This Annual Report, including the Financial Review and the Financial Statements and related Notes, contains forward-looking statements, which may include forecasts of our financial results and condition, expectations for our operations and business, and our assumptions for those forecasts and expectations. Do not unduly rely on forward-looking statements. Actual results may differ materially from our forward-looking statements due to several factors. Factors that could cause our actual results to differ materially from our forward-looking statements are described in this Report, including in the "Forward-Looking Statements" and "Risk Factors" sections, and in the "Regulation and Supervision" section of our Annual Report on Form 10-K for the year ended December 31, 2020 (2020 Form 10-K).

When we refer to "Wells Fargo," "the Company," "we," "our," or "us" in this Report, we mean Wells Fargo & Company and Subsidiaries (consolidated). When we refer to the "Parent," we mean Wells Fargo & Company. See the Glossary of Acronyms for definitions of terms used throughout this Report.

Financial Review

Overview

Wells Fargo & Company is a leading financial services company that has approximately $1.9 trillion in assets and proudly serves one in three U.S. households and more than 10% of all middle market companies in the U.S. We provide a diversified set of banking, investment and mortgage products and services, as well as consumer and commercial finance, through our four reportable operating segments: Consumer Banking and Lending, Commercial Banking, Corporate and Investment Banking, and Wealth and Investment Management. Wells Fargo ranked No. 30 on *Fortune's* 2020 rankings of America's largest corporations. We ranked fourth in both assets and in the market value of our common stock among all U.S. banks at December 31, 2020.

Wells Fargo's top priority remains meeting its regulatory requirements to build the right foundation for all that lies ahead. To do that, the Company is committing the resources necessary to ensure that we operate with the strongest business practices and controls, maintain the highest level of integrity, and have an appropriate culture in place.

Federal Reserve Board Consent Order Regarding Governance Oversight and Compliance and Operational Risk Management

On February 2, 2018, the Company entered into a consent order with the Board of Governors of the Federal Reserve System (FRB). As required by the consent order, the Company's Board of Directors (Board) submitted to the FRB a plan to further enhance the Board's governance and oversight of the Company, and the Company submitted to the FRB a plan to further improve the Company's compliance and operational risk management program. The Company continues to engage with the FRB as the Company works to address the consent order provisions. The consent order also requires the Company, following the FRB's acceptance and approval of the plans and the Company's adoption and implementation of the plans, to complete an initial third-party review of the enhancements and improvements provided for in the plans. Until this third-party review is complete and the plans are approved and implemented to the satisfaction of the FRB, the Company's total consolidated assets as defined under the consent order will be limited to the level as of December 31, 2017. Compliance with this asset cap is measured on a two-quarter daily average basis to allow for management of temporary fluctuations. Due to the COVID-19 pandemic, on April 8, 2020, the FRB amended the consent order to allow the Company to exclude from the asset cap any on-balance sheet exposure resulting from loans made by the Company in connection with the Small Business Administration's Paycheck Protection Program and the FRB's Main Street Lending Program. As required under the amendment to the consent order, to the extent the Company chooses to exclude these exposures from the asset cap, certain fees and other economic benefits received by the Company from loans made in connection with these programs shall be transferred to the U.S. Treasury or to non-profit organizations approved by the FRB that support small businesses. After removal of the asset cap, a second third-party review must also be conducted to assess the efficacy and sustainability of the enhancements and improvements.

Consent Orders with the Consumer Financial Protection Bureau and Office of the Comptroller of the Currency Regarding Compliance Risk Management Program, Automobile Collateral Protection Insurance Policies, and Mortgage Interest Rate Lock Extensions

On April 20, 2018, the Company entered into consent orders with the Consumer Financial Protection Bureau (CFPB) and the Office of the Comptroller of the Currency (OCC) to pay an aggregate of $1 billion in civil money penalties to resolve matters regarding the Company's compliance risk management program and past practices involving certain automobile collateral protection insurance (CPI) policies and certain mortgage interest rate lock extensions. As required by the consent orders, the Company submitted to the CFPB and OCC an enterprise-wide compliance risk management plan and a plan to enhance the Company's internal audit program with respect to federal consumer financial law and the terms of the consent orders. In addition, as required by the consent orders, the Company submitted for non-objection plans to remediate customers affected by the automobile collateral protection insurance and mortgage interest rate lock matters, as well as a plan for the management of remediation activities conducted by the Company.

Retail Sales Practices Matters

In September 2016, we announced settlements with the CFPB, the OCC, and the Office of the Los Angeles City Attorney, and entered into related consent orders with the CFPB and the OCC, in connection with allegations that some of our retail customers received products and services they did not request. As a result, it remains a top priority to rebuild trust through a comprehensive action plan that includes making things right for our customers, employees, and other stakeholders, and building a better Company for the future. Our priority of rebuilding trust has included numerous actions focused on identifying potential financial harm to customers resulting from these matters and providing remediation.

For additional information regarding retail sales practices matters, including related legal matters, see the "Risk Factors" section and Note 15 (Legal Actions) to Financial Statements in this Report.

Other Customer Remediation Activities

Our priority of rebuilding trust has also included an effort to identify other areas or instances where customers may have experienced financial harm, provide remediation as appropriate, and implement additional operational and control procedures. We are working with our regulatory agencies in this effort. We have previously disclosed key areas of focus as part of our rebuilding trust efforts and are in the process of providing remediation for those matters. We have accrued for the reasonably estimable remediation costs related to our rebuilding trust efforts, which amounts may change based on additional facts and information, as well as ongoing reviews and communications with our regulators.

As our ongoing reviews continue, it is possible that in the future we may identify additional items or areas of potential concern. To the extent issues are identified, we will continue to assess any customer harm and provide remediation as appropriate. For additional information, including related legal and regulatory risk, see the "Risk Factors" section and Note 15 (Legal Actions) to Financial Statements in this Report.

Recent Developments

CECL Adoption

On January 1, 2020, we adopted Accounting Standards Update (ASU) 2016-13, Financial Instruments – Credit Losses (Topic 326): *Measurement of Credit Losses on Financial Instruments* (CECL), which requires estimating an allowance for expected lifetime credit losses for loans and debt securities. For additional information, see the "Risk Management – Credit Risk Management – Allowance for Credit Losses" section and Note 1 (Summary of Significant Accounting Policies) to Financial Statements in this Report.

Efficiency Initiatives

We are pursuing various initiatives to reduce expenses and create a more efficient and streamlined organization. Actions from these initiatives may include (i) reorganizing and simplifying business processes and structures to improve internal operations and the customer experience, (ii) reducing headcount, (iii) optimizing third-party spending, including for our technology infrastructure, and (iv) rationalizing our branch and administrative locations, which may include consolidations and closures. We have established teams in each of our lines of business and enterprise functions to focus on an organized and structured approach for implementing these initiatives. The evaluation of potential actions will continue in future periods. In 2020, we recognized $1.5 billion of restructuring charges, predominantly personnel costs, within noninterest expense in our consolidated statement of income as a result of these initiatives. For additional information, see Note 22 (Restructuring Charges) to Financial Statements in this Report.

COVID-19 Pandemic

In response to the COVID-19 pandemic, we have been working diligently to protect employee safety while continuing to carry out Wells Fargo's role as a provider of essential services to the public. We have taken comprehensive steps to help customers, employees and communities.

We have strong levels of capital and liquidity, and we remain focused on delivering for our customers and communities to get through these unprecedented times.

PAYCHECK PROTECTION PROGRAM The Coronavirus Aid, Relief, and Economic Security Act (CARES Act) created funding for the Small Business Administration's (SBA) loan program providing forgiveness of up to the full principal amount of qualifying loans guaranteed under a new program called the Paycheck Protection Program (PPP). The intent of the PPP is to provide loans to small businesses to keep their employees on the payroll and make certain other eligible payments. Loans granted under the PPP are guaranteed by the SBA and are fully forgivable if used for qualifying expenses such as payroll, mortgage interest, rent and utilities. If the loans are not forgiven, they must be repaid over a term not to exceed five years. Under the PPP, through December 31, 2020, we funded $10.5 billion in loans to approximately 194,000 borrowers and deferred approximately $420 million of SBA processing fees that will be recognized as interest income over the term of the loans. As of December 31, 2020, $10.1 billion of principal remained outstanding on these PPP loans. We voluntarily committed to donate all of the gross processing fees received in 2020 from funding PPP loans. Through December 31, 2020, we donated approximately $85 million of these processing fees to non-profit organizations that support small businesses. We expect to donate the remaining amount of these fees through 2022. In January 2021, the SBA reopened the PPP for new and certain existing PPP borrowers, and we have begun to fund loans under this latest round of the PPP.

SBA SIX-MONTH PAYMENT ASSISTANCE Under the CARES Act, the SBA will make principal and interest payments on behalf of certain borrowers for six months. During 2020, over 20,000 of our lending customers were eligible for SBA payment assistance, and we received $402 million in payments from the SBA.

CONSOLIDATED APPROPRIATIONS ACT On December 27, 2020, the Consolidated Appropriations Act, 2021 (CAA) was signed into law. The CAA provides additional COVID-19 focused relief and extends or amends certain provisions of the CARES Act, including those related to the PPP and troubled debt restructurings (TDRs).

Brexit

With the exit of the United Kingdom from the European Union (Brexit), our primary goal is to continue to serve our existing clients in the United Kingdom and the European Union, as well as to continue to meet the needs of our domestic clients as they do business in those locations. We are leveraging our authorized bank in Ireland, our asset management entity in Luxembourg, and our broker-dealer in France to help serve clients in the European Union. For additional information on risks associated with Brexit, see the "Risk Factors" section in this Report.

LIBOR Transition

The London Interbank Offered Rate (LIBOR) is a widely-referenced benchmark rate, which is published in five currencies and a range of tenors, and seeks to estimate the cost at which banks can borrow on an unsecured basis from other banks. The administrator of LIBOR, ICE Benchmark Administration, published a consultation in December 2020 regarding its intention to cease the publication of LIBOR after December 31, 2021, with the exception of certain tenors of U.S. dollar (USD) LIBOR that it proposed would remain available for use in legacy contracts or as otherwise enumerated by financial regulators until June 30, 2023. We have a significant number of assets and liabilities referenced to LIBOR, such as commercial loans, adjustable-rate mortgage (ARM) loans, derivatives, debt securities, and long-term debt. As of December 31, 2020, we had approximately $475 billion of assets, consisting mostly of commercial loans, approximately $25 billion of liabilities, and approximately $350 billion of off-balance sheet commitments linked to LIBOR. These amounts exclude derivative assets and liabilities on our consolidated balance sheet. As of December 31, 2020, the notional amount of our LIBOR-linked interest rate derivative contracts was approximately $7 trillion, of which approximately $5 trillion related to contracts with central counterparty clearinghouses. Each of the LIBOR-linked amounts referenced above will vary in future periods as current contracts expire with potential replacement contracts using an alternative reference rate. As of December 31, 2020, USD LIBOR represented substantially all of the LIBOR-linked amounts referenced above.

In an effort to mitigate the risks associated with a transition away from LIBOR, our LIBOR Transition Office (LTO) has undertaken initiatives to: (i) develop more robust fallback language and disclosures related to the LIBOR transition, (ii) develop a plan to seek to amend legacy contracts to reference such fallback language or alternative reference rates, (iii) launch and enhance systems to support new products, including mortgages, commercial loans, securities and derivatives linked to the Secured Overnight Financing Rate and other alternative reference rates, (iv) develop and evaluate internal guidance, policies and procedures focused on the transition away from LIBOR to alternative reference rate products, and (v) prepare and disseminate internal and external communications regarding the LIBOR transition.

In addition, our LTO is actively working with financial regulators, industry working groups (such as the Alternative Reference Rate Committee) and trade associations that are developing guidance to facilitate an orderly transition away from the use of LIBOR. We continue to assess the risks and related impacts associated with a transition away from LIBOR. See the "Risk Factors" section in this Report for additional information regarding the potential impact of LIBOR or any other referenced financial metric being significantly changed, replaced, or discontinued.

On March 12, 2020, the Financial Accounting Standards Board (FASB) issued ASU 2020-04 – *Facilitation of the Effects of Reference Rate Reform on Financial Reporting* (Update) that provides temporary relief from existing generally accepted accounting principles (GAAP) accounting requirements for contract modifications and hedge accounting relationships impacted by reference rate reform activities. For additional information on the Update, see Note 1 (Summary of Significant Accounting Policies) to Financial Statements in this Report.

<u>Capital Actions and Restrictions</u>

On December 18, 2020, the Board of Governors of the Federal Reserve System (FRB) announced that it was extending, with certain adjustments, measures it announced on June 25, 2020, limiting capital distributions by large bank holding companies (BHCs), including Wells Fargo, subject to certain exceptions. For first quarter 2021, the FRB generally authorized, among other things, BHCs to pay common stock dividends and make share repurchases that, in the aggregate, do not exceed an amount equal to the average of the BHC's net income for the four preceding calendar quarters, so long as the BHC does not increase the amount of its common stock dividend from the level paid in second quarter 2020. For additional information about capital planning, including the FRB's recent prohibition on capital distributions, see the "Capital Management – Capital Planning and Stress Testing" section in this Report.

In January 2021, the Board approved an increase in the Company's authority to repurchase common stock by an additional 500 million shares.

