

**COMERICA INCORPORATED  
REGULATORY CAPITAL DISCLOSURES**

**For the Quarter Ended June 30, 2020**



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## OVERVIEW

### Organization

Comerica Incorporated (“the Corporation”) is a financial services company, incorporated under the laws of the State of Delaware, and headquartered in Dallas, Texas. The Corporation has strategically aligned its operations into three major business segments: the Commercial Bank, the Retail Bank, and Wealth Management and operates in three primary geographic markets: Texas, California and Michigan, as well as in the states of Arizona and Florida, with select businesses operating in several other states, and in Canada and Mexico. The Corporation operates two U.S. banking subsidiaries: Comerica Bank, a Texas banking association, and Comerica Bank and Trust, National Association, a limited purpose trust bank. At June 30, 2020, the Corporation had total assets of approximately \$84.4 billion, total deposits of approximately \$67.7 billion, total loans of approximately \$53.4 billion and shareholders’ equity of approximately \$7.8 billion.

### Regulatory Capital Standards and Disclosures

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.

#### *Definition of capital*

Under Basel III, regulatory capital comprises common equity Tier 1 (CET1) capital, additional Tier 1 capital and Tier 2 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 March 2020, the federal banking regulators issued an interim final rule that would permit bank holding companies and banks to calculate, for regulatory capital purposes, the transition impact on retained earnings of the new current expected credit loss accounting standard (CECL), effective for the Corporation on January 1, 2020, for two years and phase in this transitional impact over a period of three years. The Corporation has elected this deferral. The transition impact to retained earnings is \$91 million.

#### *Risk-weighted assets*

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 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. If trading assets and liabilities exceed certain thresholds, an entity is also subject to the market risk provisions of Basel III (“market risk rule”) and capital is also required for market RWA to cover the risk of losses due to adverse market movements or from position-specific factors.

#### *Disclosures*

The qualitative and quantitative disclosures in this report regarding the Corporation’s capital structure, capital adequacy, risk exposures, RWA and market risk (if applicable) are based on management’s current understanding of Basel III and other factors, which may be subject to change as additional clarification and implementation guidance is received from regulators and the interpretation of the rule evolves over time. The disclosures were reviewed and approved in accordance with the Corporation’s regulatory disclosure policy, which has been approved by the Corporation’s Board of Directors.

This report should be read in conjunction with the Corporation’s Annual Report on Form 10-K for the year ended December 31, 2019 (“2019 Form 10-K”), and Quarterly Report on Form 10-Q for the period ended June 30, 2020 (“Second Quarter 2020 Form 10-Q”), which includes important information on risk management policies and practices. A disclosure index is provided in Appendix A of this report and specific references have been included herein.

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<sup>(1)</sup>The final U.S. Basel III rules applicable to the Corporation and Comerica Bank are codified in 12 C.F.R. Part 217 (Federal Reserve Board).

## SCOPE OF APPLICATION

### *Basis of consolidation*

The standardized approach to risk-weighted assets under Basel III applies to the Corporation's consolidated financial statements and off-balance sheet exposures. The Corporation's basis of consolidation for both financial and regulatory reporting purposes is in accordance with U.S. Generally Accepted Accounting Principles ("GAAP"). Certain of the Corporation's equity investments accounted for under either the proportional method, equity method or cost method are neither consolidated nor deducted from regulatory capital under Basel III, but instead are assigned an appropriate risk weight. There are no entities within the Corporation enterprise that are deconsolidated or whose capital is deducted for Basel III.

- For further information regarding the Corporation's principles of consolidation, see Note 1 to the consolidated financial statements on page F-45 of the Corporation's 2019 Form 10-K.

### *Capital in regulated subsidiaries*

At June 30, 2020, total capital for each of the Corporation's regulated banking subsidiaries, Comerica Bank and Comerica Bank & Trust, National Association, exceeded their respective minimum required regulatory capital amount. The Corporation's regulated broker-dealer subsidiary, Comerica Securities, Inc., was also in compliance with minimum net capital requirements at June 30, 2020.

### *Restrictions on funds and capital transfers*

Various federal laws limit borrowings by the Corporation and its nonbank subsidiaries from its affiliate insured banking subsidiaries, and also limit various other transactions between the Corporation and its nonbank subsidiaries, on the one hand, and the Corporation's affiliate insured banking subsidiaries, on the other.

