noninterest income was relatively stable at $1.0 billion. Decreases in service charges on deposit accounts, commercial lending fees, brokerage fees, customer derivative income, foreign exchange income and income from principal investing and warrants were mostly offset by increases in securities trading income, card fees, investment banking fees and deferred compensation asset returns (offset in noninterest expenses). Noninterest income was also impacted by a $7 million reduction in net securities losses, primarily due to a repositioning loss recorded in 2019, as well as a gain recorded in the fourth quarter of 2019 on the sale of Comerica's Health Savings Account (HSA) business.

Card fees consist primarily of interchange and other fee income earned on government prepaid card, commercial card, debit/Automated Teller Machine (ATM) card and merchant payment processing services. Card fees increased $13 million, or 5 percent, driven by volume increases in the government card program from stimulus payments under the Coronavirus Aid, Relief, and Economic Security Act, as amended by the Consolidated Appropriations Act of 2021 (CARES Act), resulting in higher interchange revenue, partially offset by a decrease in commercial and consumer card volumes due to the impact of social distancing restrictions.

Service charges on deposit accounts consist primarily of charges on retail and business accounts, including fees for treasury management services. Service charges on deposit accounts decreased $18 million, or 9 percent. The decrease reflected pandemic-driven changes in customer behavior. On commercial accounts, activity levels declined, while earnings credit allowances provided to customers increased due to growth in deposit balances. Additionally, consumer accounts were impacted by reduced non-sufficient funds and overdraft fees.

Commercial lending fees include fees assessed on the unused portion of lines of credit (unused commitment fees), syndication agent fees and loan servicing fees. These fees decreased $14 million, or 15 percent, reflecting a decrease in syndication agent fees.

Foreign exchange income decreased $4 million, or 8 percent, due to pandemic-related disruptions to international business flows and global shutdowns throughout the year.

Brokerage fees are commissions earned for facilitating securities transactions for customers as well as other brokerage services provided. Brokerage fees decreased $7 million, or 23 percent, primarily due to lower money market funds fee revenue driven by spread reductions in fees earned as a result of the decline in the fed funds rate in early 2020.

Other noninterest income increased $9 million, or 8 percent, driven by increases of $14 million in securities trading income due to fair value gains from previously converted warrants, $7 million in deferred compensation asset returns (offset in noninterest expenses) and $5 million in investment banking fees. These increases were partially offset by the $6 million decrease from the gain on sale of Comerica's HSA business in 2019, as well as decreases of $5 million in customer derivative income and $4 million in income from principal investing and warrants.

| *(in millions)* | | | | | | |
|---|---|---|---|---|---|---|
| **Years Ended December 31** | | **2020** | | **2019** | | **2018** |
| Customer derivative income (a) | **$** | **27** | $ | 32 | $ | 26 |
| Securities trading income | | **23** | | 9 | | 8 |
| Deferred compensation asset returns (b) | | **16** | | 9 | | (2) |
| Investment banking fees | | **11** | | 6 | | 9 |
| Income from principal investing and warrants | | **3** | | 7 | | 4 |
| Net gain on sale of business (c) | | **—** | | 6 | | — |
| All other noninterest income | | **38** | | 40 | | 51 |
| Other noninterest income | **$** | **118** | $ | 109 | $ | 96 |

*(a) Customer derivative income included unfavorable valuation adjustments of $18 million and $7 million for the twelve months ended December 31, 2020 and 2019, respectively, and a favorable adjustment of $2 million for the twelve months ended December 31, 2018.*
*(b) Compensation deferred by the Corporation's officers and directors is invested based on investment selections of the officers and directors. Income earned on these assets is reported in noninterest income and the offsetting change in deferred compensation plan liabilities is reported in salaries and benefits expense.*
*(c) Gain on sale of the Corporation's HSA business.*

### Noninterest Expenses

| *(in millions)* | | | | | | |
|---|---|---|---|---|---|---|
| **Years Ended December 31** | | **2020** | | **2019** | | **2018** |
| Salaries and benefits expense | **$** | **1,019** | $ | 1,020 | $ | 1,009 |
| Outside processing fee expense (a) | | **242** | | 264 | | 255 |
| Occupancy expense | | **156** | | 154 | | 152 |
| Software expense (a) | | **154** | | 117 | | 125 |
| Equipment expense | | **49** | | 50 | | 48 |
| Advertising expense | | **35** | | 34 | | 30 |
| FDIC insurance expense | | **33** | | 23 | | 42 |
| Restructuring charges | | **—** | | — | | 53 |
| Other noninterest expenses | | **96** | | 81 | | 80 |
| Total noninterest expenses | **$** | **1,784** | $ | 1,743 | $ | 1,794 |

*(a) Includes classification adjustments related to costs incurred in cloud computing arrangements of $33 million for the twelve months ended December 31, 2020. These adjustments reduce outside processing fee expense and increase software expense due to the prospective adoption of ASU No. 2018-15, effective January 1, 2020.*

Noninterest expenses increased $41 million to $1.8 billion. The change in noninterest expenses was primarily due to increases in operational losses, outside processing fee expense (net of classification change) and FDIC insurance expense, partially offset by a decrease in travel and entertainment expense. Expenses incurred during 2020 included approximately $18 million related to COVID-19, primarily for compensation and stipends to colleagues, charitable contributions, cleaning supplies, personal protective equipment and PPP technology costs.

Salaries and benefits expense was stable at $1.0 billion, reflecting lower incentive and annual stock-based compensation, mostly offset by merit increases and higher deferred compensation expense (offset in noninterest income).

Outside processing fee expense, net of the $33 million classification change, increased $11 million, or 4 percent, primarily due to volume-driven increases in government card processing expenses tied to card fee revenues and increased mortgage application volumes, partially offset by decreases in service fees associated with credit and collection.

FDIC insurance expense increased $10 million, or 43 percent, to $33 million, primarily due to higher risk-based assessment fees.

Other noninterest expenses increased $15 million and included increases of $16 million in operational losses related to several unrelated events, $5 million in other pension and postretirement benefit costs and $4 million in charitable contributions, partially offset by a $10 million reduction in travel and entertainment expense related to the pandemic.

### Income Taxes and Related Items

The provision for income taxes was $117 million in 2020, compared to $334 million in 2019. The $217 million decrease in the provision for income taxes primarily reflected lower pre-tax income partially offset by an $11 million decrease in tax benefits from employee stock transactions.

Net deferred tax assets were $4 million at December 31, 2020, compared to $42 million at December 31, 2019. Refer to Note 18 to the consolidated financial statements for information about the components of net deferred tax assets. Deferred tax assets of $404 million were evaluated for realization and it was determined that a valuation allowance of $3 million related to state net operating loss carryforwards was needed at both December 31, 2020 and 2019. These conclusions were based on

available evidence of projected future reversals of existing taxable temporary differences, assumptions made regarding future events and, when applicable, state loss carryback capacity.

## FIRST QUARTER 2021 OUTLOOK

### First Quarter 2021 Outlook

This outlook is based on management expectations for gradual improvement in economic conditions.

- Decline in average loans reflects decreases in Mortgage Banker Finance and Energy, partially offset by growth in National Dealer Services and general Middle Market. PPP loan forgiveness potentially exceeds additional advances.
- Average deposits to remain strong.
- Decline in net interest income with lower average loan balances, LIBOR and security yields as well as two fewer days in the quarter, partially offset by careful management of loan and deposit pricing.
- Provision for credit losses reflects pace of economic recovery; net charge-offs modestly higher.
- Decrease in noninterest income as fourth quarter levels of deferred compensation asset returns, card fees, warrants and securities trading income not expected to repeat, as well as a seasonal reduction in syndication fees; partly offset by increases in service charges on deposit accounts, fiduciary income and brokerage fees.
- Decrease in noninterest expenses reflects lower deferred compensation and pension expenses, seasonal reduction in occupancy, staff insurance and advertising, as well as two less days in the quarter; partially offset by higher annual stock-based compensation.
- Income tax expense to be approximately 22 percent of pre-tax income, excluding discrete items.
- Maintain strong capital levels. Preferred stock dividends of $6 million.

## STRATEGIC LINES OF BUSINESS AND MARKETS

The Corporation has strategically aligned its operations into three major business segments: the Commercial Bank, the Retail Bank and Wealth Management. These business segments are differentiated based on the type of customer and the related products and services provided. In addition to the three major business segments, the Finance Division is also reported as a segment. The Other category includes items not directly associated with the business segments or the Finance segment. The performance of the business segments is not comparable with the Corporation's consolidated results and is not necessarily comparable with similar information for any other financial institution. Additionally, because of the interrelationships of the various segments, the information presented is not indicative of how the segments would perform if they operated as independent entities. Market segment results are also provided for the Corporation's three primary geographic markets: Michigan, California and Texas. In addition to the three primary geographic markets, Other Markets is also reported as a market segment. Note 22 to the consolidated financial statements describes the Corporation's segment reporting methodology as well as the business activities of each business segment and presents financial results of the business and market segments for the years ended December 31, 2020, 2019 and 2018.

The Corporation's management accounting system assigns balance sheet and income statement items to each segment using certain methodologies, which are regularly reviewed and refined. These methodologies may be modified as the management accounting system is enhanced and changes occur in the organizational structure and/or product lines.

Net interest income for each segment reflects the interest income generated by earning assets less interest expense on interest-bearing liabilities plus the net impact from associated internal funds transfer pricing (FTP). The FTP methodology allocates credits to each business segment for deposits and other funds provided as well as charges for loans and other assets being funded. FTP crediting rates on deposits and other funds provided reflect the long-term value of deposits and other funding sources based on their implied maturities. Due to the longer-term nature of implied maturities, FTP crediting rates are generally less volatile than changes in interest rates observed in the market. FTP charge rates for funding loans and other assets reflect a matched cost of funds based on the pricing and duration characteristics of the assets. As a result of applying matched funding, interest revenue for each segment resulting from loans and other assets is generally not impacted by changes in interest rates. Therefore, net interest income for each segment primarily reflects the volume of loans and other earning assets at the spread over the matched cost of funds, as well as the volume of deposits at the associated FTP crediting rates. As overall interest rates decreased in 2020, business segments, particularly those focused on generating deposits, were impacted by lower FTP crediting rates on deposits compared to the prior year. Similarly, FTP charges for funding loans decreased in 2020. Effective January 1, 2019, the Corporation prospectively discontinued allocating an additional FTP charge for the cost of maintaining liquid assets to support potential draws on unfunded loan commitments.

### Business Segments

The following table presents net income (loss) by business segment.

*(dollar amounts in millions)*

| **Years Ended December 31** | **2020** | | **2019** | | **2018** | |
|---|---|---|---|---|---|---|
| Commercial Bank | **$ 660** | **91 %** | $ 1,021 | 82 % | $ 1,024 | 85 % |
| Retail Bank | **(9)** | **(1)** | 83 | 7 | 65 | 5 |
| Wealth Management | **74** | **10** | 140 | 11 | 121 | 10 |
| | **725** | **100 %** | 1,244 | 100 % | 1,210 | 100 % |
| Finance | **(252)** | | (57) | | (1) | |
| Other | **1** | | 11 | | 26 | |
| Total | **$ 474** | | $ 1,198 | | $ 1,235 | |

The following sections present a summary of the performance of each of the Corporation's business segments for 2020 compared to 2019.

***Commercial Bank***

| | Years Ended December 31, | | | |
|---|---|---|---|---|
| *(dollar amounts in millions)* | **2020** | 2019 | Change | Percent Change |
| **Earnings summary:** | | | | |
| Net interest income | **$ 1,608** | $ 1,655 | $ (47) | (3)% |
| Provision for credit losses | **495** | 88 | 407 | n/m |
| Noninterest income | **555** | 555 | — | — |
| Noninterest expenses | **826** | 795 | 31 | 4 |
| Provision for income taxes | **182** | 306 | (124) | (41) |
| Net income | **$ 660** | $ 1,021 | $ (361) | (35)% |
| Net credit-related charge-offs | **$ 192** | $ 111 | $ 81 | 74 % |
| | | | | |
| **Selected average balances:** | | | | |
| Loans | **$ 44,123** | $ 43,477 | $ 646 | 1% |
| Deposits | **36,603** | 29,047 | 7,556 | 26 |

*n/m - not meaningful*

The $646 million increase in average loans primarily reflected growth in Mortgage Banker Finance, due to elevated activity, Commercial Real Estate and Business Banking, partially offset by decreases in National Dealer Services, due to an imbalance in supply and demand resulting in lower inventory, and Energy. The 2020 period included average PPP loans totaling $2.0 billion. Average deposits increased $7.6 billion, reflecting increases in all deposit categories, as customers conserved cash due to an uncertain economy. The Commercial Bank's net income decreased $361 million to $660 million. Net interest income decreased $47 million to $1.6 billion, primarily due to lower interest income from deposits (FTP basis). The provision for credit losses increased $407 million to $495 million, reflecting credit migration and the forecasted impact of the COVID-19 pandemic. Net credit-related charge-offs increased $81 million to $192 million, primarily due to increases in Energy and general Middle Market. Noninterest income was stable, while noninterest expenses increased $31 million, primarily reflecting increased corporate overhead and higher FDIC insurance expense, partially offset by lower salaries and benefits expense.

***Retail Bank***

| | Years Ended December 31, | | | |
|---|---|---|---|---|
| *(dollar amounts in millions)* | **2020** | 2019 | Change | Percent Change |
| **Earnings summary:** | | | | |
| Net interest income | **$ 502** | $ 568 | $ (66) | (12)% |
| Provision for credit losses | **7** | (4) | 11 | n/m |
| Noninterest income | **110** | 132 | (22) | (17) |
| Noninterest expenses | **619** | 597 | 22 | 4 |
| (Benefit) provision for income taxes | **(5)** | 24 | (29) | n/m |
| Net (loss) income | **$ (9)** | $ 83 | $ (92) | n/m |
| Net credit-related charge-offs | **$ 1** | $ 1 | $ — | — % |
| | | | | |
| **Selected average balances:** | | | | |
| Loans | **$ 2,468** | $ 2,104 | $ 364 | 17% |
| Deposits | **22,832** | 20,743 | 2,089 | 10 |

*n/m - not meaningful*

Average loans increased $364 million due to loans to small businesses, including PPP loans. Average deposits increased $2.1 billion, reflecting increases in all deposit categories. The Retail Bank's net income decreased $92 million to a net loss of $9 million. Net interest income decreased $66 million to $502 million due to lower interest income from deposits (FTP basis), partially offset by higher loan interest income (FTP basis) from the increase in average balances. The provision for credit losses increased $11 million from a benefit of $4 million. Noninterest income decreased $22 million, including lower service charges on deposit accounts. Noninterest expenses increased $22 million, primarily due to higher salaries and benefits expense and operational losses.

***Wealth Management***

| (dollar amounts in millions) | Years Ended December 31, 2020 | 2019 | Change | Percent Change |
|---|---|---|---|---|
| **Earnings summary:** | | | | |
| Net interest income | **$ 167** | $ 183 | $ (16) | (9)% |
| Provision for credit losses | **35** | (14) | 49 | n/m |
| Noninterest income | **263** | 270 | (7) | (3) |
| Noninterest expenses | **301** | 283 | 18 | 6 |
| Provision for income taxes | **20** | 44 | (24) | (54) |
| Net income | **$ 74** | $ 140 | $ (66) | (48)% |
| Net credit-related charge-offs (recoveries) | **$ 3** | $ (5) | $ 8 | n/m |
| | | | | |
| **Selected average balances:** | | | | |
| Loans | **$ 5,045** | $ 4,935 | $ 110 | 2% |
| Deposits | **4,402** | 3,833 | 569 | 15 |

*n/m - not meaningful*

Average loans remained relatively stable at approximately $5.0 billion. Average deposits increased $569 million, reflecting increases in all deposit categories. Wealth Management's net income decreased $66 million to $74 million. Net interest income decreased $16 million to $167 million, primarily due to lower interest income from deposits (FTP basis). The provision for credit losses increased $49 million from a benefit of $14 million. Net credit-related charge-offs increased $8 million to $3 million. Noninterest income decreased $7 million to $263 million, predominantly due to a decrease in brokerage fees. Noninterest expenses increased $18 million, primarily reflecting higher salaries and benefits expense and corporate overhead.

**Market Segments**

The following table presents net income (loss) by market segment.

*(dollar amounts in millions)*

| Years Ended December 31 | 2020 | | 2019 | | 2018 | |
|---|---|---|---|---|---|---|
| Michigan | **$ 225** | **31 %** | $ 369 | 30 % | $ 326 | 27 % |
| California | **247** | **34** | 454 | 36 | 377 | 31 |
| Texas | **(33)** | **(5)** | 119 | 10 | 228 | 19 |
| Other Markets | **286** | **40** | 302 | 24 | 279 | 23 |
| | **725** | **100 %** | 1,244 | 100 % | 1,210 | 100 % |
| Finance & Other | **(251)** | | (46) | | 25 | |
| Total | **$ 474** | | $ 1,198 | | $ 1,235 | |

The following sections present a summary of the performance of each of the Corporation's market segments for 2020 compared to 2019.

***Michigan***

| (dollar amounts in millions) | Years Ended December 31, 2020 | 2019 | Change | Percent Change |
|---|---|---|---|---|
| **Earnings summary:** | | | | |
| Net interest income | **$ 660** | $ 729 | $ (69) | (10)% |
| Provision for credit losses | **95** | (11) | 106 | n/m |
| Noninterest income | **273** | 291 | (18) | (6) |
| Noninterest expenses | **559** | 554 | 5 | 1 |
| Provision for income taxes | **54** | 108 | (54) | (50) |
| Net income | **$ 225** | $ 369 | $ (144) | (39)% |
| Net credit-related charge-offs | **$ 14** | $ 11 | $ 3 | 31 % |
| | | | | |
| **Selected average balances:** | | | | |
| Loans | **$ 12,509** | $ 12,553 | $ (44) | —% |
| Deposits | **23,500** | 20,081 | 3,419 | 17 |

*n/m - not meaningful*

Average loans were relatively stable, while average deposits increased $3.4 billion, reflecting increases in all deposit categories as customers conserved cash due to an uncertain economy. The Michigan market's net income decreased $144 million to $225 million. Net interest income decreased $69 million to $660 million, primarily due to lower interest income from deposits (FTP basis). The provision for credit losses increased $106 million from a benefit of $11 million, reflecting increases in general Middle Market, Business Banking and Corporate Banking. Noninterest income decreased $18 million, including decreases in service charges on deposit accounts, card fees and brokerage fees, while noninterest expenses were relatively stable.

***California***

| *(dollar amounts in millions)* | **Years Ended December 31, 2020** | **2019** | **Change** | **Percent Change** |
|---|---|---|---|---|
| **Earnings summary:** | | | | |
| Net interest income | **$ 723** | $ 808 | $ (85) | (11)% |
| Provision for credit losses | **134** | (33) | 167 | n/m |
| Noninterest income | **147** | 173 | (26) | (15) |
| Noninterest expenses | **414** | 406 | 8 | 2 |
| Provision for income taxes | **75** | 154 | (79) | (51) |
| Net income | **$ 247** | $ 454 | $ (207) | (46)% |
| Net credit-related charge-offs | **$ 31** | $ 8 | $ 23 | n/m |
| | | | | |
| **Selected average balances:** | | | | |
| Loans | **$ 18,265** | $ 18,413 | $ (148) | (1)% |
| Deposits | **19,386** | 16,846 | 2,540 | 15 |

*n/m - not meaningful*

Average loans were relatively stable, while average deposits increased $2.5 billion, reflecting increases in all deposit categories. The California market's net income decreased $207 million to $247 million. Net interest income decreased $85 million to $723 million, primarily due to lower interest income from deposits (FTP basis). The provision for credit losses increased $167 million from a benefit of $33 million reflecting credit migration and the forecasted impact of the COVID-19 pandemic. Net credit-related charge-offs increased $23 million to $31 million, including increases in general Middle Market and Technology and Life Sciences, partially offset by a decline in Entertainment. Noninterest income decreased $26 million to $147 million, reflecting decreases in commercial lending fees, warrant income, card fees and customer derivative income. Noninterest expenses increased $8 million, predominantly due to an increase in corporate overhead.

***Texas***

| *(dollar amounts in millions)* | **Years Ended December 31, 2020** | **2019** | **Change** | **Percent Change** |
|---|---|---|---|---|
| **Earnings summary:** | | | | |
| Net interest income | **$ 465** | $ 493 | $ (28) | (5)% |
| Provision for credit losses | **270** | 119 | 151 | n/m |
| Noninterest income | **120** | 128 | (8) | (7) |
| Noninterest expenses | **359** | 345 | 14 | 4 |
| (Benefit) provision for income taxes | **(11)** | 38 | (49) | n/m |
| Net (loss) income | **$ (33)** | $ 119 | $ (152) | n/m |
| Net credit-related charge-offs | **$ 151** | $ 93 | $ 58 | 63 % |
| | | | | |
| **Selected average balances:** | | | | |
| Loans | **$ 10,813** | $ 10,616 | $ 197 | 2% |
| Deposits | **10,209** | 8,780 | 1,429 | 16 |

*n/m - not meaningful*

Average loans were relatively stable, while average deposits increased $1.4 billion, reflecting increases in all deposit categories. The Texas market's net income decreased $152 million to a net loss of $33 million. Net interest income decreased $28 million to $465 million, primarily due to lower interest income from deposits (FTP basis). The provision for credit losses increased $151 million to $270 million, reflecting increases in Business Banking, Commercial Real Estate and general Middle Market. Net credit-related charge-offs increased $58 million to $151 million, primarily due to increases in Energy and general Middle Market. Noninterest income decreased $8 million, including lower service charges on deposit accounts, customer derivative income, card fees and commercial lending fees, partially offset by higher investment banking fees and smaller increases in other categories. Noninterest expenses increased $14 million, predominately due to an increase in corporate overhead.

***Other Markets***

| *(dollar amounts in millions)* | Years Ended December 31, **2020** | **2019** | **Change** | **Percent Change** |
|---|---|---|---|---|
| **Earnings summary:** | | | | |
| Net interest income | **$ 429** | $ 376 | $ 53 | 14 % |
| Provision for credit losses | **38** | (5) | 43 | n/m |
| Noninterest income | **388** | 365 | 23 | 6 |
| Noninterest expenses | **414** | 370 | 44 | 12 |
| Provision for income taxes | **79** | 74 | 5 | 6 |
| Net income | **$ 286** | $ 302 | $ (16) | (5)% |
| Net credit-related recoveries | **$ —** | $ (5) | $ 5 | n/m |
| | | | | |
| **Selected average balances:** | | | | |
| Loans | **$ 10,052** | $ 8,934 | $ 1,118 | 13% |
| Deposits | **10,742** | 7,916 | 2,826 | 36 |

*n/m - not meaningful*

Average loans increased $1.1 billion, which includes a sizable increase in Mortgage Banker Finance. Average deposits increased $2.8 billion, including increases in all categories with the exception of time deposits. Other Markets' net income decreased $16 million to $286 million. Net interest income increased $53 million to $429 million, primarily due to the increase in average loans. The provision for credit losses increased $43 million from a benefit of $5 million, including increases in Corporate Banking, Technology and Life Sciences and Private Banking, partially offset by a decrease in Mortgage Banker Finance. Noninterest income increased $23 million, predominantly due to higher card fees. Noninterest expenses increased $44 million, primarily reflecting increases in operational losses and corporate overhead.

**Finance & Other Segments**

| *(dollar amounts in millions)* | Years Ended December 31, **2020** | **2019** | **Change** | **Percent Change** |
|---|---|---|---|---|
| **Earnings summary:** | | | | |
| Net interest expense | **$ (366)** | $ (67) | $ (299) | n/m |
| Provision for credit losses | **—** | 4 | (4) | n/m |
| Noninterest income | **73** | 53 | 20 | 39 % |
| Noninterest expenses | **38** | 68 | (30) | (45) |
| Benefit for income taxes | **(80)** | (40) | (40) | 96 |
| Net loss | **$ (251)** | $ (46) | $ (205) | n/m |
| | | | | |
| **Selected average balances:** | | | | |
| Loans | **$ (8)** | $ (5) | $ (3) | 60% |
| Deposits | **1,201** | 1,858 | (657) | (35) |

*n/m - not meaningful*

Average deposits decreased $657 million, primarily reflecting a decrease in other time deposits. Net loss for the Finance & Other category increased $205 million to $251 million. Net interest expense decreased $299 million, due to decreased net FTP revenue as a result of lower rates charged to the business segments under the Corporation's internal FTP methodology. Noninterest income increased $20 million, driven by net securities losses recorded in 2019 due to securities repositioning, as well as increased securities trading and customer derivative income. Noninterest expenses decreased $30 million, primarily due to lower salaries and benefits expense.

The following table lists the Corporation's banking centers by geographic market segment.

| December 31 | 2020 | 2019 | 2018 |
|---|---|---|---|
| Michigan | **189** | 192 | 193 |
| Texas | **123** | 123 | 122 |
| California | **96** | 96 | 96 |
| Other Markets: | | | |
| Arizona | **17** | 17 | 17 |
| Florida | **7** | 7 | 7 |
| Canada | **1** | 1 | 1 |
| Total Other Markets | **25** | 25 | 25 |
| Total | **433** | 436 | 436 |

# BALANCE SHEET AND CAPITAL FUNDS ANALYSIS

## Analysis of Investment Securities and Loans

*(in millions)*

| **December 31** | **2020** | **2019** | **2018** | | **2017** | **2016** |
|---|---|---|---|---|---|---|
| Investment securities available-for-sale: | | | | | | |
| U.S. Treasury and other U.S. government agency securities | **$ 4,658** | $ 2,792 | $ 2,727 | | $ 2,727 | $ 2,779 |
| Residential mortgage-backed securities (a) | **10,370** | 9,606 | 9,318 | (b) | 8,124 | 7,872 |
| State and municipal securities | **—** | — | — | | 5 | 7 |
| Equity and other non-debt securities | **—** | — | — | | 82 | 129 |
| Total investment securities available-for-sale | **15,028** | 12,398 | 12,045 | | 10,938 | 10,787 |
| Investment securities held to maturity: | | | | | | |
| Residential mortgage-backed securities (a) | **—** | **—** | — | (b) | 1,266 | 1,582 |
| Total investment securities | **$ 15,028** | $ 12,398 | $ 12,045 | | $ 12,204 | $ 12,369 |
| Commercial loans | **$ 32,753** | $ 31,473 | $ 31,976 | | $ 31,060 | $ 30,994 |
| Real estate construction loans | **4,082** | 3,455 | 3,077 | | 2,961 | 2,869 |
| Commercial mortgage loans | **9,912** | 9,559 | 9,106 | | 9,159 | 8,931 |
| Lease financing | **594** | 588 | 507 | | 468 | 572 |
| International loans: | | | | | | |
| Banks and other financial institutions | — | — | — | | 4 | 2 |
| Commercial and industrial | **926** | 1,009 | 1,013 | | 979 | 1,256 |
| Total international loans | **926** | 1,009 | 1,013 | | 983 | 1,258 |
| Residential mortgage loans | **1,830** | 1,845 | 1,970 | | 1,988 | 1,942 |
| Consumer loans: | | | | | | |
| Home equity | **1,588** | 1,711 | 1,765 | | 1,816 | 1,800 |
| Other consumer | **606** | 729 | 749 | | 738 | 722 |
| Total consumer loans | **2,194** | 2,440 | 2,514 | | 2,554 | 2,522 |
| Total loans | **$ 52,291** | $ 50,369 | $ 50,163 | | $ 49,173 | $ 49,088 |

*(a) Issued and/or guaranteed by U.S. government agencies or U.S. government-sponsored enterprises.*

*(b) Effective with the adoption of ASU 2017-12 "Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities" on January 1, 2018, the Corporation transferred residential mortgage-backed securities with a book value of approximately $1.3 billion from held-to-maturity to available-for-sale.*

**Earning Assets**

***Loans***

On a period-end basis, total loans increased $1.9 billion to $52.3 billion at December 31, 2020, compared to $50.4 billion at December 31, 2019. Average total loans increased $1.1 billion to $51.6 billion in 2020, compared to $50.5 billion in 2019. The following tables provide information about the changes in the Corporation's average loan portfolio in 2020 compared to 2019.

| *(dollar amounts in millions)*<br>**Years Ended December 31** | | **2020** | | **2019** | | **Change** | **Percent Change** |
|---|---|---|---|---|---|---|---|
| **By Business Line:** | | | | | | | |
| General Middle Market | **$** | **12,227** | $ | 12,139 | $ | 88 | 1% |
| National Dealer Services | | **5,967** | | 7,652 | | (1,685) | (22) |
| Equity Fund Services | | **2,367** | | 2,570 | | (203) | (8) |
| Energy | | **2,021** | | 2,449 | | (428) | (17) |
| Environmental Services | | **1,406** | | 1,200 | | 206 | 17 |
| Technology and Life Sciences | | **1,298** | | 1,265 | | 33 | 3 |
| Entertainment | | **657** | | 739 | | (82) | (11) |
| Total Middle Market | | **25,943** | | 28,014 | | (2,071) | (7) |
| Commercial Real Estate | | **6,564** | | 5,595 | | 969 | 17 |
| Corporate Banking | | **4,492** | | 4,231 | | 261 | 6 |
| Small Business | | **3,948** | | 3,487 | | 461 | 13 |
| Mortgage Banker Finance | | **3,176** | | 2,150 | | 1,026 | 48 |
| Total Commercial Bank | | **44,123** | | 43,477 | | 646 | 1 |
| Total Retail Bank | | **2,468** | | 2,104 | | 364 | 17 |
| Total Wealth Management | | **5,045** | | 4,935 | | 110 | 2 |
| Total Finance and Other | | **(5)** | | (5) | | — | —% |
| Total loans | **$** | **51,631** | $ | 50,511 | $ | 1,120 | 2% |
| **By Loan Type:** | | | | | | | |
| Commercial loans (a) | **$** | **32,144** | $ | 32,053 | | 91 | —% |
| Real estate construction loans | | **3,912** | | 3,325 | | 587 | 18 |
| Commercial mortgage loans | | **9,839** | | 9,170 | | 669 | 7 |
| Lease financing | | **594** | | 557 | | 37 | 7 |
| International loans | | **1,028** | | 1,019 | | 9 | 1 |
| Residential mortgage loans | | **1,905** | | 1,929 | | (24) | (1) |
| Consumer loans: | | | | | | | |
| Home equity | | **1,667** | | 1,741 | | (74) | (4) |
| Other consumer | | **542** | | 717 | | (175) | (24) |
| Total consumer loans | | **2,209** | | 2,458 | | (249) | (10) |
| Total loans | **$** | **51,631** | $ | 50,511 | $ | 1,120 | 2% |
| **By Geographic Market:** | | | | | | | |
| Michigan | **$** | **12,509** | $ | 12,553 | $ | (44) | —% |
| California | | **18,265** | | 18,413 | | (148) | (1) |
| Texas | | **10,813** | | 10,616 | | 197 | 2 |
| Other Markets | | **10,052** | | 8,934 | | 1,118 | 13 |
| Finance and Other | | **(8)** | | (5) | | (3) | 60% |
| Total loans | **$** | **51,631** | $ | 50,511 | $ | 1,120 | 2% |

*(a) Includes PPP loans with average balances of $2.5 billion for the year ended December 31, 2020.*

Middle Market business lines generally serve customers with annual revenue between $30 million and $500 million. Within the Middle Market business lines, the largest changes were decreases in National Dealer Services and Energy. National Dealer Services provides floor plan inventory financing and commercial mortgages to auto dealerships. The $1.7 billion decrease in National Dealer Services loans reflected an imbalance in supply and demand resulting in lower inventory. Customers in the Energy business line are primarily engaged in the oil and gas businesses. The $428 million decrease in Energy loans reflected lower oil and gas prices as well as reduced production activity. For more information on Energy loans, refer to "Energy Lending" in the "Risk Management" section of this financial review.

Mortgage Banker Finance provides short-term, revolving lines of credit to independent mortgage banking companies and therefore partly reflects the level of home sales and refinancing activity in the market as a whole. The $1.0 billion increase was primarily due to elevated activity resulting from the lower interest rate environment.

Commercial Real Estate is comprised of real estate construction and commercial mortgage loans. Real estate construction loans primarily include loans in the Commercial Real Estate business line, which generally serve commercial real estate developers. Commercial mortgage loans are loans where the primary collateral is a lien on any real property and are primarily loans secured by owner-occupied real estate. Real property is generally considered primary collateral if the value of that collateral represents more than 50 percent of the commitment at loan approval. The $969 million increase in Commercial Real Estate was primarily driven by additional draws on existing multifamily, industrial and storage construction lines, a slowdown in prepayments due to current economic conditions and increased term debt financing.

***Investment Securities***

| *(dollar amounts in millions)* | U.S. Treasury and other U.S. government agency securities | | Residential mortgage-backed securities (a) | | Total investment securities | |
|---|---|---|---|---|---|---|
| **December 31, 2020** | **Amount** | **Yield** | **Amount** | **Yield** | **Amount** | **Yield** |
| Maturity (b) | | | | | | |
| Within 1 year | $ **1,570** | **1.31%** | $ **1** | **1.56%** | $ **1,571** | **1.31%** |
| 1-5 Years | **3,088** | **1.68** | **209** | **2.35** | **3,297** | **1.72** |
| 5-10 Years | **—** | **—** | **716** | **2.22** | **716** | **2.22** |
| After 10 Years | **—** | **—** | **9,444** | **1.57** | **9,444** | **1.57** |
| Total | **4,658** | **1.55** | **10,370** | **1.63** | **15,028** | **1.57** |
| Weighted Average Maturity (years) | **1.8** | | **23.3** | | **16.6** | |

(a) *Issued and/or guaranteed by U.S. government agencies or U.S. government-sponsored enterprises.*
(b) *Based on final contractual maturity.*

Investment securities were $15.0 billion at December 31, 2020 and $12.4 billion at December 31, 2019. At December 31, 2020, the weighted-average expected life of the Corporation's residential mortgage-backed securities portfolio was approximately 2.9 years. On an average basis, investment securities increased $1.3 billion to $13.4 billion in 2020, compared to $12.1 billion in 2019, as a portion of excess liquidity was invested in $1.8 billion of U.S. Treasury bonds and $500 million of mortgage-backed securities in the third quarter of 2020.

The Corporation repositioned treasury securities in 2019 by selling $1.0 billion and purchasing higher-yielding treasuries, which resulted in after-tax losses of $6 million.

***Interest-Bearing Deposits with Banks and Other Short-Term Investments***

Interest-bearing deposits with banks primarily include deposits with the Federal Reserve Bank (FRB) and also include deposits with banks in developed countries or international banking facilities of foreign banks located in the United States. Interest-bearing deposits with banks are mostly used to manage liquidity requirements of the Corporation. Interest-bearing deposits with banks increased $9.9 billion to $14.7 billion at December 31, 2020, resulting from growth in relationship-based deposits as customers conserve cash in an uncertain economy. On an average basis, interest-bearing deposits with banks increased $6.8 billion to $10.2 billion in 2020.

Other short-term investments include federal funds sold, trading securities, money market investments and loans held-for-sale. Substantially all trading securities are deferred compensation plan assets. Loans held-for-sale typically represent residential mortgage loans originated with management's intention to sell and, from time to time, other loans that are transferred to held-for-sale. Other short-term investments increased $17 million to $172 million at December 31, 2020. On an average basis, other short-term investments increased $10 million to $153 million in 2020.

## Deposits and Borrowed Funds

At December 31, 2020, total deposits were $72.9 billion, an increase of $15.6 billion, or 27%, compared to $57.3 billion at December 31, 2019, reflecting increases of $12.0 billion, or 44%, in noninterest-bearing deposits and $3.6 billion, or 12%, in interest-bearing deposits. The Corporation's average deposits and borrowed funds balances are detailed in the following table.

| *(dollar amounts in millions)*<br>**Years Ended December 31** | | **2020** | | **2019** | | **Change** | **Percent Change** |
|---|---|---|---|---|---|---|---|
| Noninterest-bearing deposits | **$** | **33,053** | $ | 26,644 | $ | 6,409 | 24% |
| Money market and interest-bearing checking deposits | | **26,798** | | 23,417 | | 3,381 | 14 |
| Savings deposits | | **2,454** | | 2,166 | | 288 | 13 |
| Customer certificates of deposit | | **2,626** | | 2,522 | | 104 | 4 |
| Other time deposits | | **17** | | 705 | | (688) | (98) |
| Foreign office time deposits | | **90** | | 27 | | 63 | n/m |
| Total deposits | **$** | **65,038** | $ | 55,481 | $ | 9,557 | 17% |
| Short-term borrowings | **$** | **314** | $ | 369 | $ | (55) | (15) |
| Medium- and long-term debt | | **6,549** | | 6,955 | | (406) | (6) |
| Total borrowed funds | **$** | **6,863** | $ | 7,324 | $ | (461) | (6)% |

*n/m - not meaningful*

Average deposits increased $9.6 billion to $65.0 billion in 2020, compared to $55.5 billion in 2019, reflecting increases of $6.4 billion in noninterest-bearing and $3.2 billion in interest-bearing deposits. The increases were primarily the result of customers continuing to conserve cash in the face of the current uncertain economic climate.

There were no short-term borrowings at December 31, 2020, compared to $71 million at December 31, 2019. Short-term borrowings primarily include federal funds purchased, short-term FHLB advances and securities sold under agreements to repurchase. Average short-term borrowings decreased $55 million, to $314 million in 2020, compared to $369 million in 2019.

The Corporation uses medium- and long-term debt, which includes long-term FHLB advances, medium- and long-term senior notes as well as subordinated notes, to provide funding for earning assets, liquidity and regulatory capital. Total medium- and long-term debt at December 31, 2020 decreased $1.5 billion to $5.7 billion, compared to $7.3 billion at December 31, 2019. The decrease primarily reflected the early redemption of $1.0 billion of FHLB advances, as well as the maturity of $675 million of medium-term notes. Average medium- and long-term debt decreased $406 million, or 6 percent, to $6.5 billion in 2020, compared to $7.0 billion in 2019.

Further information on medium- and long-term debt is provided in Note 12 to the consolidated financial statements.

## Capital

Total shareholders' equity increased $723 million to $8.1 billion at December 31, 2020, compared to $7.3 billion at December 31, 2019. The following table presents a summary of changes in total shareholders' equity in 2020.

| *(in millions)* | | | | |
|---|---|---|---|---|
| Balance at January 1, 2020 | | | **$** | **7,327** |
| Cumulative effect of change in accounting principle (a) | | | | **13** |
| Net income | | | | **474** |
| Cash dividends declared on common stock | | | | **(378)** |
| Cash dividends declared on preferred stock | | | | **(13)** |
| Purchase of common stock | | | | **(194)** |
| Issuance of preferred stock | | | | **394** |
| Other comprehensive income: | | | | |
| Investment securities | **$** | **146** | | |
| Cash flow hedges | | **121** | | |
| Defined benefit and other postretirement plans | | **136** | | |
| Total other comprehensive income | | | | **403** |
| Share-based compensation | | | | **24** |
| Balance at December 31, 2020 | | | **$** | **8,050** |

(a) *Effective January 1, 2020, the Corporation adopted the provisions of ASU No. 2016-13, "Financial Instruments - Credit Losses" (Topic 326). For further information, refer to Note 1 to the consolidated financial statements.*

The following table summarizes the Corporation's repurchase activity for the year ended December 31, 2020.

| *(shares in thousands)* | **Total Number of Shares Purchased as Part of Publicly Announced Repurchase Plans or Programs** | **Remaining Repurchase Authorization (a)** | **Total Number of Shares Purchased (b)** | **Average Price Paid Per Share** |
|---|---|---|---|---|
| First Quarter 2020 | **3,227** | **4,870** | **3,322** | **$ 58.70** |
| Second Quarter 2020 | **—** | **4,870** | **6** | **28.63** |
| Third Quarter 2020 | **—** | **4,870** | **7** | **37.94** |
| Fourth Quarter 2020 | **—** | **4,870** | **4** | **38.26** |
| Total 2020 | **3,227** | **4,870** | **3,339** | **58.58** |

*(a) Maximum number of shares that may yet be purchased under the publicly announced plans or programs.*

*(b) Includes approximately 112,000 shares purchased pursuant to deferred compensation plans and shares purchased from employees to pay for taxes related to restricted stock vesting under the terms of an employee share-based compensation plan during the year ended December 31, 2020. These transactions are not considered part of the Corporation's repurchase program.*

In March 2020, as the economic climate grew increasingly uncertain, the Corporation suspended its share repurchase program with a focus on deploying capital to meet customers' growing financing requirements, resulting in no share repurchases under the program for the remainder of the year. The Corporation will continue to assess the resumption of repurchases subject to various factors including financial performance, capital needs and market conditions. Since the inception of the share repurchase program in 2010, a total of 87.2 million shares have been authorized for repurchase. There is no expiration date for the share repurchase program.

In May 2020, the Corporation issued $400 million of 5.625% non-cumulative perpetual preferred stock, which yielded $394 million in proceeds net of underwriting discounts and offering expenses. See Note 13 to the consolidated financial statements for further information about the terms of the preferred stock.

The Corporation is prepared to continue using capital and liquidity in a responsible way to assist customers impacted by the COVID-19 crisis with a target of attaining and maintaining a Common Equity Tier 1 (CET1) capital ratio of approximately 10 percent. At December 31, 2020, the Corporation's CET1 capital ratio was 10.34 percent, an increase of 21 basis points compared to December 31, 2019.

The Corporation is subject to the capital adequacy standards under the Basel III regulatory framework (Basel III). This regulatory framework establishes comprehensive methodologies for calculating regulatory capital and risk-weighted assets (RWA). Basel III also set minimum capital ratios as well as overall capital adequacy standards.

Under Basel III, regulatory capital comprises CET1 capital, additional Tier 1 capital and Tier II capital. CET1 capital predominantly includes common shareholders' equity, less certain deductions for goodwill, intangible assets and deferred tax assets that arise from net operating losses and tax credit carry-forwards. Additionally, the Corporation has elected to permanently exclude capital in accumulated other comprehensive income (AOCI) related to debt and equity securities classified as available-for-sale as well as for cash flow hedges and defined benefit postretirement plans from CET1, an option available to standardized approach entities under Basel III. Tier 1 capital incrementally includes noncumulative perpetual preferred stock. Tier 2 capital includes Tier 1 capital as well as subordinated debt qualifying as Tier 2 and qualifying allowance for credit losses. In 2020, the Corporation elected regulatory relief to defer the impact of adopting the CECL model for measuring credit losses on regulatory capital. At December 31, 2020, $72 million, or a cumulative 11-basis-point benefit to the capital ratios, was deferred. Also in 2020, the Corporation adopted capital rules issued by federal banking agencies that simplified certain regulatory capital rules, including the capital treatment of mortgage servicing assets, certain deferred tax assets, investments in the capital instruments of unconsolidated financial institutions and minority interests. For further information about the adoption of CECL, refer to Note 1 to the consolidated financial statement.

The Corporation computes RWA using the standardized approach. Under the standardized approach, RWA is generally based on supervisory risk-weightings which vary by counterparty type and asset class. Under the Basel III standardized approach, capital is required for credit risk RWA, to cover the risk of unexpected losses due to failure of a customer or counterparty to meet its financial obligations in accordance with contractual terms; and if trading assets and liabilities exceed certain thresholds, capital is also required for market risk RWA, to cover the risk of losses due to adverse market movements or from position-specific factors.

The following table presents the minimum ratios required.

| | |
|---|---|
| Common equity tier 1 capital to risk-weighted assets | 4.5% |
| Tier 1 capital to risk-weighted assets | 6.0 |
| Total capital to risk-weighted assets | 8.0 |
| Capital conservation buffer (a) | 2.5 |
| Tier 1 capital to adjusted average assets (leverage ratio) | 4.0 |

*(a) In addition to the minimum risk-based capital requirements, the Corporation is required to maintain a minimum capital conservation buffer in the form of common equity tier 1 capital, in order to avoid restrictions on capital distributions and discretionary bonuses.*

The Corporation's capital ratios exceeded minimum regulatory requirements as follows:

| | **December 31, 2020** | | **December 31, 2019** | |
|---|---|---|---|---|
| *(dollar amounts in millions)* | **Capital/Assets** | **Ratio** | **Capital/Assets** | **Ratio** |
| Common equity tier 1 (a), (b) | **$ 6,919** | **10.34%** | $ 6,919 | 10.13% |
| Tier 1 risk-based (a), (b) | **7,313** | **10.93** | 6,919 | 10.13 |
| Total risk-based (a) | **8,833** | **13.20** | 8,282 | 12.13 |
| Leverage (a) | **7,313** | **8.63** | 6,919 | 9.51 |
| Common shareholders' equity | **7,656** | **8.69** | 7,327 | 9.98 |
| Tangible common equity (b) | **7,020** | **8.02** | 6,688 | 9.19 |
| Risk-weighted assets (a) | **66,931** | | 68,273 | |

*(a) December 31, 2020 risk-weighted assets and ratios reflect deferral of CECL model impact as calculated per regulatory guidance.*
*(b) See Supplemental Financial Data section for reconciliations of non-GAAP financial measures and regulatory ratios.*

At December 31, 2020, the Corporation and its U.S. banking subsidiaries exceeded the capital ratios required for an institution to be considered “well capitalized” by the standards developed under the Federal Deposit Insurance Corporation Improvement Act of 1991. Refer to Note 20 to the consolidated financial statements for further discussion of regulatory capital requirements, capital ratio calculations and restrictions on the ability of the Corporation's banking subsidiaries to transfer assets to the Corporation.