In January 2021, we issued $3.5 billion of our Preferred Stock, Series BB, and in February 2021, we issued $1.05 billion of our Preferred Stock, Series CC. Additionally, in February 2021, we announced the redemption of our Preferred Stock, Series I, Series P and Series W, and a partial redemption of our Preferred Stock, Series N, for an aggregate cost of $4.5 billion. The redemptions are scheduled to occur on March 15, 2021.

<u>Announced Business Divestiture</u>

On February 23, 2021, we announced an agreement to sell Wells Fargo Asset Management for a purchase price of $2.1 billion. As part of the transaction, we will own a 9.9% equity interest in the ongoing entity and continue to serve as a client and distribution partner. The transaction is expected to close in the second half of 2021, subject to customary closing conditions.

Financial Performance

In 2020, we generated $3.3 billion of net income and diluted earnings per common share (EPS) of $0.41, compared with $19.5 billion of net income and EPS of $4.05 in 2019. Financial performance for 2020, compared with 2019, was impacted by an increase of $11.4 billion to our provision for credit losses reflecting the economic impact of the COVID-19 pandemic and $1.5 billion of restructuring charges as a result of our efficiency initiatives. Also, in 2020 compared with 2019:

- total revenue decreased due to lower net interest income, lower other noninterest income related to gains on the sales of purchased credit-impaired (PCI) loans, our Institutional Retirement and Trust (IRT) business and Eastdil Secured (Eastdil) in 2019, and lower net gains from equity securities;
- noninterest expense decreased due to lower operating losses, advertising and promotion expense, other expense, and personnel expense, partially offset by higher restructuring charges;
- average loans decreased due to paydowns exceeding originations in the residential mortgage – junior lien portfolio and the reclassification of student loans, included in other consumer loans, to loans held for sale (LHFS) after the announced sale of the portfolio in fourth quarter 2020; and
- average deposits increased on growth in interest-bearing and noninterest-bearing deposits driven by Consumer Banking and Lending and Wealth and Investment Management.

Capital and Liquidity

We maintained a strong capital position in 2020, with total equity of $185.9 billion at December 31, 2020, compared with $188.0 billion at December 31, 2019. Our liquidity and regulatory capital ratios remained strong at December 31, 2020, including:

- our liquidity coverage ratio (LCR) was 133%, which continued to exceed the regulatory minimum of 100%;
- our Common Equity Tier 1 (CET1) ratio was 11.59%, which continued to exceed both the regulatory requirement of 9% and our current internal target of 10%; and
- our eligible external total loss absorbing capacity (TLAC) as a percentage of total risk-weighted assets was 25.74%, compared with the regulatory requirement of 22.0%.

See the "Capital Management" and the "Risk Management – Asset/Liability Management – Liquidity and Funding" sections in this Report for additional information regarding our capital and liquidity, including the calculation of our regulatory capital and liquidity amounts.

Credit Quality

Credit quality was affected by the economic impact of the COVID-19 pandemic on our customer base.

- The allowance for credit losses (ACL) for loans of $19.7 billion at December 31, 2020, increased $9.3 billion from December 31, 2019. The change in the ACL for loans during 2020 was comprised of a $10.6 billion increase in the ACL for loans during 2020, partially offset by a $1.3 billion decrease as a result of our adoption of CECL on January 1, 2020.
- Our provision for credit losses for loans was $14.0 billion in 2020, up from $2.7 billion in 2019. The increase in the ACL for loans and the provision for credit losses in 2020 reflected current and forecasted economic conditions due to the COVID-19 pandemic and their impact on borrower performance.
- The allowance coverage for total loans was 2.22% at December 31, 2020, compared with 1.09% at December 31, 2019.
- Commercial portfolio net loan charge-offs were $1.6 billion, or 31 basis points of average commercial loans, in 2020, compared with net loan charge-offs of $652 million, or 13 basis points, in 2019, predominantly driven by increased losses in our commercial and industrial portfolio primarily within the oil, gas and pipelines portfolio, and in our commercial real estate mortgage loan portfolio.
- Consumer portfolio net loan charge-offs were $1.7 billion, or 39 basis points of average consumer loans, in 2020, compared with net loan charge-offs of $2.1 billion, or 48 basis points, in 2019, predominantly driven by lower losses in our credit card, auto and other consumer loan portfolios as a result of payment deferral activities instituted in response to the COVID-19 pandemic.
- Nonperforming assets (NPAs) of $8.9 billion at December 31, 2020, increased $3.2 billion, or 57%, from December 31, 2019, predominantly driven by increases in commercial and industrial, commercial real estate mortgage, and residential mortgage – first lien nonaccrual loans, reflecting the economic impact of the COVID-19 pandemic. NPAs represented 1.00% of total loans at December 31, 2020.

Table 1 presents a three-year summary of selected financial data and Table 2 presents selected ratios and per common share data.

Table 1: Summary of Selected Financial Data

					Year ended December 31,		
(in millions, except per share amounts)	**2020**	2019	$ Change 2020/ 2019	% Change 2020/ 2019	2018	$ Change 2019/ 2018	% Change 2019/ 2018
Income statement							
Net interest income	$ **39,835**	47,231	(7,396)	(16)%	$ 49,995	(2,764)	(6)%
Noninterest income	**32,505**	37,832	(5,327)	(14)	36,413	1,419	4
Total revenue	**72,340**	85,063	(12,723)	(15)	86,408	(1,345)	(2)
Provision for credit losses	**14,129**	2,687	11,442	426	1,744	943	54
Noninterest expense	**57,630**	58,178	(548)	(1)	56,126	2,052	4
Net income before noncontrolling interests	**3,586**	20,041	(16,455)	(82)	22,876	(2,835)	(12)
Less: Net income from noncontrolling interests	**285**	492	(207)	(42)	483	9	2
Wells Fargo net income	**3,301**	19,549	(16,248)	(83)	22,393	(2,844)	(13)
Earnings per common share	**0.42**	4.08	(3.66)	(90)	4.31	(0.23)	(5)
Diluted earnings per common share	**0.41**	4.05	(3.64)	(90)	4.28	(0.23)	(5)
Dividends declared per common share	**1.22**	1.92	(0.70)	(36)	1.64	0.28	17
Balance sheet (at year end)							
Debt securities	**501,207**	497,125	4,082	1	484,689	12,436	3
Loans	**887,637**	962,265	(74,628)	(8)	953,110	9,155	1
Allowance for loan losses	**18,516**	9,551	8,965	94	9,775	(224)	(2)
Equity securities	**62,260**	68,241	(5,981)	(9)	55,148	13,093	24
Assets	**1,955,163**	1,927,555	27,608	1	1,895,883	31,672	2
Deposits	**1,404,381**	1,322,626	81,755	6	1,286,170	36,456	3
Long-term debt	**212,950**	228,191	(15,241)	(7)	229,044	(853)	—
Common stockholders' equity	**164,778**	166,669	(1,891)	(1)	174,359	(7,690)	(4)
Wells Fargo stockholders' equity	**184,887**	187,146	(2,259)	(1)	196,166	(9,020)	(5)
Total equity	**185,920**	187,984	(2,064)	(1)	197,066	(9,082)	(5)

Table 2: Ratios and Per Common Share Data

		Year ended December 31,	
	2020	2019	2018
Profitability ratios			
Return on average assets (ROA) (1)	**0.17 %**	1.02	1.19
Return on average equity (ROE) (2)	**1.04**	10.23	11.53
Return on average tangible common equity (ROTCE) (3)	**1.25**	12.20	13.73
Efficiency ratio (4)	**79.7**	68.4	65.0
Capital ratios (5)			
At year end:			
Wells Fargo common stockholders' equity to assets	**8.43**	8.65	9.20
Total equity to assets	**9.51**	9.75	10.39
Risk-based capital (6):			
Common Equity Tier 1	**11.59**	11.14	11.74
Tier 1 capital	**13.25**	12.76	13.46
Total capital	**16.14**	15.75	16.60
Tier 1 leverage	**8.32**	8.31	9.07
Average balances:			
Average Wells Fargo common stockholders' equity to average assets	**8.45**	9.16	9.50
Average total equity to average assets	**9.53**	10.33	10.77
Per common share data			
Dividend payout ratio (7)	**297.6**	47.4	38.3
Book value (8)	**$ 39.76**	40.31	38.06

(1) Represents Wells Fargo net income (loss) divided by average assets.
(2) Represents Wells Fargo net income (loss) applicable to common stock divided by average common stockholders' equity.
(3) Tangible common equity is a non-GAAP financial measure and represents total equity less preferred equity, noncontrolling interests, goodwill, certain identifiable intangible assets (other than mortgage servicing rights) and goodwill and other intangibles on nonmarketable equity securities, net of applicable deferred taxes. The methodology of determining tangible common equity may differ among companies. Management believes that return on average tangible common equity, which utilizes tangible common equity, is a useful financial measure because it enables investors and others to assess the Company's use of equity. For additional information, including a corresponding reconciliation to generally accepted accounting principles (GAAP) financial measures, see the "Capital Management – Tangible Common Equity" section in this Report.
(4) The efficiency ratio is noninterest expense divided by total revenue (net interest income and noninterest income).
(5) See the "Capital Management" section and Note 28 (Regulatory Capital Requirements and Other Restrictions) to Financial Statements in this Report for additional information.
(6) The risk-based capital ratios were calculated under the lower of the Standardized or Advanced Approach determined pursuant to Basel III. Beginning January 1, 2018, the requirements for calculating common equity tier 1 and tier 1 capital, along with risk-weighted assets, became fully phased-in. Accordingly, the information presented reflects fully phased-in common equity tier 1 capital, tier 1 capital and risk-weighted assets, but reflects total capital still in accordance with Transition Requirements. See the "Capital Management" section and Note 28 (Regulatory Capital Requirements and Other Restrictions) to Financial Statements in this Report for additional information.
(7) Dividend payout ratio is dividends declared per common share as a percentage of diluted earnings per common share.
(8) Book value per common share is common stockholders' equity divided by common shares outstanding.

Earnings Performance

Wells Fargo net income for 2020 was $3.3 billion ($0.41 diluted EPS), compared with $19.5 billion ($4.05 diluted EPS) for 2019. Net income decreased in 2020, compared with 2019, predominantly due to a $11.4 billion increase in provision for credit losses, a $7.4 billion decrease in net interest income, and a $5.3 billion decrease in noninterest income, partially offset by a $7.2 billion decrease in income tax expense.

For a discussion of our 2019 financial results, compared with 2018, see the "Earnings Performance" section of our Annual Report on Form 10-K for the year ended December 31, 2019.

Net Interest Income

Net interest income is the interest earned on debt securities, loans (including yield-related loan fees) and other interest-earning assets minus the interest paid on deposits, short-term borrowings and long-term debt. The net interest margin is the average yield on earning assets minus the average interest rate paid for deposits and our other sources of funding.

Net interest income and the net interest margin in any one period can be significantly affected by a variety of factors including the mix and overall size of our earning assets portfolio and the cost of funding those assets. In addition, variable sources of interest income, such as loan fees, periodic dividends, and collection of interest on nonaccrual loans, can fluctuate from period to period.

Net interest income and net interest margin decreased in 2020, compared with 2019, driven by unfavorable impacts of repricing due to the lower interest rate environment and higher mortgage-backed securities (MBS) premium amortization.

Table 3 presents the individual components of net interest income and the net interest margin. Net interest income and the net interest margin are presented on a taxable-equivalent basis in Table 3 to consistently reflect income from taxable and tax-exempt loans and debt and equity securities based on a 21% federal statutory tax rate for the periods ended December 31, 2020, 2019 and 2018.