- Refer to "Transactions with Affiliates" in Part I, Item 1 on page 6 of the Corporation's 2019 Form 10-K for further information.

There are statutory and regulatory requirements restricting the payment of dividends by subsidiary banks to the Corporation, as well as by the Corporation to its shareholders.

- For further information, see "Dividends" on page 5 in Part I, Item 1 and Note 20 to the consolidated financial statements on page F-90 of the Corporation's 2019 Form 10-K.

Shares of common stock can only be redeemed by the Corporation through repurchases.

- For additional information about capital and the Corporation's share repurchase program, see "Capital" in Part I, Item 2 on page 49 of the Corporation's Second Quarter 2020 Form 10-Q.

The Federal Reserve requires depository institutions to maintain cash reserves with a Federal Reserve Bank.

- See Note 20 to the consolidated financial statements on page F-90 of the Corporation's 2019 Form 10-K for further information.

## CAPITAL STRUCTURE

### *Regulatory capital instruments*

The Corporation's currently qualifying regulatory capital instruments consist of common stock, preferred stock and subordinated debt. Each share of the Corporation's common stock entitles the holder to one vote for the election of directors and for all other matters to be voted on by the Corporation's shareholders. Upon a liquidation, dissolution or similar proceeding, the holders of common stock would share proportionally in the residual assets remaining after all claims have been satisfied. Shares of common stock can only be redeemed by the Corporation through repurchases.

In May 2020, the Corporation issued and sold 400,000 depository 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 depository share). Holders of the depository shares will be entitled to all proportional rights and preferences of the Series A preferred stock (including dividend, voting, redemption and liquidation rights). The terms of the Series A Preferred Stock have been established to satisfy the criteria for "additional Tier 1 capital" instruments consistent with Basel III as set forth in the joint final rulemaking issued in July 2013 by the Federal Reserve, the Federal Deposit Insurance Corporation and the Office of the Comptroller of the Currency.

- For additional information about capital and the Corporation's share repurchase program, see "Capital" in Part I, Item 2 on page 49 of the Corporation's Second Quarter 2020 Form 10-Q.

- For additional information about the terms of the preferred stock and depositary shares, see Note 9 to the consolidated financial statements on page 26 of the Corporation's Second Quarter 2020 Form 10-Q, as well as the Form 8-K filed by the Corporation on May 26, 2020 and Exhibits 3.1 and 4.1 thereto.

The Corporation's subordinated debt contains no financial covenants. The subordinated debt is subject to standard events of default, including those related to payment of principal and interest, bankruptcy, insolvency, receivership and other similar actions and compliance with typical legal covenants.

- For further details regarding subordinated debt as of June 30, 2020, see Note 7 to the consolidated financial statements on page 24 of the Corporation's Second Quarter 2020 Form 10-Q.

#### *Regulatory capital components*

#### **Table 1: Reconciliation of Shareholders' Equity to Total Capital**

A reconciliation of total shareholders' equity to CET1 capital, Tier 1 capital and Total capital is presented below.

<i>(in millions)</i>	<b>June 30, 2020</b>
Preferred stock	\$ 395
Common stock	1,141
Capital surplus	2,173
Accumulated other comprehensive income	158
Retained earnings	9,404
Less cost of common stock in treasury	(5,469)
<b>Total shareholders' equity before adjustments and deductions</b>	<b>7,802</b>
Add: CECL transition adjustment	91
Less adjustments and deductions:	
Preferred stock	395
AOCI opt-out election related adjustments	158
Other adjustments and deductions	642
<b>Total Common stockholders' equity/CET1 capital</b>	<b>6,698</b>
Add: Preferred stock	395
<b>Total Tier 1 capital</b>	<b>7,093</b>
Qualifying subordinated debt	752
Allowance for credit losses includable in Tier 2 capital	840
<b>Tier 2 capital</b>	<b>1,592</b>
<b>Total capital</b>	<b>\$ 8,685</b>

Further details about the Corporation's regulatory capital can be found in Schedule HC-R to the June 30, 2020 Consolidated Financial Statements for Holding Companies - Form FR Y-9C.

#### **CAPITAL ADEQUACY**

##### *Capital adequacy assessment process*

The Corporation assesses capital adequacy against the risk inherent in the balance sheet, recognizing that unexpected loss is the common denominator of risk and that common equity has the greatest capacity to absorb unexpected loss. The Corporation periodically conducts stress tests to evaluate potential impacts to the Corporation's forecasted financial condition under various economic scenarios and business conditions. These stress tests are a normal part of the Corporation's overall risk management and capital planning process and are part of the forecasting process used by the Corporation to conduct enterprise-wide stress tests.