## RISK MANAGEMENT

The Corporation assumes various types of risk as a result of conducting business in the normal course. The Corporation's enterprise risk management framework provides a process for identifying, measuring, controlling and managing these risks. This framework incorporates a risk assessment process, a collection of risk committees that manage the Corporation's major risk elements and a risk appetite statement that outlines the levels and types of risks the Corporation accepts. The Corporation continuously enhances its enterprise risk framework with additional processes, tools and systems designed to not only provide management with deeper insight into the various existing and emerging risks in accordance with its appetite for risk, but also to improve the Corporation's ability to control those risks and ensure that appropriate consideration is received for the risks taken.

The Corporation's front line employees, the first line of defense, are responsible for the day-to-day management and ownership of risks, including the identification, assessment, measurement and control of risks encountered as a part of the normal course of business. Each of the major risk categories are further monitored and measured by specialized risk managers in the second line of defense within the Enterprise Risk Division, who provide oversight, independent and effective challenge and guidance for the risk management activities of the organization. The Enterprise Risk Division, led by the Chief Risk Officer, is responsible for designing and managing the Corporation's enterprise risk management framework and ensures effective risk management oversight. Risk management committees serve as a point of review and escalation for those risks which may have risk interdependencies or where risk levels may be nearing the limits outlined in the Corporation's risk appetite statement. These committees comprise senior and executive management that represent views from both the lines of business and risk management. Internal Audit, the third line of defense, monitors and assesses the overall effectiveness of the risk management framework on an ongoing basis and provides an independent, objective assessment of the Corporation's ability to manage and control risk to management and the Audit Committee of the Board.

The Enterprise-Wide Risk Management Committee, chaired by the Chief Risk Officer, is established by the Enterprise Risk Committee of the Board, and is responsible for governance over the risk management framework, providing oversight in managing the Corporation's aggregate risk position and reporting on the comprehensive portfolio of risks as well as the potential impact these risks can have on the Corporation's risk profile and resulting capital level. Capital provides the primary buffer for risk and also serves as a measuring tool when evaluating risk. The Enterprise-Wide Risk Management Committee is principally composed of senior officers and executives representing the different risk areas and business units who are appointed by the Chairman and Chief Executive Officer of the Corporation.

The Board's Enterprise Risk Committee meets quarterly and is chartered to assist the Board in promoting the best interests of the Corporation by overseeing policies and risk practices relating to enterprise-wide risk and ensuring compliance with bank regulatory obligations. Members of the Enterprise Risk Committee are selected such that the committee comprises individuals whose experiences and qualifications can lead to broad and informed views on risk matters facing the Corporation and the financial services industry. These include, but are not limited to, existing and emerging risk matters related to credit, market, liquidity, operational, technology, compliance and strategic conditions. A comprehensive risk report is submitted to the Enterprise Risk Committee each quarter providing management's view of the Corporation's aggregate risk position.

Further discussion and analyses of each major risk area are included in the following sub-sections of the Risk Management section in this financial review.

### Credit Risk

Credit risk represents the risk of loss due to failure of a customer or counterparty to meet its financial obligations in accordance with contractual terms. Credit risk is found in all activities where success depends on counterparty, issuer or borrower performance. It arises any time funds are extended, committed, invested or otherwise exposed, whether reflected on or off the balance sheet. The governance structure is administered through the Strategic Credit Committee. The Strategic Credit Committee is chaired by the Chief Credit Officer and approves recommendations to address credit risk matters through credit policy, credit risk management practices and required credit risk actions. The Strategic Credit Committee also ensures a comprehensive reporting of credit risk levels and trends, including exception levels, along with identification and mitigation of emerging risks. In order to facilitate the corporate credit risk management process, various other corporate functions provide the resources for the Strategic Credit Committee to carry out its responsibilities. The Corporation manages credit risk through underwriting and periodically reviewing and approving its credit exposures using approved credit policies and guidelines. Additionally, the Corporation manages credit risk through loan portfolio diversification, limiting exposure to any single industry, customer or guarantor, and selling participations and/or syndicating credit exposures above those levels it deems prudent to third parties.

The Credit Division manages credit policy and provides the resources to manage the line of business transactional credit risk, assuring that all exposure is risk rated according to the requirements of the credit risk rating policy and providing business segment reporting support as necessary. The Enterprise Risk Division provides credible and well-documented challenge of overall portfolio credit risk, and other credit-related attributes of the Corporation's loan portfolios, with a particular

emphasis on all attendant modeled results. The Corporation's Asset Quality Review function, a division of Internal Audit, audits the accuracy of internal risk ratings that are assigned by the lending and credit groups. The Special Assets Group is responsible for managing the recovery process on distressed or defaulted loans and loan sales.

Portfolio Risk Analytics, within the Credit Division, provides comprehensive reporting on portfolio credit risk levels and trends, continuous assessment and verification of risk rating models, quarterly calculation of the allowance for loan losses and the allowance for credit losses on lending-related commitments and calculations of both expected and unexpected loss.

***Allowance for Credit Losses***

The allowance for credit losses includes both the allowance for loan losses and the allowance for credit losses on lending-related commitments. Effective January 1, 2020, the allowance for credit losses reflected the adoption of Topic 326, which requires companies to estimate credit losses using the CECL framework. As a percentage of total loans, the allowance for credit losses was 1.90 percent at December 31, 2020, compared to 1.33 percent at December 31, 2019. Excluding $3.5 billion in PPP loans, which are guaranteed by the Small Business Administration, the allowance for credit losses was 2.03 percent of total loans at December 31, 2020. The allowance for credit losses covered 2.8 times and 3.3 times total nonperforming loans at December 31, 2020 and December 31, 2019, respectively.

At adoption on January 1, 2020, the scope and severity of the economic crisis resulting from the COVID-19 pandemic were unknown. As such, the economic scenario used by the Corporation to develop its estimate of CECL as of the adoption date reflected a continued moderate U.S. economic expansion compared to 2019 levels and a stable interest rate environment, with the federal funds rate remaining in the 1.50- to 1.75-percent range. Other assumptions included the resolution of trade tensions, a calmer global economy and a strong U.S. dollar, all of which supported modest industrial production growth and stable oil prices. The forecast also assumed strong labor market conditions to support the consumer sector. Management considered the level of uncertainty regarding its economic assumptions as part of the qualitative adjustment. The adoption of CECL resulted in a $17 million day-one decrease in the allowance for credit losses, from $668 million at December 31, 2019 under the incurred loss model. See Note 1 to the consolidated financial statements for further information about the adoption of CECL.

The allowance for credit losses increased by $341 million from the adoption date to $992 million at December 31, 2020, primarily reflecting the economic impacts of the COVID-19 pandemic and the response by domestic and global governmental authorities, including quarantines and other social distancing policies aimed at fighting the spread of the virus. In early 2020, energy markets, which were experiencing stress prior to the pandemic, were further impacted by the rapid decline in demand resulting from social distancing policies. Energy prices and demand improved in the second half of 2020 as the economy began to recover, but energy markets remain uncertain.

The U.S. economy contracted into a recession with unusual speed and force in the first half of 2020, ending the longest expansionary period in U.S. history. The U.S. government and the Federal Reserve responded to the pandemic with unprecedented measures. The Federal Reserve reduced the target federal funds rate to zero to 0.25 percent and Congress passed the CARES Act that included an estimated $2 trillion stimulus package. Although the U.S. economy began to recover in third quarter 2020 as social distancing policies loosened, economic metrics in fourth quarter 2020 indicate an uneven path to recovery. In December 2020, Congress amended the CARES Act through the Consolidated Appropriations Act of 2021 to add an additional $900 billion of stimulus relief to mitigate the continued impacts of the pandemic. While certain factors point to improving economic conditions, uncertainty remains regarding the path of the economic recovery, the mitigating impacts of government interventions, the success of vaccine distribution and the efficacy of administered vaccines, as well as the effects of the change in leadership resulting from the recent elections.

These factors shaped the 2-year reasonable and supportable forecast used by the Corporation in its CECL modeled estimate at December 31, 2020. After a partial rebound in real gross domestic product (GDP) growth in third and fourth quarters 2020, forecasted GDP reaches pre-pandemic, fourth quarter 2019 levels by the latter portion of 2021, normalizing into historical growth rates in the second half of the forecast period. Forecasts for other key economic variables, including the unemployment rate and oil prices, are generally in line with GDP projections. Interest rates remain low, reflecting the Federal Reserve's expectation that rates will remain at current levels in the near-to mid-term, while corporate bond rates reflect decreasing default risk, with slight improvements as the forecasted horizon moved by one quarter. Economic forecasts for fourth quarter 2020 were generally consistent with third quarter 2020 forecasts. The following table summarizes the forecasts for the economic variables most impactful to the allowance for credit losses estimate at December 31, 2020.

| Economic Variable | Base Forecast |
|---|---|
| Real GDP growth | Growth peaks at 4 percent in second and third quarters 2021, normalizing into long-term growth rates of 2 to 3 percent through 2022. |
| Unemployment rate | Current levels gradually decrease throughout forecast period to 5 percent by fourth quarter 2022. |
| Corporate BBB bond to 10-year Treasury bond spreads | Spreads at normalized levels between 1.5 and 1.7 percent throughout the forecast period. |
| Oil Prices | Prices steadily increase from $40 to $53 per barrel by fourth quarter 2022. |

Due to the high degree of uncertainty regarding the ultimate economic consequences of the pandemic, as well as the effectiveness of the government's stimulus packages, management considered other economic scenarios to make appropriate qualitative adjustments for certain sectors of its lending portfolio, including more benign and more severe forecasts.

Refer to Note 1 to the consolidated financial statements for a discussion of the methodology used in the determination of the allowance for credit losses.

***Allowance for Loan Losses***

The allowance for loan losses represents management's estimates of current expected credit losses in the Corporation's loan portfolio. Pools of loans with similar risk characteristics are collectively evaluated, while loans that no longer share risk characteristics with loan pools are evaluated individually.

Collective loss estimates are determined by applying reserve factors, designed to estimate current expected credit losses, to amortized cost balances over the remaining contractual life of the collectively evaluated portfolio. Loans with similar risk characteristics are aggregated into homogeneous pools. The allowance for loan losses also includes qualitative adjustments to bring the allowance to the level management believes is appropriate based on factors that have not otherwise been fully accounted for, including adjustments for foresight risk, input imprecisions and model imprecision. Credit losses for loans that no longer share risk characteristics with the loan pools are estimated on an individual basis. Individual credit loss estimates are typically performed for nonaccrual loans and modified loans classified as troubled debt restructurings (TDRs) and are based on one of several methods, including the estimated fair value of the underlying collateral, observable market value of similar debt or the present value of expected cash flows.

***Allowance for Credit Losses on Lending-Related Commitments***

The allowance for credit losses on lending-related commitments estimates current expected credit losses on collective pools of letters of credit and unused commitments to extend credit based on reserve factors, determined in a manner similar to business loans, multiplied by a probability of draw estimate based on historical experience and credit risk, applied to commitment amounts.

**Analysis of the Allowance for Credit Losses**

*(dollar amounts in millions)*

| | 2020 | 2019 | 2018 | 2017 | 2016 |
|---|---|---|---|---|---|
| Balance at beginning of year | | | | | |
| Allowance for loan losses | **$ 637** | $ 671 | $ 712 | $ 730 | $ 634 |
| Allowance for credit losses on lending-related commitments | **31** | 30 | 42 | 41 | 45 |
| Allowance for credit losses | **668** | 701 | 754 | 771 | 679 |
| Cumulative effect of change in accounting principle | **(17)** | — | — | — | — |
| Loan charge-offs: | | | | | |
| Commercial | **232** | 143 | 95 | 133 | 181 |
| Commercial mortgage | **1** | 3 | 3 | 3 | 3 |
| Lease financing | **—** | — | — | 1 | — |
| International | **—** | 1 | 1 | 6 | 23 |
| Residential mortgage | **—** | 1 | — | — | — |
| Consumer | **5** | 4 | 4 | 6 | 7 |
| Total loan charge-offs | **238** | 152 | 103 | 149 | 214 |
| Recoveries on loans previously charged-off: | | | | | |
| Commercial | **34** | 35 | 44 | 37 | 43 |
| Real estate construction | **—** | — | — | 1 | — |
| Commercial mortgage | **4** | 4 | 2 | 9 | 20 |
| International | **—** | 1 | 1 | 3 | — |
| Residential mortgage | **—** | 1 | 1 | 1 | 1 |
| Consumer | **4** | 4 | 4 | 6 | 4 |
| Total recoveries | **42** | 45 | 52 | 57 | 68 |
| Net loan charge-offs | **196** | 107 | 51 | 92 | 146 |
| Foreign currency translation adjustment | **—** | — | (1) | 1 | 1 |
| Charge-offs on lending-related commitments (a) | **—** | — | — | — | 11 |
| Provision for credit losses: | | | | | |
| Provision for loan losses | **524** | 73 | 11 | 73 | 241 |
| Provision for credit losses on lending-related commitments | **13** | 1 | (12) | 1 | 7 |
| Provision for credit losses | **537** | 74 | (1) | 74 | 248 |
| Balance at end of year | | | | | |
| Allowance for loan losses | **948** | 637 | 671 | 712 | 730 |
| Allowance for credit losses on lending-related commitments | **44** | 31 | 30 | 42 | 41 |
| Allowance for credit losses | **$ 992** | $ 668 | $ 701 | $ 754 | $ 771 |
| Allowance for loan losses as a percentage of total loans at end of year | **1.81%** | 1.27% | 1.34% | 1.45% | 1.49% |
| Allowance for loan losses as a percentage of total loans excluding PPP loans | **1.94** | n/a | n/a | n/a | n/a |
| Allowance for credit losses as a percentage of total loans at end of year | **1.90** | 1.33 | 1.40 | 1.53 | 1.57 |
| Allowance for credit losses as a percentage of total loans excluding PPP loans | **2.03** | n/a | n/a | n/a | n/a |
| Allowance for loan losses as a multiple of total nonperforming loans at end of year | **2.7x** | 3.1x | 2.9x | 1.7x | 1.2x |
| Allowance for credit losses as a multiple of total nonperforming loans at end of year | **2.8x** | 3.3x | 3.1x | 1.8x | 1.3x |
| Allowance for loan losses as a multiple of total net loan charge-offs for the year | **4.8x** | 6.0x | 13.1x | 7.7x | 5.0x |
| Net loan charge-offs during the year as a percentage of average loans outstanding during the year | **0.38%** | 0.21% | 0.11% | 0.19% | 0.30% |

*(a) Charge-offs result from the sale of unfunded lending-related commitments.*
*n/a - not applicable*

As a percentage of total loans, the allowance for loan losses was 1.81 percent at December 31, 2020, compared to 1.27 percent at December 31, 2019. Excluding PPP loans, the allowance for loan losses was 1.94 percent of total loans at December 31, 2020. The allocation of reserves for Energy loans was approximately 8 percent in response to sustained pressures on the Energy portfolio. Nonperforming loans were 0.67 percent of total loans at December 31, 2020, compared to 0.40 percent

at December 31, 2019, and the allowance for loan losses covered 2.7 times and 3.1 times total nonperforming loans at December 31, 2020 and 2019, respectively.

The allowance for credit losses on lending-related commitments totaled $44 million and $31 million at December 31, 2020 and 2019, respectively.

**Allocation of the Allowance for Credit Losses**

| | 2020 | | | 2019 | | 2018 | | 2017 | | 2016 | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| *(dollar amounts in millions)* **December 31** | **Allocated Allowance** | **Allowance Ratio (a)** | **% (b)** | **Allocated Allowance** | **% (b)** | **Allocated Allowance** | **% (b)** | **Allocated Allowance** | **% (b)** | **Allocated Allowance** | **% (b)** |
| Allowance for loan losses | | | | | | | | | | | |
| Business loans | | | | | | | | | | | |
| Commercial (c) | **$ 508** | **1.55%** | **62%** | $ 490 | 62% | $ 492 | 64% | $ 521 | 63% | $ 547 | 63% |
| Real estate construction | **62** | **1.53** | **8** | 17 | 7 | 19 | 6 | 19 | 6 | 21 | 6 |
| Commercial mortgage | **299** | **3.02** | **19** | 81 | 19 | 99 | 18 | 91 | 19 | 93 | 18 |
| Lease financing | **10** | **1.67** | **1** | 3 | 1 | 4 | 1 | 12 | 1 | 5 | 1 |
| International | **16** | **1.69** | **2** | 10 | 2 | 13 | 2 | 18 | 2 | 16 | 3 |
| Total business loans | **895** | **1.85** | **92** | 601 | 91 | 627 | 91 | 661 | 91 | 682 | 91 |
| Retail loans | | | | | | | | | | | |
| Residential mortgage | **16** | **0.87** | **4** | 7 | 4 | 9 | 4 | 13 | 4 | 11 | 4 |
| Consumer | **37** | **1.70** | **4** | 29 | 5 | 35 | 5 | 38 | 5 | 37 | 5 |
| Total retail loans | **53** | **1.32** | **8** | 36 | 9 | 44 | 9 | 51 | 9 | 48 | 9 |
| Total loans | **948** | **1.81%** | **100%** | $ 637 | 100% | 671 | 100% | 712 | 100% | 730 | 100% |
| Allowance for credit losses on lending-related commitments | | | | | | | | | | | |
| Business commitments | **35** | | | 28 | | 26 | | 38 | | 38 | |
| Retail commitments | **9** | | | 3 | | 4 | | 4 | | 3 | |
| Total commitments | **44** | | | 31 | | 30 | | 42 | | 41 | |
| Allowance for credit losses | **$ 992** | **1.90%** | | $ 668 | | $ 701 | | $ 754 | | $ 771 | |

(a) *Allocated allowance as a percentage of related loans outstanding.*
(b) *Loans outstanding as a percentage of total loans.*
(c) *Includes PPP loans with a balance of $3.5 billion at December 31, 2020.*

For additional information regarding the allowance for credit losses, refer to the "Critical Accounting Policies" section of this financial review and Notes 1 and 4 to the consolidated financial statements.

***Nonperforming Assets***

Nonperforming assets include loans on nonaccrual status, TDRs which have been renegotiated to less than the original contractual rates (reduced-rate loans) and foreclosed assets. TDRs include performing and nonperforming loans, with nonperforming TDRs on either nonaccrual or reduced-rate status. In accordance with the provisions of the CARES Act, the Corporation elected not to consider qualifying COVID-19-related modifications, primarily deferrals, as TDRs and does not designate such loans as past due or nonaccrual. For additional information regarding the Corporation's accounting policies for the CARES Act, refer to Note 1 to the consolidated financial statements.

**Summary of Nonperforming Assets and Past Due Loans**

| *(dollar amounts in millions)*<br>**December 31** | **2020** | **2019** | **2018** | **2017** | **2016** |
|---|---|---|---|---|---|
| Nonaccrual loans: | | | | | |
| Business loans: | | | | | |
| Commercial | **$ 252** | $ 148 | $ 141 | $ 309 | $ 445 |
| Real estate construction | **1** | — | — | — | — |
| Commercial mortgage | **29** | 14 | 20 | 31 | 46 |
| Lease financing | **1** | — | 2 | 4 | 6 |
| International | **—** | — | 3 | 6 | 14 |
| Total nonaccrual business loans | **283** | 162 | 166 | 350 | 511 |
| Retail loans: | | | | | |
| Residential mortgage | **47** | 20 | 36 | 31 | 39 |
| Consumer: | | | | | |
| Home equity | **17** | 17 | 19 | 21 | 28 |
| Other consumer | **—** | — | — | — | 4 |
| Total consumer | **17** | 17 | 19 | 21 | 32 |
| Total nonaccrual retail loans | **64** | 37 | 55 | 52 | 71 |
| Total nonaccrual loans | **347** | 199 | 221 | 402 | 582 |
| Reduced-rate loans | **3** | 5 | 8 | 8 | 8 |
| Total nonperforming loans | **350** | 204 | 229 | 410 | 590 |
| Foreclosed property | **8** | 11 | 1 | 5 | 17 |
| Other repossessed assets | **1** | — | — | — | — |
| Total nonperforming assets | **$ 359** | $ 215 | $ 230 | $ 415 | $ 607 |
| Gross interest income that would have been recorded had the nonaccrual and reduced-rate loans performed in accordance with original terms | **$ 24** | $ 20 | $ 19 | $ 31 | $ 38 |
| Interest income recognized | **6** | 5 | 4 | 7 | 6 |
| Nonperforming loans as a percentage of total loans | **0.67%** | 0.40% | 0.46% | 0.83% | 1.20% |
| Nonperforming assets as a percentage of total loans and foreclosed property | **0.69** | 0.43 | 0.46 | 0.84 | 1.24 |
| Loans past due 90 days or more and still accruing | **$ 45** | $ 26 | $ 16 | $ 35 | $ 19 |

Nonperforming assets increased $144 million to $359 million at December 31, 2020, from $215 million at December 31, 2019. Nonperforming assets were 0.69 percent of total loans and foreclosed property at December 31, 2020, compared to 0.43 percent at December 31, 2019.

As of December 31, 2020, COVID-19-related payment deferrals totaled $141 million, or 0.27 percent of total loans, representing approximately 100 obligors and consisting of 58 percent retail loans, primarily residential mortgages, and 42 percent commercial loans. Initial deferrals have expired and new requests have been nominal as customers continue to adjust to the new environment, resulting in a $244 million decrease in deferrals since third quarter 2020. Loans with COVID-19-related deferred payments on a third deferral, primarily residential mortgages, totaled $72 million at December 31, 2020 and would generally be considered TDRs if not for the provisions in the CARES Act.

The following table presents a summary of TDRs at December 31, 2020 and 2019.

| *(in millions)*<br>**December 31** | **2020** | **2019** |
|---|---|---|
| Nonperforming TDRs: | | |
| Nonaccrual TDRs | **$ 33** | $ 36 |
| Reduced-rate TDRs | **3** | 5 |
| Total nonperforming TDRs | **36** | 41 |
| Performing TDRs (a) | **41** | 69 |
| Total TDRs | **$ 77** | $ 110 |

(a) *TDRs that do not include a reduction in the original contractual interest rate which are performing in accordance with their modified terms.*

During the twelve months ended December 31, 2020, $22 million of previously performing Energy TDRs were transferred to nonaccrual or charged off. At December 31, 2020, Energy TDRs totaled $9 million, all of which were on nonaccrual status, compared to $14 million at December 31, 2019.

The following table presents a summary of changes in nonaccrual loans.

| *(in millions)*<br>**Years Ended December 31** | **2020** | 2019 |
|---|---|---|
| Balance at beginning of period | **$ 199** | $ 221 |
| Loans transferred to nonaccrual (a) | **482** | 230 |
| Nonaccrual loan gross charge-offs | **(238)** | (152) |
| Loans transferred to accrual status (a) | **(3)** | (7) |
| Nonaccrual loans sold | **(14)** | (15) |
| Payments/other (b) | **(79)** | (78) |
| Balance at end of period | **$ 347** | $ 199 |

*(a) Based on an analysis of nonaccrual loans with book balances greater than $2 million.*

*(b) Includes net changes related to nonaccrual loans with balances less than or equal to $2 million, payments on nonaccrual loans with book balances greater than $2 million and transfers of nonaccrual loans to foreclosed property.*

There were 42 borrowers with a balance greater than $2 million, totaling $482 million, transferred to nonaccrual status in 2020, an increase of 19, compared to 23 borrowers totaling $230 million in 2019. For further information about the composition of loans transferred to nonaccrual during the current period, refer to the nonaccrual information by industry category table below.

The following table presents the composition of nonaccrual loans by balance and the related number of borrowers at December 31, 2020 and 2019.

| | **2020** | | **2019** | |
|---|---|---|---|---|
| *(dollar amounts in millions)* | **Number of Borrowers** | **Balance** | **Number of Borrowers** | **Balance** |
| Under $2 million | **682** | **$ 83** | 708 | $ 74 |
| $2 million - $5 million | **20** | **61** | 8 | 22 |
| $5 million - $10 million | **9** | **73** | 6 | 49 |
| $10 million - $25 million | **7** | **94** | 4 | 54 |
| Greater than $25 million | **1** | **36** | — | — |
| Total | **719** | **$ 347** | 726 | $ 199 |

The following table presents a summary of nonaccrual loans at December 31, 2020 and loans transferred to nonaccrual and net loan charge-offs for the year ended December 31, 2020, based on North American Industry Classification System (NAICS) categories.

| | **December 31, 2020** | | **Year Ended December 31, 2020** | | | |
|---|---|---|---|---|---|---|
| *(dollar amounts in millions)*<br>**Industry Category** | **Nonaccrual Loans** | | **Loans Transferred to Nonaccrual (a)** | | **Net Loan Charge-Offs** | |
| Mining, Quarrying and Oil & Gas Extraction | **$ 114** | **33%** | **$ 289** | **60%** | **$ 125** | **64%** |
| Residential Mortgage | **47** | **14** | **14** | **3** | **—** | **—** |
| Transportation & Warehousing | **36** | **10** | **36** | **7** | **—** | **—** |
| Manufacturing | **33** | **10** | **27** | **6** | **5** | **3** |
| Wholesale Trade | **29** | **8** | **13** | **3** | **10** | **5** |
| Real Estate & Home Builders | **16** | **4** | **24** | **5** | **11** | **6** |
| Information & Communication | **14** | **4** | **—** | **—** | **1** | **1** |
| Services | **12** | **3** | **21** | **4** | **8** | **4** |
| Arts, Entertainment & Recreation | **9** | **3** | **24** | **5** | **15** | **8** |
| Health Care & Social Assistance | **4** | **1** | **2** | **1** | **3** | **1** |
| Retail Trade | **4** | **1** | **12** | **2** | **11** | **5** |
| Contractors | **3** | **1** | **—** | **—** | **—** | **—** |
| Other (b) | **26** | **8** | **20** | **4** | **7** | **3** |
| Total | **$ 347** | **100%** | **$ 482** | **100%** | **$ 196** | **100%** |

*(a) Based on an analysis of nonaccrual loans with book balances greater than $2 million.*

*(b) Consumer, excluding residential mortgage and certain personal purpose nonaccrual loans and net charge-offs, is included in the Other category.*

Loans past due 90 days or more and still accruing interest generally represent loans that are well collateralized and in the process of collection. Loans past due 90 days or more increased $19 million to $45 million at December 31, 2020, compared to $26 million at December 31, 2019. Loans past due 30-89 days increased $277 million to $404 million at December 31, 2020, compared to $127 million at December 31, 2019. An aging analysis of loans included in Note 4 to the consolidated financial statements provides further information about the balances comprising past due loans.

The following table presents a summary of total criticized loans. The Corporation's criticized list is consistent with the Special Mention, Substandard and Doubtful categories defined by regulatory authorities. Criticized loans with balances of $2 million or more on nonaccrual status or loans with balances of $1 million or more whose terms have been modified in a TDR are individually subjected to quarterly credit quality reviews, and the Corporation may establish specific allowances for such loans. A table of loans by credit quality indicator included in Note 4 to the consolidated financial statements provides further information about the balances comprising total criticized loans.

| *(dollar amounts in millions)*<br>**December 31** | **2020** | 2019 |
|---|---|---|
| Total criticized loans | **$ 2,947** | $ 2,120 |
| As a percentage of total loans | **5.6%** | 4.2% |

The $827 million increase in criticized loans during the year ended December 31, 2020 included increases of $347 million in general Middle Market and $230 million in Energy.

For further information regarding the Corporation's nonperforming assets policies, refer to Notes 1 and 4 to the consolidated financial statements.

***Concentrations of Credit Risk***

Concentrations of credit risk may exist when a number of borrowers are engaged in similar activities, or activities in the same geographic region, and have similar economic characteristics that would cause them to be similarly impacted by changes in economic or other conditions. The Corporation has concentrations of credit risk with the commercial real estate and automotive industries. All other industry concentrations, as defined by management, individually represented less than 10 percent of total loans at December 31, 2020.

**Commercial Real Estate Lending**

At December 31, 2020, the Corporation's commercial real estate portfolio represented 27 percent of total loans. The following table summarizes the Corporation's commercial real estate loan portfolio by loan category.

| | **December 31, 2020** | | | **December 31, 2019** | | |
|---|---|---|---|---|---|---|
| *(in millions)* | **Commercial Real Estate business line (a)** | **Other (b)** | **Total** | **Commercial Real Estate business line (a)** | **Other (b)** | **Total** |
| Real estate construction loans | **$ 3,657** | **$ 425** | **$ 4,082** | $ 3,044 | $ 411 | $ 3,455 |
| Commercial mortgage loans | **2,273** | **7,639** | **9,912** | 2,176 | 7,383 | 9,559 |
| Total commercial real estate | **$ 5,930** | **$ 8,064** | **$ 13,994** | $ 5,220 | $ 7,794 | $ 13,014 |

(a) *Primarily loans to real estate developers.*
(b) *Primarily loans secured by owner-occupied real estate.*

The Corporation limits risk inherent in its commercial real estate lending activities by monitoring borrowers directly involved in the commercial real estate markets and adhering to conservative policies on loan-to-value ratios for such loans. Commercial real estate loans, consisting of real estate construction and commercial mortgage loans, totaled $14.0 billion at December 31, 2020. Of the total, $5.9 billion, or 42 percent, were to borrowers in the Commercial Real Estate business line, which includes loans to real estate developers, an increase of $710 million compared to December 31, 2019. Commercial real estate loans in other business lines totaled $8.1 billion, or 58 percent, at December 31, 2020. These loans consisted primarily of owner-occupied commercial mortgages, which bear credit characteristics similar to non-commercial real estate business loans.

The real estate construction loan portfolio primarily contains loans made to long-time customers with satisfactory completion experience. Criticized real estate construction loans in the Commercial Real Estate business line totaled $27 million and $31 million at December 31, 2020 and 2019, respectively. In other business lines, criticized real estate construction loans totaled $20 million at December 31, 2020, compared to none at December 31, 2019. There were no net charge-offs in either of the years ended December 31, 2020 and 2019.

Commercial mortgage loans are loans where the primary collateral is a lien on any real property and are primarily loans secured by owner occupied real estate. Real property is generally considered primary collateral if the value of that collateral represents more than 50 percent of the commitment at loan approval. Loans in the commercial mortgage portfolio generally mature within three to five years. Criticized commercial mortgage loans in the Commercial Real Estate business line

totaled $73 million and $55 million at December 31, 2020 and 2019, respectively. In other business lines, $440 million and $242 million of commercial mortgage loans were criticized at December 31, 2020 and 2019, respectively. Commercial mortgage loan net recoveries were $3 million and $1 million in 2020 and 2019, respectively.

**Automotive Lending - Dealer:**

The following table presents a summary of dealer loans.

| | 2020 | | 2019 | |
|---|---|---|---|---|
| *(in millions)* | Loans Outstanding | Percent of Total Loans | Loans Outstanding | Percent of Total Loans |
| Dealer: | | | | |
| Floor plan | **$ 2,344** | | $ 3,967 | |
| Other | **3,348** | | 3,447 | |
| Total dealer | **$ 5,692** | **10.9%** | $ 7,414 | 14.7% |

Substantially all dealer loans are in the National Dealer Services business line and primarily include floor plan financing and other loans to automotive dealerships. Floor plan loans, included in commercial loans in the Consolidated Balance Sheets, totaled $2.3 billion at December 31, 2020, a decrease of $1.7 billion compared to $4.0 billion at December 31, 2019 due to an imbalance in supply and demand resulting in lower inventory. At December 31, 2020 and 2019, other loans in the National Dealer Services business line totaled $3.3 billion and $3.4 billion, respectively, including $2.0 billion of owner-occupied commercial real estate mortgage loans at both December 31, 2020 and 2019. The National Dealer Services business line includes a wide array of franchises with a focus on mega dealers consisting of five or more dealerships in a group.

There were no nonaccrual dealer loans at December 31, 2020, compared to $9 million at December 31, 2019. Additionally, there were no net charge-offs of dealer loans in either of the years ended December 31, 2020 and 2019.

**Automotive Lending- Production:**

The following table presents a summary of loans to borrowers involved with automotive production.

| | 2020 | | 2019 | |
|---|---|---|---|---|
| *(in millions)* | Loans Outstanding (a) | Percent of Total Loans | Loans Outstanding | Percent of Total Loans |
| Production: | | | | |
| Domestic | **$ 791** | | $ 963 | |
| Foreign | **302** | | 286 | |
| Total production | **$ 1,093** | **2.1%** | $ 1,249 | 2.5% |

*(a) Excludes PPP loans.*

Loans to borrowers involved with automotive production, primarily Tier 1 and Tier 2 suppliers, totaled $1.1 billion and $1.2 billion at December 31, 2020 and 2019, respectively. These borrowers could face financial difficulties due to disruptions in auto production as well as their supply chains and logistics operations as a result of the COVID-19 pandemic. As such, management prudently increased allocated reserves for this portfolio in 2020.

Nonaccrual loans to borrowers involved with automotive production totaled $7 million at December 31, 2020 and $10 million at December 31, 2019. Criticized automotive production loans were 24 percent of the automotive production portfolio at December 31, 2020, compared to 15 percent at December 31, 2019. Automotive production loan net charge-offs totaled $2 million in the year ended December 31, 2020, compared to net recoveries of $1 million for the same period in 2019.

For further information regarding significant group concentrations of credit risk, refer to Note 5 to the consolidated financial statements.

**Residential Real Estate Lending**

At December 31, 2020, residential real estate loans represented 7 percent of total loans. The following table summarizes the Corporation's residential mortgage and home equity loan portfolios by geographic market.

| *(dollar amounts in millions)* **December 31** | **2020** | | | | **2019** | | | |
|---|---|---|---|---|---|---|---|---|
| | **Residential Mortgage Loans** | **% of Total** | **Home Equity Loans** | **% of Total** | **Residential Mortgage Loans** | **% of Total** | **Home Equity Loans** | **% of Total** |
| Geographic market: | | | | | | | | |
| Michigan | **$ 428** | **23%** | **$ 540** | **34%** | $ 412 | 22% | $ 603 | 35% |
| California | **927** | **51** | **655** | **41** | 932 | 51 | 699 | 41 |
| Texas | **254** | **14** | **328** | **21** | 275 | 15 | 346 | 20 |
| Other Markets | **221** | **12** | **65** | **4** | 226 | 12 | 63 | 4 |
| Total | **$ 1,830** | **100%** | **$ 1,588** | **100%** | $ 1,845 | 100% | $ 1,711 | 100% |

Residential real estate loans, which consist of traditional residential mortgages and home equity loans and lines of credit, totaled $3.4 billion at December 31, 2020. The residential real estate portfolio is principally located within the Corporation's primary geographic markets. Substantially all residential real estate loans past due 90 days or more are placed on nonaccrual status, and substantially all junior lien home equity loans that are current or less than 90 days past due are placed on nonaccrual status if full collection of the senior position is in doubt. At no later than 180 days past due, such loans are charged off to current appraised values less costs to sell.

Residential mortgages totaled $1.8 billion at December 31, 2020, and were primarily larger, variable-rate mortgages originated and retained for certain private banking relationship customers. Of the $1.8 billion of residential mortgage loans outstanding, $47 million were on nonaccrual status at December 31, 2020. The home equity portfolio totaled $1.6 billion at December 31, 2020, of which $1.5 billion was outstanding under primarily variable-rate, interest-only home equity lines of credit, $70 million were in amortizing status and $16 million were closed-end home equity loans. Of the $1.6 billion of home equity loans outstanding, $17 million were on nonaccrual status at December 31, 2020. A majority of the home equity portfolio was secured by junior liens at December 31, 2020.

**Energy Lending**

The Corporation has a portfolio of Energy loans that are included entirely in commercial loans in the Consolidated Balance Sheets. Customers in the Corporation's Energy business line (approximately 130 relationships) are engaged in three segments of the oil and gas business: exploration and production (E&P), midstream and energy services. E&P generally includes such activities as searching for potential oil and gas fields, drilling exploratory wells and operating active wells. Commitments to E&P borrowers are generally subject to semi-annual borrowing base re-determinations based on a variety of factors including updated prices (reflecting market and competitive conditions), energy reserve levels and the impact of hedging. The midstream sector is generally involved in the transportation, storage and marketing of crude and/or refined oil and gas products. The Corporation's energy services customers provide products and services primarily to the E&P segment.

The following table summarizes information about the Corporation's Energy business line.

| *(dollar amounts in millions)* | **2020** | | | | **2019** | | | |
|---|---|---|---|---|---|---|---|---|
| **December 31** | **Outstandings** | | **Nonaccrual** | **Criticized (a)** | **Outstandings** | | **Nonaccrual** | **Criticized (a)** |
| Exploration and production (E&P) | **$ 1,295** | **81%** | **$ 114** | **$ 527** | $ 1,741 | 78% | $ 43 | $ 289 |
| Midstream | **261** | **16** | **—** | **56** | 432 | 20 | — | 63 |
| Services | **44** | **3** | **—** | **13** | 48 | 2 | — | 14 |
| Total Energy business line | **$ 1,600** | **100%** | **$ 114** | **$ 596** | $ 2,221 | 100% | $ 43 | $ 366 |
| As a percentage of total Energy loans | | | **7%** | **37%** | | | 2% | 16% |

*(a) Includes nonaccrual loans.*

Loans in the Energy business line totaled $1.6 billion, or approximately 3 percent of total loans, at December 31, 2020, a decrease of $621 million. Total exposure, including unused commitments to extend credit and letters of credit, was $3.1 billion (a utilization rate of 52 percent) and $4.3 billion at December 31, 2020 and December 31, 2019, respectively.

The decrease in total exposure in the Energy business line primarily reflected reduced borrowing bases as a result of lower oil and gas prices as well as reduced production activity. At December 31, 2020, the Corporation had completed approximately 92 percent of the Fall borrowing base re-determinations, resulting in a modest decrease to borrowing bases. The value and coverage benefit of hedging contracts are dependent upon the oil/gas price in each contract, as well as the operational costs, which are different for each borrower. As of December 31, 2020, 75 percent of the Corporation's E&P customers had at least 50 percent of their oil and/or gas production hedged up to one year and 38 percent of customers had at least 50 percent of production hedged for two years or more.

The Corporation's allowance methodology considers the various risk elements within the loan portfolio. When merited, the Corporation may incorporate a qualitative reserve component for Energy loans. The allocation of reserves for Energy loans was approximately 8 percent of the Energy portfolio at December 31, 2020. Energy markets, which were already experiencing stress prior to the pandemic, were further impacted by the rapid decline in demand resulting from social distancing policies. Demand and prices improved slightly in the latter half of 2020 as the economy began to recover, but energy markets remain uncertain. There were $125 million and $86 million in net credit-related charge-offs in the Energy business line for the years ended December 31, 2020 and 2019, respectively. Nonaccrual Energy loans increased $71 million to $114 million at December 31, 2020, compared to $43 million at December 31, 2019. Criticized loans increased $230 million to $596 million at December 31, 2020.

**Leveraged Loans**

Certain loans in the Corporation's commercial portfolio are considered leveraged transactions. These loans are typically used for mergers, acquisitions, business recapitalizations, refinancing and equity buyouts. To help mitigate the risk associated with these loans, the Corporation focuses on middle market companies with highly capable management teams, strong sponsors and solid track records of financial performance. Industries prone to cyclical downturns and acquisitions with a high degree of integration risk are generally avoided. Other considerations include the sufficiency of collateral, the level of balance sheet leverage and the adequacy of financial covenants. During the underwriting process, cash flows are stress-tested to evaluate the borrowers' abilities to handle economic downturns and an increase in interest rates. Management considers the leveraged loan portfolio to be one of the most sensitive to economic impacts stemming from the COVID-19 pandemic and social distancing policies and has continued to set aside increased reserves for this portfolio as of December 31, 2020. Certain energy, automotive production and loans in other portfolios specifically identified as subject to additional stress due to COVID-19 impacts, totaling approximately $250 million, are also considered leveraged transactions.

The FDIC defines higher-risk commercial and industrial (HR C&I) loans for assessment purposes as loans generally with leverage of four times total debt to earnings before interest, taxes and depreciation (EBITDA) as well as three times senior debt to EBITDA, excluding certain collateralized loans.

The following table summarizes information about HR C&I loans.

| *(in millions)* | **2020** | 2019 |
|---|---|---|
| Outstandings | **$ 2,441** | $ 2,553 |
| Criticized | **418** | 169 |
| Net loan charge-offs | | |
| Years ended December 31, | **25** | 6 |

**<u>Other Sectors Most at Risk due to Economic Stress Resulting from COVID-19 Impacts</u>**

The COVID-19 pandemic has negatively impacted the global economy, disrupted global supply chains and increased unemployment levels. The resulting temporary closure of many businesses and the implementation of social distancing and sheltering in place policies has impacted, and will continue to impact, many of the Corporation's customers. In addition to the energy, automotive production and leveraged loan portfolios, the Corporation considers the following sectors of its loan portfolio to be most vulnerable to financial risks from business disruptions caused by the pandemic spread mitigation efforts. For further discussion, see Item 1.A "Risk Factors" on page 13 of this report.

| | **December 31, 2020** | | | |
|---|---|---|---|---|
| **Sector based on NAICS category** *(dollar amounts in millions)* | **Loans (a)** | **Percent of Total Loans** | **Percent Criticized (b)** | **Percent Nonaccrual (c)** |
| Retail Commercial Real Estate (d) | **$ 785** | **1.5%** | **4.7%** | **—%** |
| Hotels | **557** | **1.1** | **11.6** | **1.7** |
| Arts/Recreation | **238** | **0.5** | **30.4** | **4.5** |
| Retail Goods and Services | **228** | **0.4** | **10.4** | **—** |
| All other impacted sectors (e) | **1,022** | **2.0** | **9.6** | **0.6** |
| Total | **$ 2,830** | **5.4%** | **10.5%** | **0.9%** |

*(a) Excludes PPP loans.*

*(b) Sector criticized loans as a percentage of sector total loans.*

*(c) Sector nonaccrual loans as a percentage of sector total loans.*

*(d) Loans in the retail commercial real estate sector are primarily included in the Corporation's commercial real estate portfolio.*

*(e) Includes airlines, restaurants and bars, childcare, coffee shops, cruise lines, education, gasoline and convenience stores, religious organizations, senior living, freight, as well as travel arrangements.*

**Market and Liquidity Risk**

Market risk represents the risk of loss due to adverse movement in prices, including interest rates, foreign exchange rates, commodity prices and equity prices. Liquidity risk represents the risk that the Corporation does not have sufficient access to funds to maintain its normal operations at all times, or does not have the ability to raise or borrow funds at a reasonable cost at all times.

The Asset and Liability Policy Committee (ALCO) of the Corporation establishes and monitors compliance with the policies and risk limits pertaining to market and liquidity risk management activities. ALCO meets regularly to discuss and review market and liquidity risk management strategies, and consists of executive and senior management from various areas of the Corporation, including treasury, finance, economics, lending, deposit gathering and risk management. Corporate Treasury mitigates market and liquidity risk under the direction of ALCO through the actions it takes to manage the Corporation's market, liquidity and capital positions.

In addition to assessing liquidity risk on a consolidated basis, Corporate Treasury also monitors the parent company's liquidity and has established limits for the minimum number of months into the future in which the parent company can meet existing and forecasted obligations without the support of additional dividends from subsidiaries. ALCO's liquidity policy requires the parent company to maintain sufficient liquidity to meet expected capital and debt obligations with a target of 24 months but no less than 18 months.

Corporate Treasury and the Enterprise Risk Division support ALCO in measuring, monitoring and managing interest rate risk as well as all other market risks. Key activities encompass: (i) providing information and analyses of the Corporation's balance sheet structure and measurement of interest rate and all other market risks; (ii) monitoring and reporting of the Corporation's positions relative to established policy limits and guidelines; (iii) developing and presenting analyses and strategies to adjust risk positions; (iv) reviewing and presenting policies and authorizations for approval; and (v) monitoring of industry trends and analytical tools to be used in the management of interest rate and all other market and liquidity risks.