Table 3: Average Balances and Interest Rates (Taxable-Equivalent Basis) (1)

									Year ended December 31,
			2020			2019			2018
(in millions)	Average balance	Interest income/ expense	Interest rates	Average balance	Interest income/ expense	Interest rates	Average balance	Interest income/ expense	Interest rates
Assets									
Interest-earning deposits with banks	$ 186,386	547	0.29 %	$ 135,741	2,875	2.12 %	$ 156,366	2,854	1.82 %
Federal funds sold and securities purchased under resale agreements	82,798	393	0.47	99,286	2,164	2.18	78,547	1,431	1.82
Debt securities:									
Trading debt securities	94,731	2,544	2.69	93,655	3,149	3.36	83,526	2,856	3.42
Available-for-sale debt securities	229,077	5,248	2.29	262,694	8,493	3.23	265,198	8,604	3.24
Held-to-maturity debt securities	173,505	3,841	2.21	149,105	3,814	2.56	145,565	3,487	2.40
Total debt securities	497,313	11,633	2.34	505,454	15,456	3.06	494,289	14,947	3.02
Loans held for sale (2)(3)	27,493	947	3.45	21,516	892	4.14	20,920	917	4.38
Loans:									
Commercial loans:									
Commercial and industrial – U.S.	281,080	7,912	2.82	284,888	12,107	4.25	275,656	11,465	4.16
Commercial and industrial – Non-U.S.	66,915	1,673	2.50	64,274	2,385	3.71	60,718	2,143	3.53
Real estate mortgage	122,482	3,842	3.14	121,813	5,356	4.40	122,947	5,279	4.29
Real estate construction	21,608	760	3.52	21,183	1,095	5.17	23,609	1,167	4.94
Lease financing	17,801	736	4.13	19,302	873	4.52	19,392	919	4.74
Total commercial loans	509,886	14,923	2.93	511,460	21,816	4.27	502,322	20,973	4.18
Consumer loans:									
Residential mortgage – first lien	288,105	9,661	3.35	288,059	10,974	3.81	284,178	11,481	4.04
Residential mortgage – junior lien	26,700	1,185	4.44	31,989	1,800	5.63	36,687	1,975	5.38
Credit card	37,093	4,315	11.63	38,865	4,889	12.58	36,780	4,678	12.72
Auto	48,362	2,379	4.92	45,901	2,362	5.15	48,115	2,491	5.18
Other consumer	31,642	1,719	5.43	34,682	2,412	6.95	37,115	2,488	6.70
Total consumer loans	431,902	19,259	4.46	439,496	22,437	5.11	442,875	23,113	5.22
Total loans (3)	941,788	34,182	3.63	950,956	44,253	4.65	945,197	44,086	4.66
Equity securities	28,950	557	1.92	35,930	966	2.69	38,092	999	2.62
Other	7,505	14	0.18	5,579	90	1.62	5,071	74	1.46
Total interest-earning assets	$ 1,772,233	48,273	2.72 %	$ 1,754,462	66,696	3.80 %	$ 1,738,482	65,308	3.76 %
Cash and due from banks	21,676	—		19,558	—		18,777	—	
Goodwill	26,387	—		26,409	—		26,453	—	
Other	123,205	—		113,015	—		105,180	—	
Total noninterest-earning assets	$ 171,268	—		158,982	—		150,410	—	
Total assets	$ 1,943,501	48,273		1,913,444	66,696		1,888,892	65,308	
Liabilities									
Deposits:									
Demand deposits	$ 98,182	184	0.19 %	$ 59,121	789	1.33 %	$ 63,243	606	0.96 %
Savings deposits	744,226	1,492	0.20	705,957	4,132	0.59	684,882	2,157	0.31
Time deposits	81,674	892	1.09	123,634	2,776	2.25	105,475	2,024	1.92
Deposits in non-U.S. offices	39,260	236	0.60	53,438	938	1.75	63,945	835	1.30
Total interest-bearing deposits	963,342	2,804	0.29	942,150	8,635	0.92	917,545	5,622	0.61
Short-term borrowings	70,206	251	0.36	115,337	2,317	2.01	104,267	1,719	1.65
Long-term debt	224,587	4,471	1.99	232,491	7,350	3.16	224,268	6,703	2.99
Other liabilities	28,435	438	1.54	25,771	551	2.13	27,648	610	2.21
Total interest-bearing liabilities	$ 1,286,570	7,964	0.62 %	$ 1,315,749	18,853	1.43 %	$ 1,273,728	14,654	1.15 %
Noninterest-bearing demand deposits	412,669	—		344,111	—		358,312	—	
Other noninterest-bearing liabilities	59,048	—		55,963	—		53,496	—	
Total noninterest-bearing liabilities	$ 471,717	—		400,074	—		411,808	—	
Total liabilities	$ 1,758,287	7,964		1,715,823	18,853		1,685,536	14,654	
Total equity	185,214	—		197,621	—		203,356	—	
Total liabilities and equity	$ 1,943,501	7,964		1,913,444	18,853		1,888,892	14,654	
Interest rate spread on a taxable-equivalent basis (4)			2.10			2.37			2.61
Net interest margin and net interest income on a taxable-equivalent basis (4)		$ 40,309	2.27 %		$ 47,843	2.73 %		$ 50,654	2.91 %

(1) The average balance amounts represent amortized costs. The interest rates are based on interest income or expense amounts for the period. Interest rates and amounts include the effects of hedge and risk management activities associated with the respective asset and liability categories.
(2) In fourth quarter 2020, loans held for sale and mortgage loans held for sale were combined into a single line item. Prior period balances have been revised to conform with the current period presentation.
(3) Nonaccrual loans and any related income are included in their respective loan categories.
(4) Includes taxable-equivalent adjustments of $475 million, $611 million and $659 million for the years ended December 31, 2020, 2019 and 2018, respectively, predominantly related to tax-exempt income on certain loans and securities.

Table 4 allocates the changes in net interest income on a taxable-equivalent basis to changes in either average balances or average rates for both interest-earning assets and interest-bearing liabilities. Because of the numerous simultaneous volume and rate changes during any period, it is not possible to precisely allocate such changes between volume and rate. For this table, changes that are not solely due to either volume or rate are allocated to these categories on a pro-rata basis based on the absolute value of the change due to average volume and average rate.

Table 4: Analysis of Changes in Net Interest Income

						Year ended December 31,
			2020 vs. 2019			2019 vs. 2018
(in millions)	Volume	Rate	Total	Volume	Rate	Total
Increase (decrease) in interest income:						
Interest-earning deposits with banks	$ **797**	**(3,125)**	**(2,328)**	(407)	428	21
Federal funds sold and securities purchased under resale agreements	**(309)**	**(1,462)**	**(1,771)**	419	314	733
Debt securities:						
Trading debt securities	**35**	**(640)**	**(605)**	343	(50)	293
Available-for-sale debt securities:	**(991)**	**(2,254)**	**(3,245)**	(83)	(28)	(111)
Held-to-maturity debt securities:	**584**	**(557)**	**27**	87	240	327
Total debt securities	**(372)**	**(3,451)**	**(3,823)**	347	162	509
Loans held for sale	**219**	**(164)**	**55**	26	(51)	(25)
Commercial loans:						
Commercial and industrial – U.S.	**(160)**	**(4,035)**	**(4,195)**	390	252	642
Commercial and industrial – Non-U.S.	**94**	**(806)**	**(712)**	130	112	242
Real estate mortgage	**29**	**(1,543)**	**(1,514)**	(51)	128	77
Real estate construction	**22**	**(357)**	**(335)**	(124)	52	(72)
Lease financing	**(65)**	**(72)**	**(137)**	(4)	(42)	(46)
Total commercial loans	**(80)**	**(6,813)**	**(6,893)**	341	502	843
Consumer loans:						
Residential mortgage – first lien	**2**	**(1,315)**	**(1,313)**	155	(662)	(507)
Residential mortgage – junior lien	**(270)**	**(345)**	**(615)**	(263)	88	(175)
Credit card	**(216)**	**(358)**	**(574)**	262	(51)	211
Auto	**125**	**(108)**	**17**	(115)	(14)	(129)
Other consumer	**(198)**	**(495)**	**(693)**	(167)	91	(76)
Total consumer loans	**(557)**	**(2,621)**	**(3,178)**	(128)	(548)	(676)
Total loans	**(637)**	**(9,434)**	**(10,071)**	213	(46)	167
Equity securities	**(165)**	**(244)**	**(409)**	(59)	26	(33)
Other	**23**	**(99)**	**(76)**	7	9	16
Total increase (decrease) in interest income	**(444)**	**(17,979)**	**(18,423)**	546	842	1,388
Increase (decrease) in interest expense:						
Deposits:						
Demand deposits	**324**	**(929)**	**(605)**	(42)	225	183
Savings deposits	**217**	**(2,857)**	**(2,640)**	65	1,910	1,975
Time deposits	**(748)**	**(1,136)**	**(1,884)**	377	375	752
Deposits in non-U.S. offices	**(202)**	**(500)**	**(702)**	(152)	255	103
Total interest-bearing deposits	**(409)**	**(5,422)**	**(5,831)**	248	2,765	3,013
Short-term borrowings	**(667)**	**(1,399)**	**(2,066)**	196	402	598
Long-term debt	**(242)**	**(2,637)**	**(2,879)**	254	393	647
Other liabilities	**52**	**(165)**	**(113)**	(38)	(21)	(59)
Total increase (decrease) in interest expense	**(1,266)**	**(9,623)**	**(10,889)**	660	3,539	4,199
Increase (decrease) in net interest income on a taxable-equivalent basis	$ **822**	**(8,356)**	**(7,534)**	(114)	(2,697)	(2,811)

Noninterest Income

Table 5: Noninterest Income

	Year ended December 31,						
(in millions)	**2020**	2019	$ Change 2020/ 2019	% Change 2020/ 2019	2018	$ Change 2019/ 2018	% Change 2019/ 2018
Deposit-related fees	$ **5,221**	5,819	(598)	(10)%	$ 5,741	78	1 %
Lending-related fees	**1,381**	1,474	(93)	(6)	1,628	(154)	(9)
Brokerage fees	**9,375**	9,237	138	1	9,436	(199)	(2)
Trust and investment management fees	**2,872**	3,038	(166)	(5)	3,316	(278)	(8)
Investment banking fees	**1,865**	1,797	68	4	1,757	40	2
Card fees	**3,544**	4,016	(472)	(12)	3,907	109	3
Servicing income, net	**(139)**	522	(661)	NM	1,373	(851)	(62)
Net gains on mortgage loan originations/sales	**3,632**	2,193	1,439	66	1,644	549	33
Mortgage banking	**3,493**	2,715	778	29	3,017	(302)	(10)
Net gains from trading activities	**1,172**	993	179	18	602	391	65
Net gains on debt securities	**873**	140	733	524	108	32	30
Net gains from equity securities	**665**	2,843	(2,178)	(77)	1,515	1,328	88
Lease income	**1,245**	1,614	(369)	(23)	1,757	(143)	(8)
Other	**799**	4,146	(3,347)	(81)	3,629	517	14
Total	$ **32,505**	37,832	(5,327)	(14)	$ 36,413	1,419	4

NM – Not meaningful

Full year 2020 vs. full year 2019

Deposit-related fees decreased driven by:
- lower customer transaction volumes and higher average consumer deposit account balances due to the economic slowdown associated with the COVID-19 pandemic; and
- higher fee waivers and reversals as part of our actions to support customers during the COVID-19 pandemic;

partially offset by:
- higher treasury management fees on commercial accounts driven by a lower earnings credit rate due to the lower interest rate environment.

Lending-related fees decreased driven by an increase in fee waivers and reversals as part of our actions to support customers during the COVID-19 pandemic.

Brokerage fees increased reflecting higher asset-based fees, partially offset by lower transactional revenue. Asset-based fees include fees from advisory accounts that are based on a percentage of the market value of the assets as of the beginning of the quarter.

Trust and investment management fees decreased driven by lower trust fees due to the sale of our Institutional Retirement and Trust (IRT) business in 2019.

Our assets under management (AUM), excluding IRT client assets, totaled $786.6 billion at December 31, 2020, compared with $684.4 billion at December 31, 2019. Substantially all of our AUM is managed by our Wealth and Investment Management (WIM) operating segment. Our assets under administration (AUA), excluding IRT client assets, totaled $942.4 billion at December 31, 2020, and $898.0 billion at December 31, 2019. Our AUA is managed by our WIM operating segment and our Corporate and Investment Banking operating segment. Management believes that AUM and AUA are useful metrics because they allow investors and others to assess how changes in asset amounts may impact the generation of certain asset-based fees.

Card fees decreased reflecting:
- lower interchange fees, net of rewards costs, driven by decreased credit card purchase volumes and debit card transaction volumes due to the impact of the COVID-19 pandemic; and
- higher fee waivers as part of our actions to support customers during the COVID-19 pandemic.

Servicing income, net decreased reflecting:
- lower servicing fees due to a lower balance of loans serviced for others and the impacts of customer accommodations instituted in response to the COVID-19 pandemic; and
- higher unreimbursed servicing costs associated with the COVID-19 pandemic;

partially offset by:
- lower mortgage servicing right (MSR) valuation losses, net of hedge results, as gains from favorable hedge results more than offset valuation adjustments for higher expected servicing costs and prepayment estimates due to changes in economic and market conditions.

Net gains on mortgage loan originations/sales increased driven by:
- higher residential real estate held for sale (HFS) origination volumes; and
- higher margins in both our retail and correspondent production channels, as well as a shift to more retail origination volume, which has a higher margin.

For additional information on servicing income and net gains on mortgage loan originations/sales, see Note 9 (Mortgage Banking Activities) to Financial Statements in this Report.

Net gains from trading activities increased reflecting:
- higher volumes in interest rate products due to lower interest rates;
- higher volumes and customer activity for equities trading due to volatility in the equity markets; and

- higher volumes for credit trading due to additional market liquidity from government actions in response to the COVID-19 pandemic;

partially offset by:
- losses due to higher prepayment speeds on agency MBS pools, net of hedge gains, and wider credit spreads for non-agency and certain asset-backed securities.

Net gains on debt securities increased due to higher gains from the sales of agency MBS as a result of portfolio re-balancing and actions taken to manage under the asset cap.

Net gains from equity securities decreased driven by:
- lower unrealized gains on deferred compensation plan investments (largely offset in personnel expense). Refer to Table 6a for the results for our deferred compensation plan and related investments;
- lower realized gains on nonmarketable equity securities; and
- impairment on equity securities of $1.7 billion due to the market impact of the COVID-19 pandemic, partially offset by higher unrealized gains on securities accounted for under the measurement alternative, both of which included the impact of a change in the accounting measurement model for certain nonmarketable equity securities from our affiliated venture capital partnerships.

Lease income decreased due to a reduction in the size of the operating lease asset portfolio.

Other income decreased due to gains in 2019 of:
- $1.6 billion on the sales of PCI loans;
- $1.1 billion on the sale of our IRT business; and
- $362 million on the sale of Eastdil, which also resulted in a decline in commercial real estate brokerage commissions in 2020;

partially offset by:
- gains on the sales of residential mortgage loans reclassified to held for sale in 2019 and sold in 2020.