*Risk-weighted assets***Table 2: Risk-Weighted Assets by Exposure Type**

The following table presents components of the Corporation's risk-weighted assets calculated in accordance with the Basel III standardized approach as of June 30, 2020.

<i>(in millions)</i>	<b>June 30, 2020</b>	
Cash items in process of collection	\$	113
Exposures conditionally guaranteed by U.S. government agencies		79
Claims on U.S. government-sponsored entities		787
Exposures to state and local governments in the U.S.		14
Claims on and exposures guaranteed by U.S. depository institutions and foreign banks		90
Corporate exposures		44,438
High volatility commercial real estate loans		463
Residential mortgage loans <sup>1</sup>		2,817
Consumer loans		493
Past due loans		425
Equity exposures		1,577
Other assets		2,922
Off-balance sheet commitments with original maturity greater than 1 year		9,243
Off-balance sheet commitments with original maturity of 1 year or less		830
Other off-balance sheet exposures		1,924
Over-the-counter derivative contracts		927
Standardized market risk-weighted assets		50
<b>Total standardized risk-weighted assets</b>		<b>67,192</b>
Less: Excess allowance for loan and lease losses		140
<b>Total risk-weighted assets</b>	<b>\$</b>	<b>67,052</b>

<sup>1</sup> Loans collateralized by one-to-four family residential properties, including consumer home equity loans.

- Further details about the Corporation's risk-weighted assets can be found in Schedule HC-R to the June 30, 2020 Consolidated Financial Statements for Holding Companies - Form FR Y-9C.

*Risk-based capital ratios*

The Corporation and its U.S. banking subsidiaries are required to maintain minimum ratios of CET1, Tier 1 and Total capital to risk-weighted assets, as well as minimum leverage ratios (defined as Tier 1 capital divided by adjusted average assets) to be considered "adequately capitalized." Failure to meet minimum capital requirements could initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Corporation's financial condition and results of operations.

### Table 3: Minimum Required Capital Ratios

The following table presents the minimum ratios that the Corporation and its U.S. banking subsidiaries are subject to as of June 30, 2020.

June 30, 2020	Minimum Capital Ratios	Well Capitalized Ratios for Bank Holding Companies (a)
CET1 capital to risk-weighted assets	7.0 % (b)	— %
Tier 1 capital to risk-weighted assets	8.5 (b)	6.0
Total capital to risk-weighted assets	10.5 (b)	10.0
Tier 1 capital to adjusted average assets (leverage ratio)	4.0	—

(a) The requirements for the Corporation's bank subsidiaries to be considered "well capitalized" are 6.5% for CET1 capital, 8.0% for Tier 1 capital, 10.0% for total capital and a leverage ratio of at least 5.0%.

(b) In addition to the minimum risk-based capital requirements, the Corporation is required to maintain a minimum capital conservation buffer of 2.5%, in the form of common equity, in order to avoid restrictions on capital distributions.

### Table 4: Summary of Capital Positions and Ratios

The following table presents a summary of the capital positions of the Corporation, Comerica Bank and Comerica Bank & Trust, National Association under the Basel III standardized approach at June 30, 2020.

June 30, 2020 (dollar amounts in millions)	The Corporation	Comerica Bank	Comerica Bank & Trust, National Association
CET1 capital	\$ 6,698	\$ 7,362	\$ 63
Tier 1 capital	7,093	7,362	63
Total capital	8,685	8,702	63
Eligible retained income (a)	\$ 153	\$ 153	\$ 6
Risk-weighted assets	\$ 67,052	\$ 66,878	\$ 23
Adjusted average assets (b)	81,030	80,842	64
CET1 capital to risk-weighted assets	9.99 %	11.01 %	278.48 %
Tier 1 capital to risk-weighted assets	10.58	11.01	278.48
Total capital to risk-weighted assets	12.95	13.02	278.48
Capital conservation buffer (c)	4.58	5.01	270.48
Tier 1 capital to adjusted average assets (leverage ratio)	8.75	9.11	98.26

(a) Represents the amount to which restrictions on capital distributions and discretionary bonuses would apply if the capital conservation buffer falls below the required minimum. Eligible retained income is the greater of the sum of net income for the four preceding calendar quarters, net of any distributions not already reflected in net income (e.g., dividend payments and share repurchases) and the average net income over the four preceding calendar quarters.