***Interest Rate Risk***

Net interest income is the primary source of revenue for the Corporation. Interest rate risk arises in the normal course of business due to differences in the repricing and cash flow characteristics of assets and liabilities, primarily through the Corporation's core business activities of extending loans and acquiring deposits. The Corporation's balance sheet is predominantly characterized by floating-rate loans funded by core deposits. Including the impact of interest rate swaps converting floating-rate loans to fixed, the Corporation's loan composition at December 31, 2020 was 62 percent LIBOR, 12 percent prime and 26 percent fixed rate. Additionally, 20 percent of loans had non-zero interest rate floors protecting against future rate declines. The composition of the loan portfolio creates sensitivity to interest rate movements due to the imbalance between the faster repricing of the floating-rate loan portfolio versus deposit products. In addition, the growth and/or contraction in the Corporation's loans and deposits may lead to changes in sensitivity to interest rate movements in the absence of mitigating actions. Examples of such actions are purchasing fixed-rate investment securities, which provide liquidity to the balance sheet and act to mitigate the inherent interest sensitivity, as well as hedging with interest rate swaps and options. The Corporation actively manages its exposure to interest rate risk with the principal objective of optimizing net interest income and the economic value of equity while operating within acceptable limits established for interest rate risk and maintaining adequate levels of funding and liquidity.

Since no single measurement system satisfies all management objectives, a combination of techniques is used to manage interest rate risk. These techniques examine the impact of interest rate risk on net interest income and the economic value of equity under a variety of alternative scenarios, including changes in the level, slope and shape of the yield curve utilizing multiple simulation analyses. Simulation analyses produce only estimates of net interest income as the assumptions used are inherently uncertain. Actual results may differ from simulated results due to many factors, including, but not limited to, the timing, magnitude and frequency of changes in interest rates, market conditions, regulatory impacts and management strategies.

*Sensitivity of Net Interest Income to Changes in Interest Rates*

The analysis of the impact of changes in interest rates on net interest income under various interest rate scenarios is management's principal risk management technique. Management models a base case net interest income under an unchanged interest rate environment. Existing derivative instruments entered into for risk management purposes as of the balance sheet dates are included in the analysis, but no additional hedging is forecasted. At December 31, 2020, these derivative instruments comprise interest rate swaps that convert $2.7 billion of fixed-rate medium- and long-term debt to variable rates through fair value hedges and convert $5.6 billion of variable-rate loans to fixed rates through cash flow hedges. Additionally, included in this analysis are $10.6 billion of loans that were subject to an average interest rate floor of 0.86 percent at December 31, 2020. This base-case net interest income is then compared against interest rate scenarios in which rates rise or decline 100 basis points

(with a floor of zero percent) in a linear, non-parallel fashion from the base case over 12 months, resulting in an average increase or decrease in short-term interest rates of 50 basis points over the period.

Each scenario includes assumptions such as loan growth, investment security prepayment levels, depositor behavior, yield curve changes, loan and deposit pricing, and overall balance sheet mix and growth. In this low rate environment, depositors have maintained a higher level of liquidity and their historical behavior may be less indicative of future trends. As a result, the rising rate scenario reflects a greater decrease in deposits than we have experienced historically as rates rise. Changes in actual economic activity may result in a materially different interest rate environment as well as a balance sheet structure that is different from the changes management included in its simulation analysis.

The table below, as of December 31, 2020 and 2019, displays the estimated impact on net interest income during the next 12 months by relating the base case scenario results to those from the rising and declining rate scenarios described above.

| *(dollar amounts in millions)* | **Estimated Annual Change** | | | | |
|---|---|---|---|---|---|
| | **2020** | | | **2019** | |
| **December 31** | **Amount** | **%** | | **Amount** | **%** |
| Change in Interest Rates: | | | Change in Interest Rates: | | |
| Rising 100 basis points | **$ 161** | **9%** | Rising 100 basis points | $ 90 | 4% |
| Declining to zero percent | **(34)** | **(2)** | Declining 100 basis points | (135) | (6) |

Sensitivity to declining interest rates decreased from December 31, 2019 to December 31, 2020 due to changes in balance sheet composition, as well as limited remaining downward movement in rates before hitting zero percent floors. Sensitivity to rising interest rates increased due to changes in balance sheet composition, partially offset by fixed-rate PPP lending and an increase in the number of variable-rate loans with active floors.

*Sensitivity of Economic Value of Equity to Changes in Interest Rates*

In addition to the simulation analysis on net interest income, an economic value of equity analysis provides an alternative view of the interest rate risk position. The economic value of equity is the difference between the estimate of the economic value of the Corporation's financial assets, liabilities and off-balance sheet instruments, derived through discounting cash flows based on actual rates at the end of the period, and the estimated economic value after applying the estimated impact of rate movements. The Corporation primarily monitors the percentage change on the base-case economic value of equity. At December 31, 2020, the economic value of equity analysis is based on an immediate parallel 100 basis point shock with a floor of zero percent, compared to an immediate parallel 100 basis point shock at December 31, 2019.

The table below, as of December 31, 2020 and 2019, displays the estimated impact on the economic value of equity from the interest rate scenarios described above.

| *(dollar amounts in millions)* | **2020** | | | **2019** | |
|---|---|---|---|---|---|
| **December 31** | **Amount** | **%** | | **Amount** | **%** |
| Change in Interest Rates: | | | Change in Interest Rates: | | |
| Rising 100 basis points | **$ 1,793** | **18%** | Rising 100 basis points | $ 716 | 7% |
| Declining to zero percent | **(551)** | **(6)** | Declining 100 basis points | (1,178) | (12) |

The sensitivity of the economic value of equity to rising rates increased from December 31, 2019 to December 31, 2020 due to changes in deposit pay rates and expected lives, partially offset by increased variable-rate loans with floors. The sensitivity to declining rates decreased due to changes in balance sheet composition as well as limited remaining downward movement in rates before hitting modeled zero-percent floors.

***LIBOR Transition***

On July 27, 2017, the United Kingdom’s Financial Conduct Authority, which regulates LIBOR, publicly announced that it intends to stop persuading or compelling banks to submit LIBOR rates after 2021. The Corporation has substantial exposure to LIBOR-based products, including loans, securities, derivatives and hedges, and is preparing for a transition from LIBOR toward alternative rates. A dedicated program office and governance structure, with direction and oversight from the Chief Executive Officer, Chief Financial Officer and Chief Risk Officer, continues to guide a cross-functional implementation team to execute an enterprise LIBOR transition plan. Comerica’s enterprise transition milestones are closely aligned with recommendations from the Alternative Reference Rates Committee (ARRC) for both best practices and recommended 2020 objectives. Beginning in second quarter 2020, customer disclosure information for both consumer and commercial loans were provided for new originations. The Corporation began indexing new retail adjustable rate mortgages to SOFR (Secured Overnight Financing Rate) in third quarter 2020. During fourth quarter 2020, the Corporation began the process of incorporating fallback language in legacy LIBOR-based commercial loans and updated International Swaps and Derivative Association (ISDA) protocols in interest rate derivatives. The Corporation continues to monitor market developments and regulatory updates, including recent announcements from the ICE Benchmark Administrator to extend the cessation date for several USD LIBOR tenors to June 30, 2023, as well as collaborate with regulators and industry groups on the transition. For a

discussion of the various risks facing the Corporation in relation to the transition away from LIBOR, see the market risk discussion within Item 1A. Risk Factors.

***Loan Maturities and Interest Rate Sensitivity***

| *(in millions)*<br>**December 31, 2020** | **Loans Maturing**<br>**Within One Year (a)** | **After One But Within Five Years** | **After Five Years** | **Total** |
|---|---|---|---|---|
| Commercial loans | **$ 15,045** | **$ 16,869** | **$ 839** | **$ 32,753** |
| Real estate construction loans | **1,455** | **2,411** | **216** | **4,082** |
| Commercial mortgage loans | **1,773** | **5,012** | **3,127** | **9,912** |
| International loans | **341** | **529** | **56** | **926** |
| Total | **$ 18,614** | **$ 24,821** | **$ 4,238** | **$ 47,673** |
| Sensitivity of loans to changes in interest rates: | | | | |
| Predetermined (fixed) interest rates | **$ 360** | **$ 4,339** | **$ 489** | **$ 5,188** |
| Floating interest rates | **18,254** | **20,482** | **3,749** | **42,485** |
| Total | **$ 18,614** | **$ 24,821** | **$ 4,238** | **$ 47,673** |

*(a) Includes demand loans, loans having no stated repayment schedule or maturity and overdrafts.*

The Corporation uses investment securities and derivative instruments as asset and liability management tools with the overall objective of managing the volatility of net interest income from changes in interest rates. These tools assist management in achieving the desired interest rate risk management objectives. Activity related to derivative instruments currently involves interest rate swaps effectively converting fixed-rate medium- and long-term debt to a floating rate as well as variable rate loans to a fixed rate.

***Risk Management Derivative Instruments***

| *(in millions)*<br>**Risk Management Notional Activity** | **Interest Rate Contracts** | **Foreign Exchange Contracts** | **Totals** |
|---|---|---|---|
| Balance at January 1, 2019 | $ 2,625 | $ 302 | $ 2,927 |
| Additions | 5,600 | 7,922 | 13,522 |
| Maturities/amortizations | (350) | (7,894) | (8,244) |
| Balance at December 31, 2019 | $ 7,875 | $ 330 | $ 8,205 |
| Additions | **1,000** | **7,141** | **8,141** |
| Maturities/amortizations | **(675)** | **(7,029)** | **(7,704)** |
| **Balance at December 31, 2020** | **$ 8,200** | **$ 442** | **$ 8,642** |

The notional amount of risk management interest rate swaps totaled $8.2 billion at December 31, 2020 and $7.9 billion at December 31, 2019, which included fair value hedging strategies that convert $5.6 billion of fixed-rate medium- and long-term debt to a floating rate as well as cash flow hedging strategies that convert $2.7 billion of variable-rate loans to a fixed rate. Risk management interest rate swaps generated $121 million and $4 million of net interest income for the years ended December 31, 2020 and December 31, 2019, respectively.

In addition to interest rate swaps, the Corporation employs various other types of derivative instruments as offsetting positions to mitigate exposures to foreign currency risks associated with specific assets and liabilities (e.g., customer loans or deposits denominated in foreign currencies). Such instruments may include foreign exchange spot and forward contracts as well as foreign exchange swap agreements.

Further information regarding risk management derivative instruments is provided in Note 8 to the consolidated financial statements.

***Customer-Initiated and Other Derivative Instruments***

| *(in millions)*<br>**Customer-Initiated and Other Notional Activity** | **Interest Rate Contracts** | **Energy Derivative Contracts** | **Foreign Exchange Contracts** | **Totals** |
|---|---|---|---|---|
| Balance at January 1, 2019 | $ 14,885 | $ 2,650 | $ 1,095 | $ 18,630 |
| Additions | 6,411 | 2,719 | 38,805 | 47,935 |
| Maturities/amortizations | (2,289) | (2,198) | (38,887) | (43,374) |
| Terminations | (1,180) | (82) | — | (1,262) |
| Balance at December 31, 2019 | $ 17,827 | $ 3,089 | $ 1,013 | $ 21,929 |
| Additions | **7,660** | **2,607** | **37,743** | **48,010** |
| Maturities/amortizations | **(2,465)** | **(2,484)** | **(36,855)** | **(41,804)** |
| Terminations | **(1,501)** | **(91)** | **—** | **(1,592)** |
| **Balance at December 31, 2020** | **$ 21,521** | **$ 3,121** | **$ 1,901** | **$ 26,543** |

The Corporation sells and purchases interest rate caps and floors and enters into foreign exchange contracts, interest rate swaps and energy derivative contracts to accommodate the needs of customers requesting such services. Changes in the fair value of customer-initiated and other derivatives are recognized in earnings as they occur. To limit the market risk of these activities, the Corporation generally takes offsetting positions with dealers. The notional amounts of offsetting positions are included in the table above. Customer-initiated and other notional activity represented 75 percent and 73 percent of total interest rate, energy and foreign exchange contracts at December 31, 2020 and 2019, respectively.

Further information regarding customer-initiated and other derivative instruments is provided in Note 8 to the consolidated financial statements.

***Liquidity Risk and Off-Balance Sheet Arrangements***

Liquidity is the ability to meet financial obligations through the maturity or sale of existing assets or the acquisition of additional funds. Various financial obligations, including contractual obligations and commercial commitments, may require future cash payments by the Corporation. Certain obligations are recognized on the Consolidated Balance Sheets, while others are off-balance sheet under U.S. generally accepted accounting principles.

The following contractual obligations table summarizes the Corporation's noncancelable contractual obligations and future required minimum payments. Refer to Notes 9, 10, 12, 18 and 26 to the consolidated financial statements for further information regarding these contractual obligations.

***Contractual Obligations***

| | | **Minimum Payments Due by Period** | | | |
|---|---|---|---|---|---|
| *(in millions)*<br>**December 31, 2020** | **Total** | **Less than 1 Year** | **1-3 Years** | **4-5 Years** | **More than 5 Years** |
| Deposits without a stated maturity (a) | **$ 70,670** | **$ 70,670** | | | |
| Certificates of deposit and other deposits with a stated maturity (a) | **2,199** | **1,823** | **$ 322** | **$ 32** | **$ 22** |
| Medium- and long-term debt (a) | **5,450** | **—** | **850** | **850** | **3,750** |
| Operating leases | **403** | **60** | **108** | **86** | **149** |
| Commitments to fund low income housing partnerships | **165** | **107** | **44** | **6** | **8** |
| Other long-term obligations (b) | **325** | **103** | **75** | **26** | **121** |
| Total contractual obligations | **$ 79,212** | **$ 72,763** | **$ 1,399** | **$ 1,000** | **$ 4,050** |
| Medium- and long-term debt (parent company only) (a) (c) | **$ 1,650** | **$ —** | **$ 850** | **$ —** | **$ 800** |

*(a) Deposits and borrowings exclude accrued interest.*
*(b) Includes unrecognized tax benefits.*
*(c) Parent company only amounts are included in the medium- and long-term debt minimum payments above.*

In addition to contractual obligations, other commercial commitments of the Corporation impact liquidity. These include unused commitments to extend credit, standby letters of credit and financial guarantees, and commercial letters of credit. The following table summarizes the Corporation's commercial commitments and expected expiration dates by period.

***Commercial Commitments***

| (in millions)<br>**December 31, 2020** | | **Total** | | **Less than 1 Year** | | **1-3 Years** | | **4-5 Years** | | **More than 5 Years** |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | **Expected Expiration Dates by Period** | | | | | | |
| Unused commitments to extend credit | **$** | **26,740** | **$** | **7,683** | **$** | **10,817** | **$** | **5,264** | **$** | **2,976** |
| Standby letters of credit and financial guarantees | | **3,273** | | **2,855** | | **296** | | **52** | | **70** |
| Commercial letters of credit | | **30** | | **29** | | **1** | | **—** | | **—** |
| Total commercial commitments | **$** | **30,043** | **$** | **10,567** | **$** | **11,114** | **$** | **5,316** | **$** | **3,046** |

Since many of these commitments expire without being drawn upon, and each customer must continue to meet the conditions established in the contract, the total amount of these commercial commitments does not necessarily represent the future cash requirements of the Corporation. Refer to the "Other Market Risks" section below and Note 8 to the consolidated financial statements for a further discussion of these commercial commitments.

***Wholesale Funding***

The Corporation may access the purchased funds market when necessary, which includes a variety of funding sources. Capacity for incremental purchased funds at December 31, 2020 included short-term FHLB advances, the ability to purchase federal funds, sell securities under agreements to repurchase, as well as issue deposits through brokers. Purchased funds, which includes brokered deposits and short-term borrowings, decreased to $66 million at December 31, 2020, compared to $295 million at December 31, 2019, as total deposits increased, reducing the need for additional funding sources.

At December 31, 2020, the Bank had pledged loans totaling $18.0 billion which provided for up to $14.2 billion of available collateralized borrowing with the FRB.

The Bank is a member of the FHLB of Dallas, Texas, which provides short- and long-term funding to its members through advances collateralized by real estate-related assets. Actual borrowing capacity is contingent on the amount of collateral available to be pledged to the FHLB. At December 31, 2020, $19.5 billion of real estate-related loans and $4.4 billion of investment securities were pledged to the FHLB as collateral for current and potential future borrowings. The Corporation used excess liquidity to repay $2.8 billion of FHLB advances in the first quarter of 2021. Potential future borrowing capacity of approximately $12.0 billion is available at December 31, 2020.

Additionally, the Bank had the ability to issue up to $13.5 billion of debt at December 31, 2020 under an existing $15.0 billion note program which allows the issuance of debt with maturities between three months and 30 years. The Corporation also maintains a shelf registration statement with the Securities and Exchange Commission from which it may issue debt and equity securities.

The ability of the Corporation and the Bank to raise funds at competitive rates is impacted by rating agencies' views of the credit quality, liquidity, capital and earnings of the Corporation and the Bank. As of December 31, 2020, the three major rating agencies had assigned the following ratings to long-term senior unsecured obligations of the Corporation and the Bank. A security rating is not a recommendation to buy, sell, or hold securities and may be subject to revision or withdrawal at any time by the assigning rating agency. Each rating should be evaluated independently of any other rating.

| | Comerica Incorporated | | Comerica Bank | |
|---|---|---|---|---|
| December 31, 2020 | Rating | Outlook | Rating | Outlook |
| Standard and Poor's | BBB+ | Negative | A- | Negative |
| Moody's Investors Service | A3 | Stable | A3 | Stable |
| Fitch Ratings | A- | Stable | A- | Stable |

The Corporation satisfies liquidity needs with either liquid assets or various funding sources. Liquid assets totaled $25.9 billion at December 31, 2020, compared to $17.9 billion at December 31, 2019. Liquid assets include cash and due from banks, federal funds sold, interest-bearing deposits with banks, other short-term investments and unencumbered investment securities.

The Corporation performs monthly liquidity stress testing to evaluate its ability to meet funding needs in hypothetical stressed environments. Such environments cover a series of broad events, distinguished in terms of duration and severity. The evaluation as of December 31, 2020 projected that sufficient sources of liquidity were available under each series of events.

***Other Market Risks***

Market risk related to the Corporation's trading instruments is not significant, as trading activities are limited. Certain components of the Corporation's noninterest income, primarily fiduciary income, are at risk to fluctuations in the market values of underlying assets, particularly equity and debt securities. Other components of noninterest income, primarily brokerage fees, are at risk to changes in the volume of market activity.

**Operational Risk**

Operational risk represents the risk of loss resulting from inadequate or failed internal processes and people, or from external events, excluding in most cases those driven by technology (see Technology Risk below). The Corporation's definition of operational risk includes fraud; employment practice and workplace safety; clients, products and business practice; business continuity or disaster recovery; execution, delivery, and process management; third party and model risks. The definition does not include strategic or reputational risks. Although operational losses are experienced by all companies and are routinely incurred in business operations, the Corporation recognizes the need to identify and control operational losses and seeks to limit losses to a level deemed appropriate by management, as outlined in the Corporation's risk appetite statement. The appropriate risk level is determined through consideration of the nature of the Corporation's business and the environment in which it operates, in combination with the impact from, and the possible impact on, other risks faced by the Corporation. Operational risk is mitigated through a system of internal controls that are designed to keep operating risks at appropriate levels. The Operational Risk Management Committee monitors risk management techniques and systems. The Corporation has developed a framework that includes a centralized operational risk reporting function in the Enterprise Risk Division and business/support unit risk liaisons responsible for managing operational risk specific to the respective business lines.

**Technology Risk**

Technology risk represents the risk of loss or adverse outcomes arising from the people, processes, applications and infrastructure that support the technology environment. The Corporation's definition of technology risk includes technology delivery risk, technology investment risk, cybersecurity risk, information security risk and information management risk. Technology risk is inclusive of the risks associated with the execution of technology processes and activities by third-party contractors and suppliers to the Corporation. Other risk types may materialize in the event of a technology risk event, such as the risk of a financial reporting error or regulatory non-compliance, and the impact of such risks are highly interdependent with operational risk.

The Technology Risk Management Committee, comprising senior and executive business unit managers, as well as managers responsible for technology, cybersecurity, information security and enterprise risk management, oversees technology risk. The Technology Risk Management Committee also ensures that appropriate actions are implemented in business units to mitigate risk to an acceptable level.

**Compliance Risk**

Compliance risk represents the risk of sanctions or financial loss resulting from the Corporation's failure to comply with all applicable laws, regulations and standards of good banking practice. The impact of such risks is highly interdependent with strategic risk, as the reputational impact from compliance breaches can be severe. Activities which may expose the Corporation to compliance risk include, but are not limited to, those dealing with the prevention of money laundering, privacy and data protection, community reinvestment initiatives, fair lending, consumer protection, employment and tax matters, over-the-counter derivative activities and other regulated activities.

The Enterprise-Wide Compliance Committee, comprising senior and executive business unit managers, as well as managers responsible for compliance, audit and overall risk, oversees compliance risk. This enterprise-wide approach provides a consistent view of compliance across the organization. The Enterprise-Wide Compliance Committee also ensures that appropriate actions are implemented in business units to mitigate risk to an acceptable level.

**Strategic Risk**

Strategic risk represents the risk of inadequate returns or possible losses due to impairment of reputation, failure to fully develop and execute business plans, failure to assess current and new opportunities in business, markets and products, failure to determine appropriate consideration for risks accepted, and any other event not identified in the defined risk categories of credit, market and liquidity, operational, technology or compliance risks. Mitigation of the various risk elements that represent strategic risk is achieved through numerous metrics and initiatives to help the Corporation better understand, measure and report on such risks. The Executive Strategic and Pricing Committee, comprised of senior managers, oversees strategic risk and ensures that strategic risk is mitigated to appropriate levels.

## CRITICAL ACCOUNTING POLICIES

The Corporation’s consolidated financial statements are prepared based on the application of accounting policies, the most significant of which are described in Note 1. These policies require numerous estimates and strategic or economic assumptions, which may prove inaccurate or subject to variations. Changes in underlying factors, assumptions or estimates could have a material impact on the Corporation’s future financial condition and results of operations. At December 31, 2020, the most critical of these significant accounting policies were the policies related to the allowance for credit losses, fair value measurement, goodwill, pension plan accounting and income taxes. These policies were reviewed with the Audit Committee of the Corporation’s Board of Directors and are discussed more fully below.

### ALLOWANCE FOR CREDIT LOSSES

In accordance with CECL, the allowance for credit losses, which includes both the allowance for loan losses and the allowance for credit losses on lending-related commitments, is calculated with the objective of maintaining a reserve for current expected credit losses over the remaining contractual life of the portfolio. The Corporation uses loss factors, based on estimated probability of default for internal risk ratings and loss given default, to determine the allowance for credit losses for the majority of its portfolio. Management applies loss factors to pools of loans and lending-related commitments with similar risk characteristics, calibrates these factors using economic forecasts and incorporates qualitative adjustments. For further discussion of the methodology used in the determination of the allowance for credit losses, refer to Note 1 to the consolidated financial statements. For further discussion on the economic forecast incorporated into the 2020 model, refer to the “Risk Management” section of this financial review.

Management's determination of the appropriateness of the allowance is based on periodic evaluations of the loan portfolio, lending-related commitments, current as well as forecasted economic factors, and other relevant information. The calculation is inherently subjective and requires management to exercise significant judgment in developing assumptions for the estimate, the most significant of which are the loan risk rating process, development of economic forecasts and application of qualitative adjustments. Sensitivities are disclosed to demonstrate how changes in loan risk ratings and economic forecast scenarios may impact the allowance for credit losses. Sensitivities only consider changes to each specific assumption in isolation and their impact to the quantitative modeled results. They do not contemplate impacts to the qualitative framework.

#### *Loan Risk Rating Process*

Reserve factors are applied to pools of loans based on risk characteristics, including the Corporation's internal risk rating system; therefore, loss estimates are highly dependent on the accuracy of the risk rating assigned to each loan. The inherent imprecision in the risk rating system resulting from inaccuracy in assigning and/or entering risk ratings in the loan accounting system is monitored by the Corporation's asset quality review function. Changes to internal risk ratings, beyond the forecasted migration inherent in the credit models, would result in a different estimated allowance for credit losses. To illustrate, if 5 percent of the individual risk ratings were adjusted down by one rating across all pools, the allowance for loan losses as of December 31, 2020 would change by approximately $9 million.

#### *Forecasted Economic Variables*

Management selects models through which historical reserve factor estimates are calibrated to economic forecasts over the reasonable and supportable forecast period based on the projected performance of specific economic variables that statistically correlate with the probability of default and loss given default pools. Loss estimates revert to historical loss experience for contractual lives beyond the forecast period. Management selects economic variables it believes to be most relevant based on the composition of the loan portfolio and customer base, including forecasted levels of employment, gross domestic product, corporate bond and treasury spreads, industrial production levels, consumer and commercial real estate price indices as well as housing statistics.

The allowance for credit losses is highly sensitive to the economic forecasts used to develop the estimate. Due to the high level of uncertainty regarding significant assumptions, such as the ultimate impact of the global pandemic and effectiveness of government stimulus programs, the Corporation evaluated a range of economic scenarios, including a more severe economic forecast scenario, with varying speeds of recovery. The following table summarizes the more severe forecast scenario for the economic variables that are most impactful.

| Economic Variable | More Severe Forecast |
|---|---|
| Real GDP growth | Contracts through third quarter 2021, including a 5 percent decline in the first quarter 2021, followed by a gradual improvement to a growth rate above 4 percent by the end of the forecast period. |
| Unemployment rate | Current levels increase to near 10 percent in the second half of 2021, gradually lowering to below 9 percent by the end of the forecast period. |
| Corporate BBB bond to 10-year Treasury bond spreads | Spreads widen above 2.5 percent in the near term, gradually normalizing to 2 percent or lower in 2022. |
| Oil Prices | Decline below $25 per barrel part-way through the forecast period before improving to over $30 per barrel by fourth quarter 2022. |

Selecting a different forecast in the current environment could result in a significantly different estimated allowance for credit losses. To illustrate, absent model overlays and other qualitative adjustments that are part of the quarterly reserving process, if the Corporation selected the more severe scenario to inform its models, the allowance for credit losses as of December 31, 2020 would increase by approximately $515 million. However, factoring in model overlays and qualitative adjustments could result in a materially different estimate under a more severe scenario.

***Qualitative Adjustments and Model Overlays***

The Corporation includes qualitative adjustments, as appropriate, intended to capture the impact of uncertainties not reflected in the quantitative estimate, including foresight risk, model imprecisions and input imprecisions. Qualitative adjustments for foresight risk reflect the inherent imprecision in economic forecasts and may be included based on management's evaluation of different forecast scenarios, ranging from more benign to more severe, and known recent events impacting the Corporation's portfolio. Model imprecision adjustments and model overlays may be included to mitigate known limitations in the quantitative models. Input imprecision includes adjustments for portfolios where recent historical losses exceed expected losses or known recent events are expected to alter risk ratings once evidence is acquired, as well as a qualitative assessment of the lending environment, including underwriting standards, current economic and political conditions, and other factors affecting credit quality. Qualitative reserves at December 31, 2020 primarily included adjustments for uncertainties related to forecasted economic variables.

***Other Considerations***

To the extent actual outcomes differ from management estimates, additional provision for credit losses may be required that would adversely impact earnings in future periods. The allowance is assigned to business segments, and any earnings impact resulting from actual outcomes differing from management estimates would primarily affect the Commercial Bank segment.

**FAIR VALUE MEASUREMENT**

Investment securities available-for-sale, derivatives and deferred compensation plan assets and associated liabilities are recorded at fair value on a recurring basis. Additionally, from time to time, other assets and liabilities may be recorded at fair value on a nonrecurring basis, such as impaired loans that have been reduced based on the fair value of the underlying collateral, other real estate (primarily foreclosed property), nonmarketable equity securities and certain other assets and liabilities. These nonrecurring fair value adjustments typically involve write-downs of individual assets or application of lower of cost or fair value accounting.

Fair value is an estimate of the exchange price that would be received to sell an asset or paid to transfer a liability in an orderly transaction (i.e., not a forced transaction, such as a liquidation or distressed sale) between market participants at the measurement date and is based on the assumptions market participants would use when pricing an asset or liability. Fair value measurement and disclosure guidance establishes a three-level hierarchy for disclosure of assets and liabilities recorded at fair value. Notes 1 and 2 to the consolidated financial statements include information about the fair value hierarchy, the extent to which fair value is used to measure assets and liabilities, as well as the valuation methodologies and key inputs used.

At December 31, 2020, assets and liabilities measured using observable inputs that are classified as Level 1 or Level 2 represented 98.8 percent and 100 percent of total assets and liabilities recorded at fair value, respectively. Valuations generated from model-based techniques that use at least one significant assumption not observable in the market are considered Level 3 and reflect estimates of assumptions market participants would use in pricing the asset or liability.

## GOODWILL

Goodwill is initially recorded as the excess of the purchase price over the fair value of net assets acquired in a business combination and is subsequently evaluated at least annually for impairment. Goodwill impairment testing is performed at the reporting unit level, equivalent to a business segment or one level below. The Corporation has three reporting units: the Commercial Bank, the Retail Bank and Wealth Management. At December 31, 2020, goodwill totaled $635 million, including $473 million allocated to the Commercial Bank, $101 million allocated to the Retail Bank and $61 million allocated to Wealth Management.

The Corporation performs its annual evaluation of goodwill impairment in the third quarter of each year and may elect to perform a quantitative impairment analysis or first conduct a qualitative analysis to determine if a quantitative analysis is necessary. Additionally, the Corporation evaluates goodwill impairment on an interim basis if events or changes in circumstances between annual tests indicate additional testing may be warranted to determine if goodwill might be impaired.

In the first quarter 2020, economic conditions deteriorated significantly with the spread of the coronavirus global pandemic. The outbreak resulted in social distancing requirements throughout the world, severely restricting the economy. In response to the crisis, the Federal Reserve lowered the Federal Funds rate in March 2020 to close to zero. Additionally, the U.S. government initiated numerous measures to support the economy, including the CARES Act. Given the economic deterioration in the first quarter of 2020, the Corporation assessed whether the events and circumstances resulted in it being more likely than not that the fair value of any reporting unit was less than its carrying value. Impairment indicators considered comprised economic conditions, including projections of the duration of current conditions and timing of a potential recovery; industry and market considerations; government intervention and regulatory updates; the impact of recent events to financial performance and cost factors of the reporting units; performance of the Corporation’s stock and other relevant events. The Corporation further considered the amount by which fair value exceeded book value for each unit in the most recent quantitative analysis and sensitivities performed. At the conclusion of the first quarter 2020 assessment, the Corporation determined that it was more likely than not that the fair value of each reporting unit exceeded its carrying value.

In second quarter 2020, the Corporation performed a quantitative goodwill impairment test in response to continued macroeconomic deterioration and the ongoing impacts to the banking industry and markets in which the Corporation operates. The estimated fair values of the reporting units were determined using a blend of two commonly used valuation techniques: the market approach and the income approach. For the market approach, valuations of reporting units considered a combination of earnings and equity multiples from companies with characteristics similar to each reporting unit. Since the fair values determined under the market approach are representative of noncontrolling interests, the valuations incorporated a control premium. For the income approach, estimated future cash flows were derived from internal forecasts and economic expectations for each reporting unit. In the short- and mid-term, forecasts incorporated current economic conditions and ongoing impacts of the global pandemic, including a federal funds target near zero and an elevated allowance for credit losses. Long-term projections reflected normalized rate and credit environments, as well as a long-term rate of return for each reporting unit. Projections were discounted using an applicable discount rate to calculate fair value. The discount rate was based on the imputed cost of equity capital appropriate for each reporting unit, which incorporated the risk-free rate of return, the level of non-diversified risk associated with companies with characteristics similar to the reporting unit, a size risk premium and a market equity risk premium. The discount rate further reflected the uncertainty of current economic conditions and potential impacts to the forecasted financial information. The combined fair value of all units was compared to the Corporation’s market capitalization for reasonableness. At the conclusion of the quantitative impairment test in second quarter 2020, the estimated fair values of all reporting units substantially exceeded their carrying amounts, including goodwill.

The annual goodwill impairment test was performed as of the beginning of third quarter 2020. The Corporation assessed qualitative factors to determine whether it was more likely than not that the fair value of any reporting unit was less than its carrying amount, including goodwill. Qualitative factors included economic conditions, industry and market considerations, cost factors, overall financial performance, regulatory developments and performance of the Corporation’s stock, among other events and circumstances. At the conclusion of the qualitative assessment in third quarter 2020, the Corporation determined that it was more likely than not that the fair value of each reporting unit exceeded its carrying value.

Analyzing goodwill includes consideration of various factors that continue to rapidly evolve and for which significant uncertainty remains, including the impact of the coronavirus global pandemic to the economy and ongoing government intervention to mitigate that impact. Further weakening in the economic environment, such as continued decline in the performance of the reporting units or other factors, could cause the fair value of one or more of the reporting units to fall below their carrying value, resulting in a goodwill impairment charge. Additionally, new legislative or regulatory changes not anticipated in management's expectations may cause the fair value of one or more of the reporting units to fall below the carrying value, resulting in a goodwill impairment charge. Any impairment charge would not affect the Corporation's regulatory capital ratios, tangible common equity ratio or liquidity position.

**PENSION PLAN ACCOUNTING**

The Corporation has a qualified and non-qualified defined benefit pension plan. Effective January 1, 2017, benefits are calculated using a cash balance formula based on years of service, age, compensation and an interest credit based on the 30-year Treasury rate. Participants under age 60 as of December 31, 2016 are eligible to receive a frozen final average pay benefit in addition to amounts earned under the cash balance formula. Participants age 60 or older as of December 31, 2016 continue to be eligible for a final average pay benefit. The Corporation makes assumptions concerning future events that will determine the amount and timing of required benefit payments, funding requirements and defined benefit pension expense. The major assumptions are the discount rate used in determining the current benefit obligation, the long-term rate of return expected on plan assets, mix of assets within the portfolio and the projected mortality rate.

The discount rate is determined by matching the expected cash flows of the pension plans to a portfolio of high quality corporate bonds as of the measurement date, December 31. The long-term rate of return expected on plan assets is set after considering both long-term returns in the general market and long-term returns experienced by the assets in the plan. The current target asset allocation model for the plans is provided in Note 17 to the consolidated financial statements. The expected returns on these various asset categories are blended to derive one long-term return assumption. The assets are primarily invested in certain collective investment funds, common stocks, U.S. Treasury and other U.S. government agency securities, as well as corporate and municipal bonds and notes. Mortality rate assumptions are based on mortality tables published by third-parties such as the Society of Actuaries, considering other available information including historical data as well as studies and publications from reputable sources.

The Corporation reviews its pension plan assumptions on an annual basis with its actuarial consultants to determine if the assumptions are reasonable and adjusts the assumptions to reflect changes in future expectations. The major assumptions used to calculate 2021 defined benefit plan pension expense (benefit) were as follows:

| | |
|---|---|
| Discount rate | 2.71% |
| Long-term rate of return on plan assets | 6.50% |
| Mortality table: | |
| Base table (a) | Pri-2012 |
| Mortality improvement scale (a) | MP-2020 |

*(a) Issued by the Society of Actuaries*

Defined benefit plan benefit is expected to increase $37 million to approximately $61 million in 2021, compared to a benefit of $24 million in 2020. This includes service cost expense of $41 million and a benefit from other components of $102 million. Service costs are included in salaries and benefits expense, while the benefit from other components are included in other noninterest expenses on the Consolidated Statements of Income.

Changing the 2021 discount rate and long-term rate of return by 25 basis points would impact defined benefit expense in 2021 by $8 million and $7 million, respectively.

Due to the long-term nature of pension plan assumptions, actual results may differ significantly from the actuarial-based estimates. Differences resulting in actuarial gains or losses are required to be recorded in shareholders' equity as part of accumulated other comprehensive loss and amortized to defined benefit pension expense in future years. Refer to Note 17 to the consolidated financial statements for further information.

**INCOME TAXES**

The calculation of the Corporation's income tax provision and tax-related accruals is complex and requires the use of estimates and judgments. The provision for income taxes is the sum of income taxes due for the current year and deferred taxes. Deferred taxes arise from temporary differences between the income tax basis and financial accounting basis of assets and liabilities. Accrued taxes represent the net estimated amount due to or to be received from taxing jurisdictions, currently or in the future, and are included in accrued income and other assets or accrued expenses and other liabilities on the Consolidated Balance Sheets. The Corporation assesses the relative risks and merits of tax positions for various transactions after considering statutes, regulations, judicial precedent and other available information and maintains tax accruals consistent with these assessments. The Corporation is subject to audit by taxing authorities that could question and/or challenge the tax positions taken by the Corporation.

Included in net deferred taxes are deferred tax assets. Deferred tax assets are evaluated for realization based on available evidence of projected future reversals of existing taxable temporary differences, assumptions made regarding future events and, when applicable, state loss carryback capacity. A valuation allowance is provided when it is more-likely-than-not that some portion of the deferred tax asset will not be realized.

Changes in the estimate of accrued taxes occur due to changes in tax law, interpretations of existing tax laws, new judicial or regulatory guidance, and the status of examinations conducted by taxing authorities that impact the relative risks and merits of tax positions taken by the Corporation. These changes, when they occur, impact the estimate of accrued taxes and

could be significant to the operating results of the Corporation. For further information on tax accruals and related risks, see Note 18 to the consolidated financial statements.

## SUPPLEMENTAL FINANCIAL DATA

The Corporation believes non-GAAP measures are meaningful because they reflect adjustments commonly made by management, investors, regulators and analysts to evaluate the adequacy of common equity and our performance trends. Tangible common equity is used by the Corporation to measure the quality of capital and the return relative to balance sheet risk.

Common equity tier 1 capital ratio removes preferred stock from the Tier 1 capital ratio as defined by and calculated in conformity with bank regulations. The tangible common equity ratio removes the effect of intangible assets from capital and total assets. Tangible common equity per share of common stock removes the effect of intangible assets from common shareholders' equity per share of common stock.

The following table provides a reconciliation of non-GAAP financial measures and regulatory ratios used in this financial review with financial measures defined by GAAP.

| *(dollar amounts in millions)* | **2020** | 2019 | 2018 | 2017 | 2016 |
|---|---|---|---|---|---|
| **Common Equity Tier 1 Capital (a):** | | | | | |
| Tier 1 capital | **$ 7,313** | $ 6,919 | $ 7,470 | $ 7,773 | $ 7,540 |
| Less: | | | | | |
| Fixed-rate reset non-cumulative perpetual preferred stock | **394** | — | — | — | — |
| Common equity tier 1 capital | **$ 6,919** | $ 6,919 | $ 7,470 | $ 7,773 | $ 7,540 |
| Risk-weighted assets | **$ 66,931** | $ 68,273 | $ 67,047 | $ 66,575 | $ 67,966 |
| Tier 1 capital ratio | **10.93%** | 10.13% | 11.14% | 11.68% | 11.09% |
| Common equity tier 1 capital ratio | **10.34** | 10.13 | 11.14 | 11.68 | 11.09 |
| **Tangible Common Equity Ratio:** | | | | | |
| Total shareholders' equity | **$ 8,050** | $ 7,327 | $ 7,507 | $ 7,963 | $ 7,796 |
| Less: | | | | | |
| Fixed-rate reset non-cumulative perpetual preferred stock | **394** | — | — | — | — |
| Common shareholders' equity | **$ 7,656** | $ 7,327 | $ 7,507 | $ 7,963 | $ 7,796 |
| Less: | | | | | |
| Goodwill | **635** | 635 | 635 | 635 | 635 |
| Other intangible assets | **1** | 4 | 6 | 8 | 10 |
| Tangible common equity | **$ 7,020** | $ 6,688 | $ 6,866 | $ 7,320 | $ 7,151 |
| Total assets | **$ 88,129** | $ 73,402 | $ 70,818 | $ 71,567 | $ 72,978 |
| Less: | | | | | |
| Goodwill | **635** | 635 | 635 | 635 | 635 |
| Other intangible assets | **1** | 4 | 6 | 8 | 10 |
| Tangible assets | **$ 87,493** | $ 72,763 | $ 70,177 | $ 70,924 | $ 72,333 |
| Common equity ratio | **8.69%** | 9.98% | 10.60% | 11.13% | 10.68% |
| Tangible common equity ratio | **8.02** | 9.19 | 9.78 | 10.32 | 9.89 |
| **Tangible Common Equity per Share of Common Stock:** | | | | | |
| Common shareholders' equity | **$ 7,656** | $ 7,327 | $ 7,507 | $ 7,963 | $ 7,796 |
| Tangible common equity | **7,020** | 6,688 | 6,866 | 7,320 | 7,151 |
| Shares of common stock outstanding (in millions) | **139** | 142 | 160 | 173 | 175 |
| Common shareholders' equity per share of common stock | **$ 55.01** | $ 51.57 | $ 46.89 | $ 46.07 | $ 44.47 |
| Tangible common equity per share of common stock | **50.43** | 47.07 | 42.89 | 42.34 | 40.79 |

*(a) December 31, 2020 tier 1 capital reflects the deferral of CECL model impact as defined by regulation.*

## FORWARD-LOOKING STATEMENTS

This report includes forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995. In addition, the Corporation may make other written and oral communications from time to time that contain such statements. All statements regarding the Corporation's expected financial position, strategies and growth prospects as well as general economic conditions expected to exist in the future are forward-looking statements. The words, “anticipates,” “believes,” "contemplates," “feels,” “expects,” “estimates,” “seeks,” “strives,” “plans,” “intends,” “outlook,” “forecast,” “position,” “target,” “mission,” “assume,” “achievable,” “potential,” “strategy,” “goal,” “aspiration,” “opportunity,” “initiative,” “outcome,” “continue,” “remain,” “maintain,” "on track," “trend,” “objective,” “looks forward,” "projects," "models" and variations of such words and similar expressions, or future or conditional verbs such as “will,” “would,” “should,” “could,” “might,” “can,” “may” or similar expressions, as they relate to the Corporation or its management, are intended to identify forward-looking statements. The Corporation cautions that forward-looking statements are subject to numerous assumptions, risks and uncertainties, which change over time. Forward-looking statements speak only as of the date the statement is made, and the Corporation does not undertake to update forward-looking statements to reflect facts, circumstances, assumptions or events that occur after the date the forward-looking statements are made. Actual results could differ materially from those anticipated in forward-looking statements and future results could differ materially from historical performance.

In addition to factors mentioned elsewhere in this report or previously disclosed in the Corporation's SEC reports (accessible on the SEC's website at www.sec.gov or on the Corporation's website at www.comerica.com), actual results could differ materially from forward-looking statements and future results could differ materially from historical performance due to a variety of reasons, including but not limited to, the following factors:

- unfavorable developments concerning credit quality could adversely affect the Corporation's financial results;
- declines in the businesses or industries of the Corporation's customers could cause increased credit losses or decreased loan balances, which could adversely affect the Corporation, particularly the energy industry;
- changes in customer behavior may adversely impact the Corporation's business, financial condition and results of operations;
- governmental monetary and fiscal policies may adversely affect the financial services industry, and therefore impact the Corporation's financial condition and results of operations;
- fluctuations in interest rates and their impact on deposit pricing could adversely affect the Corporation's net interest income and balance sheet;
- developments impacting LIBOR and other interest rate benchmarks could adversely affect the Corporation;
- the Corporation must maintain adequate sources of funding and liquidity to meet regulatory expectations, support its operations and fund outstanding liabilities;
- reduction in the Corporation's credit ratings could adversely affect the Corporation and/or the holders of its securities;
- the soundness of other financial institutions could adversely affect the Corporation;
- security risks, including denial of service attacks, hacking, social engineering attacks targeting the Corporation’s colleagues and customers, malware intrusion or data corruption attempts, and identity theft, could result in the disclosure of confidential information;
- cybersecurity and data privacy are areas of heightened legislative and regulatory focus;
- the Corporation’s operational or security systems or infrastructure, or those of third parties, could fail or be breached;
- the Corporation relies on other companies to provide certain key components of its delivery systems, and certain failures could materially adversely affect operations;
- legal and regulatory proceedings and related financial services industry matters, including those directly involving the Corporation and its subsidiaries, could adversely affect the Corporation or the financial services industry in general;
- the Corporation may incur losses due to fraud;
- controls and procedures may fail to prevent or detect all errors or acts of fraud;
- changes in regulation or oversight may have a material adverse impact on the Corporation's operations;
- compliance with more stringent capital requirements may adversely affect the Corporation;
- the impacts of future legislative, administrative or judicial changes or interpretations to tax regulations are unknown;
- damage to the Corporation’s reputation could damage its businesses;
- the Corporation may not be able to utilize technology to develop, market and deliver new products and services to its customers;
- competitive product and pricing pressures within the Corporation's markets may change;
- the introduction, implementation, withdrawal, success and timing of business initiatives and strategies may be less successful or may be different than anticipated, which could adversely affect the Corporation's business;
- management's ability to maintain and expand customer relationships may differ from expectations;
- management's ability to retain key officers and employees may change;
- any future strategic acquisitions or divestitures may present certain risks to the Corporation's business and operations;

- impacts from the COVID-19 global pandemic;
- general political, economic or industry conditions, either domestically or internationally, may be less favorable than expected;
- methods of reducing risk exposures might not be effective;
- catastrophic events may adversely affect the general economy, financial and capital markets, specific industries, and the Corporation;
- changes in accounting standards could materially impact the Corporation's financial statements;
- the Corporation's accounting policies and processes are critical to the reporting of financial condition and results of operations and require management to make estimates about matters that are uncertain; and
- the Corporation's stock price can be volatile.