Noninterest Expense

Table 6: Noninterest Expense

							Year ended December 31,
(in millions)	**2020**	2019	$ Change 2020/ 2019	% Change 2020/ 2019	2018	$ Change 2019/ 2018	% Change 2019/ 2018
Personnel	**$ 34,811**	35,128	(317)	(1)%	$ 33,085	2,043	6 %
Technology, telecommunications and equipment	**3,099**	3,276	(177)	(5)	2,903	373	13
Occupancy	**3,263**	2,945	318	11	2,888	57	2
Operating losses	**3,523**	4,321	(798)	(18)	3,124	1,197	38
Professional and outside services	**6,706**	6,745	(39)	(1)	6,588	157	2
Leases (1)	**1,022**	1,155	(133)	(12)	1,334	(179)	(13)
Advertising and promotion	**600**	1,076	(476)	(44)	857	219	26
Restructuring charges	**1,499**	—	1,499	NM	—	—	NM
Other	**3,107**	3,532	(425)	(12)	5,347	(1,815)	(34)
Total	**$ 57,630**	58,178	(548)	(1)	$ 56,126	2,052	4

NM – Not meaningful
(1) Represents expenses for assets we lease to customers.

Full year 2020 vs. full year 2019

Personnel expense decreased driven by:
- lower deferred compensation expense; and
- lower incentive compensation expense;

partially offset by:
- higher salaries expense driven by annual salary increases and higher salary rates driven by risk management and technology hires; and
- increases in employee benefits related to the COVID-19 pandemic, including additional payments for certain customer-facing and support employees and back-up childcare services.

Table 6a presents results for our deferred compensation plan and related hedges. In second quarter 2020, we entered into arrangements to transition our economic hedges of the deferred compensation plan liabilities from equity securities to derivative instruments. As a result of this transition, changes in fair value of derivatives used to economically hedge the deferred compensation plan are reported in personnel expense rather than in net gains (losses) from equity securities within noninterest income. For additional information on the derivatives used in the economic hedges, see Note 16 (Derivatives) to Financial Statements in this Report.

Table 6a: Deferred Compensation and Related Hedges

	Year ended December 31,	
(in millions)	**2020**	2019
Net interest income	$ **15**	70
Net gains (losses) from equity securities	**(273)**	664
Total revenue (losses) from deferred compensation plan investments	**(258)**	734
Increase in deferred compensation plan liabilities	**(582)**	(739)
Net derivative gains from economic hedges of deferred compensation	**778**	—
Decrease (increase) in personnel expense	**196**	(739)
Loss before income tax expense	$ **(62)**	(5)

Technology, telecommunications and equipment expense decreased due to:
- software impairments in 2019; and
- a software licensing liability accrual reversal in 2020;

partially offset by:
- higher technology contracts expense; and
- higher telecommunications expense related to the COVID-19 pandemic.

Occupancy expense increased due to additional cleaning fees, supplies, and equipment expenses related to the COVID-19 pandemic.

Operating losses decreased driven by:
- lower expense for litigation accruals;

partially offset by:
- higher expense for customer remediation accruals primarily reflecting expansions of the population of affected customers, remediation payments, and/or remediation time frames for a variety of matters.

Advertising and promotion expense decreased driven by reduced marketing and brand campaign volumes due to the impact of the COVID-19 pandemic.

Restructuring charges increased driven predominantly by personnel costs, as well as facility closure costs, related to our efficiency initiatives that commenced in third quarter 2020. For additional information on restructuring charges, see Note 22 *(*Restructuring Charges) to Financial Statements in this Report.

Other expenses decreased driven by:
- a reduction in business travel and company events due to the impact of the COVID-19 pandemic; and
- lower foreclosed assets expense due to the suspension of certain mortgage foreclosure activities in response to the COVID-19 pandemic;

partially offset by:
- higher pension plan settlement expenses;
- higher charitable donations expense driven by the donation of PPP processing fees; and
- higher Federal Deposit Insurance Corporation (FDIC) deposit assessment expense driven by both a higher assessment rate and a higher deposit assessment base.

Income Tax Expense

Income tax benefit was $3.0 billion in 2020, compared with income tax expense of $4.2 billion in 2019, driven by lower pre-tax income. The effective income tax rate was (1,016)% for 2020, compared with 17.5% for 2019. The effective income tax rate for 2020 reflected the impact of income tax benefits (including tax credits) on lower pre-tax income and included income tax benefits related to the resolution and reevaluation of prior period matters with U.S. federal and state tax authorities. The effective income tax rate for 2019 included the impact of certain litigation accruals that were not deductible for U.S. federal income tax purposes. For additional information on income taxes, see Note 23 (Income Taxes) to Financial Statements in this Report.

Operating Segment Results

We reorganized our management reporting into four reportable operating segments: Consumer Banking and Lending; Commercial Banking; Corporate and Investment Banking; and Wealth and Investment Management. All other business activities that are not included in the reportable operating segments have been included in Corporate. For additional information, see Table 7. We define our reportable operating segments by type of product and customer segment, and their results are based on our management reporting process. The management reporting process measures the performance of the reportable operating segments based on the Company's management structure, and the results are regularly reviewed by our Chief Executive Officer and Operating Committee. The management reporting process is based on U.S. GAAP and includes specific adjustments, such as funds transfer pricing for asset/liability management, shared revenues and expenses, and taxable-equivalent adjustments to consistently reflect income from taxable and tax-exempt sources, which allows management to assess performance consistently across the operating segments.

Prior period reportable operating segment results have been revised to reflect the reorganization of our management reporting structure. The reorganization did not impact the previously reported consolidated financial results of the Company. As a result of the reorganization, we have included a discussion of our 2019 financial results, compared with 2018, for each of our reportable operating segments and for Corporate.

Funds Transfer Pricing Corporate treasury manages a funds transfer pricing methodology that considers interest rate risk, liquidity risk, and other product characteristics. Operating segments pay a funding charge for their assets and receive a funding credit for their deposits, both of which are included in net interest income. The net impact of the funding charges or credits is recognized in corporate treasury.

Revenue and Expense Sharing When lines of business jointly serve customers, the line of business that is responsible for providing the product or service recognizes revenue or expense with a referral fee paid or an allocation of cost to the other line of business based on established internal revenue-sharing agreements.

When a line of business uses a service provided by another line of business or enterprise function (included in Corporate), expense is generally allocated based on the cost and use of the service provided.

Taxable-Equivalent Adjustments Taxable-equivalent adjustments related to tax-exempt income on certain loans and debt securities are included in net interest income, while taxable-equivalent adjustments related to income tax credits for low-income housing and renewable energy investments are included in noninterest income, in each case with corresponding impacts to income tax expense (benefit). Adjustments are included in Corporate, Commercial Banking, and Corporate and Investment Banking and are eliminated to reconcile to the Company's consolidated financial results.

Allocated Capital Reportable operating segments are allocated capital under a risk-sensitive framework that is primarily based on aspects of our regulatory capital requirements, and the assumptions and methodologies used to allocate capital are periodically assessed and revised. Management believes that return on allocated capital is a useful financial measure because it enables management, investors, and others to assess a reportable operating segment's use of capital.

Selected Metrics We present certain financial and nonfinancial metrics that management uses when evaluating reportable operating segment results. Management believes that these metrics are useful to investors and others to assess the performance, customer growth, and trends of reportable operating segments or lines of business.

Table 7: Management Reporting Structure

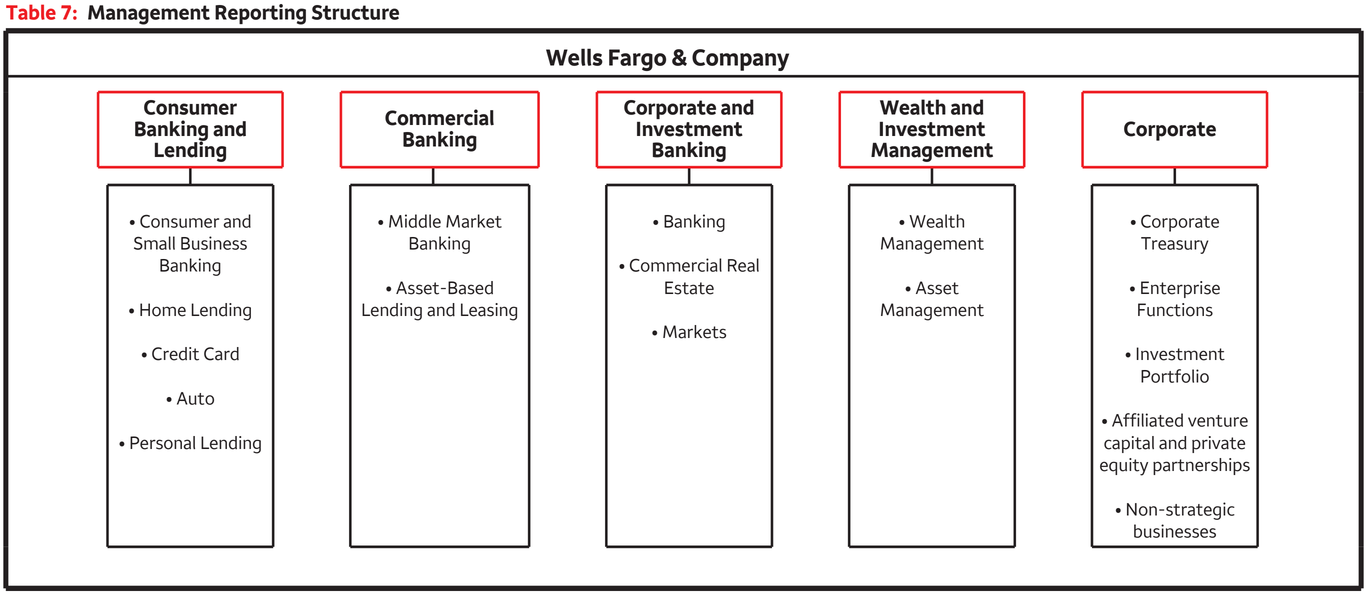

Table 8 and the following discussion present our results by reportable operating segment. For additional information, see Note 26 (Operating Segments) to Financial Statements in this Report.

Table 8: Operating Segment Results – Highlights

							Year ended December 31,
(in millions)	Consumer Banking and Lending	Commercial Banking	Corporate and Investment Banking	Wealth and Investment Management	Corporate (1)	Reconciling Items (2)	Consolidated Company
2020							
Net interest income	**$ 23,378**	**6,191**	**7,501**	**2,993**	**247**	**(475)**	**39,835**
Noninterest income	**10,638**	**3,547**	**6,319**	**11,519**	**3,216**	**(2,734)**	**32,505**
Total revenue	**34,016**	**9,738**	**13,820**	**14,512**	**3,463**	**(3,209)**	**72,340**
Provision for credit losses	**5,662**	**3,744**	**4,946**	**249**	**(472)**	**—**	**14,129**
Noninterest expense	**26,976**	**6,908**	**7,703**	**12,051**	**3,992**	**—**	**57,630**
Income (loss) before income tax expense (benefit)	**1,378**	**(914)**	**1,171**	**2,212**	**(57)**	**(3,209)**	**581**
Income tax expense (benefit)	**302**	**(238)**	**330**	**552**	**(742)**	**(3,209)**	**(3,005)**
Net income (loss) before noncontrolling interests	**1,076**	**(676)**	**841**	**1,660**	**685**	**—**	**3,586**
Less: Net income (loss) from noncontrolling interests	**—**	**5**	**(1)**	**4**	**277**	**—**	**285**
Net income (loss)	**$ 1,076**	**(681)**	**842**	**1,656**	**408**	**—**	**3,301**
2019							
Net interest income	$ 25,786	8,184	8,005	3,917	1,950	(611)	47,231
Noninterest income	12,105	4,154	6,223	11,815	5,859	(2,324)	37,832
Total revenue	37,891	12,338	14,228	15,732	7,809	(2,935)	85,063
Provision for credit losses	2,184	190	173	2	138	—	2,687
Noninterest expense	26,998	7,068	7,432	13,363	3,317	—	58,178
Income (loss) before income tax expense (benefit)	8,709	5,080	6,623	2,367	4,354	(2,935)	24,198
Income tax expense (benefit)	2,814	1,266	1,658	590	764	(2,935)	4,157
Net income before noncontrolling interests	5,895	3,814	4,965	1,777	3,590	—	20,041
Less: Net income (loss) from noncontrolling interests	—	6	(1)	9	478	—	492
Net income	$ 5,895	3,808	4,966	1,768	3,112	—	19,549
2018							
Net interest income	$ 26,985	8,748	8,345	4,317	2,259	(659)	49,995
Noninterest income	12,930	4,332	5,726	11,552	4,013	(2,140)	36,413
Total revenue	39,915	13,080	14,071	15,869	6,272	(2,799)	86,408
Provision for credit losses	1,931	(79)	13	(9)	(112)	—	1,744
Noninterest expense	26,162	7,368	7,471	12,551	2,574	—	56,126
Income (loss) before income tax expense (benefit)	11,822	5,791	6,587	3,327	3,810	(2,799)	28,538
Income tax expense (benefit)	2,915	1,456	1,663	831	1,596	(2,799)	5,662
Net income before noncontrolling interests	8,907	4,335	4,924	2,496	2,214	—	22,876
Less: Net income (loss) from noncontrolling interests	—	27	(7)	1	462	—	483
Net income	$ 8,907	4,308	4,931	2,495	1,752	—	22,393

(1) All other business activities that are not included in the reportable operating segments have been included in Corporate. Corporate includes corporate treasury and enterprise functions, net of allocations (including funds transfer pricing, capital, liquidity and certain expenses), in support of the reportable operating segments, as well as our investment portfolio and affiliated venture capital and private equity partnerships. Corporate also includes certain lines of business that management has determined are no longer consistent with the long-term strategic goals of the Company, including our student loan and rail car leasing businesses, as well as previously divested businesses.