(b) Adjusted average assets include total quarterly average assets (reflecting available-for-sale securities at amortized cost), less amounts deducted from CET1 capital and additional tier 1 capital, plus assets derecognized as an adjustment to AOCI as part of the incremental effect of applying certain provisions in accounting for defined benefit postretirement plans.

(c) The Corporation and its U.S. bank subsidiaries are required to maintain a capital conservation buffer of 2.5% in order to avoid restrictions on capital distributions and discretionary bonuses. The capital conservation buffer is the lowest of (i) CET1 ratio less minimum CET1 requirement, (ii) Tier 1 ratio less minimum Tier 1 requirement and (iii) Total capital ratio less minimum Total capital requirement.

At June 30, 2020, the Corporation and its U.S. banking subsidiaries exceeded the ratios required for an institution to be considered "well capitalized." There have been no events since June 30, 2020 that management believes have changed the capital adequacy classification of the Corporation or its U.S. banking subsidiaries.

## RISK MANAGEMENT

As a result of conducting business in the normal course, the Corporation assumes various types of risk. The Corporation's enterprise risk 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 Corporation's 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 of risks including the identification, assessment, measurement and control of risks encountered as a part of the normal course of business. Risks are further monitored, measured and controlled by the second line of defense, comprised of specialized risk managers for each of the major risk categories, who reside in the Enterprise Risk Division and 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 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 is the common denominator of 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.

- For further information, refer to "Risk Management" on pages F-20 through F-33 of the Corporation's 2019 Form 10-K.

## **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. The Corporation assumes credit risk in the normal course of business, predominantly from the extension of credit to businesses and individuals. Additionally, the Corporation enters into transactions which give rise to counterparty credit risk involving derivative and credit-related financial instruments that meet the financing needs of customers.

Credit risk in the loan portfolio is managed 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. Refer to the "Counterparty Credit Risk" section of this report for a discussion of the Corporation's management of counterparty credit risk.

For further discussion of credit risk, risk management objectives and policies and accounting policies related to these exposures:

- Refer to "Underwriting Approach" in Part I, Item 1 on page 10 of the Corporation's 2019 Form 10-K.
- See the "Credit Risk" subheading on pages F-20 through F-28 in the "Risk Management" section of the Corporation's 2019 Form 10-K.
- See Note 1 to the consolidated financial statements on page F-45 of the Corporation's 2019 Form 10-K.



*Credit risk exposures*

The following tables present certain of the Corporation's positions which give rise to credit risk. The amounts do not include the effects of certain credit risk mitigation techniques, such as collateral and netting not permitted under GAAP.

**Table 5: Credit Risk Exposures by Exposure Type, Counterparty Type and Domicile**

Exposure Type	Counterparty Type					Total	Domicile (c)			Quarterly Average (d)
	Banks	U.S. Public Sector (a)	Corporate	Other (b)	Netting		U.S.	Non-U.S.	Total	
<i>(in millions)</i>										
Cash and cash equivalents	\$ 1,298	\$12,013	\$ —	\$ —	\$ —	\$13,311	\$13,020	\$ 291	\$13,311	\$ 10,556
Debt securities	—	12,759	—	—	—	12,759	12,759	—	12,759	12,642
Loans	—	182	49,214	4,050	—	53,446	52,283	1,163	53,446	53,498
Derivatives	248	—	687	—	(268)	667	662	5	667	643
<b>Total on-balance sheet</b>	<b>\$ 1,546</b>	<b>\$24,954</b>	<b>\$ 49,901</b>	<b>\$ 4,050</b>	<b>\$ (268)</b>	<b>\$80,183</b>	<b>\$ 78,724</b>	<b>\$1,459</b>	<b>\$ 80,183</b>	<b>\$ 77,339</b>
Unfunded commitments	\$ —	\$ 8	\$ 22,511	\$ 3,344	\$ —	\$25,863	\$25,169	\$ 694	\$25,863	\$ 25,245
Standby letters of credit	32	6	3,147	—	—	3,185	2,981	204	3,185	3,197
<b>Total off-balance sheet</b>	<b>\$ 32</b>	<b>\$ 14</b>	<b>\$ 25,658</b>	<b>\$ 3,344</b>	<b>\$ —</b>	<b>\$29,048</b>	<b>\$ 28,150</b>	<b>\$ 898</b>	<b>\$ 29,048</b>	<b>\$ 28,442</b>

- (a) Includes balances with Federal Reserve Banks, the U.S. government and its agencies, government-sponsored entities and states and municipalities.  
(b) Includes residential mortgage and consumer loans.  
(c) Based on legal domicile of the counterparty.  
(d) Average of daily or month-end balances where available; otherwise average of quarter-end balances.