# CONSOLIDATED BALANCE SHEETS
## Comerica Incorporated and Subsidiaries

*(in millions, except share data)*

| December 31 | 2020 | 2019 |
|---|---|---|
| **ASSETS** | | |
| Cash and due from banks | **$ 1,031** | $ 973 |
| Interest-bearing deposits with banks | **14,736** | 4,845 |
| Other short-term investments | **172** | 155 |
| Investment securities available-for-sale | **15,028** | 12,398 |
| Commercial loans | **32,753** | 31,473 |
| Real estate construction loans | **4,082** | 3,455 |
| Commercial mortgage loans | **9,912** | 9,559 |
| Lease financing | **594** | 588 |
| International loans | **926** | 1,009 |
| Residential mortgage loans | **1,830** | 1,845 |
| Consumer loans | **2,194** | 2,440 |
| Total loans | **52,291** | 50,369 |
| Less allowance for loan losses | **(948)** | (637) |
| Net loans | **51,343** | 49,732 |
| Premises and equipment | **459** | 457 |
| Accrued income and other assets | **5,360** | 4,842 |
| Total assets | **$ 88,129** | $ 73,402 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | |
| Noninterest-bearing deposits | **$ 39,420** | $ 27,382 |
| Money market and interest-bearing checking deposits | **28,540** | 24,527 |
| Savings deposits | **2,710** | 2,184 |
| Customer certificates of deposit | **2,133** | 2,978 |
| Other time deposits | **—** | 133 |
| Foreign office time deposits | **66** | 91 |
| Total interest-bearing deposits | **33,449** | 29,913 |
| Total deposits | **72,869** | 57,295 |
| Short-term borrowings | **—** | 71 |
| Accrued expenses and other liabilities | **1,482** | 1,440 |
| Medium- and long-term debt | **5,728** | 7,269 |
| Total liabilities | **80,079** | 66,075 |
| Fixed-rate reset non-cumulative perpetual preferred stock, series A, no par value, $100,000 liquidation preference per share: | | |
| Authorized - 4,000 shares | | |
| Issued - 4,000 shares at 12/31/2020 | **394** | — |
| Common stock - $5 par value: | | |
| Authorized - 325,000,000 shares | | |
| Issued - 228,164,824 shares | **1,141** | 1,141 |
| Capital surplus | **2,185** | 2,174 |
| Accumulated other comprehensive income (loss) | **168** | (235) |
| Retained earnings | **9,623** | 9,538 |
| Less cost of common stock in treasury - 88,997,430 shares at 12/31/2020 and 86,069,234 shares at 12/31/2019 | **(5,461)** | (5,291) |
| Total shareholders' equity | **8,050** | 7,327 |
| Total liabilities and shareholders' equity | **$ 88,129** | $ 73,402 |

*See notes to consolidated financial statements.*

# CONSOLIDATED STATEMENTS OF INCOME
## Comerica Incorporated and Subsidiaries

*(in millions, except per share data)*

| Years Ended December 31 | 2020 | 2019 | 2018 |
|---|---|---|---|
| **INTEREST INCOME** | | | |
| Interest and fees on loans | **$ 1,773** | $ 2,439 | $ 2,262 |
| Interest on investment securities | **291** | 297 | 265 |
| Interest on short-term investments | **29** | 71 | 92 |
| Total interest income | **2,093** | 2,807 | 2,619 |
| **INTEREST EXPENSE** | | | |
| Interest on deposits | **101** | 262 | 122 |
| Interest on short-term borrowings | **1** | 9 | 1 |
| Interest on medium- and long-term debt | **80** | 197 | 144 |
| Total interest expense | **182** | 468 | 267 |
| Net interest income | **1,911** | 2,339 | 2,352 |
| Provision for credit losses | **537** | 74 | (1) |
| Net interest income after provision for credit losses | **1,374** | 2,265 | 2,353 |
| **NONINTEREST INCOME** | | | |
| Card fees | **270** | 257 | 244 |
| Fiduciary income | **209** | 206 | 206 |
| Service charges on deposit accounts | **185** | 203 | 211 |
| Commercial lending fees | **77** | 91 | 85 |
| Bank-owned life insurance | **44** | 41 | 39 |
| Foreign exchange income | **40** | 44 | 47 |
| Letter of credit fees | **37** | 38 | 40 |
| Brokerage fees | **21** | 28 | 27 |
| Net securities losses | **—** | (7) | (19) |
| Other noninterest income | **118** | 109 | 96 |
| Total noninterest income | **1,001** | 1,010 | 976 |
| **NONINTEREST EXPENSES** | | | |
| Salaries and benefits expense | **1,019** | 1,020 | 1,009 |
| Outside processing fee expense | **242** | 264 | 255 |
| Occupancy expense | **156** | 154 | 152 |
| Software expense | **154** | 117 | 125 |
| Equipment expense | **49** | 50 | 48 |
| Advertising expense | **35** | 34 | 30 |
| FDIC insurance expense | **33** | 23 | 42 |
| Restructuring charges | **—** | — | 53 |
| Other noninterest expenses | **96** | 81 | 80 |
| Total noninterest expenses | **1,784** | 1,743 | 1,794 |
| Income before income taxes | **591** | 1,532 | 1,535 |
| Provision for income taxes | **117** | 334 | 300 |
| **NET INCOME** | **474** | 1,198 | 1,235 |
| Less: | | | |
| Income allocated to participating securities | **2** | 7 | 8 |
| Preferred stock dividends | **13** | — | — |
| **Net income attributable to common shares** | **$ 459** | $ 1,191 | $ 1,227 |
| Earnings per common share: | | | |
| Basic | **$ 3.29** | $ 7.95 | $ 7.31 |
| Diluted | **3.27** | 7.87 | 7.20 |
| Cash dividends declared on common stock | **378** | 398 | 309 |
| Cash dividends declared per common share | **2.72** | 2.68 | 1.84 |

*See notes to consolidated financial statements.*

# CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
## Comerica Incorporated and Subsidiaries

*(in millions)*

| Years Ended December 31 | 2020 | 2019 | 2018 |
|---|---|---|---|
| **NET INCOME** | **$ 474** | $ 1,198 | $ 1,235 |
| **OTHER COMPREHENSIVE INCOME (LOSS)** | | | |
| **Unrealized gains (losses) on investment securities:** | | | |
| Net unrealized holding gains (losses) arising during the period | **191** | 257 | (69) |
| Less: | | | |
| Reclassification adjustment for net securities losses included in net income | **—** | (8) | (20) |
| Change in net unrealized gains (losses) before income taxes | **191** | 265 | (49) |
| **Net gains on cash flow hedges:** | | | |
| Net cash flow hedge gains arising during the period before income taxes | **229** | 44 | — |
| Less: | | | |
| Net cash flow hedge gains recognized in interest and fees on loans before taxes | **70** | — | — |
| Change in net cash flow hedge gains before income taxes | **159** | 44 | — |
| **Defined benefit pension and other postretirement plans adjustment:** | | | |
| Actuarial gain (loss) arising during the period | **142** | 163 | (191) |
| Adjustments for amounts recognized as components of net periodic benefit cost: | | | |
| Amortization of actuarial net loss | **63** | 42 | 61 |
| Amortization of prior service credit | **(27)** | (27) | (27) |
| Change in defined benefit pension and other postretirement plans adjustment before income taxes | **178** | 178 | (157) |
| Total other comprehensive income (loss) before income taxes | **528** | 487 | (206) |
| Provision (benefit) for income taxes | **125** | 113 | (47) |
| **Total other comprehensive income (loss), net of tax** | **403** | 374 | (159) |
| **COMPREHENSIVE INCOME** | **$ 877** | $ 1,572 | $ 1,076 |

*See notes to consolidated financial statements.*

# CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
## Comerica Incorporated and Subsidiaries

| | | Common Stock | | | | | | |
|---|---|---|---|---|---|---|---|---|
| *(in millions, except per share data)* | Nonredeemable Preferred Stock | Shares Outstanding | Amount | Capital Surplus | Accumulated Other Comprehensive Income (Loss) | Retained Earnings | Treasury Stock | Total Shareholders' Equity |
| **BALANCE AT DECEMBER 31, 2017** | $ — | 172.9 | $ 1,141 | $ 2,122 | $ (451) | $ 7,887 | $ (2,736) | $ 7,963 |
| Cumulative effect of change in accounting principles | — | — | — | — | 1 | 14 | — | 15 |
| Net income | — | — | — | — | — | 1,235 | — | 1,235 |
| Other comprehensive loss, net of tax | — | — | — | — | (159) | — | — | (159) |
| Cash dividends declared on common stock ($1.84 per share) | — | — | — | — | — | (309) | — | (309) |
| Purchase of common stock | — | (14.9) | — | (3) | — | — | (1,326) | (1,329) |
| Net issuance of common stock under employee stock plans | — | 1.5 | — | (9) | — | (23) | 75 | 43 |
| Net issuance of common stock for warrants | — | 0.6 | — | (10) | — | (23) | 33 | — |
| Share-based compensation | — | — | — | 48 | — | — | — | 48 |
| **BALANCE AT DECEMBER 31, 2018** | — | 160.1 | 1,141 | 2,148 | (609) | 8,781 | (3,954) | 7,507 |
| Cumulative effect of change in accounting principle | — | — | — | — | — | (14) | — | (14) |
| Net income | — | — | — | — | — | 1,198 | — | 1,198 |
| Other comprehensive income, net of tax | — | — | — | — | 374 | — | — | 374 |
| Cash dividends declared on common stock ($2.68 per share) | — | — | — | — | — | (398) | — | (398) |
| Purchase of common stock | — | (18.7) | — | — | — | — | (1,380) | (1,380) |
| Net issuance of common stock under employee stock plans | — | 0.7 | — | (13) | — | (29) | 43 | 1 |
| Share-based compensation | — | — | — | 39 | — | — | — | 39 |
| **BALANCE AT DECEMBER 31, 2019** | — | 142.1 | $ 1,141 | $ 2,174 | $ (235) | $ 9,538 | $ (5,291) | $ 7,327 |
| Cumulative effect of change in accounting principle | **—** | **—** | **—** | **—** | **—** | **13** | **—** | **13** |
| Net income | **—** | **—** | **—** | **—** | **—** | **474** | **—** | **474** |
| Other comprehensive income, net of tax | **—** | **—** | **—** | **—** | **403** | **—** | **—** | **403** |
| Cash dividends declared on common stock ($2.72 per share) | **—** | **—** | **—** | **—** | **—** | **(378)** | **—** | **(378)** |
| Cash dividends declared on preferred stock | **—** | **—** | **—** | **—** | **—** | **(13)** | **—** | **(13)** |
| Purchase of common stock | **—** | **(3.4)** | **—** | **—** | **—** | **—** | **(194)** | **(194)** |
| Issuance of preferred stock | **394** | **—** | **—** | **—** | **—** | **—** | **—** | **394** |
| Net issuance of common stock under employee stock plans | **—** | **0.5** | **—** | **(13)** | **—** | **(11)** | **24** | **—** |
| Share-based compensation | **—** | **—** | **—** | **24** | **—** | **—** | **—** | **24** |
| **BALANCE AT DECEMBER 31, 2020** | **$ 394** | **139.2** | **$ 1,141** | **$ 2,185** | **$ 168** | **$ 9,623** | **$ (5,461)** | **$ 8,050** |

*See notes to consolidated financial statements.*

# CONSOLIDATED STATEMENTS OF CASH FLOWS
## Comerica Incorporated and Subsidiaries

| *(in millions)*<br>**Years Ended December 31** | **2020** | **2019** | **2018** |
|---|---|---|---|
| **OPERATING ACTIVITIES** | | | |
| Net income | **$ 474** | $ 1,198 | $ 1,235 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Provision for credit losses | **537** | 74 | (1) |
| (Benefit) provision for deferred income taxes | **(89)** | 12 | 24 |
| Depreciation and amortization | **108** | 114 | 120 |
| Net periodic defined benefit credit | **(25)** | (29) | (18) |
| Share-based compensation expense | **24** | 39 | 48 |
| Net amortization of securities | **15** | 2 | 3 |
| Accretion of loan purchase discount | **—** | — | (1) |
| Net securities losses | **—** | 7 | 19 |
| Net (gains) losses on sales of foreclosed property | **(1)** | 1 | (1) |
| Net change in: | | | |
| Accrued income receivable | **25** | 17 | (45) |
| Accrued expenses payable | **(29)** | (27) | 49 |
| Other, net | **(111)** | (318) | 184 |
| Net cash provided by operating activities | **928** | 1,090 | 1,616 |
| **INVESTING ACTIVITIES** | | | |
| Investment securities available-for-sale: | | | |
| Maturities and redemptions | **3,350** | 2,262 | 1,781 |
| Sales | **—** | 987 | 1,256 |
| Purchases | **(5,804)** | (3,346) | (3,032) |
| Net change in loans | **(2,136)** | (324) | (1,045) |
| Proceeds from sales of foreclosed property | **5** | 1 | 8 |
| Net increase in premises and equipment | **(79)** | (86) | (90) |
| Federal Home Loan Bank stock: | | | |
| Purchases | **(51)** | (201) | (41) |
| Redemptions | **92** | 201 | — |
| Proceeds from bank-owned life insurance settlements | **20** | 10 | 9 |
| Other, net | **1** | 2 | (2) |
| Net cash used in investing activities | **(4,602)** | (494) | (1,156) |
| **FINANCING ACTIVITIES** | | | |
| Net change in: | | | |
| Deposits | **15,554** | 1,711 | (2,082) |
| Short-term borrowings | **(71)** | 27 | 34 |
| Medium- and long-term debt: | | | |
| Maturities and redemptions | **(1,675)** | (350) | — |
| Issuances and advances | **—** | 1,050 | 1,850 |
| Preferred stock: | | | |
| Issuance | **394** | — | — |
| Cash dividends paid | **(8)** | — | — |
| Common stock: | | | |
| Repurchases | **(199)** | (1,394) | (1,338) |
| Cash dividends paid | **(375)** | (402) | (263) |
| Issuances under employee stock plans | **4** | 18 | 52 |
| Other, net | **(1)** | 1 | 3 |
| Net cash provided by (used in) financing activities | **13,623** | 661 | (1,744) |
| Net increase (decrease) in cash and cash equivalents | **9,949** | 1,257 | (1,284) |
| Cash and cash equivalents at beginning of period | **5,818** | 4,561 | 5,845 |
| Cash and cash equivalents at end of period | **$ 15,767** | $ 5,818 | $ 4,561 |
| Interest paid | **$ 203** | $ 462 | $ 261 |
| Income taxes paid | **141** | 266 | 200 |
| Noncash investing and financing activities: | | | |
| Loans transferred to other real estate | **1** | 12 | 3 |
| Securities transferred from held-to-maturity to available-for-sale | **—** | — | 1,266 |
| Securities transferred from available-for-sale to equity securities | **—** | — | 81 |

*See notes to consolidated financial statements.*

### NOTE 1 - BASIS OF PRESENTATION AND ACCOUNTING POLICIES

**Organization**

Comerica Incorporated (the Corporation) is a registered financial holding company headquartered in Dallas, Texas. The Corporation's major business segments are the Commercial Bank, the Retail Bank and Wealth Management. The Corporation operates in three primary geographic markets: Michigan, California and Texas. For further discussion of each business segment and primary geographic market, refer to Note 22. The Corporation and its banking subsidiaries are regulated at both the state and federal levels.

The accounting and reporting policies of the Corporation conform to United States (U.S.) generally accepted accounting principles (GAAP). The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect reported amounts and disclosures. Actual results could differ from these estimates. Certain amounts in the financial statements for prior years have been reclassified to conform to the current financial statement presentation.

The following summarizes the significant accounting policies of the Corporation applied in the preparation of the accompanying consolidated financial statements.

**Principles of Consolidation**

The consolidated financial statements include the accounts of the Corporation and the accounts of those subsidiaries that are majority owned and in which the Corporation has a controlling financial interest. The Corporation consolidates entities not determined to be variable interest entities (VIEs) when it holds a controlling financial interest and uses the cost or equity method when it holds less than a controlling financial interest. In consolidation, all significant intercompany accounts and transactions are eliminated. The results of operations of companies acquired are included from the date of acquisition.

The Corporation holds investments in certain legal entities that are considered VIEs. In general, a VIE is an entity that either (1) has an insufficient amount of equity to carry out its principal activities without additional subordinated financial support, (2) has a group of equity owners that are unable to make significant decisions about its activities, or (3) has a group of equity owners that do not have the obligation to absorb losses or the right to receive returns generated by its operations. If any of these characteristics are present, the entity is subject to a variable interests consolidation model, and consolidation is based on variable interests, not on voting interests. Variable interests are defined as contractual ownership or other money interests in an entity that change with fluctuations in the entity's net asset value. The primary beneficiary is required to consolidate the VIE. The primary beneficiary is defined as the party that has both the power to direct the activities of the VIE that most significantly impact the entity's economic performance and the obligation to absorb losses or the right to receive benefits that could be significant to the VIE. The maximum potential exposure to losses relative to investments in VIEs is generally limited to the sum of the outstanding book basis and unfunded commitments for future investments.

The Corporation evaluates its investments in VIEs, both at inception and when there is a change in circumstances that requires reconsideration, to determine if the Corporation is the primary beneficiary and consolidation is required. The Corporation accounts for unconsolidated VIEs using either the proportional, cost or equity method. These investments comprise investments in community development projects which generate tax credits to their investors and are included in accrued income and other assets on the Consolidated Balance Sheets.

The proportional method is used for investments in affordable housing projects that qualify for the low-income housing tax credit (LIHTC). The equity method is used for other investments where the Corporation has the ability to exercise significant influence over the entity's operation and financial policies. Other unconsolidated equity investments that do not meet the criteria to be accounted for under the equity method are accounted for under the cost method. Amortization and other write-downs of LIHTC investments are presented on a net basis as a component of the provision for income taxes, while income, amortization and write-downs from cost and equity method investments are recorded in other noninterest income on the Consolidated Statements of Income.

Assets held in an agency or fiduciary capacity are not assets of the Corporation and are not included in the consolidated financial statements.

See Note 9 for additional information about the Corporation's involvement with VIEs.

**Fair Value Measurements**

The Corporation utilizes fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. The determination of fair values of financial instruments often requires the use of estimates. In cases where quoted market values in an active market are not available, the Corporation uses present value techniques and other valuation methods to estimate the fair values of its financial instruments. These valuation methods require considerable judgment and the resulting estimates of fair value can be significantly affected by the assumptions made and methods used.

Fair value is an estimate of the exchange price that would be received to sell an asset or paid to transfer a liability in an orderly transaction (i.e., not a forced transaction, such as a liquidation or distressed sale) between market participants at the measurement date. Fair value is based on the assumptions market participants would use when pricing an asset or liability.

Investment securities available-for-sale, derivatives, deferred compensation plans and equity securities with readily determinable fair values (primarily money market mutual funds) are recorded at fair value on a recurring basis. Additionally, from time to time, the Corporation may be required to record other assets and liabilities at fair value on a nonrecurring basis, such as impaired loans, other real estate (primarily foreclosed property), nonmarketable equity securities and certain other assets and liabilities. These nonrecurring fair value adjustments typically involve write-downs of individual assets or application of lower of cost or fair value accounting.

Fair value measurements and disclosures guidance establishes a three-level fair value hierarchy based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. The fair value hierarchy gives the highest priority to quoted prices in active markets and the lowest priority to unobservable data. Fair value measurements are separately disclosed by level within the fair value hierarchy. For assets and liabilities recorded at fair value, it is the Corporation's policy to maximize the use of observable inputs and minimize the use of unobservable inputs when developing fair value measurements.

Level 1 Valuation is based upon quoted prices for identical instruments traded in active markets.

Level 2 Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are less active, and model-based valuation techniques for which all significant assumptions are observable in the market.

Level 3 Valuation is generated from model-based techniques that use at least one significant assumption not observable in the market. These unobservable assumptions reflect estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include use of option pricing models, discounted cash flow models and similar techniques.

The Corporation generally utilizes third-party pricing services to value Level 1 and Level 2 securities. Management reviews the methodologies and assumptions used by the third-party pricing services and evaluates the values provided, principally by comparison with other available market quotes for similar instruments and/or analysis based on internal models using available third-party market data. The Corporation may occasionally adjust certain values provided by the third-party pricing service when management believes, as the result of its review, that the adjusted price most appropriately reflects the fair value of the particular security.

Fair value measurements for assets and liabilities where limited or no observable market data exists are based primarily upon estimates, often calculated based on the economic and competitive environment, the characteristics of the asset or liability and other factors. Therefore, the results cannot be determined with precision and may not be realized in an actual sale or immediate settlement of the asset or liability. Additionally, there may be inherent weaknesses in any calculation technique, and changes in the underlying assumptions used, including discount rates and estimates of future cash flows, could significantly affect the results of current or future values.

Following are descriptions of the valuation methodologies and key inputs used to measure financial assets and liabilities recorded at fair value, as well as a description of the methods and significant assumptions used to estimate fair value disclosures for financial instruments not recorded at fair value in their entirety on a recurring basis. The descriptions include an indication of the level of the fair value hierarchy in which the assets or liabilities are classified.

***Cash and due from banks, federal funds sold and interest-bearing deposits with banks***

Due to their short-term nature, the carrying amount of these instruments approximates the estimated fair value. As such, the Corporation classifies the estimated fair value of these instruments as Level 1.

***Deferred compensation plan assets and liabilities as well as equity securities with a readily determinable fair value***

The Corporation holds a portfolio of securities that includes equity securities and assets held related to deferred compensation plans. Securities and associated deferred compensation plan liabilities are recorded at fair value on a recurring

basis and included in other short-term investments and accrued expenses and other liabilities, respectively, on the Consolidated Balance Sheets. Level 1 securities include assets related to deferred compensation plans, which are invested in mutual funds, U.S. Treasury securities that are traded by dealers or brokers in active over-the-counter markets and other securities traded on an active exchange, such as the New York Stock Exchange. Level 2 securities include municipal bonds and residential mortgage-backed securities issued by U.S. government-sponsored entities and corporate debt securities. Deferred compensation plan liabilities represent the fair value of the obligation to the plan participant, which corresponds to the fair value of the invested assets. The methods used to value equity securities and deferred compensation plan assets are the same as the methods used to value investment securities, discussed below.

***Investment securities***

Investment securities available-for-sale are recorded at fair value on a recurring basis. The Corporation discloses estimated fair values of investment securities held-to-maturity, which is determined in the same manner as investment securities available-for-sale. Level 1 securities include those traded on an active exchange, such as the New York Stock Exchange, U.S. Treasury securities that are traded by dealers or brokers in active over-the-counter markets and money market funds. Level 2 securities include residential mortgage-backed securities issued by U.S. government agencies and U.S. government-sponsored entities and corporate debt securities. The fair value of Level 2 securities is determined using quoted prices of securities with similar characteristics, or pricing models based on observable market data inputs, primarily interest rates, spreads and prepayment information.

Securities classified as Level 3 represent securities in less liquid markets requiring significant management assumptions when determining fair value.

***Loans held-for-sale***

Loans held-for-sale, included in other short-term investments on the Consolidated Balance Sheets, are recorded at the lower of cost or fair value. Loans held-for-sale may be carried at fair value on a nonrecurring basis when fair value is less than cost. The fair value is based on what secondary markets are currently offering for portfolios with similar characteristics. As such, the Corporation classifies both loans held-for-sale subjected to nonrecurring fair value adjustments and the estimated fair value of loans held-for sale as Level 2.

***Loans***

The Corporation does not record loans at fair value on a recurring basis. However, an individual allowance may be established for a loan that no longer shares risk characteristics with loan pools, typically collateral-dependent loans for which reserves are based on the fair value of the underlying collateral. Such loan values are reported as nonrecurring fair value measurements. Collateral values supporting individually evaluated loans are evaluated quarterly. When management determines that the fair value of the collateral requires additional adjustments, either as a result of non-current appraisal value or when there is no observable market price, the Corporation classifies the loan as Level 3.

The Corporation discloses fair value estimates for loans. The estimated fair value is determined based on characteristics such as loan category, repricing features and remaining maturity, and includes prepayment and credit loss estimates. Fair values are estimated using a discounted cash flow model that employs discount rates that reflects current pricing for loans with similar maturity and risk characteristics, including credit characteristics, and the cost of equity for the portfolio at the balance sheet date. The rates take into account the expected yield curve, as well as an adjustment for prepayment risk, when applicable. The Corporation classifies the estimated fair value of loans held for investment as Level 3.

***Customers' liability on acceptances outstanding and acceptances outstanding***

Customers' liability on acceptances outstanding is included in accrued income and other assets and acceptances outstanding are included in accrued expenses and other liabilities on the Consolidated Balance Sheets. Due to their short-term nature, the carrying amount of these instruments approximates the estimated fair value. As such, the Corporation classifies the estimated fair value of these instruments as Level 1.

***Derivative assets and derivative liabilities***

Derivative instruments held or issued for risk management or customer-initiated activities are traded in over-the-counter markets where quoted market prices are not readily available. Fair value for over-the-counter derivative instruments is measured on a recurring basis using internally developed models that use primarily market observable inputs, such as yield curves and option volatilities. The Corporation manages credit risk on its derivative positions based on whether the derivatives are being settled through a clearinghouse or bilaterally with each counterparty. For derivative positions settled on a counterparty-by-counterparty basis, the Corporation calculates credit valuation adjustments, included in the fair value of these instruments, on the basis of its relationships at the counterparty portfolio/master netting agreement level. These credit valuation adjustments are determined by applying a credit spread for the counterparty or the Corporation, as appropriate, to the total

expected exposure of the derivative after considering collateral and other master netting arrangements. These adjustments, which are considered Level 3 inputs, are based on estimates of current credit spreads to evaluate the likelihood of default. When credit valuation adjustments are significant to the overall fair value of a derivative, the Corporation classifies the over-the-counter derivative valuation in Level 3 of the fair value hierarchy; otherwise, over-the-counter derivative valuations are classified in Level 2.

***Nonmarketable equity securities***

The Corporation has a portfolio of indirect (through funds) private equity and venture capital investments with a carrying value of $5 million and unfunded commitments of less than $1 million, at December 31, 2020. The investments are accounted for either on the cost or equity method and are individually reviewed for impairment on a quarterly basis by comparing the carrying value to the estimated fair value. These investments may be carried at fair value on a nonrecurring basis when they are deemed to be impaired and written down to fair value. Where there is not a readily determinable fair value, the Corporation estimates fair value for indirect private equity and venture capital investments based on the net asset value, as reported by the fund.

The Corporation also holds restricted equity investments, primarily Federal Home Loan Bank (FHLB) and Federal Reserve Bank (FRB) stock. Restricted equity securities are not readily marketable and are recorded at cost (par value) in accrued income and other assets on the Consolidated Balance Sheets and evaluated for impairment based on the ultimate recoverability of the par value. No significant observable market data for these instruments is available. The Corporation considers the profitability and asset quality of the issuer, dividend payment history and recent redemption experience and believes its investments in FHLB and FRB stock are ultimately recoverable at par. Therefore, the carrying amount for these restricted equity investments approximates fair value. The Corporation classifies the estimated fair value of such investments as Level 1. The Corporation’s investment in FHLB stock totaled $122 million and $163 million at December 31, 2020 and 2019, and its investment in FRB stock totaled $85 million at both December 31, 2020 and 2019.

***Other real estate***

Other real estate is included in accrued income and other assets on the Consolidated Balance Sheets and includes primarily foreclosed property. Foreclosed property is initially recorded at fair value, less costs to sell, at the date of legal title transfer to the Corporation, establishing a new cost basis. Subsequently, foreclosed property is carried at the lower of cost or fair value, less costs to sell. Other real estate may be carried at fair value on a nonrecurring basis when fair value is less than cost. Fair value is based upon independent market prices, appraised value or management's estimate of the value of the property. When management determines that the fair value of other real estate requires additional adjustments, either as a result of a non-current appraisal or when there is no observable market price, the Corporation classifies the other real estate as Level 3.

***Deposit liabilities***

The estimated fair value of checking, savings and certain money market deposit accounts is represented by the amounts payable on demand. The estimated fair value of term deposits is calculated by discounting the scheduled cash flows using the period-end rates offered on these instruments. As such, the Corporation classifies the estimated fair value of deposit liabilities as Level 2.

***Short-term borrowings***

The carrying amount of federal funds purchased, securities sold under agreements to repurchase and other short-term borrowings approximates the estimated fair value. As such, the Corporation classifies the estimated fair value of short-term borrowings as Level 1.

***Medium- and long-term debt***

The estimated fair value of the Corporation's medium- and long-term debt is based on quoted market values when available. If quoted market values are not available, the estimated fair value is based on the market values of debt with similar characteristics. The Corporation classifies the estimated fair value of medium- and long-term debt as Level 2.

***Credit-related financial instruments***

Credit-related financial instruments include unused commitments to extend credit and letters of credit. These instruments generate ongoing fees which are recognized over the term of the commitment. In situations where credit losses are probable, the Corporation records an allowance. The carrying value of these instruments included in accrued expenses and other liabilities on the Consolidated Balance Sheets, which includes the carrying value of the deferred fees plus the related allowance, approximates the estimated fair value. The Corporation classifies the estimated fair value of credit-related financial instruments as Level 3.

For further information about fair value measurements refer to Note 2.

**Other Short-Term Investments**

Other short-term investments include deferred compensation plan assets, equity securities with a readily determinable fair value and loans held-for-sale.

Deferred compensation plan assets and equity securities are carried at fair value. Realized and unrealized gains or losses are included in other noninterest income on the Consolidated Statements of Income.

Loans held-for-sale, typically residential mortgages originated with the intent to sell and occasionally including other loans transferred to held-for-sale, are carried at the lower of cost or fair value. Fair value is determined in the aggregate for each portfolio. Changes in fair value and gains or losses upon sale are included in other noninterest income on the Consolidated Statements of Income.

**Investment Securities**

Debt securities are classified as trading, available-for-sale (AFS) or held-to-maturity. Trading securities are recorded at fair value, with unrealized gains and losses included in noninterest income on the Consolidated Statements of Income. AFS securities are recorded at fair value, with unrealized gains and losses, net of income taxes, reported as a separate component of other comprehensive income (OCI). Securities for which management has the intent and ability to hold to maturity are classified as held-to-maturity and recorded at amortized cost. Interest income is recognized using the interest method.

An AFS security is impaired if its fair value is less than amortized cost. Credit-related impairment is recognized as an allowance to investment securities available for sale on the Consolidated Balance Sheets with a corresponding adjustment to provision for credit losses on the Consolidated Statements of Income. Non-credit-related impairment is recognized as a component of OCI. If the Corporation intends to sell an impaired AFS security or more likely than not will be required to sell that security before recovering its amortized cost basis, the entire impairment amount is recognized in earnings with corresponding adjustment to the security's amortized cost basis.

For certain types of AFS securities, such as U.S. Treasuries and other securities with government guarantees, the Corporation generally expects zero credit losses. The zero-loss expectation applies to all the Corporation’s securities and no allowance for credit losses was recorded on its AFS securities portfolio at December 31, 2020.

Gains or losses on the sale of securities are computed based on the adjusted cost of the specific security sold.

For further information on investment securities, refer to Note 3.

**Loans**

Loans and leases originated and held for investment are recorded at the principal balance outstanding, net of unearned income, charge-offs and unamortized deferred fees and costs. Interest income is recognized on loans and leases using the interest method.

The Corporation assesses all loan modifications to determine whether a restructuring constitutes a troubled debt restructuring (TDR). A restructuring is considered a TDR when a borrower is experiencing financial difficulty and the Corporation grants a concession to the borrower. TDRs on accrual status at the original contractual rate of interest are considered performing. Nonperforming TDRs include TDRs on nonaccrual status and loans which have been renegotiated to less than the original contractual rates (reduced-rate loans).

The CARES Act, signed in to law on March 27, 2020, included provisions that provide temporary relief from TDR accounting for certain types of modifications. Under these provisions, modifications deemed to be COVID-19-related would not be considered a TDR if the loan was not more than 30 days past due as of December 31, 2019 and the deferral was executed between March 1, 2020 and the earlier of 60 days after the date of termination of the COVID-19 national emergency or December 31, 2020. The termination of these provisions was extended, to the earlier of 60 days after the COVID-19 national emergency date or January 1, 2022, with the Consolidated Appropriations Act of 2021. The banking regulators issued similar guidance, which also clarified that a COVID-19-related modification should not be considered a TDR if the borrower was current on payments at the time the underlying loan modification program was implemented and if the modification was considered to be short-term. Modifications are first evaluated for eligibility under the CARES Act, then the interagency guidance if they do not qualify for the CARES Act relief. Modifications that are not eligible for either program continue to follow the Corporation’s established TDR policy. Additionally, loans with deferrals granted due to COVID-19 are not generally reported as past due or nonaccrual.

Effective January 1, 2020, the Corporation adopted ASU No. 2020-04, “Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting,” (ASU 2020-04). Typically, entities must evaluate

whether a loan contract modification results in a modified loan or a new loan for accounting purposes. Topic 848 allows entities to bypass this evaluation for qualifying modifications related to reference rate reform. The Corporation will apply the relief provided by Topic 848 to qualifying contract modifications.

**Loan Origination Fees and Costs**

Substantially all loan origination fees and costs are deferred and amortized to net interest income over the life of the related loan or over the commitment period as a yield adjustment. Net deferred income on originated loans, including unearned income and unamortized costs, fees, premiums and discounts, totaled $145 million and $103 million at December 31, 2020 and 2019, respectively. Net deferred income at December 31, 2020 included $55 million of net fees from PPP loans.

Loan fees on unused commitments and net origination fees related to loans sold are recognized in noninterest income.

**Allowance for Credit Losses**

The allowance for credit losses includes both the allowance for loan losses and the allowance for credit losses on lending-related commitments.

The Corporation disaggregates the loan portfolio into segments for purposes of determining the allowance for credit losses. These segments are based on the level at which the Corporation develops, documents and applies a systematic methodology to determine the allowance for credit losses. The Corporation's portfolio segments are business loans and retail loans. Business loans include the commercial, real estate construction, commercial mortgage, lease financing and international loan portfolios. Retail loans consist of residential mortgage and consumer loans, including home equity loans.

Effective January 1, 2020, the Corporation adopted the provisions of Accounting Standards Update (ASU) No. 2016-13, "Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments," commonly referred to as the current expected credit loss (CECL) model, for all financial assets, except those accounted for at fair value through net income, using the modified retrospective approach.

Under Topic 326, current expected credit losses are estimated over the contractual life of the loan portfolio, considering all available relevant information, including historical and current conditions as well as reasonable and supportable forecasts of future events. The previous accounting principle estimated probable, estimable losses inherent in the portfolio.

At adoption, the Corporation’s estimate of current expected credit losses in accordance with Topic 326 resulted in a $17 million day-one decrease in the overall allowance for credit losses, from $668 million at December 31, 2019 under the incurred loss model. The Corporation recognized a corresponding $13 million increase to retained earnings and a $4 million reduction to deferred tax assets. A similar adjustment at December 31, 2019 would have caused a 2-basis-point increase in the Common Equity Tier 1 (CET1) capital ratio. Business loans, comprising approximately 91 percent of the Corporation’s total loan portfolio at transition, consist of loans and lending arrangements with generally short contractual maturities. As a result, the allowance for credit losses for business loans decreased $42 million. The allowance for credit losses increased $25 million for retail loans, given their longer contractual maturities.

For further information on the Allowance for Credit Losses, refer to Note 4.

***Allowance for Loan Losses***

The allowance for loan losses is estimated on a quarterly basis and represents management’s estimates of current expected credit losses in the Corporation’s loan portfolio. Pools of loans with similar risk characteristics are collectively evaluated while loans that no longer share risk characteristics with loan pools are evaluated individually.

Collective loss estimates are determined by applying loss factors, designed to estimate current expected credit losses, to amortized cost balances over the remaining contractual life of the collectively evaluated portfolio. Loans with similar risk characteristics are aggregated into homogeneous pools. Business loans are assigned to pools based primarily on business line and the Corporation’s internal risk rating system. For retail loans, pools are based on loan type, past due status and credit scores. Loss factors are based on estimated probability of default for each pool, set to a default horizon based on contractual life, and loss given default. Historical estimates are calibrated to economic forecasts over the reasonable and supportable forecast period based on the projected performance of specific economic variables that statistically correlate with each of the probability of default and loss given default pools. At least annually, management considers different models when estimating credit losses, selecting ones that most reasonably forecast credit losses in the relevant economic environment.

The calculation of current expected credit losses is inherently subjective, as it requires management to exercise judgment in determining appropriate factors used to determine the allowance. Some of the most significant factors in the

quantitative allowance estimate are assigning internal risk ratings to loans, selecting the economic forecasts used to calibrate the reserve factors and determining the reasonable and supportable forecast period.

- **Internal Risk Ratings**: Loss factors are dependent on loan risk ratings for business loans. Risk ratings are assigned at origination, based on inherent credit risk, and may be updated based on new information that becomes available, periodic reviews of credit quality, a change in borrower performance or modifications to lending agreements.
- **Economic Forecasts:** Management selects economic variables it believes to be most relevant based on the composition of the loan portfolio and customer base, including forecasted levels of employment, gross domestic product, corporate bond and treasury spreads, industrial production levels, consumer and commercial real estate price indices as well as housing statistics. Different economic forecast scenarios ranging from more benign to more severe are evaluated each reporting period to forecast losses over the contractual life of the loan portfolio.
- **Forecast Period**: Economic forecasts are applied over the period management believes it can estimate reasonable and supportable forecasts. Forecast periods may be adjusted in response to changes in the economic environment. To estimate losses for contractual periods that extend beyond the forecast horizon, the Corporation reverts to an average historical loss experience. The Corporation typically forecasts economic variables over a two-year horizon, followed by an immediate reversion to an average historical loss experience that generally incorporates a full economic cycle. Management reviews this methodology on at least an annual basis.

The allowance for loan losses also includes qualitative adjustments to bring the allowance to the level management believes is appropriate based on factors that have not otherwise been fully accounted for, including adjustments for foresight risk, input imprecision and model imprecision. Foresight risk reflects the inherent imprecision in forecasting economic variables, including determining the depth and duration of economic cycles and their impact to relevant economic variables. The Corporation may make qualitative adjustments based on its evaluation of different forecast scenarios and known recent events impacting relevant economic variables. Input imprecision factors address the risk that certain model inputs may not reflect all available information including (i) risk factors that have not been fully addressed in internal risk ratings, (ii) changes in lending policies and procedures, (iii) changes in the level and quality of experience held by lending management, (iv) imprecision in the risk rating system and (v) limitations in data available for certain loan portfolios. Model imprecision considers known model limitations and model updates not yet fully reflected in the quantitative estimate.

The determination of the appropriate qualitative adjustment is based on management's analysis of current and expected economic conditions and their impact to the portfolio, as well as internal credit risk movements and a qualitative assessment of the lending environment, including underwriting standards. Management recognizes the sensitivity of various assumptions made in the quantitative modeling of expected losses and may adjust reserves depending upon the level of uncertainty that currently exists in one or more assumptions.

Credit losses for loans that no longer share risk characteristics with the loan pools are estimated on an individual basis. Individual credit loss estimates are typically performed for nonaccrual loans and modified loans classified as TDRs and are based on one of several methods, including the estimated fair value of the underlying collateral, observable market value of similar debt or the present value of expected cash flows. The Corporation considers certain loans to be collateral-dependent if the borrower is experiencing financial difficulty and management expects repayment for the loan to be substantially through the operation or sale of the collateral. For collateral-dependent loans, loss estimates are based on the fair value of collateral, less estimated cost to sell (if applicable). Collateral values supporting individually evaluated loans are assessed quarterly and appraisals are typically obtained at least annually.

The total allowance for loan losses is sufficient to absorb expected credit losses over the contractual life of the portfolio. Unanticipated events impacting the economy, including political instability or global events affecting the U.S. economy, could cause changes to expectations for current conditions and economic forecasts that result in an unanticipated increase in the allowance. Significant increases in current portfolio exposures or changes in credit characteristics could also increase the amount of the allowance. Such events, or others of similar nature, may result in the need for additional provision for credit losses in order to maintain an allowance that complies with credit risk and accounting policies.

Loans deemed uncollectible are charged off and deducted from the allowance. Recoveries on loans previously charged off are added to the allowance.

Credit losses are not estimated for accrued interest receivable as interest that is deemed uncollectible is written off through interest income.

***Allowance for Credit Losses on Lending-Related Commitments***

The allowance for credit losses on lending-related commitments estimates current expected credit losses on collective pools of letters of credit and unused commitments to extend credit based on reserve factors, determined in a manner similar to business loans, multiplied by a probability of draw estimate, based on historical experience and credit risk, applied to commitment amounts. The allowance for credit losses on lending-related commitments is included in accrued expenses and other liabilities on the Consolidated Balance Sheets, with the corresponding charge included in the provision for credit losses on the Consolidated Statements of Comprehensive Income.

**Nonperforming Assets**

Nonperforming assets consist of nonaccrual loans, reduced-rate loans and foreclosed property.

A loan is considered past due when the contractually required principal or interest payment is not received by the specified due date or, for certain loans, when a scheduled monthly payment is past due and unpaid for 30 days or more. Business loans are generally placed on nonaccrual status when management determines full collection of principal or interest is unlikely or when principal or interest payments are 90 days past due, unless the loan is fully collateralized and in the process of collection. The past-due status of a business loan is one of many indicative factors considered in determining the collectibility of the credit. The primary driver of when the principal amount of a business loan should be fully or partially charged-off is based on a qualitative assessment of the recoverability of the principal amount from collateral and other cash flow sources. Residential mortgage and home equity loans are generally placed on nonaccrual status once they become 90 days past due and are charged off to current appraised values less costs to sell no later than 180 days past due. In addition, junior lien home equity loans less than 90 days past due are placed on nonaccrual status if they have underlying risk characteristics that place full collection of the loan in doubt, such as when the related senior lien position is identified as seriously delinquent. Residential mortgage and consumer loans in bankruptcy for which the court has discharged the borrower's obligation and the borrower has not reaffirmed the debt are placed on nonaccrual status and written down to estimated collateral value, without regard to the actual payment status of the loan, and are classified as TDRs. All other consumer loans are generally placed on nonaccrual status at 90 days past due and are charged off at no later than 120 days past due, or earlier if deemed uncollectible. Loans with payment deferrals granted due to COVID-19 are not considered past due or nonaccrual.

At the time a loan is placed on nonaccrual status, interest previously accrued but not collected is charged against current income. Principal and interest payments received on such loans are generally first applied as a reduction of principal. Income on nonaccrual loans is then recognized only to the extent that cash is received after principal has been fully repaid or future collection of principal is probable. Generally, a loan may be returned to accrual status when all delinquent principal and interest have been received and the Corporation expects repayment of the remaining contractual principal and interest, or when the loan or debt security is both well secured and in the process of collection.

Foreclosed property (primarily real estate) is initially recorded at fair value, less costs to sell, at the date of legal title transfer to the Corporation and subsequently carried at the lower of cost or fair value, less estimated costs to sell. Loans are reclassified to foreclosed property upon obtaining legal title to the collateral. Independent appraisals are obtained to substantiate the fair value of foreclosed property at the time of foreclosure and updated at least annually or upon evidence of deterioration in the property’s value. At the time of foreclosure, the adjustment for the difference between the related loan balance and fair value (less estimated costs to sell) of the property acquired is charged or credited to the allowance for loan losses. Subsequent write-downs, operating expenses and losses upon sale, if any, are charged to noninterest expenses. Foreclosed property is included in accrued income and other assets on the Consolidated Balance Sheets.