(2) Taxable-equivalent adjustments related to tax-exempt income on certain loans and debt securities are included in net interest income, while taxable-equivalent adjustments related to income tax credits for low-income housing and renewable energy investments are included in noninterest income, in each case with corresponding impacts to income tax expense (benefit). Adjustments are included in Corporate, Commercial Banking, and Corporate and Investment Banking and are eliminated to reconcile to the Company's consolidated financial results.

Consumer Banking and Lending offers diversified financial products and services for consumers and small businesses with annual sales generally up to $5 million. These financial products and services include checking and savings accounts, credit and debit cards, as well as home, auto, personal, and small business lending. Table 8a and Table 8b provide additional information for Consumer Banking and Lending.

Table 8a: Consumer Banking and Lending – Income Statement and Selected Metrics

							Year ended December 31,
($ in millions, unless otherwise noted)	2020	2019	$ Change 2020/ 2019	% Change 2020/ 2019	2018	$ Change 2019/ 2018	% Change 2019/ 2018
Income Statement							
Net interest income	**$ 23,378**	25,786	(2,408)	(9)%	$ 26,985	(1,199)	(4)%
Noninterest income:							
Deposit-related fees	**2,904**	3,582	(678)	(19)	3,431	151	4
Card fees	**3,318**	3,672	(354)	(10)	3,551	121	3
Mortgage banking	**3,224**	2,314	910	39	2,666	(352)	(13)
Other	**1,192**	2,537	(1,345)	(53)	3,282	(745)	(23)
Total noninterest income	**10,638**	12,105	(1,467)	(12)	12,930	(825)	(6)
Total revenue	**34,016**	37,891	(3,875)	(10)	39,915	(2,024)	(5)
Provision for credit losses	**5,662**	2,184	3,478	159	1,931	253	13
Noninterest expense	**26,976**	26,998	(22)	—	26,162	836	3
Income before income tax expense	**1,378**	8,709	(7,331)	(84)	11,822	(3,113)	(26)
Income tax expense	**302**	2,814	(2,512)	(89)	2,915	(101)	(3)
Net income	**$ 1,076**	5,895	(4,819)	(82)	$ 8,907	(3,012)	(34)
Revenue by Line of Business							
Consumer and Small Business Banking	**$ 18,684**	21,148	(2,464)	(12)	$ 21,127	21	—
Consumer Lending:							
Home Lending	**7,875**	8,817	(942)	(11)	10,595	(1,778)	(17)
Credit Card	**5,288**	5,707	(419)	(7)	5,653	54	1
Auto	**1,575**	1,567	8	1	1,820	(253)	(14)
Personal Lending	**594**	652	(58)	(9)	720	(68)	(9)
Total revenue	**$ 34,016**	37,891	(3,875)	(10)	$ 39,915	(2,024)	(5)
Selected Metrics							
Consumer Banking and Lending:							
Return on allocated capital (1)	**1.6 %**	12.1			17.7 %		
Efficiency ratio (2)	**79**	71			66		
Headcount (#)	**125,034**	134,881		(7)	140,795		(4)
Retail bank branches (#)	**5,032**	5,352		(6)	5,518		(3)
Digital active customers (# in millions) (3)	**32.0**	30.3		6	29.1		4
Mobile active customers (# in millions) (3)	**26.0**	24.4		7	22.8		7
Consumer and Small Business Banking:							
Deposit spread (4)	**1.8 %**	2.4			2.5 %		
Debit card purchase volume ($ in billions) (5)	**$ 391.9**	367.6	24.3	7	$ 346.7	20.9	6
Debit card purchase transactions (# in millions) (5)	**8,792**	9,189	(397)	(4)	8,777	412	5

(continued on following page)

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($ in millions, unless otherwise noted)	2020	2019	$ Change 2020/ 2019	% Change 2020/ 2019	2018	$ Change 2019/ 2018	% Change 2019/ 2018
					Year ended December 31,		
Home Lending:							
Mortgage banking fees:							
Net servicing income	**(160)**	454	(614)	NM	1,286	(832)	(65)%
Net gains on mortgage loan originations/sales	**3,384**	1,860	1,524	82 %	1,380	480	35
Total mortgage banking fees	**3,224**	2,314	910	39	2,666	(352)	(13)
Originations ($ in billions):							
Retail	**$ 118.7**	96.4	22.3	23	$ 73.2	23.2	32
Correspondent	**104.0**	107.6	(3.6)	(3)	103.4	4.2	4
Total originations	**222.7**	204.0	18.7	9	176.6	27.4	16
% of originations held for sale (HFS)	**73.9 %**	66.1			74.6 %		
Third-party mortgage loans serviced (period-end) ($ in billions) (6)	**$ 856.7**	1,063.4	(206.7)	(19)	$ 1,163.9	(100.5)	(9)
Mortgage servicing rights (MSR) carrying value (period-end)	**6,125**	11,517	(5,392)	(47)	14,649	(3,132)	(21)
Ratio of MSR carrying value (period-end) to third-party mortgage loans serviced (period-end) (6)	**0.71 %**	1.08			1.26 %		
Home lending loans 30+ days or more delinquency rate (7)(8)	**0.64**	0.64			1.03		
Credit Card:							
Point of sale (POS) volume ($ in billions)	**$ 81.6**	88.2	(6.6)	(7)	$ 84.1	4.1	5
New accounts (# in thousands) (9)	**1,022**	1,840		(44)	1,808		2
Credit card loans 30+ days or more delinquency rate (8)	**2.17 %**	2.63			2.61 %		
Auto:							
Auto originations ($ in billions)	**$ 22.8**	25.4	(2.6)	(10)	$ 18.3	7.1	39
Auto loans 30+ days or more delinquency rate (8)	**1.77 %**	2.56			3.22 %		
Personal Lending:							
New funded balances	**$ 1,599**	2,829	(1,230)	(43)	$ 2,583	246	10

NM – Not meaningful
(1) Return on allocated capital is segment net income (loss) applicable to common stock divided by segment average allocated capital. Segment net income (loss) applicable to common stock is segment net income (loss) less allocated preferred stock dividends.
(2) Efficiency ratio is segment noninterest expense divided by segment total revenue (net interest income and noninterest income).
(3) Digital and mobile active customers is the number of consumer and small business customers who have logged on via a digital or mobile device, respectively, in the prior 90 days. Digital active customers includes both online and mobile customers.
(4) Deposit spread is (i) the internal funds transfer pricing credit on segment deposits minus interest paid to customers for segment deposits, divided by (ii) average segment deposits.
(5) Debit card purchase volume and transactions reflect combined activity for both consumer and business debit card purchases.
(6) Excludes residential mortgage loans subserviced for others.
(7) Excludes residential mortgage loans insured by the Federal Housing Administration (FHA) or guaranteed by the Department of Veterans Affairs (VA) and loans held for sale.
(8) Beginning in second quarter 2020, customer payment deferral activities instituted in response to the COVID-19 pandemic may have delayed the recognition of delinquencies for those customers who would have otherwise moved into past due status.
(9) Excludes certain private label new account openings.

Full year 2020 vs. full year 2019

Revenue decreased driven by:
- lower net interest income reflecting the lower interest rate environment;
- lower deposit-related fees driven by higher average consumer deposit account balances due to the economic slowdown associated with the COVID-19 pandemic, as well as fee waivers and reversals as part of our actions to support customers during the COVID-19 pandemic;
- lower card fees driven by lower credit card purchase volumes and lower debit card transaction volumes; and
- lower other income driven by higher gains in 2019 related to sales of PCI loans;

partially offset by:
- higher mortgage banking revenue driven by increased net gains on mortgage loan originations/sales reflecting higher real estate HFS origination volumes and higher margins.

Provision for credit losses increased driven by weakened economic conditions due to the impact of the COVID-19 pandemic.

Noninterest expense was largely unchanged reflecting:
- a decline in personnel expense due to lower headcount and lower incentive compensation expense;
- lower operating losses due to lower expense for litigation and customer remediation accruals; and
- lower advertising and promotion expense;

offset by:
- an increase in employee benefits expense related to the COVID-19 pandemic, including additional payments to certain customer-facing and support employees and for back-up childcare services;
- higher occupancy expense due to additional cleaning fees, supplies, and equipment expense related to the COVID-19 pandemic; and
- higher charitable donations expense due to the donation of PPP processing fees.

Full year 2019 vs. full year 2018

Revenue decreased driven by:
- lower net interest income reflecting the lower interest rate environment;
- lower noninterest income reflecting a decrease in mortgage banking fees driven by lower net servicing fees due to higher prepayments and sales of mortgage servicing rights; and
- lower other income driven by higher gains in 2018 related to sales of PCI loans;

partially offset by:
- higher deposit-related fees driven by higher customer transaction volumes; and
- higher card fees driven by higher credit card purchase volumes and higher debit card transaction volumes.

Provision for credit losses increased due to a lower level of credit quality improvement, partially offset by lower net charge-offs in the auto portfolio.

Noninterest expense increased due to:
- higher operating losses due to higher expense for litigation and customer remediation accruals;
- higher incentive compensation expense;
- higher advertising and promotion expense; and
- higher expenses allocated from enterprise functions, reflecting additional risk management and technology support;

partially offset by:
- lower core deposit intangibles expense reflecting the end of the 10-year amortization period on Wachovia intangibles in 2018; and
- lower FDIC deposit assessment expense due to the termination of the FDIC temporary assessment effective October 1, 2018.

Table 8b: Consumer Banking and Lending – Balance Sheet

							Year ended December 31,
(in millions)	2020	2019	$ Change 2020/ 2019	% Change 2020/ 2019	2018	$ Change 2019/ 2018	% Change 2019/ 2018
Selected Balance Sheet Data (average)							
Loans by Line of Business:							
Home Lending	$ **268,586**	276,962	(8,376)	(3)%	$ 279,850	(2,888)	(1)%
Auto	**49,460**	47,117	2,343	5	48,783	(1,666)	(3)
Credit Card	**37,093**	38,865	(1,772)	(5)	36,780	2,085	6
Small Business	**15,173**	9,951	5,222	52	10,526	(575)	(5)
Personal Lending	**6,151**	6,871	(720)	(10)	7,377	(506)	(7)
Total loans	$ **376,463**	379,766	(3,303)	(1)	$ 383,316	(3,550)	(1)
Total deposits	**722,085**	629,110	92,975	15	608,186	20,924	3
Allocated capital	**48,000**	46,000	2,000	4	48,000	(2,000)	(4)
Selected Balance Sheet Data (period-end)							
Loans by Line of Business:							
Home Lending	$ **253,942**	278,325	(24,383)	(9)	$ 277,579	746	—
Auto	**49,072**	49,124	(52)	—	46,260	2,864	6
Credit Card	**36,664**	41,013	(4,349)	(11)	39,025	1,988	5
Small Business	**17,743**	9,695	8,048	83	10,245	(550)	(5)
Personal Lending	**5,375**	6,845	(1,470)	(21)	7,083	(238)	(3)
Total loans	$ **362,796**	385,002	(22,206)	(6)	$ 380,192	4,810	1
Total deposits	**784,565**	647,152	137,413	21	604,078	43,074	7

Full year 2020 vs. full year 2019

Total loans (period-end) decreased as growth in small business loans driven by loans funded under the PPP was more than offset by paydowns exceeding originations in the home lending, credit card and personal lending portfolios.

Total deposits (average and period-end) increased driven by government stimulus programs and lower consumer spending due to the COVID-19 pandemic.

Full year 2019 vs. full year 2018

Total deposits (period-end) increased driven by growth in consumer and small business banking deposits and higher mortgage escrow deposits reflecting an inflow of higher mortgage payoffs to be remitted to investors in accordance with servicing contracts.

Commercial Banking provides financial solutions to private, family owned and certain public companies. Products and services include banking and credit products across multiple industry sectors and municipalities, secured lending and lease products, and treasury management. Table 8c and Table 8d provide additional information for Commercial Banking.