*Contractual maturities*

**Table 6: Remaining Contractual Maturity by Exposure Type**

Exposure Type	Maturing				Netting	Total
	Within 1 Year	After 1 Year But Within 5 Years	After 5 Years			
<i>(in millions)</i>						
Cash and cash equivalents	\$ 13,311	\$ —	\$ —	\$ —	\$ —	\$ 13,311
Debt securities	796	2,212	9,751	—	—	12,759
Loans	29,069	16,777	7,600	—	—	53,446
Derivatives	189	352	394	(268)	—	667
<b>Total on-balance sheet</b>	<b>\$ 43,365</b>	<b>\$ 19,341</b>	<b>\$ 17,745</b>	<b>\$ (268)</b>	<b>\$ —</b>	<b>\$ 80,183</b>
Unfunded commitments	\$ 7,467	\$ 15,457	\$ 2,939	\$ —	\$ —	\$ 25,863
Standby letters of credit	2,824	296	65	—	—	3,185
<b>Total off-balance sheet</b>	<b>\$ 10,291</b>	<b>\$ 15,753</b>	<b>\$ 3,004</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 29,048</b>

## Nonaccrual and past due loans

**Table 7: Nonaccrual and Past Due Loans**

The following table provides details on nonaccrual and past due loans, the allowance for loan losses and charge-offs by counterparty type and domicile.

June 30, 2020	Counterparty Type			Domicile (b)		
	Corporate	Other (a)	Total	U.S.	Non-U.S.	Total
<i>(in millions)</i>						
Nonaccrual loans	222	45	267	267	—	267
Loans past due 90 days or more and still accruing	35	6	41	41	—	41
Allowance for loan losses	943	64	1,007			
Gross charge-offs during the quarter	(56)	(1)	(57)			

(a) Includes residential mortgage and consumer loans.

(b) Based on legal domicile of the counterparty.

### Allowance for credit losses

- For a reconciliation of changes in the allowance for credit losses, see Note 4 to the consolidated financial statements on page 16 of the Corporation's Second Quarter 2020 Form 10-Q.

## COUNTERPARTY CREDIT RISK

Counterparty credit risk is the risk that the counterparty to an over-the-counter ("OTC") derivative contract will be unable to meet their payment obligation. Exposure to counterparty credit risk on OTC derivative contracts is impacted by market volatility, which could increase or decrease potential future counterparty credit exposure. The Corporation mitigates counterparty credit risk through the use of limits and monitoring procedures, as well as master netting arrangements, centrally clearing derivatives through a clearinghouse and bilateral collateral agreements. The Corporation determines credit risk exposure limits by evaluating the creditworthiness of each counterparty, adhering to the same credit approval process used for traditional lending activities and obtaining collateral as deemed necessary. 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.

The Corporation generally uses the International Swaps and Derivatives Association, Inc. ("ISDA") master netting agreement to document derivative transactions. Master netting arrangements effectively reduce credit risk by permitting settlement of positive and negative positions with the same counterparty on a net basis.

The Corporation may require collateral depending on the credit evaluation done for each of the Corporation's counterparties. Where possible, the Corporation makes use of bilateral collateral agreements, which 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 beyond specified thresholds.

- For information about valuation approaches, including for collateral, see Note 1 to the consolidated financial statements on page F-45 of the Corporation's 2019 Form 10-K.

### Counterparty credit risk exposures

- For information about OTC derivative counterparty risk exposure, including the impact of netting and collateral held and current credit exposure by exposure type, as well as information about the amount of collateral the Corporation would have to provide given a credit rating downgrade, see Note 5 to the consolidated financial statements on page 18 of the Corporation's Second Quarter 2020 Form 10-Q.