**Premises and Equipment**

Premises and equipment are stated at cost, less accumulated depreciation and amortization. Depreciation, computed using the straight-line method, is charged to occupancy expenses in the Consolidated Statements of Income over the estimated useful lives of the assets. Estimated useful lives are generally 3 years to 33 years for premises that the Corporation owns and 3 years to 8 years for furniture and equipment. Leasehold improvements are generally amortized over the terms of their respective leases or 10 years, whichever is shorter.

**Operating Leases**

Operating leases with a term greater than one year are recognized as lease liabilities, measured as the present value of unpaid lease payments for operating leases where the Corporation is the lessee, and corresponding right-of-use (ROU) assets for the right to use the leased properties. Operating lease liabilities, recorded in accrued expenses and other liabilities, reflect the Corporation's obligation to make future lease payments, primarily for real estate locations. Lease terms typically comprise contractual terms but may include extension options reasonably certain of being exercised at lease inception for certain strategic locations such as regional headquarters. Payments are discounted using the Corporation's incremental borrowing rate, or the rate it would pay to borrow amounts equal to the lease payments over the lease term. The Corporation does not separate lease and non-lease components for contracts in which it is the lessee. ROU assets, recorded in accrued income and other assets, are measured based on lease liabilities adjusted for incentives as well as accrued and prepaid rent. Operating lease expense is recognized on a straight-line basis over the lease term, while variable lease payments are recognized as incurred. Common area maintenance and other executory costs are the main components of variable lease payments. Operating and variable lease expenses are recorded in net occupancy expense on the Consolidated Statements of Income.

**Software**

Capitalized software, stated at cost less accumulated amortization, includes purchased software, capitalizable application development costs associated with internally developed software and cloud computing arrangements, including capitalizable implementation costs associated with hosting arrangements that are service contracts. Capitalized software is included in accrued income and other assets on the Consolidated Balance Sheets. Amortization expense, generally computed on the straight-line method, is charged to software expense in the Consolidated Statements of Income over the estimated useful life of the software, generally five years, or the term of the hosting arrangement for implementation costs related to service contracts.

Cloud computing arrangements include software as a service (SaaS), platform as a service (PaaS), infrastructure as a service (IaaS) and other similar hosting arrangements. The Corporation primarily utilizes SaaS and IaaS arrangements.

Capitalized implementation costs of hosting arrangements that are service contracts were $2 million at December 31, 2020.

Effective January 1, 2020, the Corporation adopted the provisions of ASU No. 2018-15, "Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract," using a prospective approach for implementation costs incurred subsequent to the adoption of the standard. For the year ended December 31, 2020, software expense included $33 million of hosting fees that would have previously been included in outside processing fee expense.

**Goodwill and Core Deposit Intangibles**

Goodwill, included in accrued income and other assets on the Consolidated Balance Sheets, is initially recorded as the excess of the purchase price over the fair value of net assets acquired in a business combination and is subsequently evaluated at least annually for impairment. Goodwill impairment testing is performed at the reporting unit level, equivalent to a business segment or one level below. The Corporation has three reporting units: the Commercial Bank, the Retail Bank and Wealth Management.

The Corporation performs its annual evaluation of goodwill impairment in the third quarter of each year and may elect to perform a quantitative impairment analysis or first conduct a qualitative analysis to determine if a quantitative analysis is necessary. Additionally, the Corporation evaluates goodwill impairment on an interim basis if events or changes in circumstances between annual tests indicate additional testing may be warranted to determine if goodwill might be impaired. Factors considered in the assessment of the likelihood of impairment include macroeconomic conditions, industry and market considerations, stock performance of the Corporation and its peers, financial performance of the reporting units, and previous results of goodwill impairment tests, amongst other factors. Based on the results of the qualitative analysis, the Corporation determines whether a quantitative test is deemed necessary. The quantitative test compares the estimated fair value of identified reporting units with their carrying amount, including goodwill. If the estimated fair value of the reporting unit is less than the carrying value, an impairment charge would be recorded for the excess, not to exceed the amount of goodwill allocated to the reporting unit.

Core deposit intangibles are amortized on an accelerated basis, based on the estimated period the economic benefits are expected to be received. Core deposit intangibles are reviewed for impairment when events or changes in circumstances indicate that their carrying amounts may not be recoverable. Impairment for a finite-lived intangible asset exists if the sum of the undiscounted cash flows expected to result from the use of the asset exceeds its carrying value.

Additional information regarding goodwill and core deposit intangibles can be found in Note 7.

**Nonmarketable Equity Securities**

The Corporation has certain investments that are not readily marketable. These investments include a portfolio of investments in indirect private equity and venture capital funds and restricted equity investments, which are securities the Corporation is required to hold for various reasons, primarily Federal Home Loan Bank of Dallas (FHLB) and Federal Reserve Bank (FRB) stock. These investments are accounted for on the cost or equity method and are included in accrued income and other assets on the Consolidated Balance Sheets. The investments are individually reviewed for impairment on a quarterly basis. Indirect private equity and venture capital funds are evaluated for impairment by comparing the carrying value to the estimated fair value. Impairment is charged to current earnings and the carrying value of the investment is written down accordingly. FHLB and FRB stock are recorded at cost (par value) and evaluated for impairment based on the ultimate recoverability of the par value. If the Corporation does not expect to recover the full par value, the amount by which the par value exceeds the ultimately recoverable value would be charged to current earnings and the carrying value of the investment would be written down accordingly.

**Derivative Instruments and Hedging Activities**

Derivative instruments are carried at fair value in either accrued income and other assets or accrued expenses and other liabilities on the Consolidated Balance Sheets. The accounting for changes in the fair value (i.e., gains or losses) of a derivative instrument is determined by whether it has been designated and qualifies as part of a hedging relationship and, further, by the type of hedging relationship. The Corporation presents derivative instruments at fair value on the Consolidated Balance Sheets on a net basis when a right of offset exists, based on transactions with a single counterparty and any cash collateral paid to and/or received from that counterparty for derivative contracts that are subject to legally enforceable master netting arrangements.

For derivative instruments designated and qualifying as fair value hedges (i.e., hedging the exposure to changes in the fair value of an asset or a liability or an identified portion thereof that is attributable to a particular risk), the gain or loss on the derivative instrument, as well as the offsetting loss or gain on the hedged item attributable to the hedged risk, are recognized in the same consolidated statement of income line that is used to present the earnings effect of the hedged item during the period of the change in fair values. For derivative instruments that are designated and qualify as cash flow hedges (i.e., hedging the exposure to variability in expected future cash flows that is attributable to a particular risk), the gain or loss on the derivative instrument is reported as a component of other comprehensive income and reclassified into earnings in the same consolidated statement of income line item as the earnings effect of the hedged item in the same period or periods during which the hedged transaction affects earnings. For derivative instruments not designated as hedging instruments, the gain or loss is recognized in current earnings during the period of change.

To qualify for the use of hedge accounting, a derivative must be effective at inception and expected to be continuously effective in offsetting the risk being hedged. For derivatives designated as hedging instruments at inception, the Corporation uses either the short-cut method or applies statistical regression analysis to assess effectiveness. The short-cut method is used for $2.1 billion notional of fair value hedges of medium- and long-term debt. This method allows for the assumption of perfect effectiveness and eliminates the requirement to further assess hedge effectiveness on these transactions. For hedge relationships to which the Corporation does not apply the short-cut method, statistical regression analysis is used at inception to assess whether the derivative used is expected to be highly effective in offsetting changes in the fair value or cash flows of the hedged item. A statistical regression or qualitative analysis is performed at each reporting period thereafter to evaluate hedge effectiveness.

The Corporation adopted Topic 848: Reference Rate Reform for derivative instruments designated and qualifying as fair value or cash flow hedges, effective January 1, 2020. As part of the adoption, certain hedge accounting requirements for qualifying modifications to derivative instruments due to reference rate reform are temporarily suspended. For further information on Topic 848, refer to the "Loans" policy in this Note.

Further information on the Corporation's derivative instruments and hedging activities is included in Note 8.

**Short-Term Borrowings**

Securities sold under agreements to repurchase are treated as collateralized borrowings and are recorded at amounts equal to the cash received. The contractual terms of the agreements to repurchase may require the Corporation to provide additional collateral if the fair value of the securities underlying the borrowings declines during the term of the agreement.

**Financial Guarantees**

Certain guarantee contracts or indemnification agreements that contingently require the Corporation, as guarantor, to make payments to the guaranteed party are initially measured at fair value and included in accrued expenses and other liabilities on the Consolidated Balance Sheets. The subsequent accounting for the liability depends on the nature of the underlying guarantee. The release from risk is accounted for under a particular guarantee when the guarantee expires or is settled, or by a systematic and rational amortization method.

Further information on the Corporation's obligations under guarantees is included in Note 8.

**Share-Based Compensation**

The Corporation recognizes share-based compensation expense using the straight-line method over the requisite service period for all stock awards, including those with graded vesting. The requisite service period is the period an employee is required to provide service in order to vest in the award, which cannot extend beyond the date at which the employee is no longer required to perform any service to receive the share-based compensation (i.e., the retirement-eligible date). Forfeiture of stock awards and dividend equivalents are accounted for as they occur.

Certain awards are contingent upon performance and/or market conditions, which affect the number of shares ultimately issued. The Corporation periodically evaluates the probable outcome of the performance conditions and makes cumulative adjustments to compensation expense as appropriate. Market conditions are included in the determination of the fair value of the award on the date of grant. Subsequent to the grant date, market conditions have no impact on the amount of compensation expense the Corporation will recognize over the life of the award.

Further information on the Corporation's share-based compensation plans is included in Note 16.

**Revenue Recognition**

Revenue from contracts with customers comprises the noninterest income earned by the Corporation in exchange for services provided to customers and is recognized when services are completed or as they are rendered, although contracts are generally short-term by nature. Services provided over a period of time are typically transferred to customers evenly over the term of the contracts and revenue is recognized accordingly over the period services are provided. Contract receivables are included in accrued income and other assets on the Consolidated Balance Sheets. Payment terms vary by services offered, and the time between completion of performance obligations and payment is typically not significant.

***Card Fees***

Card fees comprise interchange and other fee income earned on government card, commercial card, debit/automated teller machine card and merchant payment processing programs. Card fees are presented net of network costs, as performance obligations for card services are limited to transaction processing and settlement with the card network on behalf of the customers. Fees for these services are primarily based on interchange rates set by the network and transaction volume. The Corporation also provides ongoing card program support services, for which fees are based on contractually agreed-upon prices and customer demand for services.

***Service Charges on Deposit Accounts***

Service charges on deposit accounts comprise charges on retail and business accounts, including fees for treasury management services. Treasury management services include transaction-based services related to payment processing, overdrafts, non-sufficient funds and other deposit account activity, as well as account management services that are provided over time. Business customers can earn credits depending on deposit balances maintained with the Corporation, which may be used to offset fees. Fees and credits are based on predetermined, agreed-upon rates.

***Fiduciary Income***

Fiduciary income includes fees and commissions from asset management, custody, recordkeeping, investment advisory and other services provided primarily to personal and institutional trust customers. Revenue is recognized as the services are performed and is based either on the market value of the assets managed or the services provided, as well as agreed-upon rates.

***Commercial Lending Fees***

Commercial lending fees include both revenue from contracts with customers (primarily loan servicing fees) and other sources of revenue. Commercial loan servicing fees are based on contractually agreed-upon prices and when the services are provided. Other sources of revenue in commercial lending fees primarily include fees assessed on the unused portion of commercial lines of credit (unused commitment fees) and syndication arrangements.

***Brokerage Fees***

Brokerage fees are commissions earned for facilitating securities transactions for customers, as well as other brokerage services provided. Revenue is recognized when services are completed and is based on the type of services provided and agreed-upon rates. The Corporation pays commissions based on brokerage fee revenue. These are typically recognized when incurred because the amortization period is one year or less and are included in salaries and benefits expense on the Consolidated Statements of Income.

***Other Revenues***

Other revenues, consisting primarily of other retail fees, investment banking fees and insurance commissions, are typically recognized when services or transactions are completed and are based on the type of services provided and agreed-upon rates.

Except as discussed above, commissions and other incentives paid to employees are generally based on several internal and external metrics and, as a result, are not solely dependent on revenue generating activities.

**Defined Benefit Pension and Other Postretirement Costs**

Defined benefit pension costs are funded consistent with the requirements of federal laws and regulations. Inherent in the determination of defined benefit pension costs are assumptions concerning future events that will affect the amount and timing of required benefit payments under the plans. These assumptions include demographic assumptions such as retirement age and mortality, a compensation rate increase, a discount rate used to determine the current benefit obligation, form of payment election and a long-term expected rate of return on plan assets. Net periodic defined benefit pension expense includes service cost, interest cost based on the assumed discount rate, an expected return on plan assets based on an actuarially derived market-related value of assets, amortization of prior service cost or credit and amortization of net actuarial gains or losses. The market-related value of plan assets is determined by amortizing the current year's investment gains and losses (the actual investment return net of the expected investment return) over 5 years. The amortization adjustment cannot exceed 10 percent of the fair value of assets. Prior service costs or credits include the impact of plan amendments on the liabilities and are amortized over the future service periods of active employees expected to receive benefits under the plan. Actuarial gains and losses result from experience different from that assumed and from changes in assumptions (excluding asset gains and losses not yet reflected in market-related value). Amortization of actuarial gains and losses is included as a component of net periodic defined benefit pension cost for a year if the actuarial net gain or loss exceeds 10 percent of the greater of the projected benefit obligation or the market-related value of plan assets. If amortization is required, the excess is amortized over the average remaining service period of participating employees expected to receive benefits under the plan. Service costs are included in salaries and benefits expense, while the other components of net periodic defined benefit pension expense are included in other noninterest expenses on the Consolidated Statements of Income.

Postretirement benefits are recognized in other noninterest expenses on the Consolidated Statements of Income during the average remaining service period of participating employees expected to receive benefits under the plan or the average remaining future lifetime of retired participants currently receiving benefits under the plan.

See Note 17 for further information regarding the Corporation's defined benefit pension and other postretirement plans.

**Income Taxes**

The provision for income taxes is the sum of income taxes due for the current year and deferred taxes. The Corporation classifies interest and penalties on income tax liabilities and excess tax benefits and deficiencies resulting from employee stock awards in the provision for income taxes on the Consolidated Statements of Income.

Deferred taxes arise from temporary differences between the income tax basis and financial accounting basis of assets and liabilities. Deferred tax assets are evaluated for realization based on available evidence of projected future reversals of existing taxable temporary differences, assumptions made regarding future events and, when applicable, state loss carryback

capacity. A valuation allowance is provided when it is more likely than not that some portion of the deferred tax asset will not be realized.

**Earnings Per Share**

Basic net income per common share is calculated using the two-class method. The two-class method is an earnings allocation formula that determines earnings per share for each share of common stock and participating securities according to dividends declared (distributed earnings) and participation rights in undistributed earnings. Distributed and undistributed earnings are allocated between common and participating security shareholders based on their respective rights to receive dividends. Nonvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents are considered participating securities (e.g., nonvested restricted stock and certain service-based restricted stock units). Undistributed net losses are not allocated to nonvested restricted shareholders, as these shareholders do not have a contractual obligation to fund the losses incurred by the Corporation. Net income attributable to common shares is then divided by the weighted-average number of common shares outstanding during the period.

Diluted net income per common share is calculated using the more dilutive of either the treasury method or the two-class method. The dilutive calculation considers common stock issuable under the assumed exercise of stock options and warrants, as well as service- and performance-based restricted stock units granted under the Corporation's stock plans using the treasury stock method, if dilutive. Net income attributable to common shares is then divided by the total of weighted-average number of common shares and common stock equivalents outstanding during the period.

**Statements of Cash Flows**

Cash and cash equivalents are defined as those amounts included in cash and due from banks and interest-bearing deposits with banks on the Consolidated Balance Sheets.

**Comprehensive Income (Loss)**

The Corporation presents on an annual basis the components of net income and other comprehensive income in two separate, but consecutive statements and presents on an interim basis the components of net income and a total for comprehensive income in one continuous consolidated statement of comprehensive income.

## NOTE 2 – FAIR VALUE MEASUREMENTS

Note 1 contains information about the fair value hierarchy, descriptions of the valuation methodologies and key inputs used to measure financial assets and liabilities recorded at fair value, as well as a description of the methods and significant assumptions used to estimate fair value disclosures for financial instruments not recorded at fair value in their entirety on a recurring basis.

### Assets and Liabilities Recorded at Fair Value on a Recurring Basis

The following tables present the recorded amount of assets and liabilities measured at fair value on a recurring basis as of December 31, 2020 and 2019.

| *(in millions)* | Total | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| **December 31, 2020** | | | | |
| Deferred compensation plan assets | **$ 107** | **$ 107** | **$ —** | **$ —** |
| Equity securities | **60** | **60** | **—** | **—** |
| Investment securities available-for-sale: | | | | |
| U.S. Treasury and other U.S. government agency securities | **4,658** | **4,658** | **—** | **—** |
| Residential mortgage-backed securities (a) | **10,370** | **—** | **10,370** | **—** |
| Total investment securities available-for-sale | **15,028** | **4,658** | **10,370** | **—** |
| Derivative assets: | | | | |
| Interest rate contracts | **531** | **—** | **492** | **39** |
| Energy derivative contracts | **151** | **—** | **151** | **—** |
| Foreign exchange contracts | **18** | **—** | **18** | **—** |
| Total derivative assets | **700** | **—** | **661** | **39** |
| Total assets at fair value | **$ 15,895** | **$ 4,825** | **$ 11,031** | **$ 39** |
| Derivative liabilities: | | | | |
| Interest rate contracts | **$ 61** | **$ —** | **$ 61** | **$ —** |
| Energy derivative contracts | **149** | **—** | **149** | **—** |
| Foreign exchange contracts | **19** | **—** | **19** | **—** |
| Total derivative liabilities | **229** | **—** | **229** | **—** |
| Deferred compensation plan liabilities | **107** | **107** | **—** | **—** |
| Total liabilities at fair value | **$ 336** | **$ 107** | **$ 229** | **$ —** |

*(a) Issued and/or guaranteed by U.S. government agencies or U.S. government-sponsored enterprises.*

(Table continues on following page)

| *(in millions)* | Total | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| **December 31, 2019** | | | | |
| Deferred compensation plan assets | $ 95 | $ 95 | $ — | $ — |
| Equity and other non-debt securities | 54 | 54 | — | — |
| Investment securities available-for-sale: | | | | |
| U.S. Treasury and other U.S. government agency securities | 2,792 | 2,792 | — | — |
| Residential mortgage-backed securities (a) | 9,606 | — | 9,606 | — |
| Total investment securities available-for-sale | 12,398 | 2,792 | 9,606 | — |
| Derivative assets: | | | | |
| Interest rate contracts | 211 | — | 189 | 22 |
| Energy derivative contracts | 96 | — | 96 | — |
| Foreign exchange contracts | 10 | — | 10 | — |
| Total derivative assets | 317 | — | 295 | 22 |
| Total assets at fair value | $ 12,864 | $ 2,941 | $ 9,901 | $ 22 |
| Derivative liabilities: | | | | |
| Interest rate contracts | $ 39 | $ — | $ 39 | $ — |
| Energy derivative contracts | 92 | — | 92 | — |
| Foreign exchange contracts | 10 | — | 10 | — |
| Total derivative liabilities | 141 | — | 141 | — |
| Deferred compensation plan liabilities | 95 | 95 | — | — |
| Total liabilities at fair value | $ 236 | $ 95 | $ 141 | $ — |

*(a) Issued and/or guaranteed by U.S. government agencies or U.S. government-sponsored enterprises.*

There were no transfers of assets or liabilities recorded at fair value on a recurring basis into or out of Level 3 fair value measurements during the year ended December 31, 2020 and 2019.

The following table summarizes the changes in Level 3 assets measured at fair value on a recurring basis for the year ended December 31, 2020 and 2019.

| | | Net Realized/Unrealized Gains (Pretax) Recorded in Earnings (a) | | | |
|---|---|---|---|---|---|
| *(in millions)* | Balance at Beginning of Period | Realized | Unrealized | Sales | Balance at End of Period |
| **Year Ended December 31, 2020** | | | | | |
| Derivative assets: | | | | | |
| Interest rate contracts | **$ 22** | **$ —** | **$ 17** | **$ —** | **$ 39** |
| **Year Ended December 31, 2019** | | | | | |
| Derivative assets: | | | | | |
| Interest rate contracts | $ 9 | $ 1 | $ 13 | $ (1) | $ 22 |

*(a) Realized and unrealized gains and losses due to changes in fair value recorded in other noninterest income on the Consolidated Statements of Income.*

**Assets and Liabilities Recorded at Fair Value on a Nonrecurring Basis**

The Corporation may be required to record certain assets and liabilities at fair value on a nonrecurring basis. These include assets that are recorded at the lower of cost or fair value, and were recognized at fair value since it was less than cost at the end of the period.

The following table presents assets recorded at fair value on a nonrecurring basis at December 31, 2020 and 2019. No liabilities were recorded at fair value on a nonrecurring basis at December 31, 2020 and 2019.

| *(in millions)* | | Level 3 |
|---|---|---|
| **December 31, 2020** | | |
| Loans: | | |
| Commercial | **$** | **134** |
| Commercial mortgage | | **16** |
| Total assets at fair value | **$** | **150** |
| **December 31, 2019** | | |
| Loans: | | |
| Commercial | $ | 70 |
| Total assets at fair value | $ | 70 |

Level 3 assets recorded at fair value on a nonrecurring basis at December 31, 2020 and 2019 included both nonaccrual loans and TDRs for which a specific allowance was established based on the fair value of collateral. The unobservable inputs were the additional adjustments applied by management to the appraised values to reflect such factors as non-current appraisals and revisions to estimated time to sell. These adjustments are determined based on qualitative judgments made by management on a case-by-case basis and are not quantifiable inputs, although they are used in the determination of fair value.

**Estimated Fair Values of Financial Instruments Not Recorded at Fair Value on a Recurring Basis**

The Corporation typically holds the majority of its financial instruments until maturity and thus does not expect to realize many of the estimated fair value amounts disclosed. The disclosures also do not include estimated fair value amounts for items that are not defined as financial instruments, but which have significant value. These include such items as core deposit intangibles, the future earnings potential of significant customer relationships and the value of trust operations and other fee generating businesses. The Corporation believes the imprecision of an estimate could be significant.

The carrying amount and estimated fair value of financial instruments not recorded at fair value in their entirety on a recurring basis on the Corporation's Consolidated Balance Sheets are as follows:

| *(in millions)* | Carrying Amount | Estimated Fair Value | | | |
|---|---|---|---|---|---|
| | | Total | Level 1 | Level 2 | Level 3 |
| **December 31, 2020** | | | | | |
| Assets | | | | | |
| Cash and due from banks | **$ 1,031** | **$ 1,031** | **$ 1,031** | **$ —** | **$ —** |
| Interest-bearing deposits with banks | **14,736** | **14,736** | **14,736** | **—** | **—** |
| Loans held-for-sale | **5** | **5** | **—** | **5** | **—** |
| Total loans, net of allowance for loan losses (a) | **51,343** | **50,601** | **—** | **—** | **50,601** |
| Customers' liability on acceptances outstanding | **1** | **1** | **1** | **—** | **—** |
| Restricted equity investments | **207** | **207** | **207** | **—** | **—** |
| Nonmarketable equity securities (b) | **5** | **9** | | | |
| Liabilities | | | | | |
| Demand deposits (noninterest-bearing) | **39,420** | **39,420** | **—** | **39,420** | **—** |
| Interest-bearing deposits | **31,316** | **31,316** | **—** | **31,316** | **—** |
| Customer certificates of deposit | **2,133** | **2,133** | **—** | **2,133** | **—** |
| Total deposits | **72,869** | **72,869** | **—** | **72,869** | **—** |
| Acceptances outstanding | **1** | **1** | **1** | **—** | **—** |
| Medium- and long-term debt | **5,728** | **5,790** | **—** | **5,790** | **—** |
| Credit-related financial instruments | **(68)** | **(68)** | **—** | **—** | **(68)** |
| **December 31, 2019** | | | | | |
| Assets | | | | | |
| Cash and due from banks | $ 973 | $ 973 | $ 973 | $ — | $ — |
| Interest-bearing deposits with banks | 4,845 | 4,845 | 4,845 | — | — |
| Loans held-for-sale | 6 | 6 | — | 6 | — |
| Total loans, net of allowance for loan losses (a) | 49,732 | 49,975 | — | — | 49,975 |
| Customers' liability on acceptances outstanding | 2 | 2 | 2 | — | — |
| Restricted equity investments | 248 | 248 | 248 | — | — |
| Nonmarketable equity securities (b) | 5 | 10 | | | |
| Liabilities | | | | | |
| Demand deposits (noninterest-bearing) | 27,382 | 27,382 | — | 27,382 | — |
| Interest-bearing deposits | 26,802 | 26,802 | — | 26,802 | — |
| Customer certificates of deposit | 2,978 | 2,968 | — | 2,968 | — |
| Other time deposits | 133 | 133 | — | 133 | — |
| Total deposits | 57,295 | 57,285 | — | 57,285 | — |
| Short-term borrowings | 71 | 71 | 71 | — | — |
| Acceptances outstanding | 2 | 2 | 2 | — | — |
| Medium- and long-term debt | 7,269 | 7,316 | — | 7,316 | — |
| Credit-related financial instruments | (57) | (57) | — | — | (57) |

(a) *Included $150 million and $70 million of loans recorded at fair value on a nonrecurring basis at December 31, 2020 and 2019, respectively.*
(b) *Certain investments that are measured at fair value using the net asset value have not been classified in the fair value hierarchy. The fair value amounts presented in the table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the Consolidated Balance Sheets.*

## NOTE 3 - INVESTMENT SECURITIES

A summary of the Corporation's investment securities follows:

| *(in millions)* | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|---|---|---|---|---|
| **December 31, 2020** | | | | |
| Investment securities available-for-sale: | | | | |
| U.S. Treasury and other U.S. government agency securities | **$ 4,583** | **$ 76** | **$ 1** | **$ 4,658** |
| Residential mortgage-backed securities (a) | **10,169** | **203** | **2** | **10,370** |
| Total investment securities available-for-sale | **$ 14,752** | **$ 279** | **$ 3** | **$ 15,028** |
| **December 31, 2019** | | | | |
| Investment securities available-for-sale: | | | | |
| U.S. Treasury and other U.S. government agency securities | $ 2,745 | $ 47 | $ — | $ 2,792 |
| Residential mortgage-backed securities (a) | 9,568 | 66 | 28 | 9,606 |
| Total investment securities available-for-sale | $ 12,313 | $ 113 | $ 28 | $ 12,398 |

*(a) Issued and/or guaranteed by U.S. government agencies or U.S. government-sponsored enterprises.*

A summary of the Corporation's investment securities in an unrealized loss position as of December 31, 2020 and 2019 follows:

| | Temporarily Impaired | | | | | |
|---|---|---|---|---|---|---|
| | Less than 12 Months | | 12 Months or more | | Total | |
| *(in millions)* | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| **December 31, 2020** | | | | | | |
| U.S. Treasury and other U.S. government agency securities | **$1,119** | **$ 1** | **$ —** | **$ —** | **$1,119** | **$ 1** |
| Residential mortgage-backed securities (a) | **952** | **2** | **—** | **—** | **952** | **2** |
| Total temporarily impaired securities | **$2,071** | **$ 3** | **$ —** | **$ —** | **$2,071** | **$ 3** |
| **December 31, 2019** | | | | | | |
| Residential mortgage-backed securities (a) | $1,494 | $ 7 | $1,906 | $ 21 | $3,400 | $ 28 |
| Total temporarily impaired securities | $1,494 | $ 7 | $1,906 | $ 21 | $3,400 | $ 28 |

*(a) Issued and/or guaranteed by U.S. government agencies or U.S. government-sponsored enterprises.*

Unrealized losses resulted from changes in market interest rates and liquidity. The Corporation's portfolio is comprised of securities issued or guaranteed by the U.S. government or government-sponsored enterprises. As such, it is expected that the securities would not be settled at a price less than the amortized cost of the investments. Further, the Corporation does not intend to sell the investments, and it is not more-likely-than-not that it will be required to sell the the investments before recovery of amortized costs. At December 31, 2020, the Corporation had 32 securities in an unrealized loss position with no allowance for credit losses, comprised of 11 U.S. Treasury securities and 21 residential mortgage-backed securities.

Interest receivable on investment securities totaled $18 million and $20 million at December 31, 2020 and 2019 and was included in accrued income and other assets on the Consolidated Balance Sheets.

Sales, calls and write-downs of investment securities available-for-sale, primarily from repositioning $1.0 billion and $1.3 billion of lower-yielding treasury securities in the years ended December 31, 2019 and 2018, respectively, resulted in the following gains and losses recorded in net securities losses on the Consolidated Statements of Income, computed based on the adjusted cost of the specific security.

| *(in millions)*<br>**Year Ended December 31** | **2020** | **2019** | **2018** |
|---|---|---|---|
| Securities gains | **$ 1** | $ 1 | $ 2 |
| Securities losses | **(1)** | (8) | (21) |
| Net securities losses | **$ —** | $ (7) | $ (19) |

The following table summarizes the amortized cost and fair values of debt securities by contractual maturity. Securities with multiple maturity dates are classified in the period of final maturity. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

*(in millions)*

| **December 31, 2020** | **Amortized Cost** | **Fair Value** |
|---|---|---|
| Contractual maturity | | |
| Within one year | $ **1,547** | $ **1,571** |
| After one year through five years | **3,235** | **3,297** |
| After five years through ten years | **697** | **716** |
| After ten years | **9,273** | **9,444** |
| Total investment securities | $ **14,752** | $ **15,028** |

Included in the contractual maturity distribution in the table above were residential mortgage-backed securities with a total amortized cost of $10.2 billion and a fair value of $10.4 billion. The actual cash flows of mortgage-backed securities may differ as borrowers of the underlying loans may exercise prepayment options.

At December 31, 2020, investment securities with a carrying value of $5.1 billion were pledged where permitted or required by law, including $4.4 billion pledged to the Federal Home Loan Bank (FHLB) as collateral for potential future borrowings of approximately $4.2 billion and $646 million to secure $488 million of liabilities, primarily public and other deposits of state and local government agencies and derivative instruments. For information on FHLB borrowings, refer to Note 12.

### NOTE 4 – CREDIT QUALITY AND ALLOWANCE FOR CREDIT LOSSES

The following table presents an aging analysis of the amortized cost basis of loans.

| *(in millions)* | Loans Past Due and Still Accruing 30-59 Days | 60-89 Days | 90 Days or More | Total | Nonaccrual Loans | Current Loans (a) | Total Loans |
|---|---|---|---|---|---|---|---|
| **December 31, 2020** | | | | | | | |
| Business loans: | | | | | | | |
| Commercial | **$ 62** | **$ 115** | **$ 33** | **$ 210** | **$ 252** | **$ 32,291** | **$ 32,753** |
| Real estate construction: | | | | | | | |
| Commercial Real Estate business line (b) | **31** | **—** | **—** | **31** | **—** | **3,626** | **3,657** |
| Other business lines (c) | **9** | **—** | **—** | **9** | **1** | **415** | **425** |
| Total real estate construction | **40** | **—** | **—** | **40** | **1** | **4,041** | **4,082** |
| Commercial mortgage: | | | | | | | |
| Commercial Real Estate business line (b) | **51** | **1** | **—** | **52** | **3** | **2,218** | **2,273** |
| Other business lines (c) | **48** | **40** | **5** | **93** | **26** | **7,520** | **7,639** |
| Total commercial mortgage | **99** | **41** | **5** | **145** | **29** | **9,738** | **9,912** |
| Lease financing | **14** | **—** | **1** | **15** | **1** | **578** | **594** |
| International | **—** | **—** | **—** | **—** | **—** | **926** | **926** |
| Total business loans | **215** | **156** | **39** | **410** | **283** | **47,574** | **48,267** |
| Retail loans: | | | | | | | |
| Residential mortgage | **11** | **4** | **—** | **15** | **47** | **1,768** | **1,830** |
| Consumer: | | | | | | | |
| Home equity | **7** | **1** | **—** | **8** | **17** | **1,563** | **1,588** |
| Other consumer | **10** | **—** | **6** | **16** | **—** | **590** | **606** |
| Total consumer | **17** | **1** | **6** | **24** | **17** | **2,153** | **2,194** |
| Total retail loans | **28** | **5** | **6** | **39** | **64** | **3,921** | **4,024** |
| Total loans | **$ 243** | **$ 161** | **$ 45** | **$ 449** | **$ 347** | **$ 51,495** | **$ 52,291** |
| **December 31, 2019** | | | | | | | |
| Business loans: | | | | | | | |
| Commercial | $ 27 | $ 7 | $ 17 | $ 51 | $ 148 | $ 31,274 | $ 31,473 |
| Real estate construction: | | | | | | | |
| Commercial Real Estate business line (b) | 6 | — | — | 6 | — | 3,038 | 3,044 |
| Other business lines (c) | — | 7 | — | 7 | — | 404 | 411 |
| Total real estate construction | 6 | 7 | — | 13 | — | 3,442 | 3,455 |
| Commercial mortgage: | | | | | | | |
| Commercial Real Estate business line (b) | 9 | — | — | 9 | 2 | 2,165 | 2,176 |
| Other business lines (c) | 16 | 18 | 9 | 43 | 12 | 7,328 | 7,383 |
| Total commercial mortgage | 25 | 18 | 9 | 52 | 14 | 9,493 | 9,559 |
| Lease financing | 1 | — | — | 1 | — | 587 | 588 |
| International | — | 5 | — | 5 | — | 1,004 | 1,009 |
| Total business loans | 59 | 37 | 26 | 122 | 162 | 45,800 | 46,084 |
| Retail loans: | | | | | | | |
| Residential mortgage | 15 | 2 | — | 17 | 20 | 1,808 | 1,845 |
| Consumer: | | | | | | | |
| Home equity | 4 | 5 | — | 9 | 17 | 1,685 | 1,711 |
| Other consumer | 2 | 3 | — | 5 | — | 724 | 729 |
| Total consumer | 6 | 8 | — | 14 | 17 | 2,409 | 2,440 |
| Total retail loans | 21 | 10 | — | 31 | 37 | 4,217 | 4,285 |
| Total loans | $ 80 | $ 47 | $ 26 | $ 153 | $ 199 | $ 50,017 | $ 50,369 |

*(a) Includes $141 million of loans with deferred payments not considered past due in accordance with the CARES Act, at December 31, 2020.*
*(b) Primarily loans to real estate developers.*
*(c) Primarily loans secured by owner-occupied real estate.*

The following table presents loans by credit quality indicator (CQI) and vintage year. CQI is based on internal risk ratings assigned to each business loan at the time of approval and subjected to subsequent reviews, generally at least annually, and to pools of retail loans with similar risk characteristics. Vintage year is the year of origination or major modification.

| | December 31, 2020 | | | | | | | | | December 31, 2019 |
|---|---|---|---|---|---|---|---|---|---|---|
| | Vintage Year | | | | | | | | | |
| *(in millions)* | 2020 | 2019 | 2018 | 2017 | 2016 | Prior | Revolvers | Revolvers Converted to Term | Total | Total |
| Business loans: | | | | | | | | | | |
| Commercial: | | | | | | | | | | |
| Pass (a) | $ 5,991 (b) | $ 2,316 | $ 1,563 | $ 1,051 | $ 429 | $ 755 | $ 18,416 | $ 17 | $30,538 | $ 29,785 |
| Criticized (c) | 30 | 281 | 191 | 116 | 64 | 166 | 1,365 | 2 | 2,215 | 1,688 |
| Total commercial | 6,021 | 2,597 | 1,754 | 1,167 | 493 | 921 | 19,781 | 19 | 32,753 | 31,473 |
| Real estate construction | | | | | | | | | | |
| Pass (a) | 433 | 1,080 | 1,244 | 631 | 335 | 141 | 171 | — | 4,035 | 3,424 |
| Criticized (c) | 3 | 28 | 5 | 8 | — | 1 | 2 | — | 47 | 31 |
| Total real estate construction | 436 | 1,108 | 1,249 | 639 | 335 | 142 | 173 | — | 4,082 | 3,455 |
| Commercial mortgage | | | | | | | | | | |
| Pass (a) | 2,053 | 1,559 | 1,146 | 1,120 | 818 | 2,272 | 431 | — | 9,399 | 9,262 |
| Criticized (c) | 47 | 130 | 42 | 45 | 41 | 193 | 15 | — | 513 | 297 |
| Total commercial mortgage | 2,100 | 1,689 | 1,188 | 1,165 | 859 | 2,465 | 446 | — | 9,912 | 9,559 |
| Lease financing | | | | | | | | | | |
| Pass (a) | 109 | 122 | 71 | 50 | 14 | 201 | — | — | 567 | 579 |
| Criticized (c) | 2 | 17 | 5 | 2 | 1 | — | — | — | 27 | 9 |
| Total lease financing | 111 | 139 | 76 | 52 | 15 | 201 | — | — | 594 | 588 |
| International | | | | | | | | | | |
| Pass (a) | 274 | 161 | 103 | 11 | 3 | 64 | 245 | — | 861 | 972 |
| Criticized (c) | 13 | 8 | 18 | 4 | 7 | 2 | 13 | — | 65 | 37 |
| Total international | 287 | 169 | 121 | 15 | 10 | 66 | 258 | — | 926 | 1,009 |
| Total business loans | 8,955 | 5,702 | 4,388 | 3,038 | 1,712 | 3,795 | 20,658 | 19 | 48,267 | 46,084 |
| Retail loans: | | | | | | | | | | |
| Residential mortgage | | | | | | | | | | |
| Pass (a) | 639 | 230 | 119 | 197 | 196 | 398 | — | — | 1,779 | 1,823 |
| Criticized (c) | 7 | 2 | 2 | 6 | 2 | 32 | — | — | 51 | 22 |
| Total residential mortgage | 646 | 232 | 121 | 203 | 198 | 430 | — | — | 1,830 | 1,845 |
| Consumer: | | | | | | | | | | |
| Home equity | | | | | | | | | | |
| Pass (a) | — | — | — | — | — | 15 | 1,489 | 63 | 1,567 | 1,682 |
| Criticized (c) | — | — | — | — | — | 1 | 13 | 7 | 21 | 29 |
| Total home equity | — | — | — | — | — | 16 | 1,502 | 70 | 1,588 | 1,711 |
| Other consumer | | | | | | | | | | |
| Pass (a) | 113 | 23 | 12 | 2 | 3 | 41 | 404 | — | 598 | 722 |
| Criticized (c) | — | — | 2 | — | — | — | 6 | — | 8 | 7 |
| Total other consumer | 113 | 23 | 14 | 2 | 3 | 41 | 410 | — | 606 | 729 |
| Total consumer | 113 | 23 | 14 | 2 | 3 | 57 | 1,912 | 70 | 2,194 | 2,440 |
| Total retail loans | 759 | 255 | 135 | 205 | 201 | 487 | 1,912 | 70 | 4,024 | 4,285 |
| Total loans | $ 9,714 | $ 5,957 | $ 4,523 | $ 3,243 | $ 1,913 | $ 4,282 | $ 22,570 | $ 89 | $52,291 | $ 50,369 |

*(a) Includes all loans not included in the categories of special mention, substandard or nonaccrual.*

*(b) Includes $3.5 billion of Small Business Administration Paycheck Protection Program (PPP) loans at December 31, 2020.*

*(c) Includes loans with an internal rating of special mention, substandard loans for which the accrual of interest has not been discontinued and nonaccrual loans. Special mention loans have potential credit weaknesses that deserve management's close attention, such as loans to borrowers who may be experiencing financial difficulties that may result in deterioration of repayment prospects from the borrower at some future date. Accruing substandard loans have a well-defined weakness, or weaknesses, such as loans to borrowers who may be experiencing losses from operations or inadequate liquidity of a degree and duration that jeopardizes the orderly repayment of the loan. Substandard loans are also distinguished by the distinct possibility of loss in the future if these weaknesses are not corrected. Nonaccrual loans are loans for which the accrual of interest has been discontinued. For further information regarding nonaccrual loans, refer to the Nonperforming Assets subheading in Note 1 - Basis of Presentation and Accounting Policies. These categories are generally consistent with the "special mention" and "substandard" categories as defined by regulatory authorities. A minority of nonaccrual loans are consistent with the "doubtful" category.*

Loan interest receivable totaled $141 million and $172 million at December 31, 2020 and 2019, respectively, and was included in accrued income and other assets on the Consolidated Balance Sheets.

**Allowance for Credit Losses**

The following table details the changes in the allowance for credit losses.

| | 2020 | | | 2019 | | | 2018 | | |
|---|---|---|---|---|---|---|---|---|---|
| *(dollar amounts in millions)* | **Business Loans** | **Retail Loans** | **Total** | **Business Loans** | **Retail Loans** | **Total** | **Business Loans** | **Retail Loans** | **Total** |
| **Years Ended December 31,** | | | | | | | | | |
| Balance at beginning of period: | | | | | | | | | |
| Allowance for loan losses | **$ 601** | **$ 36** | **$ 637** | $ 627 | $ 44 | $ 671 | $ 661 | $ 51 | $ 712 |
| Allowance for credit losses on lending-related commitments | **28** | **3** | **31** | 26 | 4 | 30 | 38 | 4 | 42 |
| Allowance for credit losses | **629** | **39** | **668** | 653 | 48 | 701 | 699 | 55 | 754 |
| Cumulative effect of change in accounting principle | **(42)** | **25** | **(17)** | — | — | — | — | — | — |
| Loan charge-offs | **(233)** | **(5)** | **(238)** | (147) | (5) | (152) | (99) | (4) | (103) |
| Recoveries on loans previously charged-off | **38** | **4** | **42** | 40 | 5 | 45 | 47 | 5 | 52 |
| Net loan (charge-offs) recoveries | **(195)** | **(1)** | **(196)** | (107) | — | (107) | (52) | 1 | (51) |
| Provision for credit losses: | | | | | | | | | |
| Provision for loan losses | **531** | **(7)** | **524** | 81 | (8) | 73 | 19 | (8) | 11 |
| Provision for credit losses on lending-related commitments | **7** | **6** | **13** | 2 | (1) | 1 | (12) | — | (12) |
| Provision for credit losses | **538** | **(1)** | **537** | 83 | (9) | 74 | 7 | (8) | (1) |
| Foreign currency translation adjustment | **—** | **—** | **—** | — | — | — | (1) | — | (1) |
| Balance at end of period: | | | | | | | | | |
| Allowance for loan losses | **895** | **53** | **948** | 601 | 36 | 637 | 627 | 44 | 671 |
| Allowance for credit losses on lending-related commitments | **35** | **9** | **44** | 28 | 3 | 31 | 26 | 4 | 30 |
| Allowance for credit losses | **$ 930** | **$ 62** | **$ 992** | $ 629 | $ 39 | $ 668 | $ 653 | $ 48 | $ 701 |
| Allowance for loan losses as a percentage of total loans | **1.85%** | **1.32%** | **1.81%** | 1.30% | 0.84% | 1.27% | 1.37% | 0.97% | 1.34% |
| Allowance for loan losses as a percentage of total loans excluding PPP loans | **2.00** | **n/a** | **1.94** | n/a | n/a | n/a | n/a | n/a | n/a |
| Allowance for credit losses as a percentage of total loans | **1.93** | **1.55** | **1.90** | 1.37 | 0.91 | 1.33 | 1.43 | 1.05 | 1.40 |
| Allowance for credit losses as a percentage of total loans excluding PPP loans | **2.08** | **n/a** | **2.03** | n/a | n/a | n/a | n/a | n/a | n/a |

*n/a - not applicable*

**Nonaccrual Loans**

The following table presents additional information regarding nonaccrual loans. No interest income was recognized on nonaccrual loans for the years ended December 31, 2020, 2019 and 2018.

| *(in millions)* | Nonaccrual Loans with No Related Allowance | Nonaccrual Loans with Related Allowance | Total Nonaccrual Loans |
|---|---|---|---|
| **December 31, 2020** | | | |
| Business loans: | | | |
| Commercial | **$ 57** | **$ 195** | **$ 252** |
| Real estate construction: | | | |
| Other business lines (a) | **—** | **1** | **1** |
| Commercial mortgage: | | | |
| Commercial Real Estate business line (b) | **1** | **2** | **3** |
| Other business lines (a) | **5** | **21** | **26** |
| Total commercial mortgage | **6** | **23** | **29** |
| Lease financing | **—** | **1** | **1** |
| Total business loans | **63** | **220** | **283** |
| Retail loans: | | | |
| Residential mortgage | **47** | **—** | **47** |
| Consumer: | | | |
| Home equity | **17** | **—** | **17** |
| Total retail loans | **64** | **—** | **64** |
| Total nonaccrual loans | **$ 127** | **$ 220** | **$ 347** |
| **December 31, 2019** | | | |
| Business loans: | | | |
| Commercial | $ 29 | $ 119 | $ 148 |
| Commercial mortgage: | | | |
| Commercial Real Estate business line (b) | 2 | — | 2 |
| Other business lines (a) | 1 | 11 | 12 |
| Total commercial mortgage | 3 | 11 | 14 |
| Total business loans | 32 | 130 | 162 |
| Retail loans: | | | |
| Residential mortgage | 20 | — | 20 |
| Consumer: | | | |
| Home equity | 17 | — | 17 |
| Total retail loans | 37 | — | 37 |
| Total nonaccrual loans | $ 69 | $ 130 | $ 199 |

*(a) Primarily loans secured by owner-occupied real estate.*
*(b) Primarily loans to real estate developers.*

**Foreclosed Properties**

Foreclosed properties totaled $8 million and $11 million at December 31, 2020 and 2019, respectively. There were no retail loans secured by residential real estate properties in process of foreclosure included in nonaccrual loans in either of years ended December 31, 2020 and 2019.