Table 8c: Commercial Banking – Income Statement and Selected Metrics

							Year ended December 31,
($ in millions)	**2020**	2019	$ Change 2020/ 2019	% Change 2020/ 2019	2018	$ Change 2019/ 2018	% Change 2019/ 2018
Income Statement							
Net interest income	**$ 6,191**	8,184	(1,993)	(24)%	$ 8,748	(564)	(6)%
Noninterest income:							
Deposit-related fees	**1,219**	1,175	44	4	1,219	(44)	(4)
Lending-related fees	**531**	524	7	1	604	(80)	(13)
Lease income	**646**	931	(285)	(31)	1,025	(94)	(9)
Other	**1,151**	1,524	(373)	(24)	1,484	40	3
Total noninterest income	**3,547**	4,154	(607)	(15)	4,332	(178)	(4)
Total revenue	**9,738**	12,338	(2,600)	(21)	13,080	(742)	(6)
Provision for credit losses	**3,744**	190	3,554	NM	(79)	269	341
Noninterest expense	**6,908**	7,068	(160)	(2)	7,368	(300)	(4)
Income (loss) before income tax expense (benefit)	**(914)**	5,080	(5,994)	NM	5,791	(711)	(12)
Income tax expense (benefit)	**(238)**	1,266	(1,504)	NM	1,456	(190)	(13)
Less: Net income from noncontrolling interests	**5**	6	(1)	(17)	27	(21)	(78)
Net income (loss)	**$ (681)**	3,808	(4,489)	NM	$ 4,308	(500)	(12)
Revenue by Line of Business							
Middle Market Banking	**$ 5,067**	6,691	(1,624)	(24)	$ 7,240	(549)	(8)
Asset-Based Lending and Leasing	**3,862**	4,814	(952)	(20)	5,046	(232)	(5)
Other	**809**	833	(24)	(3)	794	39	5
Total revenue	**$ 9,738**	12,338	(2,600)	(21)	$ 13,080	(742)	(6)
Revenue by Product							
Lending and leasing	**$ 5,297**	5,904	(607)	(10)	$ 6,520	(616)	(9)
Treasury management and payments	**3,398**	4,698	(1,300)	(28)	4,873	(175)	(4)
Other	**1,043**	1,736	(693)	(40)	1,687	49	3
Total revenue	**$ 9,738**	12,338	(2,600)	(21)	$ 13,080	(742)	(6)
Selected Metrics							
Return on allocated capital	**(4.5)%**	17.5			19.4 %		
Efficiency ratio	**71**	57			56		
Headcount (#)	**22,410**	23,871		(6)	23,737		1

NM – Not meaningful

Full year 2020 vs. full year 2019

Revenue decreased driven by:
- lower net interest income reflecting the lower interest rate environment and lower average loan balances;
- lower lease income reflecting a reduction in the size of the operating lease asset portfolio; and
- lower net gains on equity securities due to impairments taken in 2020;

partially offset by:
- higher renewable energy tax credit income due to strong new investment activity.

Provision for credit losses increased reflecting economic uncertainty due to the impact of the COVID-19 pandemic on our commercial loan portfolios.

Noninterest expense decreased driven by:
- lower professional and outside services expense reflecting decreased project-related expense; and
- lower leases expense reflecting a reduction in the size of the operating lease asset portfolio;

partially offset by:
- higher expenses allocated from enterprise functions reflecting additional risk management support.

Full year 2019 vs. full year 2018

Revenue decreased driven by:
- lower net interest income reflecting lower spreads on loans and lower average loan balances, as well as the impact of migration from noninterest-bearing to interest-bearing deposits;
- lower lending-related fees reflecting lower customer activity; and
- lower lease income reflecting a reduction in the size of the operating lease asset portfolio.

Provision for credit losses increased driven by lower recoveries and higher loan losses.

Noninterest expense decreased driven by:
- lower professional and outside services expense reflecting decreased project-related expense;
- lower core deposit intangibles expense reflecting the end of the 10-year amortization period on Wachovia intangibles in 2018;
- lower FDIC deposit assessment expense due to the termination of the FDIC temporary assessment effective October 1, 2018; and
- lower leases expense reflecting a reduction in the size of the operating lease asset portfolio;

partially offset by:
- higher expenses allocated from enterprise functions reflecting additional risk management and technology support.

Table 8d: Commercial Banking – Balance Sheet

	Year ended December 31,						
(in millions)	**2020**	2019	$ Change 2020/ 2019	% Change 2020/ 2019	2018	$ Change 2019/ 2018	% Change 2019/ 2018
Selected Balance Sheet Data (average)							
Loans:							
Commercial and industrial	**$ 143,263**	157,829	(14,566)	(9)%	$ 159,565	(1,736)	(1)%
Commercial real estate	**52,220**	54,416	(2,196)	(4)	56,286	(1,870)	(3)
Lease financing and other	**15,953**	17,109	(1,156)	(7)	17,053	56	—
Total loans	**$ 211,436**	229,354	(17,918)	(8)	$ 232,904	(3,550)	(2)
Loans by Line of Business:							
Middle Market Banking	**$ 112,848**	119,717	(6,869)	(6)	$ 125,584	(5,867)	(5)
Asset-Based Lending and Leasing	**97,482**	108,422	(10,940)	(10)	105,927	2,495	2
Other	**1,106**	1,215	(109)	(9)	1,393	(178)	(13)
Total loans	**$ 211,436**	229,354	(17,918)	(8)	$ 232,904	(3,550)	(2)
Total deposits	**$ 200,381**	186,942	13,439	7	$ 194,610	(7,668)	(4)
Allocated capital	**19,500**	20,500	(1,000)	(5)	21,000	(500)	(2)
Selected Balance Sheet Data (period-end)							
Loans:							
Commercial and industrial	**$ 124,253**	153,601	(29,348)	(19)	$ 159,971	(6,370)	(4)
Commercial real estate	**49,903**	53,526	(3,623)	(7)	55,150	(1,624)	(3)
Lease financing and other	**14,821**	17,654	(2,833)	(16)	17,487	167	1
Total loans	**$ 188,977**	224,781	(35,804)	(16)	$ 232,608	(7,827)	(3)
Loans by Line of Business:							
Middle Market Banking	**$ 101,193**	115,187	(13,994)	(12)	$ 123,016	(7,829)	(6)
Asset-Based Lending and Leasing	**86,811**	108,470	(21,659)	(20)	108,311	159	—
Other	**973**	1,124	(151)	(13)	1,281	(157)	(12)
Total loans	**$ 188,977**	224,781	(35,804)	(16)	$ 232,608	(7,827)	(3)
Total deposits	**208,284**	194,469	13,815	7	193,250	1,219	1

Full year 2020 vs. full year 2019

Total loans (average and period-end) decreased driven by lower loan demand, including lower line utilization, and higher paydowns reflecting continued client liquidity and strength in the capital markets.

Total deposits (average and period-end) increased due to customers' preferences for liquidity given the economic uncertainty associated with the COVID-19 pandemic, government stimulus programs, and lower investment spending.

Full year 2019 vs. full year 2018

Total deposits (average) decreased driven by market pricing changes for commercial deposits.

Corporate and Investment Banking (CIB) delivers a suite of capital markets, banking, and financial products and services to corporate, commercial real estate, government and institutional clients globally. Products and services include corporate banking, investment banking, treasury management, commercial real estate lending and servicing, equity and fixed income solutions, as well as sales, trading, and research capabilities. Table 8e and Table 8f provide additional information for CIB.

Table 8e: Corporate and Investment Banking – Income Statement and Selected Metrics

							Year ended December 31,
($ in millions)	2020	2019	$ Change 2020/ 2019	% Change 2020/ 2019	2018	$ Change 2019/ 2018	% Change 2019/ 2018
Income Statement							
Net interest income	$ **7,501**	8,005	(504)	(6)%	$ 8,345	(340)	(4)%
Noninterest income:							
Deposit-related fees	**1,062**	1,029	33	3	1,057	(28)	(3)
Lending-related fees	**684**	710	(26)	(4)	742	(32)	(4)
Investment banking fees	**1,952**	1,804	148	8	1,730	74	4
Net gains on trading activities	**1,190**	1,022	168	16	561	461	82
Other	**1,431**	1,658	(227)	(14)	1,636	22	1
Total noninterest income	**6,319**	6,223	96	2	5,726	497	9
Total revenue	**13,820**	14,228	(408)	(3)	14,071	157	1
Provision for credit losses	**4,946**	173	4,773	NM	13	160	NM
Noninterest expense	**7,703**	7,432	271	4	7,471	(39)	(1)
Income before income tax expense (benefit)	**1,171**	6,623	(5,452)	(82)	6,587	36	1
Income tax expense	**330**	1,658	(1,328)	(80)	1,663	(5)	—
Less: Net loss from noncontrolling interests	**(1)**	(1)	—	—	(7)	6	86
Net income	$ **842**	4,966	(4,124)	(83)	4,931	35	1
Revenue by Line of Business							
Banking:							
Lending	$ **1,767**	1,811	(44)	(2)	1,749	62	4
Treasury Management and Payments	**1,680**	2,290	(610)	(27)	2,460	(170)	(7)
Investment Banking	**1,448**	1,370	78	6	1,295	75	6
Total Banking	**4,895**	5,471	(576)	(11)	5,504	(33)	(1)
Commercial Real Estate	**3,499**	4,038	(539)	(13)	4,265	(227)	(5)
Markets:							
Fixed Income, Currencies, and Commodities (FICC)	**4,314**	3,760	554	15	3,313	447	13
Equities	**1,204**	1,078	126	12	992	86	9
Credit Adjustment (CVA/DVA) and Other	**26**	(6)	32	533	(22)	16	73
Total Markets	**5,544**	4,832	712	15	4,283	549	13
Other	**(118)**	(113)	(5)	(4)	19	(132)	NM
Total revenue	$ **13,820**	14,228	(408)	(3)	14,071	157	1
Selected Metrics							
Return on allocated capital	**1.4 %**	14.7			13.8 %		
Efficiency ratio	**56**	52			53		
Headcount (#)	**8,178**	7,918		3	8,245		(4)

NM – Not meaningful

Full year 2020 vs. full year 2019

Revenue decreased driven by:
- lower net interest income reflecting the lower interest rate environment and lower deposit balances; and
- lower commercial mortgage banking fees and related hedge income;

partially offset by:
- higher net gains from trading activities driven by higher interest rate product trading volumes due to lower interest rates, higher equities trading volumes and customer activity due to volatility in the equity markets, and higher credit trading volumes due to additional market liquidity from government actions in response to the COVID-19 pandemic, partially offset by losses due to higher prepayments on agency MBS pools, net of hedge gains, and wider credit spreads for non-agency and certain asset-backed securities; and
- higher investment banking fees due to increased debt and equities originations within our Investment Banking business, partially offset by lower advisory fees.

Provision for credit losses increased reflecting economic uncertainty due to the impact of the COVID-19 pandemic on our Commercial Real Estate business and oil and gas portfolio.

Noninterest expense increased driven by:
- higher operating losses due to higher expense for litigation and customer remediation accruals;
- higher occupancy expense due to additional cleaning fees, supplies, and equipment expenses related to the COVID-19 pandemic; and
- higher expenses allocated from enterprise functions reflecting risk management support, as well as investments in our operations and treasury management product services infrastructure;

partially offset by:
- a reduction in business travel and company events due to the impact of the COVID-19 pandemic.

Full year 2019 vs. full year 2018

Revenue increased driven by:
- higher trading volumes for rates and commodities, credit and residential mortgage-backed securities, partially offset by lower equity and foreign exchange trading income; and
- higher investment banking fees due to increased debt originations and higher advisory fees, partially offset by lower asset-backed finance securitization fees;

partially offset by:
- lower net interest income due to lower spreads on trading debt securities, loans, and deposits.

Provision for credit losses increased reflecting lower recoveries and higher loan losses in our oil and gas portfolio.

Noninterest expense decreased driven by:
- lower operating losses due to lower expense for litigation and customer remediation accruals; and
- lower FDIC deposit assessment expense due to the termination of the FDIC temporary assessment effective October 1, 2018;

partially offset by:
- higher expenses allocated from enterprise functions reflecting risk management support, as well as investments in technology, operations, and treasury management product services infrastructure.

Table 8f: Corporate and Investment Banking – Balance Sheet

					Year ended December 31,			
(in millions)		2020	2019	$ Change 2020/ 2019	% Change 2020/ 2019	2018	$ Change 2019/ 2018	% Change 2019/ 2018
Selected Balance Sheet Data (average)								
Loans:								
Commercial and industrial	$	**172,492**	168,506	3,986	2 %	$ 157,251	11,255	7 %
Commercial real estate		**82,832**	79,804	3,028	4	81,343	(1,539)	(2)
Total loans	$	**255,324**	248,310	7,014	3	$ 238,594	9,716	4
Loans by Line of Business:								
Banking	$	**93,501**	90,749	2,752	3	$ 81,591	9,158	11
Commercial Real Estate		**108,279**	104,261	4,018	4	106,231	(1,970)	(2)
Markets		**53,544**	53,300	244	—	50,772	2,528	5
Total loans	$	**255,324**	248,310	7,014	3	$ 238,594	9,716	4
Trading-related assets:								
Trading account securities	$	**109,803**	115,937	(6,134)	(5)	$ 108,127	7,810	7
Reverse repurchase agreements/securities borrowed		**71,485**	89,190	(17,705)	(20)	73,793	15,397	21
Derivative assets		**21,986**	12,762	9,224	72	11,587	1,175	10
Total trading-related assets	$	**203,274**	217,889	(14,615)	(7)	$ 193,507	24,382	13
Total assets		**521,861**	520,973	888	—	485,173	35,800	7
Total deposits		**234,332**	238,651	(4,319)	(2)	229,739	8,912	4
Allocated capital		**34,000**	31,500	2,500	8	33,000	(1,500)	(5)
Selected Balance Sheet Data (period-end)								
Loans:								
Commercial and industrial	$	**160,000**	173,985	(13,985)	(8)	$ 170,480	3,505	2
Commercial real estate		**84,456**	79,451	5,005	6	79,525	(74)	—
Total loans	$	**244,456**	253,436	(8,980)	(4)	$ 250,005	3,431	1
Loans by Line of Business:								
Banking	$	**84,640**	93,117	(8,477)	(9)	$ 91,685	1,432	2
Commercial Real Estate		**107,207**	103,938	3,269	3	104,828	(890)	(1)
Markets		**52,609**	56,381	(3,772)	(7)	53,492	2,889	5
Total loans	$	**244,456**	253,436	(8,980)	(4)	$ 250,005	3,431	1
Trading-related assets:								
Trading account securities	$	**109,311**	124,808	(15,497)	(12)	$ 112,858	11,950	11
Reverse repurchase agreements/securities borrowed		**57,248**	90,077	(32,829)	(36)	74,615	15,462	21
Derivative assets		**25,916**	14,382	11,534	80	10,798	3,584	33
Total trading-related assets	$	**192,475**	229,267	(36,792)	(16)	$ 198,271	30,996	16
Total assets		**508,793**	538,383	(29,590)	(5)	498,212	40,171	8
Total deposits		**203,004**	261,134	(58,130)	(22)	236,706	24,428	10

Full year 2020 vs. full year 2019

Total assets (period-end) decreased predominantly due to a decline in loan balances driven by lower loan demand and higher paydowns reflecting continued client liquidity and strength in the capital markets, as well as a decline in trading-related assets reflecting continued actions to manage under the asset cap.