### Credit risk participations

The Corporation enters into credit risk participation agreements to share the credit exposure related to certain derivative contracts with other counterparties (risk participations purchased) or to assume counterparty credit exposure related to certain derivative contracts (risk participations sold). The Corporation enters into credit risk participation agreements in instances in which the Corporation is also a party to a related loan participation agreement for such borrowers. The Corporation will receive or make payments under these agreements if the borrower defaults on the derivative contract. 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. The Corporation manages credit risk on credit risk participation agreements

sold 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 credit risk participation agreements reflects the pro-rata share of the derivative contract, consistent with its share of the related participated loan, which significantly exceeds potential credit exposure.

- For the notional amounts of purchased and sold risk participation agreements, see Schedule HC-L to the Corporation's June 30, 2020 Consolidated Financial Statements for Holding Companies - Form FR Y-9C.

## CREDIT RISK MITIGATION

The Corporation seeks to mitigate credit risk in various ways. For counterparty credit risk, centralized clearing through a clearinghouse, master netting arrangements and bilateral collateral agreements are the primary risk mitigation techniques, along with credit risk participations purchased, as discussed in the previous section. For lending-related transactions, guarantees from third parties as well as collateral such as cash, securities, accounts receivable, real estate, equipment and inventories can significantly reduce the Corporation's credit risk. Additionally, the Corporation mitigates credit risk through selling participations and/or syndicating credit exposures above those levels it deems prudent to third parties.

The Corporation recognizes the benefit of certain financial collateral and eligible guarantees for the purpose of reducing capital requirements under the Basel III standardized approach by substituting the risk weight applicable to the collateral or the guarantor for the risk weight assigned to the exposure.

**Table 8: Exposures Covered by Collateral and Guarantees**

The following table presents the amount of the Corporation's exposures that are covered by eligible financial collateral and guarantees.

June 30, 2020	Eligible Collateral (a)		Guarantees (b)	
	Covered Exposure	Associated RWA Amount	Covered Exposure	Associated RWA Amount
<i>(in millions)</i>				
Loans	\$ 80	\$ 2	\$ 433	\$ 89
Unfunded commitments and standby letters of credit	820	47	412	82

- (a) Eligible collateral recognized for purposes of reducing capital requirements under the Basel III standardized approach generally comprises cash on deposit with the Corporation and investment securities issued by the U.S. government, U.S. government agencies or government-sponsored enterprises.
- (b) Guarantees recognized for purposes of reducing capital requirements under the Basel III standardized approach generally comprises guarantees by U.S. government agencies or U.S. depository institutions and foreign banks.

## EQUITIES NOT SUBJECT TO MARKET RISK RULE

The Corporation's equity investments not subject to the market risk rule include investments in tax credit entities (community development equity exposures), investment funds, restricted equity investments and equity investments classified as other short-term investments that do not meet the definition of a covered position (including investments made in connection with certain employee deferred compensation plans). These investments are typically strategic investments undertaken to facilitate core business activities. The Corporation also has a small portfolio of indirect private equity and venture capital investments. Additionally, for purposes of Basel III capital requirements, the Corporation's defined benefit pension net asset is treated as an exposure to an investment fund.

Investments in marketable equity securities are recorded at fair value. Nonmarketable equity investments are carried at cost or accounted for under the equity method. The proportional method is used for investments in tax credit entities that qualify for the low-income housing tax credit (LIHTC).

### *Accounting and Valuation Policies for Equity Investments*

Refer to Note 1 to the consolidated financial statements of the Corporation's 2019 Form 10-K as follows:

- For a discussion of the accounting for investments in tax credit entities, see "Principles of Consolidation" on page F-45.
- For a discussion of the accounting for restricted equity investments, see "Nonmarketable Equity Securities" on page F-48.

- For a discussion of valuation methodologies used, including key assumptions and practices affecting valuation, see "Fair Value Measurements" beginning on page F-45.

#### *Risk-Weight Approaches Under Basel III*

The Corporation applies the full look-through approach to its defined benefit pension net asset. For all other investment fund exposures, the Corporation applies the simple modified look-through approach, under which the highest risk weight applicable to any exposure the investment fund is permitted to hold under its prospectus, partnership agreement, or similar agreement is applied to the adjusted carrying amount of the equity exposure to derive the associated RWA amount. For all other equity exposures, the Corporation applies the simple risk-weight approach, under which a prescribed risk weight is applied to the adjusted carrying value for each type of equity exposure.

#### **Table 9: Equity Exposures**

The following tables present information about the Corporation's equity investments not subject to the market risk rule as of June 30, 2020.