### Troubled Debt Restructurings

The following table details the amortized cost basis at December 31, 2020 and 2019 of loans considered to be TDRs that were restructured during the years ended December 31, 2020 and 2019, by type of modification. In cases of loans with more than one type of modification, the loans were categorized based on the most significant modification.

| | 2020 | | | 2019 | | |
|---|---|---|---|---|---|---|
| | Type of Modification | | | Type of Modification | | |
| *(in millions)* | Principal Deferrals (a) | Interest Rate Reductions | Total Modifications | Principal Deferrals (a) | Interest Rate Reductions | Total Modifications |
| **Years Ended December 31,** | | | | | | |
| Business loans: | | | | | | |
| Commercial | **$ 18** | **$ —** | **$ 18** | $ 28 | $ — | $ 28 |
| Commercial mortgage: | | | | | | |
| Other business lines (b) | **2** | **—** | **2** | — | — | — |
| Total business loans | **20** | **—** | **20** | 28 | — | 28 |
| Retail loans: | | | | | | |
| Consumer: | | | | | | |
| Home equity (c) | **—** | **2** | **2** | — | 1 | 1 |
| Total loans | **$ 20** | **$ 2** | **$ 22** | $ 28 | $ 1 | $ 29 |

*(a) Primarily represents loan balances where terms were extended by more than an insignificant time period, typically more than 180 days, at or above contractual interest rates. Also includes commercial loans restructured in bankruptcy. In accordance with the provisions of the CARES Act, 2020 balances exclude $72 million, primarily retail loans, with terms extended by more than an insignificant time period.*
*(b) Primarily loans secured by owner-occupied real estate.*
*(c) Includes bankruptcy loans for which the court has discharged the borrower's obligation and the borrower has not reaffirmed the debt.*

The Corporation charges interest on principal balances outstanding during deferral periods. Additionally, none of the modifications involved forgiveness of principal. There were no commitments to lend additional funds to borrowers whose terms have been modified in TDRs at December 31, 2020, compared to $3 million at December 31, 2019. On an ongoing basis, the Corporation monitors the performance of modified loans to their restructured terms. The allowance for loan losses continues to be reassessed on the basis of an individual evaluation of the loan.

For principal deferrals, incremental deterioration in the credit quality of the loan, represented by a downgrade in the risk rating of the loan, for example, due to missed interest payments or a reduction of collateral value, is considered a subsequent default. For interest rate reductions, a subsequent payment default is defined in terms of delinquency, when a principal or interest payment is 90 days past due. Of the TDRs modified during the years ended December 31, 2020 and 2019, principal deferrals totaled $10 million and $12 million, respectively. There were no subsequent defaults of interest rate reductions during either of the years ended December 31, 2020 and 2019.

### NOTE 5 - SIGNIFICANT GROUP CONCENTRATIONS OF CREDIT RISK

Concentrations of credit risk may exist when a number of borrowers are engaged in similar activities, or activities in the same geographic region, and have similar economic characteristics that would cause them to be similarly impacted by changes in economic or other conditions. Concentrations of both on-balance sheet and off-balance sheet credit risk are controlled and monitored as part of credit policies. The Corporation is a regional financial services holding company with a geographic concentration of its on-balance-sheet and off-balance-sheet activities in Michigan, California and Texas.

At December 31, 2020, the Corporation's concentration of credit risk with the commercial real estate industry, which includes a portfolio of real estate construction and commercial mortgage loans, represented 27 percent of total loans. The following table summarizes the Corporation's commercial real estate loan portfolio by loan category.

| *(in millions)*<br>**December 31** | **2020** | 2019 |
|---|---|---|
| Real estate construction loans: | | |
| Commercial Real Estate business line (a) | **$ 3,657** | $ 3,044 |
| Other business lines (b) | **425** | 411 |
| Total real estate construction loans | **4,082** | 3,455 |
| Commercial mortgage loans: | | |
| Commercial Real Estate business line (a) | **2,273** | 2,176 |
| Other business lines (b) | **7,639** | 7,383 |
| Total commercial mortgage loans | **9,912** | 9,559 |
| Total commercial real estate loans | **$ 13,994** | $ 13,014 |
| Total unused commitments on commercial real estate loans | **$ 3,272** | $ 3,557 |

*(a) Primarily loans to real estate developers.*
*(b) Primarily loans secured by owner-occupied real estate.*

The Corporation also has a concentration of credit risk with the automotive industry. Outstanding loans, included in commercial loans on the Consolidated Balance Sheets, and total exposure (outstanding loans, unused commitments and standby letters of credit) to companies related to the automotive industry were as follows:

| *(in millions)*<br>**December 31** | **2020** | 2019 |
|---|---|---|
| Automotive loans: | | |
| Production (a) | **$ 1,093** | $ 1,249 |
| Dealer | **5,692** | 7,414 |
| Total automotive loans | **$ 6,785** | $ 8,663 |
| Total automotive exposure: | | |
| Production (a) | **$ 2,267** | $ 2,358 |
| Dealer | **9,653** | 9,677 |
| Total automotive exposure | **$ 11,920** | $ 12,035 |

*(a) Excludes PPP loans.*

## NOTE 6 - PREMISES AND EQUIPMENT

A summary of premises and equipment by major category follows:

| *(in millions)*<br>**December 31** | **2020** | 2019 |
|---|---|---|
| Land | **$ 86** | $ 86 |
| Buildings and improvements | **847** | 818 |
| Furniture and equipment | **485** | 513 |
| Total cost | **1,418** | 1,417 |
| Less: Accumulated depreciation and amortization | **(959)** | (960) |
| Net book value | **$ 459** | $ 457 |

The Corporation conducts a portion of its business from leased facilities and leases certain equipment. Rental expense for leased properties and equipment amounted to $79 million, $81 million and $75 million in 2020, 2019 and 2018, respectively. Refer to Note 26 for more information on leased facilities and equipment.

## NOTE 7 - GOODWILL AND CORE DEPOSIT INTANGIBLES

The following table summarizes the carrying value of goodwill by reporting unit for the years ended December 31, 2020 and 2019.

| *(in millions)*<br>**December 31** | **2020** | **2019** |
|---|---|---|
| Commercial Bank | **$ 473** | $ 473 |
| Retail Bank | **101** | 101 |
| Wealth Management | **61** | 61 |
| Total | **$ 635** | $ 635 |

The Corporation performs its annual evaluation of goodwill impairment in the third quarter of each year and may elect to perform a quantitative impairment analysis or first conduct a qualitative analysis to determine if a quantitative analysis is necessary. In addition the Corporation evaluates goodwill impairment on an interim basis if events or changes in circumstances between annual tests indicated additional testing may be warranted to determine if goodwill might be impaired.

Due to the significant deterioration of economic conditions and the spread of the coronavirus global pandemic in first quarter 2020, the Corporation assessed impairment indicators and determined it was more likely than not that the fair value of each reporting unit exceeded its carrying value. In second quarter 2020, the Corporation performed an interim quantitative impairment test in response to continued macroeconomic deterioration and the ongoing impacts to the banking industry and markets in which the Corporation operates. At the conclusion of the second quarter quantitative test, the estimated fair values of all reporting units substantially exceeded their carrying values, including goodwill. In 2020 and 2019, the annual test of goodwill impairment was performed as of the beginning of the third quarter, and in both periods, a qualitative assessment resulted in the Corporation determining goodwill was not impaired as it was more likely than not the fair value of each reporting unit exceeded its carrying value.

A summary of core deposit intangible carrying value and related accumulated amortization follows:

| *(in millions)*<br>**December 31** | **2020** | **2019** |
|---|---|---|
| Gross carrying amount | **$ 34** | $ 34 |
| Accumulated amortization | **(33)** | (32) |
| Net carrying amount | **$ 1** | $ 2 |

The Corporation recorded amortization expense related to the core deposit intangible of $1 million and $2 million for the years ended December 31, 2020 and 2019, respectively. The estimated future amortization of the core deposit intangible is $1 million for the year ended December 31, 2021. After December 31, 2021 the core deposit intangible will be fully amortized.

## NOTE 8 - DERIVATIVE AND CREDIT-RELATED FINANCIAL INSTRUMENTS

In the normal course of business, the Corporation enters into various transactions involving derivative and credit-related financial instruments to manage exposure to fluctuations in interest rate, foreign currency and other market risks and to meet the financing needs of customers (customer-initiated derivatives). These financial instruments involve, to varying degrees, elements of market and credit risk. Market and credit risk are included in the determination of fair value.

Market risk is the potential loss that may result from movements in interest rates, foreign currency exchange rates or energy commodity prices that cause an unfavorable change in the value of a financial instrument. The Corporation manages this risk by establishing monetary exposure limits and monitoring compliance with those limits. Market risk inherent in interest rate and energy contracts entered into on behalf of customers is mitigated by taking offsetting positions, except in those circumstances when the amount, tenor and/or contract rate level results in negligible economic risk, whereby the cost of purchasing an offsetting contract is not economically justifiable. The Corporation mitigates most of the inherent market risk in foreign exchange contracts entered into on behalf of customers by taking offsetting positions and manages the remainder through individual foreign currency position limits and aggregate value-at-risk limits. These limits are established annually and positions are monitored quarterly. Market risk inherent in derivative instruments held or issued for risk management purposes is typically offset by changes in the fair value of the assets or liabilities being hedged.

Credit risk is the possible loss that may occur in the event of nonperformance by the counterparty to a financial instrument. The Corporation attempts to minimize credit risk arising from customer-initiated derivatives by evaluating the creditworthiness of each customer, adhering to the same credit approval process used for traditional lending activities and obtaining collateral as deemed necessary. Derivatives with dealer counterparties are either cleared through a clearinghouse or

settled directly with a single counterparty. For derivatives settled directly with dealer counterparties, the Corporation utilizes counterparty risk limits and monitoring procedures, as well as master netting arrangements and bilateral collateral agreements to facilitate the management of credit risk. Master netting arrangements effectively reduce credit valuation adjustments by permitting settlement of positive and negative positions and offset cash collateral held with the same counterparty on a net basis. Bilateral collateral agreements require daily exchange of cash or highly rated securities issued by the U.S. Treasury or other U.S. government entities to collateralize amounts due to either party. At December 31, 2020, counterparties with bilateral collateral agreements deposited $19 million of cash with the Corporation to secure the fair value of contracts in an unrealized gain position, and the Corporation had pledged $44 million of marketable investment securities and posted $49 million of cash as collateral for contracts in an unrealized loss position. For those counterparties not covered under bilateral collateral agreements, collateral is obtained, if deemed necessary, based on the results of management's credit evaluation of the counterparty. Collateral varies, but may include cash, investment securities, accounts receivable, equipment or real estate. Included in the fair value of derivative instruments are credit valuation adjustments reflecting counterparty credit risk. These adjustments are determined by applying a credit spread for the counterparty or the Corporation, as appropriate, to the total expected exposure of the derivative. There were no derivative instruments with credit-risk-related contingent features that were in a liability position at December 31, 2020.

**Derivative Instruments**

Derivative instruments utilized by the Corporation are negotiated over-the-counter and primarily include swaps, caps and floors, forward contracts and options, each of which may relate to interest rates, energy commodity prices or foreign currency exchange rates. Swaps are agreements in which two parties periodically exchange cash payments based on specified indices applied to a specified notional amount until a stated maturity. Caps and floors are agreements which entitle the buyer to receive cash payments based on the difference between a specified reference rate or price and an agreed strike rate or price, applied to a specified notional amount until a stated maturity. Forward contracts are over-the-counter agreements to buy or sell an asset at a specified future date and price. Options are similar to forward contracts except the purchaser has the right, but not the obligation, to buy or sell the asset during a specified period or at a specified future date.

Over-the-counter contracts are tailored to meet the needs of the counterparties involved and, therefore, contain a greater degree of credit risk and liquidity risk than exchange-traded contracts, which have standardized terms and readily available price information. The Corporation reduces exposure to market and liquidity risks from over-the-counter derivative instruments entered into for risk management purposes, and transactions entered into to mitigate the market risk associated with customer-initiated transactions, by taking offsetting positions with investment grade domestic and foreign financial institutions and subjecting counterparties to credit approvals, limits and collateral monitoring procedures similar to those used in making other extensions of credit. In addition, certain derivative contracts executed bilaterally with a dealer counterparty in the over-the-counter market are cleared through a clearinghouse, whereby the clearinghouse becomes the counterparty to the transaction.

The following table presents the composition of the Corporation's derivative instruments held or issued for risk management purposes or in connection with customer-initiated and other activities at December 31, 2020 and 2019.

| | December 31, 2020 | | | December 31, 2019 | | |
|---|---|---|---|---|---|---|
| | | Fair Value | | | Fair Value | |
| *(in millions)* | Notional/ Contract Amount (a) | Gross Derivative Assets | Gross Derivative Liabilities | Notional/ Contract Amount (a) | Gross Derivative Assets | Gross Derivative Liabilities |
| Risk management purposes | | | | | | |
| Derivatives designated as hedging instruments | | | | | | |
| Interest rate contracts: | | | | | | |
| Swaps - fair value - receive fixed/ pay floating | **$ 2,650** | **$ —** | **$ —** | $ 3,325 | $ — | $ — |
| Swaps - cash flow - receive fixed/ pay floating | **5,550** | **—** | **—** | 4,550 | — | — |
| Derivatives used as economic hedges | | | | | | |
| Foreign exchange contracts: | | | | | | |
| Spot, forwards and swaps | **442** | **1** | **4** | 330 | — | 2 |
| Total risk management purposes | **8,642** | **1** | **4** | 8,205 | — | 2 |
| Customer-initiated and other activities | | | | | | |
| Interest rate contracts: | | | | | | |
| Caps and floors written | **869** | **—** | **—** | 671 | — | — |
| Caps and floors purchased | **869** | **—** | **—** | 671 | — | — |
| Swaps | **19,783** | **531** | **61** | 16,485 | 211 | 39 |
| Total interest rate contracts | **21,521** | **531** | **61** | 17,827 | 211 | 39 |
| Energy contracts: | | | | | | |
| Caps and floors written | **503** | **1** | **33** | 477 | — | 23 |
| Caps and floors purchased | **503** | **33** | **1** | 477 | 23 | — |
| Swaps | **2,115** | **117** | **115** | 2,135 | 73 | 69 |
| Total energy contracts | **3,121** | **151** | **149** | 3,089 | 96 | 92 |
| Foreign exchange contracts: | | | | | | |
| Spot, forwards, options and swaps | **1,901** | **17** | **15** | 1,013 | 10 | 8 |
| Total customer-initiated and other activities | **26,543** | **699** | **225** | 21,929 | 317 | 139 |
| Total gross derivatives | **$ 35,185** | **700** | **229** | $ 30,134 | 317 | 141 |
| Amounts offset in the Consolidated Balance Sheets: | | | | | | |
| Netting adjustment - Offsetting derivative assets/liabilities | | **(83)** | **(83)** | | (63) | (63) |
| Netting adjustment - Cash collateral received/posted | | **(17)** | **(48)** | | (11) | (12) |
| Net derivatives included in the Consolidated Balance Sheets (b) | | **600** | **98** | | 243 | 66 |
| Amounts not offset in the Consolidated Balance Sheets: | | | | | | |
| Marketable securities pledged under bilateral collateral agreements | | **—** | **(42)** | | — | (21) |
| Net derivatives after deducting amounts not offset in the Consolidated Balance Sheets | | **$ 600** | **$ 56** | | $ 243 | $ 45 |

*(a) Notional or contractual amounts, which represent the extent of involvement in the derivatives market, are used to determine the contractual cash flows required in accordance with the terms of the agreement. These amounts are typically not exchanged, significantly exceed amounts subject to credit or market risk and are not reflected on the Consolidated Balance Sheets.*

*(b) Net derivative assets are included in accrued income and other assets and net derivative liabilities are included in accrued expenses and other liabilities on the Consolidated Balance Sheets. Included in the fair value of net derivative assets and net derivative liabilities are credit valuation adjustments reflecting counterparty credit risk and credit risk of the Corporation. The fair value of net derivative assets included credit valuation adjustments for counterparty credit risk of $27 million and $9 million at December 31, 2020 and 2019, respectively.*

***Risk Management***

The Corporation's derivative instruments used for managing interest rate risk include cash flow hedging strategies that convert variable-rate loans to fixed rates and fair value hedging strategies that convert fixed-rate long-term debt to variable rates. Interest and fees on loans for the year ended December 31, 2020 included $70 million of cash flow hedge income, compared to none in the years ended December 31, 2019 and 2018.

The following table details the effects of fair value hedging on the Consolidated Statements of Income.

| *(in millions)* | Interest on Medium- and Long-Term Debt | | |
|---|---|---|---|
| **Years Ended December 31** | **2020** | **2019** | **2018** |
| Total interest on medium-and long-term debt (a) | **$ 80** | $ 197 | $ 144 |
| Fair value hedging relationships: | | | |
| Interest rate contracts: | | | |
| Hedged items | **109** | 110 | 74 |
| Derivatives designated as hedging instruments | **(51)** | (4) | (7) |

(a) *Includes the effects of hedging.*

For information on accumulated net gains on cash flow hedges, refer to Note 14.

The following table summarizes the expected weighted average remaining maturity of the notional amount of risk management interest rate swaps, the carrying amount of the related hedged items and the weighted average interest rates associated with amounts expected to be received or paid on interest rate swap agreements as of December 31, 2020 and 2019.

***Cash flow swaps - receive fixed/pay floating rate on variable-rate loans***

| *(dollar amounts in millions)* | **December 31, 2020** | **December 31, 2019** |
|---|---|---|
| Derivative notional amount | **$ 5,550** | 4,550 |
| Weighted average: | | |
| Remaining maturity (in years) | **2.3** | 3.0 |
| Receive rate | **1.87%** | 1.94% |
| Pay rate (a) | **0.15** | 1.71 |

(a) *Variable rates paid on receive fixed swaps designated as cash flow hedges are based on one-month LIBOR rates in effect at December 31, 2020 and December 31, 2019.*

***Fair value swaps - receive fixed/pay floating rate on medium- and long-term debt***

| *(dollar amounts in millions)* | **December 31, 2020** | **December 31, 2019** |
|---|---|---|
| Derivative notional amount | **$ 2,650** | $ 3,325 |
| Carrying value of hedged items (a) | **2,928** | 3,469 |
| Weighted average: | | |
| Remaining maturity (in years) | **4.6** | 4.6 |
| Receive rate | **3.68%** | 3.44% |
| Pay rate (b) | **1.16** | 2.80 |

(a) *Included $279 million and $146 million of cumulative hedging adjustments at December 31, 2020 and 2019, respectively, which included $6 million and $7 million, respectively, of hedging adjustment on a discontinued hedging relationship.*

(b) *Variable rates paid on receive fixed swaps designated as fair value hedges are based on one- and six-month LIBOR rates in effect at December 31, 2020 and 2019.*

Foreign exchange rate risk arises from changes in the value of certain assets and liabilities denominated in foreign currencies. The Corporation employs spot and forward contracts in addition to swap contracts to manage exposure to these and other risks. These instruments are used as economic hedges, and net gains or losses are included in other noninterest income on the Consolidated Statements of Income.

***Customer-Initiated and Other***

The Corporation enters into derivative transactions at the request of customers and generally takes offsetting positions with dealer counterparties to mitigate the inherent market risk. Income primarily results from the spread between the customer derivative and the offsetting dealer position.

For customer-initiated foreign exchange contracts where offsetting positions have not been taken, the Corporation manages the remaining inherent market risk through individual foreign currency position limits and aggregate value-at-risk limits. These limits are established annually and reviewed quarterly. For those customer-initiated derivative contracts which were not offset or where the Corporation holds a position within the limits described above, the Corporation recognized no net gains and losses in other noninterest income on the Consolidated Statements of Income for the years ending December 31, 2020, 2019 and 2018.

Fair values of customer-initiated and other derivative instruments represent the net unrealized gains or losses on such contracts and are recorded on the Consolidated Balance Sheets. Changes in fair value are recognized on the Consolidated Statements of Income. The net gains recognized in income on customer-initiated derivative instruments, net of the impact of offsetting positions, were as follows:

| | | Years Ended December 31, | | |
|---|---|---|---|---|
| *(in millions)* | **Location of Gain** | **2020** | **2019** | **2018** |
| Interest rate contracts | Other noninterest income | **$ 27** | $ 29 | $ 26 |
| Energy contracts | Other noninterest income | **1** | 5 | 4 |
| Foreign exchange contracts | Foreign exchange income | **40** | 43 | 47 |
| Total | | **$ 68** | $ 77 | $ 77 |

**Credit-Related Financial Instruments**

The Corporation issues off-balance sheet financial instruments in connection with commercial and consumer lending activities. The Corporation's credit risk associated with these instruments is represented by the contractual amounts indicated in the following table.

| *(in millions)*<br>**December 31** | **2020** | **2019** |
|---|---|---|
| Unused commitments to extend credit: | | |
| Commercial and other | **$ 23,443** | $ 23,681 |
| Bankcard, revolving check credit and home equity loan commitments | **3,297** | 3,180 |
| Total unused commitments to extend credit | **$ 26,740** | $ 26,861 |
| Standby letters of credit | **$ 3,273** | $ 3,320 |
| Commercial letters of credit | **30** | 18 |

The Corporation maintains an allowance to cover probable credit losses inherent in lending-related commitments, including unused commitments to extend credit, letters of credit and financial guarantees. The allowance for credit losses on lending-related commitments, included in accrued expenses and other liabilities on the Consolidated Balance Sheets, was $44 million and $31 million at December 31, 2020 and 2019, respectively.

***Unused Commitments to Extend Credit***

Commitments to extend credit are legally binding agreements to lend to a customer, provided there is no violation of any condition established in the contract. These commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many commitments expire without being drawn upon, the total contractual amount of commitments does not necessarily represent future cash requirements of the Corporation. Commercial and other unused commitments are primarily variable rate commitments. The allowance for credit losses on lending-related commitments included $37 million and $25 million at December 31, 2020 and 2019, respectively, for probable credit losses inherent in the Corporation's unused commitments to extend credit.

***Standby and Commercial Letters of Credit***

Standby letters of credit represent conditional obligations of the Corporation which guarantee the performance of a customer to a third party. Standby letters of credit are primarily issued to support public and private borrowing arrangements, including commercial paper, bond financing and similar transactions. Commercial letters of credit are issued to finance foreign or domestic trade transactions. These contracts expire in decreasing amounts through the year 2028. The Corporation may enter into participation arrangements with third parties that effectively reduce the maximum amount of future payments which may be required under standby and commercial letters of credit. These risk participations covered $150 million and $161 million at December 31, 2020 and 2019, respectively, of the $3.3 billion of standby and commercial letters of credit outstanding at both December 31, 2020 and 2019.

The carrying value of the Corporation's standby and commercial letters of credit, included in accrued expenses and other liabilities on the Consolidated Balance Sheets, totaled $31 million at December 31, 2020, including $24 million in deferred fees and $7 million in the allowance for credit losses on lending-related commitments. At December 31, 2019, the comparable amounts were $32 million, $26 million and $6 million, respectively.

The following table presents a summary of criticized standby and commercial letters of credit at December 31, 2020 and 2019. The Corporation's criticized list is consistent with the Special Mention, Substandard and Doubtful categories defined by regulatory authorities. The Corporation manages credit risk through underwriting, periodically reviewing and approving its credit exposures using Board committee approved credit policies and guidelines.

| *(dollar amounts in millions)* | **December 31, 2020** | **December 31, 2019** |
|---|---|---|
| Total criticized standby and commercial letters of credit | **$ 73** | $ 44 |
| As a percentage of total outstanding standby and commercial letters of credit | **2.2%** | 1.3% |

***Other Credit-Related Financial Instruments***

The Corporation enters into credit risk participation agreements, under which the Corporation assumes credit exposure associated with a borrower's performance related to certain interest rate derivative contracts. The Corporation is not a party to the interest rate derivative contracts and only enters into these credit risk participation agreements in instances in which the Corporation is also a party to the related loan participation agreement for such borrowers. The Corporation manages its credit risk on the credit risk participation agreements by monitoring the creditworthiness of the borrowers, which is based on the normal credit review process had it entered into the derivative instruments directly with the borrower. The notional amount of such credit risk participation agreement reflects the pro-rata share of the derivative instrument, consistent with its share of the related participated loan. As of December 31, 2020 and 2019, the total notional amount of the credit risk participation agreements was approximately $1.1 billion and $786 million, respectively, and the fair value was $3 million at December 31, 2020 and insignificant at December 31, 2019. The maximum estimated exposure to these agreements, as measured by projecting a maximum value of the guaranteed derivative instruments, assuming 100 percent default by all obligors on the maximum values, was $62 million and $20 million at December 31, 2020 and 2019, respectively. In the event of default, the lead bank has the ability to liquidate the assets of the borrower, in which case the lead bank would be required to return a percentage of the recouped assets to the participating banks. As of December 31, 2020, the weighted average remaining maturity of outstanding credit risk participation agreements was 4.4 years.

**NOTE 9 - VARIABLE INTEREST ENTITIES (VIEs)**

The Corporation evaluates its interest in certain entities to determine if these entities meet the definition of a VIE and whether the Corporation is the primary beneficiary and should consolidate the entity based on the variable interests it held both at inception and when there is a change in circumstances that requires a reconsideration.

The Corporation holds ownership interests in funds in the form of limited partnerships or limited liability companies (LLCs) investing in affordable housing projects that qualify for the low-income housing tax credit (LIHTC). The Corporation also directly invests in limited partnerships and LLCs which invest in community development and other projects, which generate similar tax credits to investors (other tax credit entities). As an investor, the Corporation obtains income tax credits and deductions from the operating losses of these tax credit entities. These tax credit entities meet the definition of a VIE; however, the Corporation is not the primary beneficiary of the entities, as the general partner or the managing member has both the power to direct the activities that most significantly impact the economic performance of the entities and the obligation to absorb losses or the right to receive benefits that could be significant to the entities.

The Corporation accounts for its interests in LIHTC entities using the proportional amortization method. Ownership interests in other tax credit entities are accounted for under either the cost or equity method. Exposure to loss as a result of the Corporation's involvement in LIHTC entities and other tax credit entities at December 31, 2020 was limited to $448 million and $12 million, respectively.

Investment balances, including all legally binding commitments to fund future investments, are included in accrued income and other assets on the Consolidated Balance Sheets. A liability is recognized in accrued expenses and other liabilities on the Consolidated Balance Sheets for all legally binding unfunded commitments to fund tax credit entities ($165 million at December 31, 2020). Amortization and other write-downs of LIHTC investments are presented on a net basis as a component of the provision for income taxes on the Consolidated Statements of Income, while amortization and write-downs of other tax credit investments are recorded in other noninterest income. The income tax credits and deductions are recorded as a reduction of income tax expense and a reduction of federal income taxes payable.

The Corporation provided no financial or other support that was not contractually required to any of the above VIEs during the years ended December 31, 2020, 2019 and 2018.

The following table summarizes the impact of these tax credit entities on line items on the Corporation's Consolidated Statements of Income.

| *(in millions)*<br>**Years Ended December 31** | **2020** | **2019** | **2018** |
|---|---|---|---|
| Other noninterest income: | | | |
| Sales of other tax credit investments | **$ 1** | $ 2 | $ 5 |
| Provision for income taxes: | | | |
| Amortization of LIHTC Investments | **67** | $ 65 | 65 |
| Low income housing tax credits | **(63)** | (62) | (62) |
| Other tax benefits related to tax credit entities | **(16)** | (13) | (14) |
| Total provision for income taxes | **$ (12)** | $ (10) | $ (11) |

For further information on the Corporation's consolidation policy, see Note 1.

## NOTE 10 - DEPOSITS

At December 31, 2020, the scheduled maturities of certificates of deposit and other deposits with a stated maturity were as follows:

| *(in millions)*<br>**Years Ending December 31** | |
|---|---|
| 2021 | **$ 1,823** |
| 2022 | **298** |
| 2023 | **24** |
| 2024 | **12** |
| 2025 | **20** |
| Thereafter | **22** |
| Total | **$ 2,199** |

A maturity distribution of domestic certificates of deposit of $100,000 and over follows:

| *(in millions)*<br>**December 31** | **2020** | **2019** |
|---|---|---|
| Three months or less | **$ 366** | $ 398 |
| Over three months to six months | **246** | 503 |
| Over six months to twelve months | **387** | 819 |
| Over twelve months | **205** | 97 |
| Total | **$ 1,204** | $ 1,817 |

The aggregate amount of domestic certificates of deposit that meet or exceed the current FDIC insurance limit of $250,000 was $632 million and $956 million at December 31, 2020 and 2019, respectively. All foreign office time deposits were in denominations of $250,000 or more and totaled $66 million and $91 million at December 31, 2020 and 2019, respectively.

## NOTE 11 - SHORT-TERM BORROWINGS

Federal funds purchased and securities sold under agreements to repurchase generally mature within one to four days from the transaction date. Other short-term borrowings, which may consist of borrowed securities and short-term notes, generally mature within one to 120 days from the transaction date.

At December 31, 2020, Comerica Bank (the Bank), a wholly-owned subsidiary of the Corporation, had pledged loans totaling $18.0 billion which provided for up to $14.2 billion of available collateralized borrowing with the FRB.

The following table provides a summary of short-term borrowings.

| *(dollar amounts in millions)* | Federal Funds Purchased and Securities Sold Under Agreements to Repurchase | Other Short-term Borrowings |
|---|---|---|
| **December 31, 2020** | | |
| Amount outstanding at year-end | **$ —** | **$ —** |
| Weighted average interest rate at year-end | **—%** | **—%** |
| Maximum month-end balance during the year | **$ 1,513** | **$ 1,250** |
| Average balance outstanding during the year | **30** | **284** |
| Weighted average interest rate during the year | **0.97%** | **0.25%** |
| **December 31, 2019** | | |
| Amount outstanding at year-end | $ 71 | $ — |
| Weighted average interest rate at year-end | 1.50% | —% |
| Maximum month-end balance during the year | $ 835 | $ 1,200 |
| Average balance outstanding during the year | 113 | 256 |
| Weighted average interest rate during the year | 2.28% | 2.44% |
| **December 31, 2018** | | |
| Amount outstanding at year-end | $ 44 | $ — |
| Weighted average interest rate at year-end | 2.39% | —% |
| Maximum month-end balance during the year | $ 182 | $ 250 |
| Average balance outstanding during the year | 59 | 3 |
| Weighted average interest rate during the year | 1.91% | 1.75% |

## NOTE 12 - MEDIUM- AND LONG-TERM DEBT

Medium- and long-term debt is summarized as follows:

| *(in millions)* **December 31** | **2020** | **2019** |
|---|---|---|
| Parent company | | |
| Subordinated notes: | | |
| 3.80% subordinated notes due 2026 (a) | **$ 280** | $ 264 |
| Medium- and long-term notes: | | |
| 3.70% notes due 2023 (a) | **905** | 884 |
| 4.00% notes due 2029 (a) | **633** | 587 |
| Total medium- and long-term notes | **1,538** | 1,471 |
| Total parent company | **1,818** | 1,735 |
| Subsidiaries | | |
| Subordinated notes: | | |
| 4.00% subordinated notes due 2025 (a) | **380** | 360 |
| 7.875% subordinated notes due 2026 (a) | **207** | 202 |
| Total subordinated notes | **587** | 562 |
| Medium- and long-term notes: | | |
| 2.50% notes due 2020 (a) | **—** | 674 |
| 2.50% notes due 2024 (a) | **523** | 498 |
| Total medium- and long-term notes | **523** | 1,172 |
| Federal Home Loan Bank (FHLB) advances: | | |
| Floating-rate based on FHLB auction rate due 2026 (b) | **2,800** | 2,800 |
| Floating-rate based on FHLB auction rate due 2028 | **—** | 1,000 |
| Total FHLB advances | **2,800** | 3,800 |
| Total subsidiaries | **3,910** | 5,534 |
| Total medium- and long-term debt | **$ 5,728** | $ 7,269 |

(a) *The fixed interest rates on these notes have been swapped to a variable rate and designated in a hedging relationship. Accordingly, carrying value has been adjusted to reflect the change in the fair value of the debt as a result of changes in the benchmark rate.*
(b) *Advances totaling $2.8 billion paid in full in first quarter of 2021.*

Subordinated notes with remaining maturities greater than one year qualify as Tier 2 capital.

The Bank, a wholly-owned subsidiary of the Corporation, is a member of the FHLB, which provides short- and long-term funding to its members through advances collateralized by real-estate related assets. The interest rate on the FHLB advances resets between four and eight weeks, based on the FHLB auction rate. At December 31, 2020, the weighted-average rate on the FHLB advances was 0.22%. Each note may be prepaid in full, without penalty, at each scheduled reset date. Borrowing capacity is contingent upon the amount of collateral available to be pledged to the FHLB. At December 31, 2020, $19.5 billion of real estate-related loans and $4.4 billion of investment securities were pledged to the FHLB as collateral for outstanding long-term advances of $2.8 billion with an additional capacity for potential future borrowings of approximately $12.0 billion.

Unamortized debt issuance costs deducted from the carrying amount of medium- and long-term debt totaled $10 million and $12 million at December 31, 2020 and 2019, respectively.

At December 31, 2020, the principal maturities of medium- and long-term debt were as follows:

| *(in millions)*<br>**Years Ending December 31** | | |
|---|---|---|
| 2021 | **$** | **—** |
| 2022 | | **—** |
| 2023 | | **850** |
| 2024 | | **500** |
| 2025 | | **350** |
| Thereafter | | **3,750** |
| Total | **$** | **5,450** |

## NOTE 13 - SHAREHOLDERS' EQUITY

Repurchases of common stock under the share repurchase program initially authorized in 2010 by the Board of Directors of the Corporation totaled 3.2 million shares at an average price paid of $58.55 in 2020, 18.6 million shares at an average price paid of $73.60 per share in 2019 and 14.8 million shares at an average price paid of $89.21 per share in 2018.

In March 2020, as the economic climate grew increasingly uncertain, the Corporation temporarily suspended its share repurchase program with a focus on deploying capital to meet customers' growing financial requirements. The Corporation will continue to assess the resumption of repurchases subject to various factors including financial performance, capital needs and market conditions. Prior to suspension of the program, the Corporation repurchased $189 million under the equity repurchase program during the year ended December 31, 2020. There is no expiration date for the Corporation's share repurchase program.

At December 31, 2020, the Corporation had 4.6 million shares of common stock reserved for stock option exercises and restricted stock unit vesting and 176,000 shares of restricted stock outstanding to employees and directors under share-based compensation plans.

In May 2020, the Corporation issued and sold 400,000 depositary shares, each representing a 1/100th ownership interest in a share of 5.625% Fixed-Rate Reset Non-Cumulative Perpetual Preferred Stock, Series A, without par value, with a liquidation preference of $100,000 per share (equivalent of 1,000 per depositary share). Holders of the depositary shares will be entitled to all proportional rights and preferences of the Series A preferred stock (including dividend, voting, redemption and liquidation rights). The $400 million issuance yielded $394 million in proceeds net of underwriting discounts and offering expenses. Dividends on the Series A preferred stock accrue on a non-cumulative basis and are payable in arrears when, as and if authorized by the Corporation's Board of Directors or a duly authorized committee of the Board and declared by the Corporation, on the first day of January, April, July and October of each year, and commenced on October 1, 2020. Under the terms of the Series A preferred stock, the ability of the Corporation to pay dividends on, make distributions with respect to, or to repurchase, redeem or acquire its common stock or any other stock ranking on parity with or junior to the Series A preferred stock, is subject to restrictions in the event that the Corporation does not declare and either pay or set aside a sum sufficient for payment of dividends on the Series A preferred stock for the immediately preceding dividend period. The Series A preferred stock is perpetual and has no maturity date, but is redeemable by the Corporation at specified times subject to regulatory considerations.

## NOTE 14 - ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The following table presents a reconciliation of the changes in the components of accumulated other comprehensive income (loss) and details the components of other comprehensive income (loss) for the years ended December 31, 2020, 2019 and 2018, including the amount of income tax expense (benefit) allocated to each component of other comprehensive income (loss).

*(in millions)*

| Years Ended December 31 | 2020 | 2019 | 2018 |
|---|---|---|---|
| **Accumulated net unrealized gains (losses) on investment securities:** | | | |
| Balance at beginning of period, net of tax | **$ 65** | $ (138) | $ (101) |
| Cumulative effect of change in accounting principle | **—** | — | 1 |
| Net unrealized holding gains (losses) arising during the period | **191** | 257 | (69) |
| Less: Provision (benefit) for income taxes | **45** | 60 | (16) |
| Net unrealized holding gains (losses) arising during the period, net of tax | **146** | 197 | (53) |
| Less: | | | |
| Net realized losses included in net securities losses | **—** | (8) | (20) |
| Less: Benefit for income taxes | **—** | (2) | (5) |
| Reclassification adjustment for net securities losses included in net income, net of tax | **—** | (6) | (15) |
| Change in net unrealized gains (losses) on investment securities, net of tax | **146** | 203 | (38) |
| Balance at end of period, net of tax | **$ 211** | $ 65 | $ (138) |
| **Accumulated net gains on cash flow hedges:** | | | |
| Balance at beginning of period, net of tax | **$ 34** | $ — | $ — |
| Net cash flow hedge gains arising during the period | **229** | 44 | — |
| Less: Provision for income taxes | **56** | 10 | — |
| Change in net cash flow hedge gains arising during the period, net of tax | **173** | 34 | — |
| Less: | | | |
| Net cash flow hedge gains recognized in interest and fees on loans | **70** | — | — |
| Less: Provision for income taxes | **18** | — | — |
| Reclassification adjustment for net cash flow gains included in net income, net of tax | **52** | — | — |
| Change in net cash flow hedge gains, net of tax | **121** | 34 | — |
| Balance at end of period, net of tax (a) | **$ 155** | $ 34 | $ — |
| **Accumulated defined benefit pension and other postretirement plans adjustment:** | | | |
| Balance at beginning of period, net of tax | **$ (334)** | $ (471) | $ (350) |
| Actuarial gain (loss) arising during the period | **142** | 163 | (191) |
| Less: Provision (benefit) for income taxes | **34** | 38 | (44) |
| Net defined benefit pension and other postretirement plans adjustment arising during the period, net of tax | **108** | 125 | (147) |
| Amounts recognized in other noninterest expenses: | | | |
| Amortization of actuarial net loss | **63** | 42 | 61 |
| Amortization of prior service credit | **(27)** | (27) | (27) |
| Total amounts recognized in other noninterest expenses | **36** | 15 | 34 |
| Less: Provision for income taxes | **8** | 3 | 8 |
| Adjustment for amounts recognized as components of net periodic benefit cost during the period, net of tax | **28** | 12 | 26 |
| Change in defined benefit pension and other postretirement plans adjustment, net of tax | **136** | 137 | (121) |
| Balance at end of period, net of tax | **$ (198)** | $ (334) | $ (471) |
| Total accumulated other comprehensive income (loss) at end of period, net of tax | **$ 168** | $ (235) | $ (609) |

*(a) The Corporation expects to reclassify $72 million of net gains, net of tax, from accumulated other comprehensive income to earnings over the next twelve months if interest yield curves and notional amounts remain at December 31, 2020 levels.*

## NOTE 15 - NET INCOME PER COMMON SHARE

Basic and diluted net income per common share are presented in the following table.

*(in millions, except per share data)*

| Years Ended December 31 | 2020 | 2019 | 2018 |
|---|---|---|---|
| Basic and diluted | | | |
| Net income | **$ 474** | $ 1,198 | $ 1,235 |
| Less: | | | |
| Income allocated to participating securities | **2** | 7 | 8 |
| Preferred stock dividends | **13** | — | — |
| Net income attributable to common shares | **$ 459** | $ 1,191 | $ 1,227 |
| Basic average common shares | **139** | 150 | 168 |
| Basic net income per common share | **$ 3.29** | $ 7.95 | $ 7.31 |
| Basic average common shares | **139** | 150 | 168 |
| Dilutive common stock equivalents: | | | |
| Net effect of the assumed exercise of stock awards | **1** | 1 | 2 |
| Net effect of the assumed exercise of warrants | **—** | — | 1 |
| Diluted average common shares | **140** | 151 | 171 |
| Diluted net income per common share | **$ 3.27** | $ 7.87 | $ 7.20 |

Declared dividends on preferred stock are excluded from net income attributable to common shares. Refer to Note 13 for further information on preferred stock.

The following average shares related to outstanding options to purchase shares of common stock were not included in the computation of diluted net income per common share because the options were anti-dilutive for the period.

*(average outstanding options in thousands)*

| Years Ended December 31 | 2020 | 2019 | 2018 |
|---|---|---|---|
| Average outstanding options | **1,498** | 543 | 193 |
| Range of exercise prices | **$49.20 - $95.25** | $67.53 - $95.25 | $95.25 |

## NOTE 16 - SHARE-BASED COMPENSATION

Share-based compensation expense is charged to salaries and benefits expense on the Consolidated Statements of Income. The components of share-based compensation expense for all share-based compensation plans and related tax benefits are as follows:

*(in millions)*

| Years Ended December 31 | 2020 | 2019 | 2018 |
|---|---|---|---|
| Total share-based compensation expense | **$ 24** | $ 39 | $ 48 |
| Related tax benefits recognized in net income | **$ 6** | $ 9 | $ 11 |

The following table summarizes unrecognized compensation expense for all share-based plans.

| *(dollar amounts in millions)* | December 31, 2020 |
|---|---|
| Total unrecognized share-based compensation expense | **$ 32** |
| Weighted-average expected recognition period (in years) | **2.3** |

The Corporation has share-based compensation plans under which it awards shares of restricted stock units to executive officers, directors and key personnel and stock options to executive officers and key personnel of the Corporation and its subsidiaries. Additionally, the Corporation has awarded restricted stock to executive officers and key personnel under a previous share-based compensation plan that remain unvested. Restricted stock and restricted stock units fully vest after a period ranging from three years to five years, and stock options fully vest after four years. The maturity of each option is determined at the date of grant; however, no options may be exercised later than ten years from the date of grant. The options may have restrictions regarding exercisability. The plans provide for a grant of up to 6.1 million common shares, plus shares

under certain plans that are forfeited, expire or are canceled, which become available for re-grant. At December 31, 2020, over 4.0 million shares were available for grant.

The Corporation used a binomial model to value stock options granted in the periods presented. Option valuation models require several inputs, including the expected stock price volatility, and changes in input assumptions can materially affect the fair value estimates. The model used may not necessarily provide a reliable single measure of the fair value of stock options. The risk-free interest rate assumption used in the binomial option-pricing model as outlined in the table below was based on the federal ten-year treasury interest rate. The expected dividend yield was based on the historical and projected long-term dividend yield patterns of the Corporation's common shares. Expected volatility assumptions considered both the historical volatility of the Corporation's common stock over a ten-year period and implied volatility based on actively traded options on the Corporation's common stock with pricing terms and trade dates similar to the stock options granted. Expected option life was based on historical exercise activity over the contractual term of the option grant (ten years), excluding certain forced transactions.