Total deposits (period-end) decreased reflecting continued actions to manage under the asset cap.

Full year 2019 vs. full year 2018

Total assets (average and period-end) increased driven by growth in commercial and industrial loans and trading-related assets reflecting increased customer activity.

Total deposits (period-end) increased driven by growth in Commercial Real Estate and Markets.

Wealth and Investment Management provides personalized wealth management, investment and retirement products and services to clients across U.S.-based businesses including Wells Fargo Advisors, The Private Bank, Abbot Downing, and Wells Fargo Asset Management (WFAM). We serve clients' brokerage needs, and deliver financial planning, private banking, credit, and fiduciary services to high-net worth and ultra-high-net worth individuals and families. We also provide investment management capabilities delivered to global investment institutional clients through separate accounts and the Wells Fargo Funds. Table 8g, Table 8h, and Table 8i provide additional information for Wealth and Investment Management.

Table 8g: Wealth and Investment Management

							Year ended December 31,
($ in millions, unless otherwise noted)	**2020**	2019	$ Change 2020/ 2019	% Change 2020/ 2019	2018	$ Change 2019/ 2018	% Change 2019/ 2018
Income Statement							
Net interest income	**$ 2,993**	3,917	(924)	(24)%	$ 4,317	(400)	(9)%
Noninterest income:							
Brokerage fees	**9,070**	8,947	123	1	9,163	(216)	(2)
Trust and investment management fees	**2,383**	2,407	(24)	(1)	2,509	(102)	(4)
Other	**66**	461	(395)	(86)	(120)	581	484
Total noninterest income	**11,519**	11,815	(296)	(3)	11,552	263	2
Total revenue	**14,512**	15,732	(1,220)	(8)	15,869	(137)	(1)
Provision for credit losses	**249**	2	247	NM	(9)	11	122
Noninterest expense	**12,051**	13,363	(1,312)	(10)	12,551	812	6
Income before income tax expense	**2,212**	2,367	(155)	(7)	3,327	(960)	(29)
Income tax expense	**552**	590	(38)	(6)	831	(241)	(29)
Less: Net income from noncontrolling interests	**4**	9	(5)	(56)	1	8	800
Net income	**$ 1,656**	$ 1,768	(112)	(6)	$ 2,495	(727)	(29)
Selected Balance Sheet Data (average)							
Total loans	**$ 78,775**	74,986	3,789	5	$ 73,976	1,010	1
Total deposits	**162,521**	139,151	23,370	17	157,223	(18,072)	(11)
Allocated capital	**9,000**	9,000	—	—	9,500	(500)	(5)
Selected Balance Sheet Data (period-end)							
Total loans	**$ 80,785**	77,140	3,645	5	$ 74,132	3,008	4
Total deposits	**175,515**	143,873	31,642	22	155,384	(11,511)	(7)
Selected Metrics							
Return on allocated capital	**17.8 %**	19.0			25.5 %		
Efficiency ratio	**83**	85			79		
Headcount (#)	**29,515**	30,818		(4)	31,898		(3)
Advisory assets ($ in billions)	**$ 853**	778	75	10	$ 674	104	15
Total client assets ($ in billions)	**2,005**	1,886	119	6	1,708	178	10
Annualized revenue per advisor ($ in thousands) (1)	**942**	985	(43)	(4)	969	16	2
Total financial and wealth advisors (#)	**13,513**	14,414		(6)	14,885		(3)
Wells Fargo Asset Management assets under management ($ in billions)	**$ 603**	509	94	18	$ 466	43	9

NM – Not meaningful

(1) Represents annualized total revenue (excluding Wells Fargo Asset Management) divided by average total financial and wealth advisors for the period.

Full year 2020 vs. full year 2019

Revenue decreased driven by:

- lower net interest income reflecting the lower interest rate environment, partially offset by higher average deposit balances; and
- net losses from equity securities driven by a decline in deferred compensation plan investment results (largely offset by lower personnel expense);

partially offset by:

- higher asset-based brokerage fees.

Provision for credit losses increased due to current and forecasted economic conditions due to the impact of the COVID-19 pandemic.

Noninterest expense decreased due to:

- lower operating losses due to lower expense for litigation and customer remediation accruals;
- lower technology, telecommunications and equipment expense driven by impairments of capitalized software in 2019 reflecting a reevaluation of software under development, and the reversal of an accrual for software costs in 2020; and
- lower deferred compensation plan expense and lower incentive compensation expense;

partially offset by:

- higher financial advisor commissions expense due to higher brokerage fees.

Total loans (average and period-end) increased driven by growth in residential mortgage loans.

Total deposits (average and period-end) increased primarily due to growth in brokerage clients' cash balances.

Full year 2019 vs. full year 2018

Revenue decreased driven by:

- lower net interest income reflecting lower average deposit balances;

- lower brokerage fees driven by lower asset-based fees and retail brokerage transactional activity; and
- lower trust and investment fees reflecting the sale of our IRT business in 2019;

partially offset by:

- higher net gains from equity securities driven by an increase in deferred compensation plan investment results (largely offset by higher personnel expense), as well as an impairment in 2018 related to the sale of our ownership stake in The Rock Creek Group, LP (RockCreek).

Noninterest expense increased due to:

- higher personnel expense driven by higher deferred compensation plan expense (largely offset by net gains from equity securities);
- higher technology, telecommunications and equipment expense driven by impairments of capitalized software in 2019 reflecting a reevaluation of software under development; and
- higher operating losses due to higher expense for litigation and customer remediation accruals;

partially offset by:

- lower core deposit and other intangibles expense.

Total deposits (average and period-end) decreased as customers allocated more cash into higher yielding liquid alternatives.

WIM Advisory Assets In addition to transactional accounts, WIM offers advisory account relationships to brokerage customers. Fees from advisory accounts are based on a percentage of the market value of the assets as of the beginning of the quarter, which vary across the account types based on the distinct services provided, and are affected by investment performance as well as asset inflows and outflows. Advisory accounts include assets that are financial advisor-directed and separately managed by third-party managers, as well as certain client-directed brokerage assets where we earn a fee for advisory and other services, but do not have investment discretion.

WIM also manages personal trust and other assets for high net worth clients, with fee income earned based on a percentage of the market value of these assets. Table 8h presents advisory assets activity by WIM line of business for the years ended December 31, 2020, 2019 and 2018. Management believes that advisory assets is a useful metric because it allows management, investors, and others to assess how changes in asset amounts may impact the generation of certain asset-based fees.

For the years ended December 31, 2020, 2019 and 2018, the average fee rate by account type ranged from 50 to 120 basis points.

Table 8h: WIM Advisory Assets

						Year ended
(in billions)		Balance, beginning of period	Inflows (1)	Outflows (2)	Market impact (3)	Balance, end of period
December 31, 2020						
Client-directed (4)	**$**	**169.4**	**36.4**	**(38.2)**	**18.7**	**186.3**
Financial advisor-directed (5)		**176.3**	**40.6**	**(33.6)**	**27.7**	**211.0**
Separate accounts (6)		**160.1**	**24.6**	**(27.4)**	**17.3**	**174.6**
Mutual fund advisory (7)		**83.7**	**11.3**	**(13.9)**	**10.3**	**91.4**
Total Retail Brokerage	**$**	**589.5**	**112.9**	**(113.1)**	**74.0**	**663.3**
Total Private Wealth (8)		**188.0**	**34.0**	**(45.8)**	**13.2**	**189.4**
Total WIM advisory assets	**$**	**777.5**	**146.9**	**(158.9)**	**87.2**	**852.7**
December 31, 2019						
Client directed (4)	$	151.5	33.5	(41.8)	26.2	169.4
Financial advisor directed (5)		141.9	33.9	(34.7)	35.2	176.3
Separate accounts (6)		136.4	24.2	(29.7)	29.2	160.1
Mutual fund advisory (7)		71.3	11.8	(14.1)	14.7	83.7
Total Retail Brokerage	$	501.1	103.4	(120.3)	105.3	589.5
Total Private Wealth (8)		173.0	34.5	(43.8)	24.3	188.0
Total WIM advisory assets	$	674.1	137.9	(164.1)	129.6	777.5
December 31, 2018						
Client directed (4)	$	170.9	33.6	(41.0)	(12.0)	151.5
Financial advisor directed (5)		147.0	30.0	(32.9)	(2.2)	141.9
Separate accounts (6)		149.1	23.8	(29.1)	(7.4)	136.4
Mutual fund advisory (7)		75.8	12.8	(13.8)	(3.5)	71.3
Total Retail Brokerage	$	542.8	100.2	(116.8)	(25.1)	501.1
Total Private Wealth (8)		191.8	37.0	(42.9)	(12.9)	173.0
Total WIM advisory assets	$	734.6	137.2	(159.7)	(38.0)	674.1

(1) Inflows include new advisory account assets, contributions, dividends and interest.
(2) Outflows include closed advisory account assets, withdrawals and client management fees.
(3) Market impact reflects gains and losses on portfolio investments.
(4) Investment advice and other services are provided to client, but decisions are made by the client and the fees earned are based on a percentage of the advisory account assets, not the number and size of transactions executed by the client.
(5) Professionally managed portfolios with fees earned based on respective strategies and as a percentage of certain client assets.
(6) Professional advisory portfolios managed by Wells Fargo Asset Management or third-party asset managers. Fees are earned based on a percentage of certain client assets.
(7) Program with portfolios constructed of load-waived, no-load and institutional share class mutual funds. Fees are earned based on a percentage of certain client assets.
(8) Discretionary and non-discretionary portfolios held in personal trusts, investment agency, or custody accounts with fees earned based on a percentage of client assets.

Wells Fargo Asset Management (WFAM) Assets Under Management We earn trust and investment management fees from managing and administering assets through WFAM, which offers Wells Fargo proprietary mutual funds and manages institutional separate accounts. Generally, our trust and investment management fee income is earned from AUM where we have discretionary management authority over the investments and generate fees as a percentage of the market value of the AUM. WFAM assets under management consist of equity, alternative, balanced, fixed income, money market, and stable value, and include client assets that are managed or sub-advised on behalf of other Wells Fargo lines of business. Table 8i presents WFAM AUM activity for the years ended December 31, 2020, 2019 and 2018. Management believes that AUM is a useful metric because it allows management, investors, and others to assess how changes in asset amounts may impact the generation of certain asset-based fees.

Table 8i: WFAM Assets Under Management

						Year ended
(in billions)		Balance, beginning of period	Inflows (1)	Outflows (2)	Market impact (3)	Balance, end of period
December 31, 2020						
Money market funds (4)	**$**	**130.6**	**66.8**	**—**	**—**	**197.4**
Other assets managed		**378.2**	**101.3**	**(104.7)**	**30.8**	**405.6**
Total WFAM assets under management	**$**	**508.8**	**168.1**	**(104.7)**	**30.8**	**603.0**
December 31, 2019						
Money market funds (4)	$	112.4	18.2	—	—	130.6
Other assets managed		353.5	75.1	(86.1)	35.7	378.2
Total WFAM assets under management	$	465.9	93.3	(86.1)	35.7	508.8
December 31, 2018						
Money market funds (4)	$	108.2	4.2	—	—	112.4
Other assets managed		395.7	85.5	(120.2)	(7.5)	353.5
Total WFAM assets under management	$	503.9	89.7	(120.2)	(7.5)	465.9

(1) Inflows include new managed account assets, contributions, dividends and interest.
(2) Outflows include closed managed account assets, withdrawals and client management fees.
(3) Market impact reflects gains and losses on portfolio investments.
(4) Money Market funds activity is presented on a net inflow or net outflow basis, because the gross flows are not meaningful nor used by management as an indicator of performance.

Corporate includes corporate treasury and enterprise functions, net of allocations (including funds transfer pricing, capital, liquidity and certain expenses), in support of the reportable operating segments, as well as our investment portfolio and affiliated venture capital and private equity partnerships. In addition, Corporate includes all restructuring charges related to efficiency initiatives, as well as the headcount for approximately 2,800 employees who have been notified of displacement and were previously included in the reportable operating segments.

Corporate also includes certain lines of business that management has determined are no longer consistent with the long-term strategic goals of the Company, including our student loan and rail car leasing businesses, as well as previously divested businesses. Our rail car leasing business has long-lived operating lease assets (as a lessor) that can result in future impairments based on changing economic and market conditions affecting long-term demand for specific types of rail cars. Table 8j and Table 8k provide additional information for Corporate.