<i>(dollar amounts in millions)</i>	<b>Risk-Weight Category</b>	<b>Carrying Amount</b>	<b>RWA Amount</b>
Simple risk-weight approach:			
Equity exposures subject to a 0% risk weight	0 %	\$ 85	\$ —
Equity exposures subject to a 20% risk weight	20	183	37
Community development equity exposures	100	460	460
Non-significant equity exposures	100	24	24
Total simple risk-weight approach		752	521
Exposures to investment funds:			
Full look-through approach	n/a	837	920
Simple modified look-through approach	n/a	159	136
Total equity investments not subject to market risk rule		\$ 1,748	\$ 1,577

n/a - not applicable.

<i>(in millions)</i>	<b>Carrying Amount</b>	<b>Fair Value</b>
Publicly traded equity investments	\$ 618	\$ 618
Non-publicly traded equity investments	1,130	1,135
Total equity investments not subject to the market risk rule	\$ 1,748	\$ 1,753

There were no significant gains/(losses) from sales and liquidations of equity securities for the three months ended June 30, 2020. Unrecognized gains related to investments carried at cost totaled \$5 million at June 30, 2020. There were no significant unrealized gains/(losses) included in Tier 1 or Tier 2 capital at June 30, 2020.

#### **MARKET RISK**

Market risk represents the risk of loss due to adverse movements in market rates or prices, including interest rates, foreign exchange rates and commodity prices. The Corporation's Asset and Liability Policy Committee (ALCO) establishes and monitors compliance with the policies and risk limits pertaining to market risk management activities.

For further discussion of market risk management objectives and policies, see the "Market and Liquidity Risk" subheading on pages F-28 through F-32 in the "Risk Management" section of the Corporation's 2019 Form 10-K.

*Measures included in market risk RWA*

The following table presents the Corporation's market risk-based capital requirement and risk-weighted assets at June 30, 2020.

**June 30, 2020**

<b>Market Risk Measure</b>	<b>Risk-based Capital Requirement (a)</b>		<b>RWA (b)</b>
<i>(In thousands)</i>			
Value-at-Risk ("VaR") based measure .....	\$	2,949	\$ 36,863
Stressed VaR-based measure .....		1,085	13,563
<b>Total market risk</b>	<b>\$</b>	<b>4,034</b>	<b>\$ 50,426</b>

- (a) The risk-based capital requirement reflects the greater of (i) the period-end VaR-based measure or (ii) the quarterly average VaR-based measure after the application of a regulatory multiplication factor that is set at a minimum of 3 (the multiplication factor used in this table) and can be increased up to 4, depending upon the number of backtesting exceptions.
- (b) RWA is calculated by multiplying the risk-based capital requirement by 12.5.

*Portfolio of covered positions*

The Corporation's covered positions for market risk RWA arise from customer-initiated derivative transactions. The Corporation generally takes offsetting positions with dealer counterparties to mitigate the inherent market risk. For foreign exchange contracts where offsetting positions have not been taken, the Corporation manages the inherent risk through individual foreign currency position limits and established aggregate VaR limits. The Corporation's interest rate and energy positions are effectively offset, which greatly reduces the market exposure in these product portfolios. The VaR in the interest rate and energy portfolios generally reflect potential changes in the value of the embedded spreads between the customer-initiated positions and the offsetting dealer positions within each of these portfolios.

The market risk RWA applies to institutions with aggregate trading assets and liabilities equal to \$1 billion or more or 10 percent or more of quarter-end total assets. Once this reporting threshold has been met, market risk RWA must be applied at the end of the quarter following the quarter in which the institution triggered the criteria for market risk reporting. The Corporation met the \$1 billion reporting threshold at March 31, 2020 but did not meet the threshold at June 30, 2020.

*Value-at-Risk*

VaR is a statistical measure used to estimate the potential loss from adverse market movements from the current market environment. The Corporation calculates a daily VaR for the portfolio to monitor and measure the aggregate market risk. The VaR is calculated using a 99 percent confidence level and a one-day holding period to manage the day-to-day risks of the portfolio. The Corporation also calculates a VaR assuming a 10-day holding period and a 99 percent confidence level for regulatory capital purposes. The stressed VaR-based measure will use the same regulatory VaR models as are used to calculate the VaR-based measure, but the models are calibrated to reflect historical data from a continuous 12-month period that reflects significant financial stress appropriate to the Corporation's portfolio. The table below presents the 10-day VaR-based measures by portfolio and the total 10-day stressed VaR-based measures for the three months ended June 30, 2020.