The estimated weighted-average grant-date fair value per option and the underlying binomial option-pricing model assumptions are summarized in the following table:

| Years Ended December 31 | 2020 | 2019 | 2018 |
|---|---|---|---|
| Weighted-average grant-date fair value per option | **$ 13.03** | $ 22.27 | $ 30.32 |
| Weighted-average assumptions: | | | |
| Risk-free interest rates | **1.65%** | 2.74% | 2.63% |
| Expected dividend yield | **4.14** | 3.00 | 3.00 |
| Expected volatility factors of the market price of Comerica common stock | **27** | 30 | 36 |
| Expected option life (in years) | **8.4** | 7.6 | 7.4 |

A summary of the Corporation's stock option activity and related information for the year ended December 31, 2020 follows:

| | | Weighted-Average | | |
|---|---|---|---|---|
| | Number of Options (in thousands) | Exercise Price per Share | Remaining Contractual Term (in years) | Aggregate Intrinsic Value (in millions) |
| Outstanding-January 1, 2020 | **2,680** | **$ 49.58** | | |
| Granted | **514** | **61.75** | | |
| Forfeited or expired | **(40)** | **67.20** | | |
| Exercised | **(275)** | **35.91** | | |
| Outstanding-December 31, 2020 | **2,879** | **52.81** | **5.3** | **$ 30** |
| Exercisable-December 31, 2020 | **1,992** | **$ 45.20** | **4.0** | **$ 29** |

The aggregate intrinsic value of outstanding options shown in the table above represents the total pretax intrinsic value at December 31, 2020, based on the Corporation's closing stock price of $55.86 at December 31, 2020.

The total intrinsic value of stock options exercised was $6 million, $20 million and $81 million for the years ended December 31, 2020, 2019 and 2018, respectively.

A summary of the Corporation's restricted stock activity and related information for the year ended December 31, 2020 follows:

| | Number of Shares (in thousands) | Weighted-Average Grant-Date Fair Value per Share |
|---|---|---|
| Outstanding-January 1, 2020 | **458** | **$ 48.64** |
| Forfeited | **(14)** | **49.09** |
| Vested | **(268)** | **48.48** |
| Outstanding-December 31, 2020 | **176** | **$ 48.85** |

The total fair value of restricted stock awards that fully vested was $17 million, $31 million and $32 million for the years ended December 31, 2020, 2019 and 2018, respectively.

A summary of the Corporation's restricted stock unit activity and related information for the year ended December 31, 2020 follows:

| | Service-Based Units | | Performance-Based Units | |
|---|---|---|---|---|
| | Number of Units (in thousands) | Weighted-Average Grant-Date Fair Value per Share | Number of Units (in thousands) | Weighted-Average Grant-Date Fair Value per Share |
| Outstanding-January 1, 2020 | **578** | **$ 72.34** | **543** | **$ 80.22** |
| Granted | **491** | **49.34** | **374** | **59.74** |
| Forfeited | **(18)** | **76.27** | **(14)** | **77.77** |
| Vested | **(3)** | **67.49** | **(213)** | **66.26** |
| Outstanding-December 31, 2020 | **1,048** | **61.52** | **690** | **73.48** |

The total fair value of restricted stock units that fully vested was $12 million, $37 million and $24 million for the years ended December 31, 2020, 2019 and 2018, respectively.

The Corporation expects to satisfy the exercise of stock options, the vesting of restricted stock units and future grants of restricted stock by issuing shares of common stock out of treasury. At December 31, 2020, the Corporation held 89 million shares in treasury.

For further information on the Corporation’s share-based compensation plans, refer to Note 1.

## NOTE 17 - EMPLOYEE BENEFIT PLANS

### Defined Benefit Pension and Postretirement Benefit Plans

The Corporation has a qualified and non-qualified defined benefit pension plan. In October 2016, the Corporation modified its defined benefit pension plans to freeze final average pay benefits as of December 31, 2016, other than for participants who were age 60 or older as of December 31, 2016, and added a cash balance plan provision effective January 1, 2017. Active pension plan participants 60 years or older as of December 31, 2016 receive the greater of the final average pay formula or the frozen final average pay benefit as of December 31, 2016 plus the cash balance benefit earned after January 1, 2017. Employees participating in the retirement account plan as of December 31, 2016 were eligible to participate in the cash balance pension plan effective January 1, 2017. Benefits earned under the cash balance pension formula, in the form of an account balance, include contribution credits based on eligible pay earned each month, age and years of service and monthly interest credits based on the 30-year Treasury rate.

The Corporation’s postretirement benefit plan provides postretirement health care and life insurance benefits for retirees as of December 31, 1992. The plan also provides certain postretirement health care and life insurance benefits for a limited number of retirees who retired prior to January 1, 2000. For all other employees hired prior to January 1, 2000, a nominal benefit is provided. Employees hired on or after January 1, 2000 and prior to January 1, 2007 are eligible to participate in the plan on a full contributory basis until Medicare-eligible based on age and service. Employees hired on or after January 1, 2007 are not eligible to participate in the plan. The Corporation funds the pre-1992 retiree plan benefits with bank-owned life insurance.

The following table sets forth reconciliations of plan assets and the projected benefit obligation, the weighted-average assumptions used to determine year-end benefit obligations, and the amounts recognized in accumulated other comprehensive income (loss) for the Corporation's defined benefit pension plans and postretirement benefit plan at December 31, 2020 and 2019. The Corporation used a measurement date of December 31, 2020 for these plans.

| | Defined Benefit Pension Plans | | | | | |
|---|---|---|---|---|---|---|
| | Qualified | | Non-Qualified | | Postretirement Benefit Plan | |
| *(dollar amounts in millions)* | **2020** | 2019 | **2020** | 2019 | **2020** | 2019 |
| Change in fair value of plan assets: | | | | | | |
| Fair value of plan assets at January 1 | **$ 2,933** | $ 2,458 | **$ —** | $ — | **$ 57** | $ 56 |
| Actual return on plan assets | **537** | 579 | **—** | — | **3** | 5 |
| Plan participants' contributions | **—** | — | **—** | — | **1** | 1 |
| Benefits paid | **(120)** | (104) | **—** | — | **(4)** | (5) |
| Fair value of plan assets at December 31 | **$ 3,350** | $ 2,933 | **$ —** | $ — | **$ 57** | $ 57 |
| Change in projected benefit obligation: | | | | | | |
| Projected benefit obligation at January 1 | **$ 2,131** | $ 1,901 | **$ 235** | $ 211 | **$ 48** | $ 46 |
| Service cost | **32** | 31 | **1** | 3 | **—** | — |
| Interest cost | **70** | 80 | **8** | 9 | **1** | 2 |
| Actuarial loss (gain) | **214** | 223 | **22** | 25 | **(11)** | 4 |
| Plan participants' contributions | **—** | — | **—** | — | **1** | 1 |
| Benefits paid | **(120)** | (104) | **(14)** | (13) | **(4)** | (5) |
| Projected benefit obligation at December 31 | **$ 2,327** | $ 2,131 | **$ 252** | $ 235 | **$ 35** | $ 48 |
| Accumulated benefit obligation | **$ 2,312** | $ 2,121 | **$ 251** | $ 234 | **$ 35** | $ 48 |
| Funded status at December 31 (a) (b) | **$ 1,023** | $ 802 | **$ (252)** | $ (235) | **$ 22** | $ 9 |
| Weighted-average assumptions used: | | | | | | |
| Discount rate | **2.71%** | 3.43% | **2.71%** | 3.43% | **2.43%** | 3.26% |
| Rate of compensation increase | **4.00** | 4.00 | **4.00** | 4.00 | **n/a** | n/a |
| Interest crediting rate | **3.79 - 5.00** | 3.79 - 5.00 | **3.79 - 5.00** | 3.79 - 5.00 | **n/a** | n/a |
| Healthcare cost trend rate: | | | | | | |
| Cost trend rate assumed for next year | **n/a** | n/a | **n/a** | n/a | **6.00** | 6.25 |
| Rate to which the cost trend rate is assumed to decline (the ultimate trend rate) | **n/a** | n/a | **n/a** | n/a | **4.50** | 4.50 |
| Year when rate reaches the ultimate trend rate | **n/a** | n/a | **n/a** | n/a | **2027** | 2027 |
| Amounts recognized in accumulated other comprehensive income (loss) before income taxes: | | | | | | |
| Net actuarial loss | **$ (257)** | $ (463) | **$ (106)** | $ (94) | **$ (9)** | $ (20) |
| Prior service credit | **103** | 121 | **17** | 26 | **1** | 1 |
| Balance at December 31 | **$ (154)** | $ (342) | **$ (89)** | $ (68) | **$ (8)** | $ (19) |

*(a) Based on projected benefit obligation for defined benefit pension plans and accumulated benefit obligation for postretirement benefit plan.*
*(b) The Corporation recognizes the overfunded and underfunded status of the plans in accrued income and other assets and accrued expenses and other liabilities, respectively, on the Consolidated Balance Sheets.*
*n/a - not applicable*

Because the non-qualified defined benefit pension plan has no assets, the accumulated benefit obligation exceeded the fair value of plan assets at December 31, 2020 and December 31, 2019.

The following table details the changes in plan assets and benefit obligations recognized in other comprehensive income for the year ended December 31, 2020.

| | Defined Benefit Pension Plans | | | |
|---|---|---|---|---|
| *(in millions)* | Qualified | Non-Qualified | Postretirement Benefit Plan | Total |
| Actuarial gain (loss) arising during the period | **$ 153** | **$ (22)** | **$ 11** | **$ 142** |
| Amortization of net actuarial loss | **54** | **9** | **—** | **63** |
| Amortization of prior service credit | **(19)** | **(8)** | **—** | **(27)** |
| Total recognized in other comprehensive income | **$ 188** | **$ (21)** | **$ 11** | **$ 178** |

Components of net periodic defined benefit (credit) cost and postretirement benefit credit, the actual return on plan assets and the weighted-average assumptions used were as follows:

| *(dollar amounts in millions)* | **Defined Benefit Pension Plans** | | | | | |
|---|---|---|---|---|---|---|
| | **Qualified** | | | **Non-Qualified** | | |
| **Years Ended December 31** | **2020** | **2019** | **2018** | **2020** | **2019** | **2018** |
| Service cost (a) | **$ 32** | $ 31 | $ 29 | **$ 1** | $ 3 | $ 2 |
| Other components of net benefit (credit) cost: | | | | | | |
| Interest cost | **70** | 80 | 75 | **8** | 9 | 8 |
| Expected return on plan assets | **(171)** | (166) | (165) | **—** | — | — |
| Amortization of prior service credit | **(19)** | (19) | (19) | **(8)** | (8) | (8) |
| Amortization of net loss | **54** | 34 | 51 | **9** | 7 | 9 |
| Total other components of net benefit (credit) cost (b) | **(66)** | (71) | (58) | **9** | 8 | 9 |
| Net periodic defined benefit (credit) cost | **$ (34)** | $ (40) | $ (29) | **$ 10** | $ 11 | $ 11 |
| Actual return on plan assets | **$ 537** | $ 579 | $ (167) | **n/a** | n/a | n/a |
| Actual rate of return on plan assets | **18.72%** | 24.07% | (6.21)% | **n/a** | n/a | n/a |
| Weighted-average assumptions used: | | | | | | |
| Discount rate | **3.43%** | 4.37% | 3.74% | **3.43%** | 4.37% | 3.74% |
| Expected long-term return on plan assets | **6.50** | 6.50 | 6.50 | **n/a** | n/a | n/a |
| Rate of compensation increase | **4.00** | 4.00 | 3.75 | **4.00** | 4.00 | 3.75 |

*(a) Included in salaries and benefits expense on the Consolidated Statements of Income.*
*(b) Included in other noninterest expenses on the Consolidated Statements of Income.*
*n/a - not applicable*

| *(dollar amounts in millions)* | **Postretirement Benefit Plan** | | |
|---|---|---|---|
| **Years Ended December 31** | **2020** | **2019** | **2018** |
| Other components of net benefit credit: | | | |
| Interest cost | **$ 1** | $ 2 | $ 2 |
| Expected return on plan assets | **(2)** | (3) | (3) |
| Amortization of net loss | **—** | 1 | 1 |
| Net periodic postretirement benefit credit | **$ (1)** | $ — | $ — |
| Actual return on plan assets | **$ 3** | $ 5 | $ (1) |
| Actual rate of return on plan assets | **6.00%** | 9.14% | (2.05)% |
| Weighted-average assumptions used: | | | |
| Discount rate | **3.26%** | 4.26% | 3.55% |
| Expected long-term return on plan assets | **5.00** | 5.00 | 5.00 |
| Healthcare cost trend rate: | | | |
| Cost trend rate assumed | **6.25** | 6.50 | 6.50 |
| Rate to which the cost trend rate is assumed to decline (the ultimate trend rate) | **4.50** | 4.50 | 4.50 |
| Year that the rate reaches the ultimate trend rate | **2027** | 2027 | 2027 |

The expected long-term rate of return of plan assets is the average rate of return expected to be realized on funds invested or expected to be invested over the life of the plan, which has an estimated duration of approximately 12 years as of December 31, 2020. The expected long-term rate of return on plan assets is set after considering both long-term returns in the general market and long-term returns experienced by the assets in the plan. The returns on the various asset categories are blended to derive one long-term rate of return. The Corporation reviews its pension plan assumptions on an annual basis with its actuarial consultants to determine if assumptions are reasonable and adjusts the assumptions to reflect changes in future expectations.

**Plan Assets**

The Corporation's overall investment goals for the qualified defined benefit pension plan are to maintain a portfolio of assets of appropriate liquidity and diversification; to generate investment returns (net of all operating costs) that are reasonably anticipated to maintain the plan's fully funded status or to reduce a funding deficit, after taking into account various factors, including reasonably anticipated future contributions, expense and the interest rate sensitivity of the plan's assets relative to that of the plan's liabilities; and to generate investment returns (net of all operating costs) that meet or exceed a customized benchmark as defined in the plan's investment policy. Derivative instruments are permissible for hedging and transactional efficiency, but only to the extent that the derivative use enhances the efficient execution of the plan's investment policy. The plan does not directly invest in securities issued by the Corporation and its subsidiaries. The Corporation's target allocations for plan investments are 45 percent to 55 percent for both equity securities and fixed income, including cash. Equity securities include collective investment and mutual funds and common stock. Fixed income securities include U.S. Treasury and other U.S. government agency securities, mortgage-backed securities, corporate bonds and notes, municipal bonds, collateralized mortgage obligations and money market funds.

**Fair Value Measurements**

The Corporation's qualified defined benefit pension plan utilizes fair value measurements to record fair value adjustments and to determine fair value disclosures. The Corporation's qualified benefit pension plan categorizes investments recorded at fair value into a three-level hierarchy, based on the markets in which the investment are traded and the reliability of the assumptions used to determine fair value. Refer to Note 1 for a description of the three-level hierarchy.

Following is a description of the valuation methodologies and key inputs used to measure the fair value of the Corporation's qualified defined benefit pension plan investments, including an indication of the level of the fair value hierarchy in which the investments are classified.

***Mutual funds***

Fair value measurement is based upon the net asset value (NAV) provided by the administrator of the fund. Mutual fund NAVs are quoted in an active market exchange, such as the New York Stock Exchange, and are included in Level 1 of the fair value hierarchy.

***Common stock***

Fair value measurement is based upon the closing price quoted in an active market exchange, such as the New York Stock Exchange. Level 1 common stock includes domestic and foreign stock and real estate investment trusts.

***U.S. Treasury and other U.S. government agency securities***

Level 1 securities include U.S. Treasury securities that are traded by dealers or brokers in active over-the-counter markets. Fair value measurement is based upon quoted prices in an active market exchange, such as the New York Stock Exchange. Level 2 securities include debt securities issued by U.S. government agencies and U.S. government-sponsored entities. The fair value of Level 2 securities is determined using quoted prices of securities with similar characteristics, or pricing models based on observable market data inputs, primarily interest rates and spreads.

***Corporate and municipal bonds and notes***

Fair value measurement is based upon quoted prices of securities with similar characteristics or pricing models based on observable market data inputs, primarily interest rates, spreads and prepayment information. Level 2 securities include corporate bonds, municipal bonds, foreign bonds and foreign notes.

***Mortgage-backed securities***

Fair value measurement is based upon independent pricing models or other model-based valuation techniques such as the present value of future cash flows, adjusted for the security's credit rating, prepayment assumptions and other factors, such as credit loss and liquidity assumptions, and are included in Level 2 of the fair value hierarchy.

***Private placements***

Fair value is measured using the NAV provided by fund management as quoted prices in active markets are not available. Management considers additional discounts to the provided NAV for market and credit risk. Private placements are included in Level 3 of the fair value hierarchy.

***Collective investment funds***

Fair value measurement is based upon the NAV provided by the administrator of the fund as a practical expedient to estimate fair value. There are no unfunded commitments or redemption restrictions on the collective investment funds. The investments are redeemable daily.

**Fair Values**

The fair values of the Corporation's qualified defined benefit pension plan investments measured at fair value on a recurring basis at December 31, 2020 and 2019, by asset category and level within the fair value hierarchy, are detailed in the table below.

| *(in millions)* | Total | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| **December 31, 2020** | | | | |
| Equity securities: | | | | |
| Mutual funds | **$ 4** | **$ 4** | **$ —** | **$ —** |
| Common stock | **1,266** | **1,266** | **—** | **—** |
| Fixed income securities: | | | | |
| U.S. Treasury and other U.S. government agency securities | **494** | **492** | **2** | **—** |
| Corporate and municipal bonds and notes | **861** | **—** | **861** | **—** |
| Mortgage-backed securities | **29** | **—** | **29** | **—** |
| Private placements | **58** | **—** | **—** | **58** |
| Total investments in the fair value hierarchy | **2,712** | **$ 1,762** | **$ 892** | **$ 58** |
| Investments measured at net asset value: | | | | |
| Collective investment funds | **637** | | | |
| Total investments at fair value | **$ 3,349** | | | |
| **December 31, 2019** | | | | |
| Equity securities: | | | | |
| Mutual funds | $ 2 | $ 2 | $ — | $ — |
| Common stock | 1,086 | 1,086 | — | — |
| Fixed income securities: | | | | |
| U.S. Treasury and other U.S. government agency securities | 574 | 551 | 23 | — |
| Corporate and municipal bonds and notes | 734 | — | 734 | — |
| Mortgage-backed securities | 27 | — | 27 | — |
| Private placements | 57 | — | — | 57 |
| Total investments in the fair value hierarchy | 2,480 | $ 1,639 | $ 784 | $ 57 |
| Investments measured at net asset value: | | | | |
| Collective investment funds | 469 | | | |
| Total investments at fair value | $ 2,949 | | | |

The table below provides a summary of changes in the Corporation's qualified defined benefit pension plan's Level 3 investments measured at fair value on a recurring basis for the years ended December 31, 2020 and 2019.

| *(in millions)* | Balance at Beginning of Period | Net Gains | | Purchases | Sales | Balance at End of Period |
|---|---|---|---|---|---|---|
| | | Realized | Unrealized | | | |
| **Year Ended December 31, 2020** | | | | | | |
| Private placements | **$ 57** | **$ 1** | **$ 3** | **$ 57** | **$ (60)** | **$ 58** |
| **Year Ended December 31, 2019** | | | | | | |
| Private placements | $ 60 | $ 3 | $ 8 | $ 49 | $ (63) | $ 57 |

There were no assets in the non-qualified defined benefit pension plan at December 31, 2020 and 2019. The postretirement benefit plan is fully invested in bank-owned life insurance policies. The fair value of bank-owned life insurance policies is based on the cash surrender values of the policies as reported by the insurance companies and is classified in Level 2 of the fair value hierarchy.

**Cash Flows**

The Corporation currently expects to make no employer contributions to the qualified and non-qualified defined benefit pension plans and postretirement benefit plan for the year ended December 31, 2021.

| *(in millions)* Years Ended December 31 | Estimated Future Benefit Payments Qualified Defined Benefit Pension Plan | Non-Qualified Defined Benefit Pension Plan | Postretirement Benefit Plan (a) |
|---|---|---|---|
| 2021 | **$ 147** | **$ 14** | **$ 4** |
| 2022 | **142** | **15** | **4** |
| 2023 | **143** | **15** | **3** |
| 2024 | **143** | **15** | **3** |
| 2025 | **141** | **15** | **3** |
| 2026 - 2030 | **689** | **75** | **11** |

*(a) Estimated benefit payments in the postretirement benefit plan are net of estimated Medicare subsidies.*

**Defined Contribution Plans**

Substantially all of the Corporation's employees are eligible to participate in the Corporation's principal defined contribution plan (a 401(k) plan). Under this plan, the Corporation makes core matching cash contributions of 100 percent of the first 4 percent of qualified earnings contributed by employees (up to the current IRS compensation limit), invested based on employee investment elections. Employee benefits expense included expense for the plan of $24 million for the year ended December 31, 2020, $22 million for the year ended December 31, 2019 and $21 million for the year ended December 31, 2018.

**Deferred Compensation Plans**

The Corporation offers optional deferred compensation plans under which certain employees and non-employee directors (participants) may make an irrevocable election to defer incentive compensation and/or a portion of base salary until retirement or separation from the Corporation. The participant may direct deferred compensation into one or more deemed investment options. Although not required to do so, the Corporation invests actual funds into the deemed investments as directed by participants, resulting in a deferred compensation asset, recorded in other short-term investments on the Consolidated Balance Sheets that offsets the liability to participants under the plan, recorded in accrued expenses and other liabilities. The earnings from the deferred compensation asset are recorded in interest on short-term investments and other noninterest income and the related change in the liability to participants under the plan is recorded in salaries and benefits expense on the Consolidated Statements of Income.

## NOTE 18 - INCOME TAXES AND TAX-RELATED ITEMS

The provision for income taxes is calculated as the sum of income taxes due for the current year and deferred taxes. Income taxes due for the current year are computed by applying federal and state tax statutes to current year taxable income. Deferred taxes arise from temporary differences between the income tax basis and financial accounting basis of assets and liabilities. Tax-related interest and penalties and foreign taxes are then added to the tax provision.

The current and deferred components of the provision for income taxes were as follows:

| *(in millions)* December 31 | 2020 | 2019 | 2018 |
|---|---|---|---|
| Current: | | | |
| Federal | **$ 171** | $ 267 | $ 227 |
| Foreign | **5** | 7 | 10 |
| State and local | **30** | 48 | 39 |
| Total current | **206** | 322 | 276 |
| Deferred: | | | |
| Federal | **(79)** | 16 | 29 |
| State and local | **(10)** | (4) | 3 |
| Remeasurement of deferred taxes | **—** | — | (8) |
| Total deferred | **(89)** | 12 | 24 |
| Total | **$ 117** | $ 334 | $ 300 |

Income before income taxes of $591 million for the year ended December 31, 2020 included $19 million of foreign-source income.

The Tax Cuts and Jobs Act (the "Act"), enacted on December 22, 2017, reduced the U.S. federal corporate tax rate from 35 percent to 21 percent. The amount recorded related to the remeasurement of the Corporation's deferred tax balance was a reduction of $99 million, including a provisional adjustment of $107 million recognized in 2017 and an $8 million revision to the impact recorded in 2018.

The provision for income taxes does not reflect the tax effects of unrealized gains and losses on investment securities available-for-sale, hedging transactions or the change in defined benefit pension and other postretirement plans adjustment included in accumulated other comprehensive income (loss). Refer to Note 14 for additional information on accumulated other comprehensive income (loss).

A reconciliation of expected income tax expense at the federal statutory rate to the Corporation's provision for income taxes and effective tax rate follows:

| *(dollar amounts in millions)* | 2020 | | 2019 | | 2018 | |
|---|---|---|---|---|---|---|
| **Years Ended December 31** | **Amount** | **Rate** | **Amount** | **Rate** | **Amount** | **Rate** |
| Tax based on federal statutory rate | **$ 124** | **21.0%** | $ 322 | 21.0% | $ 323 | 21.0% |
| State income taxes | **17** | **2.8** | 33 | 2.2 | 35 | 2.3 |
| Employee stock transactions | **(1)** | **(0.2)** | (12) | (0.8) | (23) | (1.5) |
| Capitalization and recovery positions (a) | **—** | **—** | — | — | (17) | (1.1) |
| Affordable housing and historic credits | **(12)** | **(2.0)** | (11) | (0.7) | (12) | (0.8) |
| Bank-owned life insurance | **(10)** | **(1.7)** | (9) | (0.6) | (9) | (0.6) |
| Remeasurement of deferred taxes | **—** | **—** | — | — | (8) | (0.5) |
| FDIC insurance expense | **7** | **1.2** | 5 | 0.3 | 8 | 0.5 |
| Other changes in unrecognized tax benefits | **—** | **—** | — | — | 4 | 0.3 |
| Tax-related interest and penalties | **(2)** | **(0.3)** | 2 | 0.1 | (3) | (0.2) |
| Other | **(6)** | **(1.0)** | 4 | 0.2 | 2 | 0.1 |
| Provision for income taxes | **$ 117** | **19.8%** | $ 334 | 21.7% | $ 300 | 19.5% |

(a) *Tax benefits from the review of tax capitalization and recovery positions related to software and fixed assets included in the 2017 tax return.*

The liability for tax-related interest and penalties, included in accrued expenses and other liabilities on the Consolidated Balance Sheets, was $6 million and $8 million at December 31, 2020 and 2019, respectively.

In the ordinary course of business, the Corporation enters into certain transactions that have tax consequences. From time to time, the Internal Revenue Service (IRS) may review and/or challenge specific interpretive tax positions taken by the Corporation with respect to those transactions. The Corporation believes that its tax returns were filed based upon applicable statutes, regulations and case law in effect at the time of the transactions. The IRS or other tax jurisdictions, an administrative authority or a court, if presented with the transactions, could disagree with the Corporation's interpretation of the tax law.

A reconciliation of the beginning and ending amount of net unrecognized tax benefits follows:

| *(in millions)* | 2020 | 2019 | 2018 |
|---|---|---|---|
| Balance at January 1 | **$ 17** | $ 14 | $ 10 |
| Increases as a result of tax positions taken during a prior period | **1** | 4 | 9 |
| Increase as a result of tax positions taken during a current period | **2** | — | — |
| Decreases related to settlements with tax authorities | **(1)** | (1) | (4) |
| Other | **—** | — | (1) |
| Balance at December 31 | **$ 19** | $ 17 | $ 14 |

The Corporation anticipates it is reasonably possible settlements with tax authorities will result in a $5 million decrease in net unrecognized tax benefits within the next twelve months.

After consideration of the effect of the federal tax benefit available on unrecognized state tax benefits, the total amount of unrecognized tax benefits, if recognized, would affect the Corporation's effective tax rate by approximately $15 million and $14 million at December 31, 2020 and 2019, respectively.

The following tax years for significant jurisdictions remain subject to examination as of December 31, 2020:

| **Jurisdiction** | **Tax Years** |
|---|---|
| Federal | **2017-2019** |
| California | **2006-2007, 2014-2019** |

Based on current knowledge and probability assessment of various potential outcomes, the Corporation believes current tax reserves are adequate, and the amount of any potential incremental liability arising is not expected to have a material adverse effect on the Corporation's consolidated financial condition or results of operations. Probabilities and outcomes are reviewed as events unfold, and adjustments to the reserves are made when necessary.

The principal components of deferred tax assets and liabilities were as follows:

| *(in millions)*<br>**December 31** | **2020** | 2019 |
|---|---|---|
| Deferred tax assets: | | |
| Allowance for loan losses | **$ 199** | $ 134 |
| Deferred compensation | **59** | 61 |
| Deferred loan origination fees and costs | **19** | 8 |
| Operating lease liabilities | **72** | 77 |
| Other temporary differences, net | **55** | 49 |
| Total deferred tax assets before valuation allowance | **404** | 329 |
| Valuation allowance | **(3)** | (3) |
| Total deferred tax assets | **401** | 326 |
| Deferred tax liabilities: | | |
| Lease financing transactions | **(70)** | (73) |
| Defined benefit plans | **(140)** | (91) |
| Allowance for depreciation | **(11)** | (21) |
| Net hedging gains | **(47)** | (10) |
| Leasing Right of Use assets | **(64)** | (69) |
| Net unrealized gains on investment securities available-for-sale | **(65)** | (20) |
| Total deferred tax liabilities | **(397)** | (284) |
| Net deferred tax assets | **$ 4** | $ 42 |

Deferred tax assets included state net operating loss carryforwards of $3 million at both December 31, 2020 and 2019, which expire between 2020 and 2029. The Corporation believes it is more likely than not the benefit from certain of these state net operating loss carryforwards will not be realized and, accordingly, maintained a valuation allowance of $3 million at both December 31, 2020 and 2019. For further information on the Corporation's valuation policy for deferred tax assets, refer to Note 1.

### NOTE 19 - TRANSACTIONS WITH RELATED PARTIES

The Corporation's banking subsidiaries had, and expect to have in the future, transactions with the Corporation's directors and executive officers, companies with which these individuals are associated and certain related individuals. Such transactions were made in the ordinary course of business and included extensions of credit, leases and professional services. With respect to extensions of credit, all were made on substantially the same terms, including interest rates and collateral, as those prevailing at the same time for comparable transactions with other customers and did not, in management's opinion, involve more than normal risk of collectibility or present other unfavorable features. The aggregate amount of loans attributable to persons who were related parties at December 31, 2020, totaled $74 million at the beginning of 2020 and $80 million at the end of 2020. During 2020, new loans to related parties aggregated $231 million and repayments totaled $225 million.

### NOTE 20 - REGULATORY CAPITAL AND RESERVE REQUIREMENTS

Reserves required to be maintained and/or deposited with the FRB are classified in interest-bearing deposits with banks. These reserve balances vary, depending on the level of customer deposits in the Corporation's banking subsidiaries. The average required reserve balances were $135 million and $586 million for the years ended December 31, 2020 and 2019, respectively. On March 15, 2020, the Federal Reserve Board announced the reserve requirement ratios would be reduced to zero effective March 26, 2020, eliminating reserve requirements for all depository institutions.

Banking regulations limit the transfer of assets in the form of dividends, loans or advances from the bank subsidiaries to the parent company. Under the most restrictive of these regulations, the aggregate amount of dividends which can be paid to the parent company, with prior approval from bank regulatory agencies, approximated $12 million at January 1, 2021, plus 2021 net profits. Substantially all the assets of the Corporation's banking subsidiaries are restricted from transfer to the parent company of the Corporation in the form of loans or advances.

The Corporation's subsidiary banks declared dividends of $498 million, $1.2 billion and $1.1 billion in 2020, 2019 and 2018, respectively.

The Corporation and its U.S. banking subsidiaries are subject to various regulatory capital requirements administered by federal and state banking agencies under the Basel III regulatory framework (Basel III). This regulatory framework establishes comprehensive methodologies for calculating regulatory capital and risk-weighted assets (RWA). Basel III also set minimum capital ratios as well as overall capital adequacy standards.

Under Basel III, regulatory capital comprises Common Equity Tier 1 (CET1) capital, additional Tier 1 capital and Tier II capital. CET1 capital predominantly includes common shareholders' equity, less certain deductions for goodwill, intangible assets and deferred tax assets that arise from net operating losses and tax credit carry-forwards. Additionally, the Corporation has elected to permanently exclude capital in accumulated other comprehensive income (AOCI) related to debt and equity securities classified as available-for-sale as well as for cash flow hedges and defined benefit postretirement plans from CET1, an option available to standardized approach entities under Basel III. Tier 1 capital incrementally includes noncumulative perpetual preferred stock. Tier 2 capital includes Tier 1 capital as well as subordinated debt qualifying as Tier 2 and qualifying allowance for credit losses. In addition to the minimum risk-based capital requirements, the Corporation and its Bank subsidiaries are required to maintain a minimum capital conservation buffer, in the form of common equity, of 2.5 percent in order to avoid restrictions on capital distributions and discretionary bonuses.

The Corporation computes RWA using the standardized approach. Under the standardized approach, RWA is generally based on supervisory risk-weightings which vary by counterparty type and asset class. Under the Basel III standardized approach, capital is required for credit risk RWA, to cover the risk of unexpected losses due to failure of a customer or counterparty to meet its financial obligations in accordance with contractual terms; and if trading assets and liabilities exceed certain thresholds, capital is also required for market risk RWA, to cover the risk of losses due to adverse market movements or from position-specific factors.

Quantitative measures established by regulation to ensure capital adequacy require the maintenance of minimum amounts and ratios of CET1, Tier 1 and total capital (as defined in the regulations) to average and/or risk-weighted assets. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Corporation's financial statements. At December 31, 2020 and 2019, the Corporation and its U.S. banking subsidiaries exceeded the ratios required for an institution to be considered "well capitalized" For U.S. banking subsidiaries, those requirements were total risk-based capital, Tier 1 risk-based capital, CET1 risk-based capital and leverage ratios greater than 10 percent, 8 percent, 6.5 percent and 5 percent, respectively, at December 31, 2020 and 2019. For the Corporation, requirements to be considered "well capitalized" were total risk-based capital and Tier 1 risk-based capital ratios greater than 10 percent and 6 percent, respectively, at December 31, 2020 and 2019. There have been no conditions or events since December 31, 2020 that management believes have changed the capital adequacy classification of the Corporation or its U.S. banking subsidiaries.

The following is a summary of the capital position of the Corporation and Comerica Bank, its principal banking subsidiary.

| *(dollar amounts in millions)* | Comerica Incorporated (Consolidated) | Comerica Bank |
|---|---|---|
| **December 31, 2020** | | |
| CET1 capital (minimum $3.0 billion (Consolidated)) | $ 6,919 | $ 7,278 |
| Tier 1 capital (minimum $4.0 billion (Consolidated)) | 7,313 | 7,278 |
| Total capital (minimum $5.4 billion (Consolidated)) | 8,833 | 8,547 |
| Risk-weighted assets | 66,931 | 66,759 |
| Average assets (fourth quarter) | 84,705 | 84,536 |
| CET1 capital to risk-weighted assets (minimum-4.5%) | 10.34 % | 10.90 % |
| Tier 1 capital to risk-weighted assets (minimum-6.0%) | 10.93 | 10.90 |
| Total capital to risk-weighted assets (minimum-8.0%) | 13.20 | 12.80 |
| Tier 1 capital to average assets (minimum-4.0%) | 8.63 | 8.61 |
| Capital conservation buffer (minimum-2.5%) | 4.93 | 4.80 |
| **December 31, 2019** | | |
| CET1 capital (minimum $3.1 billion (Consolidated)) | $ 6,919 | $ 7,199 |
| Tier 1 capital (minimum $4.1 billion (Consolidated)) | 6,919 | 7,199 |
| Total capital (minimum $5.5 billion (Consolidated)) | 8,282 | 8,371 |
| Risk-weighted assets | 68,273 | 68,071 |
| Average assets (fourth quarter) | 72,773 | 72,564 |
| CET1 capital to risk-weighted assets (minimum-4.5%) | 10.13 % | 10.58 % |
| Tier 1 capital to risk-weighted assets (minimum-6.0%) | 10.13 | 10.58 |
| Total capital to risk-weighted assets (minimum-8.0%) | 12.13 | 12.30 |
| Tier 1 capital to average assets (minimum-4.0%) | 9.51 | 9.92 |
| Capital conservation buffer (minimum-2.5%) | 4.13 | 4.30 |

## NOTE 21 - CONTINGENT LIABILITIES

### Legal Proceedings

Comerica Bank, a wholly-owned subsidiary of the Corporation, was named in November 2011 as a third-party defendant in *Butte Local Development v. Masters Group v. Comerica Bank* (the case), for lender liability. The case was initially tried in January 2014, in the Montana Second District Judicial Court for Silver Bow County in Butte, Montana. On January 17, 2014, a jury found for Masters, resulting in an award against the Bank. On July 1, 2015, after an appeal filed by the Bank, the Montana Supreme Court reversed the judgment against the Bank and remanded the case for a new trial with instructions that Michigan contract law should apply and dismissing all other claims. In January 2017, the case was retried, without a jury, in the Second District Court, Silver Bow County, Montana. In November 2019, the court found the Bank breached its forbearance agreement. On January 17, 2020, the court conducted a hearing on the amount of costs and interest that Masters is entitled to recover. On June 12, 2020, the court found Masters is entitled to attorneys' fees, interest and costs. The Bank is appealing the decision. Management believes that current reserves related to this case are adequate in the event of an adverse outcome.

The Corporation and certain of its subsidiaries are subject to various other pending or threatened legal proceedings arising out of the normal course of business or operations. The Corporation believes it has meritorious defenses to the claims asserted against it in its other currently outstanding legal proceedings and, with respect to such legal proceedings, intends to continue to defend itself vigorously, litigating or settling cases according to management's judgment as to what is in the best interests of the Corporation and its shareholders. Settlement may result from the Corporation's determination that it may be more prudent financially to settle, rather than litigate, and should not be regarded as an admission of liability. On at least a quarterly basis, the Corporation assesses its potential liabilities and contingencies in connection with outstanding legal proceedings utilizing the latest information available. On a case-by-case basis, reserves are established for those legal claims for which it is probable that a loss will be incurred either as a result of a settlement or judgment, and the amount of such loss can be reasonably estimated. The actual costs of resolving these claims may be substantially higher or lower than the amounts reserved. Based on current knowledge, and after consultation with legal counsel, management believes current reserves are adequate, and the amount of any incremental liability arising from these matters is not expected to have a material adverse effect on the Corporation's consolidated financial condition, results of operations or cash flows. Legal fees of $17 million, $15 million and $17 million for the years ended December 31, 2020, 2019 and 2018, respectively, were included in other noninterest expenses on the Consolidated Statements of Income.

For matters where a loss is not probable, the Corporation has not established legal reserves. The Corporation believes the estimate of the aggregate range of reasonably possible losses, in excess of reserves established, for all legal proceedings in which it is involved is from zero to approximately $46 million at December 31, 2020. This estimated aggregate range of reasonably possible losses is based upon currently available information for those proceedings in which the Corporation is involved, taking into account the Corporation's best estimate of such losses for those cases for which such estimate can be made. For certain cases, the Corporation does not believe that an estimate can currently be made. The Corporation's estimate involves significant judgment, given the varying stages of the proceedings (including the fact many are currently in preliminary stages), the existence in certain proceedings of multiple defendants (including the Corporation) whose share of liability has yet to be determined, the numerous yet-unresolved issues in many of the proceedings (including issues regarding class certification and the scope of many of the claims) and the attendant uncertainty of the various potential outcomes of such proceedings. Accordingly, the Corporation's estimate will change from time to time, and actual losses may be more or less than the current estimate.

In the event of unexpected future developments, it is possible that the ultimate resolution of these matters, if unfavorable, may be material to the Corporation's consolidated financial condition, results of operations or cash flows.

For information regarding income tax contingencies, refer to Note 18.

**NOTE 22 - STRATEGIC LINES OF BUSINESS AND MARKETS**

The Corporation has strategically aligned its operations into three major business segments: the Commercial Bank, the Retail Bank and Wealth Management. These business segments are differentiated based on the type of customer and the related products and services provided. In addition to the three major business segments, the Finance Division is also reported as a segment. Business segment results are produced by the Corporation's internal management accounting system. This system measures financial results based on the internal business unit structure of the Corporation. The performance of the business segments is not comparable with the Corporation's consolidated results and is not necessarily comparable with similar information for any other financial institution. Additionally, because of the interrelationships of the various segments, the information presented is not indicative of how the segments would perform if they operated as independent entities. The management accounting system assigns balance sheet and income statement items to each business segment using certain methodologies, which are regularly reviewed and refined. From time to time, the Corporation may make reclassifications among the segments to more appropriately reflect management's current view of the segments, and methodologies may be modified as the management accounting system is enhanced and changes occur in the organizational structure and/or product lines. For comparability purposes, amounts in all periods are based on business unit structure and methodologies in effect at December 31, 2020.

Net interest income for each segment reflects the interest income generated by earning assets less interest expense on interest-bearing liabilities plus the net impact from associated internal funds transfer pricing (FTP) funding credits and charges. The FTP methodology allocates credits to each business segment for deposits and other funds provided as well as charges for loans and other assets being funded. This credit or charge is based on matching stated or implied maturities for these assets and liabilities. The FTP crediting rates on deposits and other funds provided reflect the long-term value of deposits and other funding sources based on their implied maturity. Due to the longer-term nature of implied maturities, FTP crediting rates are generally less volatile than changes in interest rates observed in the market. FTP charge rates for funding loans and other assets reflect a matched cost of funds based on the pricing and duration characteristics of the assets. As a result of applying matched funding, interest revenue for each segment resulting from loans and other assets is generally not impacted by changes in interest rates. Therefore, net interest income for each segment primarily reflects the volume of loans and other earning assets at the spread over the matched cost of funds, as well as the volume of deposits at the associated FTP crediting rates. For acquired loans and deposits, matched maturity funding is determined based on origination date. Accordingly, the FTP process reflects the transfer of interest rate risk exposures to the Corporate Treasury department within the Finance segment, where such exposures are centrally managed. Effective January 1, 2019, the Corporation prospectively discontinued allocating an additional FTP charge for the cost of maintaining liquid assets to support potential draws on unfunded loan commitments. The allowance for credit losses is allocated to the business segments based on the methodology used to estimate the consolidated allowance for credit losses described in Note 1. The related provision for credit losses is assigned based on the amount necessary to maintain an allowance for credit losses appropriate for each business segment. Noninterest income and expenses directly attributable to a line of business are assigned to that business segment. Direct expenses incurred by areas whose services support the overall Corporation are allocated to the business segments as follows: product processing expenditures are allocated based on standard unit costs applied to actual volume measurements; administrative expenses are allocated based on estimated time expended; and corporate overhead is assigned 50 percent based on the ratio of the business segment's noninterest expenses to total noninterest expenses incurred by all business segments and 50 percent based on the ratio of the business segment's attributed equity to total attributed equity of all business segments. Equity is attributed based on credit, operational and interest rate risks. Most of the

equity attributed relates to credit risk, which is determined based on the credit score and expected remaining life of each loan, letter of credit and unused commitment recorded in the business segments. Operational risk is allocated based on loans and letters of credit, deposit balances, non-earning assets, trust assets under management, certain noninterest income items, and the nature and extent of expenses incurred by business units. Virtually all interest rate risk is assigned to Finance, as are the Corporation's hedging activities.

The following discussion provides information about the activities of each business segment. A discussion of the financial results and the factors impacting 2020 performance can be found in "Business Segments" in the "Strategic Lines of Business and Markets" section of the financial review.

The Commercial Bank meets the needs of small and middle market businesses, multinational corporations and governmental entities by offering various products and services including commercial loans and lines of credit, deposits, cash management, capital market products, international trade finance, letters of credit, foreign exchange management services and loan syndication services.

The Retail Bank includes a full range of personal financial services, consisting of consumer lending, consumer deposit gathering and mortgage loan origination. This business segment offers a variety of consumer products, including deposit accounts, installment loans, credit cards, student loans, home equity lines of credit and residential mortgage loans. In addition, this business segment offers a subset of commercial products and services to micro-businesses whose primary contact is through the branch network.

Wealth Management offers products and services consisting of fiduciary services, private banking, retirement services, investment management and advisory services, investment banking and brokerage services. This business segment also offers the sale of annuity products, as well as life, disability and long-term care insurance products.

The Finance segment includes the Corporation's securities portfolio and asset and liability management activities. This segment is responsible for managing the Corporation's funding, liquidity and capital needs, performing interest sensitivity analysis and executing various strategies to manage the Corporation's exposure to liquidity, interest rate risk and foreign exchange risk.

The Other category includes the income and expense impact of equity and cash, tax benefits not assigned to specific business segments, charges of an unusual or infrequent nature that are not reflective of the normal operations of the business segments and miscellaneous other expenses of a corporate nature.

Business segment financial results are as follows:

| *(dollar amounts in millions)* **Year Ended December 31, 2020** | Commercial Bank | Retail Bank | Wealth Management | Finance | Other | Total |
|---|---|---|---|---|---|---|
| Earnings summary: | | | | | | |
| Net interest income (expense) | **$ 1,608** | **$ 502** | **$ 167** | **$ (384)** | **$ 18** | **$ 1,911** |
| Provision for credit losses | **495** | **7** | **35** | **—** | **—** | **537** |
| Noninterest income | **555** | **110** | **263** | **55** | **18** | **1,001** |
| Noninterest expenses | **826** | **619** | **301** | **2** | **36** | **1,784** |
| Provision (benefit) for income taxes | **182** | **(5)** | **20** | **(79)** | **(1)** | **117** |
| Net income (loss) | **$ 660** | **$ (9)** | **$ 74** | **$ (252)** | **$ 1** | **$ 474** |
| Net credit-related charge-offs | **$ 192** | **$ 1** | **$ 3** | **$ —** | **$ —** | **$ 196** |
| Selected average balances: | | | | | | |
| Assets | **$ 45,603** | **$ 3,281** | **$ 5,162** | **$ 15,418** | **$ 11,682** | **$81,146** |
| Loans | **44,123** | **2,468** | **5,045** | **—** | **(5)** | **51,631** |
| Deposits | **36,603** | **22,832** | **4,402** | **1,026** | **175** | **65,038** |
| Statistical data: | | | | | | |
| Return on average assets (a) | **1.45 %** | **(0.04)%** | **1.41 %** | **n/m** | **n/m** | **0.58 %** |
| Efficiency ratio (b) | **38.19** | **100.48** | **70.13** | **n/m** | **n/m** | **61.15** |
| **Year Ended December 31, 2019** | | | | | | |
| Earnings summary: | | | | | | |
| Net interest income (expense) | $ 1,655 | $ 568 | $ 183 | $ (123) | $ 56 | $ 2,339 |
| Provision for credit losses | 88 | (4) | (14) | — | 4 | 74 |
| Noninterest income | 555 | 132 | 270 | 41 | 12 | 1,010 |
| Noninterest expenses | 795 | 597 | 283 | 1 | 67 | 1,743 |
| Provision (benefit) for income taxes | 306 | 24 | 44 | (26) | (14) | 334 |
| Net income (loss) | $ 1,021 | $ 83 | $ 140 | $ (57) | $ 11 | $ 1,198 |
| Net credit-related charge-offs (recoveries) | $ 111 | $ 1 | $ (5) | $ — | $ — | $ 107 |
| Selected average balances: | | | | | | |
| Assets | $ 44,946 | $ 2,852 | $ 5,083 | $ 13,903 | $ 4,704 | $71,488 |
| Loans | 43,477 | 2,104 | 4,935 | — | (5) | 50,511 |
| Deposits | 29,047 | 20,743 | 3,833 | 1,673 | 185 | 55,481 |
| Statistical data: | | | | | | |
| Return on average assets (a) | 2.27 % | 0.39 % | 2.76 % | n/m | n/m | 1.68 % |
| Efficiency ratio (b) | 35.96 | 84.49 | 62.45 | n/m | n/m | 51.82 |

(Table continues on following page)

| *(dollar amounts in millions)* **Year Ended December 31, 2018** | **Commercial Bank** | **Retail Bank** | **Wealth Management** | **Finance** | **Other** | **Total** |
|---|---|---|---|---|---|---|
| Earnings summary: | | | | | | |
| Net interest income (expense) | $ 1,613 | $ 548 | $ 181 | $ (41) | $ 51 | $ 2,352 |
| Provision for credit losses | 6 | (1) | (3) | — | (3) | (1) |
| Noninterest income | 547 | 136 | 266 | 27 | — | 976 |
| Noninterest expenses | 847 | 602 | 293 | 1 | 51 | 1,794 |
| Provision (benefit) for income taxes | 283 | 18 | 36 | (14) | (23) | 300 |
| Net income (loss) | $ 1,024 | $ 65 | $ 121 | $ (1) | $ 26 | $ 1,235 |
| Net credit-related charge-offs (recoveries) | $ 52 | $ — | $ (1) | $ — | $ — | $ 51 |
| Selected average balances: | | | | | | |
| Assets | $ 43,207 | $ 2,633 | $ 5,214 | $ 13,548 | $ 6,122 | $70,724 |
| Loans | 41,629 | 2,067 | 5,081 | — | (11) | 48,766 |
| Deposits | 30,116 | 20,812 | 3,941 | 941 | 125 | 55,935 |
| Statistical data: | | | | | | |
| Return on average assets (a) | 2.37 % | 0.31 % | 2.32 % | n/m | n/m | 1.75 % |
| Efficiency ratio (b) | 39.22 | 87.59 | 65.60 | n/m | n/m | 53.56 |

*(a) Return on average assets is calculated based on the greater of average assets or average liabilities and attributed equity.*
*(b) Noninterest expenses as a percentage of the sum of net interest income and noninterest income excluding net gains (losses) from securities and a derivative contract tied to the conversion rate of Visa Class B shares.*
*n/m – not meaningful*

The Corporation operates in three primary markets - Michigan, California and Texas, as well as in Arizona and Florida, with select businesses operating in several other states, and in Canada and Mexico. The Corporation produces market segment results for the Corporation's three primary geographic markets as well as Other Markets. Other Markets includes Florida, Arizona, the International Finance division and businesses with a national perspective. The Finance & Other category includes the Finance segment and the Other category as previously described. Market segment results are provided as supplemental information to the business segment results and may not meet all operating segment criteria as set forth in GAAP. For comparability purposes, amounts in all periods are based on market segments and methodologies in effect at December 31, 2020.

A discussion of the financial results and the factors impacting 2020 performance can be found in "Market Segments" in the "Strategic Lines of Business and Markets" section of the financial review.

Market segment financial results are as follows:

| *(dollar amounts in millions)* **Year Ended December 31, 2020** | **Michigan** | **California** | **Texas** | **Other Markets** | **Finance & Other** | **Total** |
|---|---|---|---|---|---|---|
| Earnings summary: | | | | | | |
| Net interest income (expense) | **$ 660** | **$ 723** | **$ 465** | **$ 429** | **$ (366)** | **$ 1,911** |
| Provision for credit losses | **95** | **134** | **270** | **38** | **—** | **537** |
| Noninterest income | **273** | **147** | **120** | **388** | **73** | **1,001** |
| Noninterest expenses | **559** | **414** | **359** | **414** | **38** | **1,784** |
| Provision (benefit) for income taxes | **54** | **75** | **(11)** | **79** | **(80)** | **117** |
| Net income (loss) | **$ 225** | **$ 247** | **$ (33)** | **$ 286** | **$ (251)** | **$ 474** |
| Net credit-related charge-offs | **$ 14** | **$ 31** | **$ 151** | **$ —** | **$ —** | **$ 196** |
| Selected average balances: | | | | | | |
| Assets | **$13,179** | **$18,562** | **$11,287** | **$11,020** | **$ 27,098** | **$81,146** |
| Loans | **12,509** | **18,265** | **10,813** | **10,052** | **(8)** | **51,631** |
| Deposits | **23,500** | **19,386** | **10,209** | **10,742** | **1,201** | **65,038** |
| Statistical data: | | | | | | |
| Return on average assets (a) | **0.92 %** | **1.21 %** | **(0.28)%** | **2.45 %** | **n/m** | **0.58 %** |
| Efficiency ratio (b) | **59.76** | **47.58** | **61.28** | **50.66** | **n/m** | **61.15** |

(Table continues on following page)

| *(dollar amounts in millions)* **Year Ended December 31, 2019** | Michigan | California | Texas | Other Markets | Finance & Other | Total |
|---|---|---|---|---|---|---|
| Earnings summary: | | | | | | |
| Net interest income (expense) | $ 729 | $ 808 | $ 493 | $ 376 | $ (67) | $ 2,339 |
| Provision for credit losses | (11) | (33) | 119 | (5) | 4 | 74 |
| Noninterest income | 291 | 173 | 128 | 365 | 53 | 1,010 |
| Noninterest expenses | 554 | 406 | 345 | 370 | 68 | 1,743 |
| Provision (benefit) for income taxes | 108 | 154 | 38 | 74 | (40) | 334 |
| Net income (loss) | $ 369 | $ 454 | $ 119 | $ 302 | $ (46) | $ 1,198 |
| Net credit-related charge-offs (recoveries) | $ 11 | $ 8 | $ 93 | $ (5) | $ — | $ 107 |
| Selected average balances: | | | | | | |
| Assets | $13,149 | $18,731 | $11,269 | $ 9,732 | $ 18,607 | $71,488 |
| Loans | 12,553 | 18,413 | 10,616 | 8,934 | (5) | 50,511 |
| Deposits | 20,081 | 16,846 | 8,780 | 7,916 | 1,858 | 55,481 |
| Statistical data: | | | | | | |
| Return on average assets (a) | 1.77 % | 2.42 % | 1.06 % | 3.10 % | n/m | 1.68 % |
| Efficiency ratio (b) | 54.01 | 41.28 | 55.59 | 49.90 | n/m | 51.82 |
| **Year Ended December 31, 2018** | | | | | | |
| Earnings summary: | | | | | | |
| Net interest income | $ 727 | $ 786 | $ 474 | $ 355 | $ 10 | $ 2,352 |
| Provision for credit losses | 30 | 26 | (53) | (1) | (3) | (1) |
| Noninterest income | 296 | 164 | 130 | 359 | 27 | 976 |
| Noninterest expenses | 577 | 424 | 365 | 376 | 52 | 1,794 |
| Provision (benefit) for income taxes | 90 | 123 | 64 | 60 | (37) | 300 |
| Net income | $ 326 | $ 377 | $ 228 | $ 279 | $ 25 | $ 1,235 |
| Net credit-related charge-offs | $ 7 | $ 27 | $ 12 | $ 5 | $ — | $ 51 |
| Selected average balances: | | | | | | |
| Assets | $13,202 | $18,422 | $10,380 | $ 9,049 | $ 19,671 | $70,724 |
| Loans | 12,531 | 18,161 | 9,812 | 8,273 | (11) | 48,766 |
| Deposits | 20,770 | 16,951 | 8,991 | 8,157 | 1,066 | 55,935 |
| Statistical data: | | | | | | |
| Return on average assets (a) | 1.52 % | 2.05 % | 2.20 % | 3.08 % | n/m | 1.75 % |
| Efficiency ratio (b) | 56.21 | 44.64 | 60.30 | 52.82 | n/m | 53.56 |

*(a) Return on average assets is calculated based on the greater of average assets or average liabilities and attributed equity.*

*(b) Noninterest expenses as a percentage of the sum of net interest income and noninterest income excluding net gains (losses) from securities and a derivative contract tied to the conversion rate of Visa Class B shares.*

*n/m – not meaningful*

## NOTE 23 - PARENT COMPANY FINANCIAL STATEMENTS

### BALANCE SHEETS - COMERICA INCORPORATED

| *(in millions, except share data)*<br>**December 31** | **2020** | **2019** |
|---|---|---|
| **Assets** | | |
| Cash and due from subsidiary banks | **$ 1,489** | $ 1,196 |
| Other short-term investments | **107** | 95 |
| Investment in subsidiaries, principally banks | **8,215** | 7,784 |
| Premises and equipment | **1** | 1 |
| Accrued income and other assets | **329** | 242 |
| Total assets | **$ 10,141** | $ 9,318 |
| **Liabilities and Shareholders' Equity** | | |
| Medium- and long-term debt | **$ 1,818** | $ 1,735 |
| Accrued expenses and other liabilities | **273** | 256 |
| Total liabilities | **2,091** | 1,991 |
| Fixed-rate reset non-cumulative perpetual preferred stock, series A, no par value, $100,000 liquidation preference per share: | | |
| Authorized - 4,000 shares | | |
| Issued - 4,000 shares at 12/31/2020 | **394** | — |
| Common stock - $5 par value: | | |
| Authorized - 325,000,000 shares | | |
| Issued - 228,164,824 shares | **1,141** | 1,141 |
| Capital surplus | **2,185** | 2,174 |
| Accumulated other comprehensive income (loss) | **168** | (235) |
| Retained earnings | **9,623** | 9,538 |
| Less cost of common stock in treasury - 88,997,430 shares at 12/31/2020 and 86,069,234 shares at 12/31/2019 | **(5,461)** | (5,291) |
| Total shareholders' equity | **8,050** | 7,327 |
| Total liabilities and shareholders' equity | **$ 10,141** | $ 9,318 |

**STATEMENTS OF INCOME - COMERICA INCORPORATED**

| *(in millions)* **Years Ended December 31** | **2020** | **2019** | **2018** |
|---|---|---|---|
| **Income** | | | |
| Income from subsidiaries: | | | |
| Dividends from subsidiaries | **$ 498** | $ 1,229 | $ 1,135 |
| Other interest income | **4** | 20 | 13 |
| Intercompany management fees | **209** | 224 | 228 |
| Total income | **711** | 1,473 | 1,376 |
| **Expenses** | | | |
| Interest on medium- and long-term debt | **30** | 56 | 29 |
| Salaries and benefits expense | **141** | 143 | 140 |
| Occupancy expense | **5** | 6 | 5 |
| Equipment expense | **1** | 1 | 1 |
| Restructuring charges | **—** | — | 2 |
| Other noninterest expenses | **60** | 72 | 75 |
| Total expenses | **237** | 278 | 252 |
| Income before benefit for income taxes and equity in undistributed earnings of subsidiaries | **474** | 1,195 | 1,124 |
| Benefit for income taxes | **(6)** | (9) | (5) |
| Income before equity in undistributed earnings of subsidiaries | **480** | 1,204 | 1,129 |
| Equity in undistributed (losses) earnings of subsidiaries, principally banks | **(6)** | (6) | 106 |
| **Net income** | **474** | 1,198 | 1,235 |
| Less income allocated to participating securities | **2** | 7 | 8 |
| Preferred stock dividends | **13** | — | — |
| **Net income attributable to common shares** | **$ 459** | $ 1,191 | $ 1,227 |

### STATEMENTS OF CASH FLOWS - COMERICA INCORPORATED

| *(in millions)*<br>**Years Ended December 31** | **2020** | **2019** | **2018** |
|---|---|---|---|
| **Operating Activities** | | | |
| Net income | **$ 474** | $ 1,198 | $ 1,235 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Undistributed (losses) earnings of subsidiaries, principally banks | **6** | 6 | (106) |
| Depreciation and amortization | **—** | 1 | 1 |
| Net periodic defined benefit cost | **4** | 4 | 4 |
| Share-based compensation expense | **11** | 15 | 21 |
| Benefit for deferred income taxes | **(1)** | (2) | (1) |
| Other, net | **2** | 28 | 10 |
| Net cash provided by operating activities | **496** | 1,250 | 1,164 |
| **Investing Activities** | | | |
| Capital transactions with subsidiaries | **(21)** | — | — |
| Net change in premises and equipment | **2** | — | — |
| Net cash used in investing activities | **(19)** | — | — |
| **Financing Activities** | | | |
| Medium- and long-term debt: | | | |
| Maturities | **—** | (350) | — |
| Issuances | **—** | 550 | 850 |
| Preferred Stock: | | | |
| Issuances | **394** | — | — |
| Cash dividends paid | **(8)** | — | — |
| Common Stock: | | | |
| Repurchases | **(199)** | (1,394) | (1,338) |
| Cash dividends paid | **(375)** | (402) | (263) |
| Issuances under employee stock plans | **4** | 18 | 52 |
| Net cash used in financing activities | **(184)** | (1,578) | (699) |
| Net increase (decrease) in cash and cash equivalents | **293** | (328) | 465 |
| Cash and cash equivalents at beginning of period | **1,196** | 1,524 | 1,059 |
| Cash and cash equivalents at end of period | **$ 1,489** | $ 1,196 | $ 1,524 |
| Interest paid | **$ 33** | $ 55 | $ 11 |

## NOTE 24 - SUMMARY OF QUARTERLY FINANCIAL STATEMENTS (UNAUDITED)

The following quarterly information is unaudited. However, in the opinion of management, the information reflects all adjustments, which are necessary for the fair presentation of the results of operations, for the periods presented.

| | 2020 | | | |
|---|---|---|---|---|
| *(in millions, except per share data)* | **Fourth Quarter** | **Third Quarter** | **Second Quarter** | **First Quarter** |
| Interest income | **$ 489** | **$ 484** | **$ 511** | **$ 609** |
| Interest expense | **20** | **26** | **40** | **96** |
| Net interest income | **469** | **458** | **471** | **513** |
| Provision for credit losses | **(17)** | **5** | **138** | **411** |
| Net securities gains (losses) | **—** | **—** | **1** | **(1)** |
| Noninterest income excluding net securities gains (losses) | **265** | **252** | **246** | **238** |
| Noninterest expenses | **473** | **446** | **440** | **425** |
| Provision (benefit) for income taxes | **63** | **48** | **27** | **(21)** |
| Net income (loss) | **215** | **211** | **113** | **(65)** |
| Less: | | | | |
| Income allocated to participating securities | **1** | **—** | **1** | **—** |
| Preferred stock dividends | **5** | **8** | **—** | **—** |
| Net income (loss) attributable to common shares | **$ 209** | **$ 203** | **$ 112** | **$ (65)** |
| Earnings (loss) per common share: | | | | |
| Basic | **$ 1.50** | **$ 1.45** | **$ 0.81** | **$ (0.46)** |
| Diluted | **1.49** | **1.44** | **0.80** | **(0.46)** |
| Comprehensive income | **267** | **169** | **97** | **344** |

| | 2019 | | | |
|---|---|---|---|---|
| *(in millions, except per share data)* | **Fourth Quarter** | **Third Quarter** | **Second Quarter** | **First Quarter** |
| Interest income | $ 659 | $ 711 | $ 727 | $ 710 |
| Interest expense | 115 | 125 | 124 | 104 |
| Net interest income | 544 | 586 | 603 | 606 |
| Provision for credit losses | 8 | 35 | 44 | (13) |
| Net securities gains (losses) | 1 | — | — | (8) |
| Noninterest income excluding net securities gains (losses) | 265 | 256 | 250 | 246 |
| Noninterest expenses | 451 | 435 | 424 | 433 |
| Provision for income taxes | 82 | 80 | 87 | 85 |
| Net income | 269 | 292 | 298 | 339 |
| Less income allocated to participating securities | 2 | 2 | 1 | 2 |
| Net income attributable to common shares | $ 267 | $ 290 | $ 297 | $ 337 |
| Earnings per common share: | | | | |
| Basic | $ 1.87 | $ 1.98 | $ 1.95 | $ 2.14 |
| Diluted | 1.85 | 1.96 | 1.94 | 2.11 |
| Comprehensive income | 370 | 338 | 429 | 435 |

## NOTE 25 - REVENUE FROM CONTRACTS WITH CUSTOMERS

Revenue from contracts with customers comprises the noninterest income earned by the Corporation in exchange for services provided to customers. The following table presents the composition of revenue from contracts with customers, segregated from other sources of noninterest income, by business segment.

| *(in millions)* | Commercial Bank | Retail Bank | Wealth Management | Finance & Other | Total |
|---|---|---|---|---|---|
| **Year Ended December 31, 2020** | | | | | |
| Revenue from contracts with customers: | | | | | |
| Card fees | **$ 229** | **$ 38** | **$ 3** | **$ —** | **$ 270** |
| Fiduciary income | **—** | **—** | **209** | **—** | **209** |
| Service charges on deposit accounts | **128** | **52** | **5** | **—** | **185** |
| Commercial loan servicing fees (a) | **18** | **—** | **—** | **—** | **18** |
| Brokerage fees | **—** | **—** | **21** | **—** | **21** |
| Other noninterest income (b) | **28** | **10** | **17** | **—** | **55** |
| Total revenue from contracts with customers | **403** | **100** | **255** | **—** | **758** |
| Other sources of noninterest income | **152** | **10** | **8** | **73** | **243** |
| Total noninterest income | **$ 555** | **$ 110** | **$ 263** | **$ 73** | **$ 1,001** |
| **Year Ended December 31, 2019** | | | | | |
| Revenue from contracts with customers: | | | | | |
| Card fees | $ 213 | $ 40 | $ 4 | $ — | $ 257 |
| Fiduciary income | — | — | 206 | — | 206 |
| Service charges on deposit accounts | 130 | 68 | 5 | — | 203 |
| Commercial loan servicing fees (a) | 18 | — | — | — | 18 |
| Brokerage fees | — | — | 28 | — | 28 |
| Other noninterest income (b) | 8 | 11 | 18 | — | 37 |
| Total revenue from contracts with customers | 369 | 119 | 261 | — | 749 |
| Other sources of noninterest income | 186 | 13 | 9 | 53 | 261 |
| Total noninterest income | $ 555 | $ 132 | $ 270 | $ 53 | $ 1,010 |
| **Year Ended December 31, 2018** | | | | | |
| Revenue from contracts with customers: | | | | | |
| Card fees | $ 201 | $ 39 | $ 4 | $ — | $ 244 |
| Fiduciary income | — | — | 206 | — | 206 |
| Service charges on deposit accounts | 134 | 72 | 5 | — | 211 |
| Commercial loan servicing fees (a) | 18 | — | — | — | 18 |
| Brokerage fees | — | — | 27 | — | 27 |
| Other noninterest income (b) | 12 | 19 | 17 | 1 | 49 |
| Total revenue from contracts with customers | 365 | 130 | 259 | 1 | 755 |
| Other sources of noninterest income | 182 | 6 | 7 | 26 | 221 |
| Total noninterest income | $ 547 | $ 136 | $ 266 | $ 27 | $ 976 |

*(a) Included in commercial lending fees on the Consolidated Statements of Income.*
*(b) Excludes derivative, warrant and other miscellaneous income.*

Adjustments to revenue during the years ended December 31, 2020, 2019 and 2018 for refunds or credits relating to prior periods were not significant.

Revenue from contracts with customers did not generate significant contract assets and liabilities.

## NOTE 26 - LEASES

As a lessee, the Corporation has entered into operating leases for the majority of its real estate locations, primarily retail and office space. Total lease expense for the years ending December 31, 2020 and 2019 were as follows:

| *(in millions)*<br>**Years Ended December 31** | **2020** | 2019 |
|---|---|---|
| Operating lease expense | **$ 64** | $ 64 |
| Variable lease expense | **16** | 19 |
| Less sublease income | **(1)** | (2) |
| Total lease expense | **$ 79** | $ 81 |

At December 31, 2020, the Corporation's Right of Use (ROU) assets and operating lease liabilities were $306 million and $344 million, respectively. At December 31, 2019, ROU assets and operating lease liabilities were $329 million and $367 million, respectively. Additional details related to the Corporation's operating leases are presented below:

| *(dollar amounts in millions)*<br>**Years Ended December 31** | **2020** | 2019 |
|---|---|---|
| Lease liabilities from new ROU assets | **$ 28** | $ 49 |
| Cash paid on operating lease liabilities | **65** | 67 |
| Weighted average discount rate | **3.61%** | 3.78% |
| Weighted average lease term in years | **8** | 9 |

As of December 31, 2020, the contractual maturities of operating lease liabilities were as follows:

| *(in millions)*<br>**Years Ending December 31** | |
|---|---|
| 2021 | **$ 60** |
| 2022 | **57** |
| 2023 | **51** |
| 2024 | **46** |
| 2025 | **40** |
| Thereafter | **149** |
| Total contractual maturities | **403** |
| Less imputed interest | **(59)** |
| Total operating lease liabilities | **$ 344** |

As a lessor, the Corporation leases certain types of manufacturing and warehouse equipment as well as public and private transportation vehicles to its customers. The Corporation recognized lease-related revenue, primarily interest income from sales-type and direct financing leases, of $13 million and $14 million for the years ended December 31, 2020 and 2019, respectively. The Corporation's net investment in sales-type and direct financing leases was $391 million and $369 million at December 31, 2020 and 2019, respectively.

As of December 31, 2020, the contractual maturities of sales-type and direct financing lease receivables were as follows:

| *(in millions)*<br>**Years Ending December 31** | |
|---|---|
| 2021 | **$ 69** |
| 2022 | **101** |
| 2023 | **54** |
| 2024 | **64** |
| 2025 | **33** |
| Thereafter | **18** |
| Total lease payments receivable | **339** |
| Unguaranteed residual values | **72** |
| Less deferred interest income | **(20)** |
| Total lease receivables (a) | **$ 391** |

*(a) Excludes net investment in leveraged leases of $203 million.*

# REPORT OF MANAGEMENT

The management of Comerica Incorporated (the Corporation) is responsible for the accompanying consolidated financial statements and all other financial information in this Annual Report. The consolidated financial statements have been prepared in conformity with U.S. generally accepted accounting principles and include amounts which of necessity are based on management's best estimates and judgments and give due consideration to materiality. The other financial information herein is consistent with that in the consolidated financial statements.

In meeting its responsibility for the reliability of the consolidated financial statements, management develops and maintains effective internal controls, including those over financial reporting, as defined in the Securities and Exchange Act of 1934, as amended. The Corporation's internal control over financial reporting includes policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Corporation; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of the consolidated financial statements in conformity with U.S. generally accepted accounting principles, and that receipts and expenditures of the Corporation are made only in accordance with authorizations of management and directors of the Corporation; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Corporation's assets that could have a material effect on the consolidated financial statements.

Management assessed, with participation of the Corporation's Chief Executive Officer and Chief Financial Officer, internal control over financial reporting as it relates to the Corporation's consolidated financial statements presented in conformity with U.S. generally accepted accounting principles as of December 31, 2020. The assessment was based on criteria for effective internal control over financial reporting described in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). Based on this assessment, management determined that internal control over financial reporting is effective as it relates to the Corporation's consolidated financial statements presented in conformity with U.S. generally accepted accounting principles as of December 31, 2020.

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

The Corporation's internal control over financial reporting as of December 31, 2020 has been audited by Ernst & Young LLP, an independent registered public accounting firm, as stated in their accompanying report.

The Corporation's Board of Directors oversees management's internal control over financial reporting and financial reporting responsibilities through its Audit Committee as well as various other committees. The Audit Committee, which consists of directors who are not officers or employees of the Corporation, meets regularly with management, internal audit and the independent public accountants to assure that the Audit Committee, management, internal auditors and the independent public accountants are carrying out their responsibilities, and to review auditing, internal control and financial reporting matters.

Curtis C. Farmer
Chairman, President and
Chief Executive Officer

James J. Herzog
Executive Vice President and
Chief Financial Officer

Mauricio A. Ortiz
Senior Vice President and
Chief Accounting Officer

# REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

**To the Shareholders and the Board of Directors of Comerica Incorporated**

**Opinion on Internal Control over Financial Reporting**

We have audited Comerica Incorporated and subsidiaries' internal control over financial reporting as of December 31, 2020, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). In our opinion, Comerica Incorporated and subsidiaries (the Company) maintained, in all material respects, effective internal control over financial reporting as of December 31, 2020, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of December 31, 2020 and 2019, and the related consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 2020, and the related notes of the Company and our report dated February 9, 2021 expressed an unqualified opinion thereon.

**Basis for Opinion**

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

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

**Definition and Limitations of Internal Control over Financial Reporting**

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

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

/s/ Ernst & Young LLP

Dallas, TX
February 9, 2021

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

**To the Shareholders and the Board of Directors of Comerica Incorporated**

**Opinion on the Financial Statements**

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

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2020, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated February 9, 2021, expressed an unqualified opinion thereon.

**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 audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the 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 audits 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 audits provide a reasonable basis for our opinion.

**Adoption of New Accounting Standard**

As discussed in Notes 1 and 4 to the consolidated financial statements, the Company changed its method for accounting for credit losses in 2020. As explained below, auditing the Company's allowance for credit losses, including adoption of the new accounting guidance related to the estimate of allowance for credit losses, was a critical audit matter.

**Critical Audit Matter**

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

***Allowance for credit losses***

| | |
|---|---|
| *Description of the Matter* | The Company's loan portfolio and the associated allowance for credit losses (ACL) were $52 billion and $992 million as of December 31, 2020, respectively. As discussed above and in Note 1 and 4 of the financial statements, effective January 1, 2020 the Company adopted Financial Accounting Standards Board Accounting Standards Update No. 2016-13, Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments which resulted in a $17 million decrease to the overall allowance for credit losses. The allowance for credit losses represents management's estimate of expected credit losses over the contractual life of the loan portfolio at the balance sheet date. The allowance for credit losses includes credit loss estimates for loans evaluated on an individual basis, such as for certain nonaccrual loans and TDR loans and collective loss estimates for homogeneous pools of loans with similar risk characteristics. The Company determines the allowance for homogeneous pools of loans with similar risk characteristics by applying loss factors to amortized cost balances over the remaining contractual life. Loss factors are based on estimated probability of default, set to a default horizon based on contractual life, and loss given default. Through the use of various models, historical estimates are calibrated to economic forecasts over the reasonable and supportable forecast period based on economic variables that statistically correlate with each of the probability of default and loss given default pools. Qualitative adjustments are then made to bring the allowance to the level management believes is appropriate based on factors that have not otherwise been fully accounted for in the quantitative analysis. Examples of these adjustments include 1) foresight risk, 2) input imprecision, and 3) model imprecision.<br><br>Auditing management's estimate of the allowance for credit losses involved a high degree of subjectivity due to the highly judgmental nature of the expected loss models, including management's selection of models used to estimate quantitative components of the ACL, as well as qualitative adjustments included in the ACL. Management's identification and measurement of the expected loss models, including management's selection of models used, and the qualitative adjustments made are highly judgmental and could have a significant effect on the ACL. |
| *How We Addressed the Matter in Our Audit* | We obtained an understanding of the Company's process for establishing the ACL, including the models selected by management to estimate quantitative components of the ACL and the qualitative adjustments made to the ACL. We evaluated the design and tested the operating effectiveness of the controls and governance over 1) the appropriateness of the models used to estimate quantitative components of the ACL, 2) the identification and need for selection of a different model for quantitative components of the ACL, 3) the validation of the models used to estimate quantitative components of the ACL, including completeness and accuracy of the key inputs and assumptions within the models, 4) monitoring of the models including the assessment of the output, 5) the appropriateness of the qualitative reserve methodology, including the identification and the assessment for the need for qualitative adjustments, 6) the reliability and accuracy of data used to estimate the various components of the qualitative reserves, and 7) management's review and approval of qualitative adjustments and model output.<br><br>To test the appropriateness of the models selected by management to estimate quantitative components of the ACL, with the support of specialists, we evaluated management's basis for concluding on the selection of the models used when considering modeled output. For example, we evaluated the model output and information utilized by management as the basis for their model selection by independently obtaining and comparing actual historical loss data to data used and third-party macroeconomic data and information to assess the accuracy and appropriateness of the information and to consider whether new or contradictory information existed. We also evaluated model calculation design and re-performed calculations on a sample basis.<br><br>To test the qualitative adjustments, we evaluated the identification and measurement of the qualitative adjustments, including the basis for concluding an adjustment was warranted when considering the potential impact of foresight risk, input imprecision and model imprecision, tested the completeness and accuracy of data used by the Company to estimate the qualitative adjustments, recalculated the analyses used by management to determine the qualitative adjustments, and analyzed the changes in assumptions and components of the qualitative reserves relative to changes in the Company's loan portfolio. For example, we evaluated the data and information utilized by management to estimate the qualitative adjustments by independently obtaining and comparing to historical loan data, third-party macroeconomic data, and peer bank data to assess the appropriateness of the information and to consider whether new or contradictory information existed. |

/s/ Ernst & Young LLP
We have served as the Company's auditor since 1992.
Dallas, TX
February 9, 2021

# HISTORICAL REVIEW - AVERAGE BALANCE SHEETS
## Comerica Incorporated and Subsidiaries

### CONSOLIDATED FINANCIAL INFORMATION

*(in millions)*

| Years Ended December 31 | 2020 | 2019 | 2018 | 2017 | 2016 |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| Cash and due from banks | **$ 878** | $ 887 | $ 1,135 | $ 1,209 | $ 1,146 |
| Interest-bearing deposits with banks | **10,203** | 3,360 | 4,700 | 5,443 | 5,099 |
| Other short-term investments | **153** | 143 | 134 | 92 | 102 |
| Investment securities | **13,432** | 12,120 | 11,810 | 12,207 | 12,348 |
| Commercial loans | **32,144** | 32,053 | 30,534 | 30,415 | 31,062 |
| Real estate construction loans | **3,912** | 3,325 | 3,155 | 2,958 | 2,508 |
| Commercial mortgage loans | **9,839** | 9,170 | 9,131 | 9,005 | 8,981 |
| Lease financing | **594** | 557 | 470 | 509 | 684 |
| International loans | **1,028** | 1,019 | 1,021 | 1,157 | 1,367 |
| Residential mortgage loans | **1,905** | 1,929 | 1,983 | 1,989 | 1,894 |
| Consumer loans | **2,209** | 2,458 | 2,472 | 2,525 | 2,500 |
| Total loans | **51,631** | 50,511 | 48,766 | 48,558 | 48,996 |
| Less allowance for loan losses | **(900)** | (667) | (695) | (728) | (730) |
| Net loans | **50,731** | 49,844 | 48,071 | 47,830 | 48,266 |
| Accrued income and other assets | **5,749** | 5,134 | 4,874 | 4,671 | 4,782 |
| Total assets | **$ 81,146** | $ 71,488 | $ 70,724 | $ 71,452 | $ 71,743 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | | | | |
| Noninterest-bearing deposits | **$ 33,053** | $ 26,644 | $ 29,241 | $ 31,013 | $ 29,751 |
| Money market and interest-bearing checking deposits | **26,798** | 23,417 | 22,378 | 21,585 | 22,744 |
| Savings deposits | **2,454** | 2,166 | 2,199 | 2,133 | 2,013 |
| Customer certificates of deposit | **2,626** | 2,522 | 2,090 | 2,470 | 3,198 |
| Other time deposits | **17** | 705 | 2 | 1 | 2 |
| Foreign office time deposits | **90** | 27 | 25 | 56 | 33 |
| Total interest-bearing deposits | **31,985** | 28,837 | 26,694 | 26,245 | 27,990 |
| Total deposits | **65,038** | 55,481 | 55,935 | 57,258 | 57,741 |
| Short-term borrowings | **314** | 369 | 62 | 277 | 138 |
| Accrued expenses and other liabilities | **1,554** | 1,375 | 1,076 | 996 | 1,273 |
| Medium- and long-term debt | **6,549** | 6,955 | 5,842 | 4,969 | 4,917 |
| Total liabilities | **73,455** | 64,180 | 62,915 | 63,500 | 64,069 |
| Shareholders' equity | **7,691** | 7,308 | 7,809 | 7,952 | 7,674 |
| Total liabilities and shareholders' equity | **$ 81,146** | $ 71,488 | $ 70,724 | $ 71,452 | $ 71,743 |

# HISTORICAL REVIEW - STATEMENTS OF INCOME
## Comerica Incorporated and Subsidiaries

### CONSOLIDATED FINANCIAL INFORMATION

| *(in millions, except per share data)* Years Ended December 31 | 2020 | 2019 | 2018 | 2017 | 2016 |
|---|---|---|---|---|---|
| **INTEREST INCOME** | | | | | |
| Interest and fees on loans | **$ 1,773** | $ 2,439 | $ 2,262 | $ 1,872 | $ 1,635 |
| Interest on investment securities | **291** | 297 | 265 | 250 | 247 |
| Interest on short-term investments | **29** | 71 | 92 | 60 | 27 |
| Total interest income | **2,093** | 2,807 | 2,619 | 2,182 | 1,909 |
| **INTEREST EXPENSE** | | | | | |
| Interest on deposits | **101** | 262 | 122 | 42 | 40 |
| Interest on short-term borrowings | **1** | 9 | 1 | 3 | — |
| Interest on medium- and long-term debt | **80** | 197 | 144 | 76 | 72 |
| Total interest expense | **182** | 468 | 267 | 121 | 112 |
| Net interest income | **1,911** | 2,339 | 2,352 | 2,061 | 1,797 |
| Provision for credit losses | **537** | 74 | (1) | 74 | 248 |
| Net interest income after provision for credit losses | **1,374** | 2,265 | 2,353 | 1,987 | 1,549 |
| **NONINTEREST INCOME** | | | | | |
| Card fees | **270** | 257 | 244 | 333 | 303 |
| Fiduciary income | **209** | 206 | 206 | 198 | 190 |
| Service charges on deposit accounts | **185** | 203 | 211 | 227 | 219 |
| Commercial lending fees | **77** | 91 | 85 | 85 | 89 |
| Bank-owned life insurance | **44** | 41 | 39 | 43 | 42 |
| Foreign exchange income | **40** | 44 | 47 | 45 | 42 |
| Letter of credit fees | **37** | 38 | 40 | 45 | 50 |
| Brokerage fees | **21** | 28 | 27 | 23 | 19 |
| Net securities losses | **—** | (7) | (19) | — | — |
| Other noninterest income | **118** | 109 | 96 | 108 | 97 |
| Total noninterest income | **1,001** | 1,010 | 976 | 1,107 | 1,051 |
| **NONINTEREST EXPENSES** | | | | | |
| Salaries and benefits expense | **1,019** | 1,020 | 1,009 | 961 | 989 |
| Outside processing fee expense | **242** | 264 | 255 | 366 | 336 |
| Occupancy expense | **156** | 154 | 152 | 154 | 157 |
| Software expense | **154** | 117 | 125 | 126 | 119 |
| Equipment expense | **49** | 50 | 48 | 45 | 53 |
| Advertising expense | **35** | 34 | 30 | 28 | 21 |
| FDIC insurance expense | **33** | 23 | 42 | 51 | 54 |
| Restructuring charges | **—** | — | 53 | 45 | 93 |
| Other noninterest expenses | **96** | 81 | 80 | 84 | 108 |
| Total noninterest expenses | **1,784** | 1,743 | 1,794 | 1,860 | 1,930 |
| Income before income taxes | **591** | **1,532** | 1,535 | 1,234 | 670 |
| Provision for income taxes | **117** | 334 | 300 | 491 | 193 |
| **NET INCOME** | **474** | 1,198 | 1,235 | 743 | 477 |
| Less: | | | | | |
| Income allocated to participating securities | **2** | 7 | 8 | 5 | 4 |
| Preferred stock dividends | **13** | — | — | — | — |
| **Net income attributable to common shares** | **$ 459** | $ 1,191 | $ 1,227 | $ 738 | $ 473 |
| Earnings per common share: | | | | | |
| Basic | **$ 3.29** | $ 7.95 | $ 7.31 | $ 4.23 | $ 2.74 |
| Diluted | **3.27** | 7.87 | 7.20 | 4.14 | 2.68 |
| Comprehensive income | **877** | 1,572 | 1,076 | 762 | 523 |
| Cash dividends declared on common stock | **378** | 398 | 309 | 193 | 154 |
| Cash dividends declared per common share | **2.72** | 2.68 | 1.84 | 1.09 | 0.89 |

# HISTORICAL REVIEW - STATISTICAL DATA
## Comerica Incorporated and Subsidiaries

### CONSOLIDATED FINANCIAL INFORMATION

| Years Ended December 31 | 2020 | 2019 | 2018 | 2017 | 2016 |
|---|---|---|---|---|---|
| **Average Rates** | | | | | |
| Interest-bearing deposits with banks | **0.27%** | 2.05% | 1.94% | 1.09% | 0.51% |
| Other short-term investments | **0.72** | 1.26 | 0.96 | 0.64 | 0.61 |
| Investment securities | **2.21** | 2.44 | 2.19 | 2.05 | 2.02 |
| Commercial loans | **3.42** | 4.81 | 4.64 | 3.82 | 3.25 |
| Real estate construction loans | **3.76** | 5.54 | 5.21 | 4.18 | 3.63 |
| Commercial mortgage loans | **3.25** | 4.88 | 4.69 | 3.97 | 3.49 |
| Lease financing | **3.37** | 3.44 | 3.82 | 2.63 | 2.64 |
| International loans | **3.61** | 5.13 | 4.97 | 4.07 | 3.63 |
| Residential mortgage loans | **3.45** | 3.85 | 3.77 | 3.70 | 3.76 |
| Consumer loans | **3.80** | 4.85 | 4.41 | 3.70 | 3.32 |
| Total loans | **3.44** | 4.83 | 4.64 | 3.85 | 3.34 |
| Interest income as a percentage of earning assets | **2.79** | 4.24 | 3.99 | 3.29 | 2.88 |
| Domestic deposits | **0.31** | 0.91 | 0.45 | 0.16 | 0.14 |
| Deposits in foreign offices | **0.42** | 1.39 | 1.19 | 0.64 | 0.35 |
| Total interest-bearing deposits | **0.31** | 0.91 | 0.46 | 0.16 | 0.14 |
| Short-term borrowings | **0.32** | 2.39 | 1.93 | 1.14 | 0.45 |
| Medium- and long-term debt | **1.23** | 2.82 | 2.47 | 1.51 | 1.45 |
| Interest expense as a percentage of interest-bearing sources | **0.47** | 1.29 | 0.82 | 0.38 | 0.34 |
| Interest rate spread | **2.32** | 2.95 | 3.17 | 2.91 | 2.54 |
| Impact of net noninterest-bearing sources of funds | **0.22** | 0.59 | 0.41 | 0.20 | 0.17 |
| Net interest margin as a percentage of earning assets | **2.54%** | 3.54% | 3.58% | 3.11% | 2.71% |
| **Ratios** | | | | | |
| Return on average common shareholders' equity | **6.18%** | 16.39% | 15.82% | 9.34% | 6.22% |
| Return on average assets | **0.58** | 1.68 | 1.75 | 1.04 | 0.67 |
| Efficiency ratio (a) | **61.15** | 51.82 | 53.56 | 58.64 | 67.62 |
| Common equity tier 1 capital as a percentage of risk weighted assets | **10.34** | 10.13 | 11.14 | 11.68 | 11.09 |
| Tier 1 capital as a percentage of risk-weighted assets | **10.93** | 10.13 | 11.14 | 11.68 | 11.09 |
| Total capital as a percentage of risk-weighted assets | **13.20** | 12.13 | 13.21 | 13.84 | 13.27 |
| Common equity ratio | **8.69** | 9.98 | 10.60 | 11.13 | 10.68 |
| Tangible common equity as a percentage of tangible assets (b) | **8.02** | 9.19 | 9.78 | 10.32 | 9.89 |
| **Per Common Share Data** | | | | | |
| Book value at year-end | **$55.01** | $ 51.57 | $ 46.89 | $ 46.07 | $ 44.47 |
| Market value at year-end | **55.86** | 71.75 | 68.69 | 86.81 | 68.11 |
| Market value for the year | | | | | |
| High | **71.75** | 88.96 | 102.66 | 88.22 | 70.44 |
| Low | **26.05** | 58.54 | 63.69 | 64.04 | 30.48 |
| **Other Data** ***(share data in millions)*** | | | | | |
| Average common shares outstanding - basic | **139** | 150 | 168 | 174 | 172 |
| Average common shares outstanding - diluted | **140** | 151 | 171 | 178 | 177 |
| Number of banking centers | **433** | 436 | 436 | 438 | 458 |
| Number of employees (full-time equivalent) | **7,681** | 7,747 | 7,865 | 7,999 | 7,960 |

*(a) Noninterest expenses as a percentage of the sum of net interest income and noninterest income excluding net losses from securities and a derivative contract tied to the conversion rate of Visa Class B shares.*
*(b) See Supplemental Financial Data section for reconciliations of non-GAAP financial measures and regulatory ratios.*

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized as of February 9, 2021.

COMERICA INCORPORATED

By: /s/ Curtis C. Farmer

Curtis C. Farmer
*Chairman, President and Chief Executive Officer*

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the registrant in the capacities indicated as of February 9, 2021.

| Signature | Title |
|---|---|
| /s/ Curtis C. Farmer<br>Curtis C. Farmer | Chairman, President and Chief Executive Officer and Director (Principal Executive Officer) |
| /s/ James J. Herzog<br>James J. Herzog | Executive Vice President and Chief Financial Officer (Principal Financial Officer) |
| /s/ Mauricio A. Ortiz<br>Mauricio A. Ortiz | Senior Vice President and Chief Accounting Officer (Principal Accounting Officer) |
| /s/ Michael E. Collins<br>Michael E. Collins | Director |
| /s/ Roger A. Cregg<br>Roger A. Cregg | Director |
| /s/ T. Kevin DeNicola<br>T. Kevin DeNicola | Director |
| Jacqueline P. Kane | Director |
| /s/ Richard G. Lindner<br>Richard G. Lindner | Director |
| /s/ Barbara R. Smith<br>Barbara R. Smith | Director |
| Robert S. Taubman | Director |
| /s/ Reginald M. Turner, Jr.<br>Reginald M. Turner, Jr. | Director |
| /s/ Nina G. Vaca<br>Nina G. Vaca | Director |
| /s/ Michael G. Van de Ven<br>Michael G. Van de Ven | Director |

# SHAREHOLDER INFORMATION

Common Stock:
Comerica's common stock trades under the symbol CMA on the New York Stock Exchange (NYSE). Subject to approval of the board of directors and applicable regulatory requirements, dividends customarily are paid on a quarterly basis.

Transfer Agent/Registration and Shareholder Assistance:

- Inquiries related to shareholder name change, address or ownership of stock, and lost or stolen stock certificates
- Eliminate duplicate mailings received at one address
- Reinvest dividends and invest up to $10,000 each month for the purchase of additional shares
- Direct deposit of dividends

CONTACT INFORMATION:
Website: computershare.com/investor
Email: web.queries@computershare.com
Phone: 877.536.3551 or 781.575.3100

WRITTEN REQUESTS:
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P.O. Box 505000
Louisville, KY 40233-5000

CERTIFIED/OVERNIGHT MAIL:
Computershare
462 South 4th Street, Suite 1600
Louisville, KY 40202

Officer Certifications:
On May 5, 2020, Comerica's Chief Executive Officer submitted his annual certification to the New York Stock Exchange stating that he was not aware of any violation by Comerica of the Exchange's corporate governance listing standards. Comerica filed the certifications by its Chief Executive Officer and Chief Financial Officer required by Section 302 of the Sarbanes-Oxley Act of 2002 as exhibits to its Annual Report on Form 10-K for the fiscal year ended December 31, 2020.

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General Information:

| Directory Services | 800.521.1190 |
|---|---|
| Product Information | 800.292.1300 |

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