<b>10-day VaR-based Measure by Risk Type</b>	<b>Three Months Ending June 30, 2020</b>			<b>June 30, 2020</b>
	<b>Minimum</b>	<b>Maximum</b>	<b>Average</b>	
<i>(in thousands)</i>				
Interest rate .....	\$ 503	\$ 1,471	\$ 930	\$ 537
Energy .....	3	7	5	3
Foreign exchange .....	23	107	48	71
<b>Total 10-day VaR-based measure</b> .....	<b>\$ 529</b>	<b>\$ 1,585</b>	<b>\$ 983</b>	<b>\$ 611</b>
<b>Total 10-day stressed VaR-based measure</b> .....	<b>\$ 183</b>	<b>\$ 649</b>	<b>\$ 362</b>	<b>\$ 304</b>

*Backtesting*

The Corporation back-tests VaR methodology by comparing daily market risk-related profits and losses on covered positions to the one-day VaR results. There were no instances during the three months ended June 30, 2020 where market risk-related losses were greater than the estimate predicted by the VaR-based methodology for the corresponding day. The Corporation posted market risk-related gains on 34 of the 64 trading days in the second quarter 2020.

## **INTEREST RATE RISK FOR NON-TRADING ACTIVITIES**

For information about the Corporation's interest rate risk, see the "Interest Rate Risk" subheading on pages 58 through 60 in the "Risk Management" section of the Corporation's Second Quarter 2020 Form 10-Q.

## 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 and 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. These forward-looking statements are predicated on the beliefs and assumptions of the Corporation's management based on information known to the Corporation's management as of the date of this report and do not purport to speak as of any other date. Forward-looking statements may include descriptions of plans and objectives of the Corporation's management for future or past operations, products or services and forecasts of the Corporation's revenue, earnings or other measures of economic performance, including statements of profitability, business segments and subsidiaries as well as estimates of credit trends and global stability. Such statements reflect the view of the Corporation's management as of this date with respect to future events and are subject to risks and uncertainties. Should one or more of these risks materialize or should underlying beliefs or assumptions prove incorrect, the Corporation's actual results could differ materially from those discussed. Factors that could cause or contribute to such differences include credit risks (unfavorable developments concerning credit quality; declines or other changes in the businesses or industries of the Corporation's customers, in particular the energy industry; and changes in customer behavior); market risks (changes in monetary and fiscal policies; fluctuations in interest rates and their impact on deposit pricing; and transitions away from LIBOR towards new interest rate benchmarks); liquidity risks (the Corporation's ability to maintain adequate sources of funding and liquidity; reductions in the Corporation's credit rating; and the interdependence of financial service companies); technology risks (cybersecurity risks and heightened legislative and regulatory focus on cybersecurity and data privacy); operational risks (operational, systems or infrastructure failures; reliance on other companies to provide certain key components of business infrastructure; the impact of legal and regulatory proceedings or determinations; losses due to fraud; and controls and procedures failures); compliance risks (changes in regulation or oversight; the effects of stringent capital requirements; and the impacts of future legislative, administrative or judicial changes to tax regulations); financial reporting risks (changes in accounting standards and the critical nature of the Corporation's accounting policies); strategic risks (damage to the Corporation's reputation; the Corporation's ability to utilize technology to efficiently and effectively develop, market and deliver new products and services; competitive product and pricing pressures among financial institutions within the Corporation's markets; the implementation of the Corporation's strategies and business initiatives; management's ability to maintain and expand customer relationships; management's ability to retain key officers and employees; and any future strategic acquisitions or divestitures); and other general risks (changes in general economic, political or industry conditions; the effectiveness of methods of reducing risk exposures; the effects of catastrophic events; impacts from the COVID-19 global pandemic; and the volatility of the Corporation's stock price). The Corporation cautions that the foregoing list of factors is not all-inclusive. For discussion of factors that may cause actual results to differ from expectations, please refer to our filings with the Securities and Exchange Commission. In particular, please refer to "Item 1A. Risk Factors" beginning on page 12 of the Corporation's Annual Report on Form 10-K for the year ended December 31, 2019 and "Item 1A. Risk Factors" beginning on page 65 of the Corporation's Quarterly Report on Form 10-Q for the quarter ended June 30, 2020. Forward-looking statements speak only as of the date they are made. 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. For any forward-looking statements made in this report or in any documents, the Corporation claims the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995.

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