Table 8j: Corporate – Income Statement and Selected Metrics

									Year ended December 31,
($ in millions)		**2020**	2019	$ Change 2020/ 2019	% Change 2020/ 2019		2018	$ Change 2019/ 2018	% Change 2019/ 2018
Income Statement									
Net interest income	$	**247**	1,950	(1,703)	(87)%	$	2,259	(309)	(14)%
Noninterest income		**3,216**	5,859	(2,643)	(45)		4,013	1,846	46
Total revenue		**3,463**	7,809	(4,346)	(56)		6,272	1,537	25
Provision for credit losses		**(472)**	138	(610)	NM		(112)	250	223
Noninterest expense		**3,992**	3,317	675	20		2,574	743	29
Income (loss) before income tax expense (benefit)		**(57)**	4,354	(4,411)	NM		3,810	544	14
Income tax expense (benefit)		**(742)**	764	(1,506)	NM		1,596	(832)	(52)
Less: Net income from noncontrolling interests (1)		**277**	478	(201)	(42)		462	16	3
Net income	$	**408**	3,112	(2,704)	(87)	$	1,752	1,360	78
Headcount (#)		**83,394**	74,436		12		67,805		10

NM – Not meaningful
(1) Reflects results attributable to noncontrolling interests predominantly associated with the Company's consolidated venture capital investments.

Full year 2020 vs. full year 2019

Revenue decreased driven by:
- lower net interest income reflecting the lower interest rate environment, higher prepayments on debt securities, and a reduction in the investment portfolio due to actions taken to manage under the asset cap;
- lower gains reflecting gains in 2019 of $1.1 billion on the sale of our IRT business and $362 million on the sale of Eastdil, which also resulted in a decline in trust and

investment management fees and commercial real estate brokerage commissions in 2020; and
- lower net gains on equity securities from our affiliated venture capital partnerships, as well as a decline in deferred compensation plan investment results (largely offset by lower personnel expense);

partially offset by:
- higher gains on debt securities due to portfolio re-balancing and actions taken to manage under the asset cap.

Provision for credit losses decreased due to a reduction in the allowance for credit losses as a result of the reclassification of student loans to loans held for sale after the announced sale of the portfolio in fourth quarter 2020.

Noninterest expense increased due to:
- higher restructuring charges driven predominantly by personnel costs, as well as facility closure costs, related to our efficiency initiatives that commenced in third quarter 2020. All restructuring charges were included in Corporate. For additional information on restructuring charges, see Note 22 (Restructuring Charges) to Financial Statements in this Report; and
- increased operating losses due to higher expense for litigation and customer remediation accruals;

partially offset by:
- lower deferred compensation expense; and
- lower expenses related to businesses that were divested in 2019.

Full year 2019 vs. full year 2018

Revenue increased driven by:
- gains in 2019 of $1.1 billion on the sale of our IRT business and $362 million on the sale of Eastdil, partially offset by a gain on the sale of Wells Fargo Shareowner Services in 2018; and
- higher net gains from equity securities driven by an increase in deferred compensation plan investment results (largely offset by higher personnel expense);

partially offset by:
- lower net interest income related to businesses that were divested in 2018.

Provision for credit losses increased due to a reduction in the allowance for credit losses as a result of the sale of Reliable Financial Services, Inc. in 2018.

Noninterest expense increased due to:
- increased operating losses due to higher expense for litigation accruals, partially offset by lower expense for customer remediation accruals; and
- higher deferred compensation expense;

partially offset by:
- lower lease expense in the rail car leasing business due to portfolio run-off.

Corporate includes AUM and AUA for IRT client assets of $22 billion and $700 billion, respectively, at December 31, 2020, which we continue to administer at the direction of the buyer pursuant to a transition services agreement. The transition services agreement has been extended and will now terminate no later than December 2021.

Table 8k: Corporate – Balance Sheet

	Year ended December 31,						
(in millions)	2020	2019	$ Change 2020/ 2019	% Change 2020/ 2019	2018	$ Change 2019/ 2018	% Change 2019/ 2018
Selected Balance Sheet Data (average)							
Cash, cash equivalents, and restricted cash	$ **183,393**	130,504	52,889	41 %	$ 150,181	(19,677)	(13)%
Available-for-sale debt securities	**221,493**	252,099	(30,606)	(12)	248,883	3,216	1
Held-to-maturity debt securities	**172,755**	147,303	25,452	17	143,583	3,720	3
Equity securities	**12,123**	12,883	(760)	(6)	12,237	646	5
Total loans	**19,790**	18,540	1,250	7	16,407	2,133	13
Total assets	**673,440**	621,316	52,124	8	621,940	(624)	—
Total deposits	**56,692**	92,407	(35,715)	(39)	86,099	6,308	7
Selected Balance Sheet Data (period-end)							
Cash, cash equivalents, and restricted cash	$ **235,239**	111,384	123,855	111	$ 144,606	(33,222)	(23)
Available-for-sale debt securities	**208,694**	250,801	(42,107)	(17)	253,652	(2,851)	(1)
Held-to-maturity debt securities	**204,858**	153,142	51,716	34	144,278	8,864	6
Equity securities	**10,006**	13,390	(3,384)	(25)	12,184	1,206	10
Total loans	**10,623**	21,906	(11,283)	(52)	16,173	5,733	35
Total assets	**726,861**	608,712	118,149	19	620,048	(11,336)	(2)
Total deposits	**33,013**	75,998	(42,985)	(57)	96,752	(20,754)	(21)

Full year 2020 vs. full year 2019

Total assets (average and period-end) increased due to an increase in cash, cash equivalents, and restricted cash managed by corporate treasury reflecting significant liquidity as a result of an increase in deposits from the reportable operating segments.

Total deposits (average and period-end) decreased reflecting actions taken to manage under the asset cap.

Full year 2019 vs. full year 2018

Total deposits (average) increased reflecting higher brokered certificates of deposit (CDs).

Total deposits (period-end) decreased reflecting actions taken to manage under the asset cap.

At December 31, 2020, our assets totaled $1.96 trillion, up $27.6 billion from December 31, 2019.

The following discussion provides additional information about the major components of our consolidated balance sheet.

Available-for-Sale and Held-to-Maturity Debt Securities

Table 9: Available-for-Sale and Held-to-Maturity Debt Securities

		December 31, 2020				December 31, 2019			
($ in millions)		Amortized cost, net (1)	Net unrealized gain (loss)	Fair value	Weighted average expected maturity (yrs)	Amortized cost	Net unrealized gain (loss)	Fair value	Weighted average expected maturity (yrs)
Available-for-sale (2)		215,533	4,859	220,392	4.5	260,060	3,399	263,459	4.7
Held-to-maturity (3)		205,720	6,587	212,307	4.5	153,933	2,927	156,860	4.9
Total	$	421,253	11,446	432,699	n/a	413,993	6,326	420,319	n/a

(1) Represents amortized cost of the securities, net of the allowance for credit losses of $28 million related to available-for-sale debt securities and $41 million related to held-to-maturity debt securities at December 31, 2020. The allowance for credit losses related to available-for-sale and held-to-maturity debt securities was $0 at December 31, 2019, due to our adoption of CECL on January 1, 2020. For additional information, see Note 1 (Summary of Significant Accounting Policies) to Financial Statements in this Report.
(2) Available-for-sale debt securities are carried on the consolidated balance sheet at fair value.
(3) Held-to-maturity debt securities are carried on the consolidated balance sheet at amortized cost, net of the allowance for credit losses, subsequent to the adoption of CECL on January 1, 2020.

Table 9 presents a summary of our portfolio of investments in available-for-sale (AFS) and held-to-maturity (HTM) debt securities. The size and composition of our AFS and HTM debt securities is dependent upon the Company's liquidity and interest rate risk management objectives. The AFS debt securities portfolio can be used to meet funding needs that arise in the normal course of business or due to market stress. Changes in our interest rate risk profile may occur due to changes in overall economic or market conditions, which could influence loan origination demand, prepayment speeds, or deposit balances and mix. In response, the AFS debt securities portfolio can be rebalanced to meet the Company's interest rate risk management objectives. In addition to meeting liquidity and interest rate risk management objectives, the AFS and HTM debt securities portfolios may provide yield enhancement over other short-term assets. See the "Risk Management – Asset/Liability Management" section in this Report for more information on liquidity and interest rate risk.

The AFS debt securities portfolio primarily consists of liquid, high-quality U.S. Treasury and federal agency debt, and agency mortgage-backed securities (MBS). The portfolio also includes securities issued by U.S. states and political subdivisions, non-U.S. government securities, and highly rated collateralized loan obligations (CLOs). The fair value of AFS debt securities decreased from December 31, 2019, as purchases were more than offset by runoff, sales and transfers to HTM debt securities due to actions taken to reposition the overall portfolio for capital management purposes.

The HTM debt securities portfolio predominantly consists of liquid, high-quality U.S. Treasury and federal agency debt, and agency MBS. The portfolio also includes securities issued by U.S. states and political subdivisions and highly rated CLOs. Our intent is to hold these securities to maturity and collect the contractual cash flows. Debt securities are classified as HTM through purchases or through transfers from the AFS debt securities portfolio. The net amortized cost of HTM debt securities increased from December 31, 2019, as purchases and transfers from AFS debt securities were partially offset by runoff.

At December 31, 2020, 92% of the combined AFS and HTM debt securities portfolio was rated AA- or above. Ratings are based on external ratings where available and, where not available, based on internal credit grades.

The total net unrealized gains on AFS and HTM debt securities increased from December 31, 2019, driven by lower interest rates. See Note 3 (Available-for-Sale and Held-to-Maturity Debt Securities) to Financial Statements in this Report for additional information on AFS and HTM debt securities, including a summary of debt securities by security type.

Loan Portfolios

Table 10 provides a summary of total outstanding loans by portfolio segment. Commercial loans decreased from December 31, 2019, driven by:
- lower demand for originations of new loans and lower utilization on existing revolving loans in commercial and industrial loans; and
- loan paydowns on continued customer liquidity from strength in capital markets.

Consumer loans decreased from December 31, 2019, due to:
- paydowns exceeding originations in first and junior lien mortgage loans; and
- lower consumer spending and originations in credit cards;

partially offset by:
- the repurchase of $30.0 billion of first lien mortgage loans from Government National Mortgage Association (GNMA) loan securitization pools.

Table 10: Loan Portfolios

(in millions)		December 31, 2020	December 31, 2019
Commercial	$	478,417	515,719
Consumer		409,220	446,546
Total loans	$	887,637	962,265
Change from prior year	$	(74,628)	9,155

Average loan balances and a comparative detail of average loan balances is included in Table 3 under "Earnings Performance – Net Interest Income" earlier in this Report. Additional information on total loans outstanding by portfolio segment and class of financing receivable is included in the "Risk Management – Credit Risk Management" section in this Report. Period-end balances and other loan related information are in Note 4 (Loans and Related Allowance for Credit Losses) to Financial Statements in this Report.

Table 11 shows contractual maturities for selected classes of commercial loans and the distribution of loans to changes in interest rates.

Table 11: Maturities for Selected Commercial Loan Categories

	December 31, 2020			
(in millions)	Within one year	After one year through five years	After five years	Total
Selected loan maturities:				
Commercial and industrial	$ 124,270	171,314	23,221	318,805
Real estate mortgage	29,824	62,477	29,419	121,720
Real estate construction	10,620	10,737	448	21,805
Total selected loans	$ 164,714	244,528	53,088	462,330
Distribution of loans to changes in interest rates:				
Loans at fixed interest rates	$ 22,983	31,656	20,946	75,585
Loans at floating/variable interest rates	141,731	212,872	32,142	386,745
Total selected loans	$ 164,714	244,528	53,088	462,330

Deposits

Deposits increased from December 31, 2019, reflecting:
- consumer and wealth customers' preferences for liquidity given the economic uncertainty associated with the COVID-19 pandemic, loan payment deferrals, government stimulus programs, and lower customer spending; and
- an increase in mortgage escrow deposits reflecting an inflow of mortgage payoffs to be remitted to investors in accordance with servicing contracts;

partially offset by:
- actions taken to manage under the asset cap resulting in declines in time deposits, such as brokered certificates of deposit (CDs), and interest-bearing deposits in non-U.S. offices.

In fourth quarter 2020, we ceased the reclassification of certain transactional demand deposit balances to non-transactional deposit balances based on a final rule issued by the FRB, which amended the FRB reserve requirements of depository institutions. As a result, approximately $380 billion of balances were classified as interest-bearing demand deposits, which were previously classified as savings deposits.

Table 12 provides additional information regarding deposits. Information regarding the impact of deposits on net interest income and a comparison of average deposit balances is provided in the "Earnings Performance – Net Interest Income" section and Table 3 earlier in this Report.

Table 12: Deposits

($ in millions)	**Dec 31, 2020**	**% of total deposits**	Dec 31, 2019	% of total deposits	% Change
Noninterest-bearing demand deposits	**$ 467,068**	**33 %**	$ 344,496	26 %	36
Interest-bearing demand deposits	**447,446**	**32**	62,814	5	612
Savings deposits	**404,935**	**29**	751,080	57	(46)
Time deposits	**49,775**	**4**	110,324	8	(55)
Interest-bearing deposits in non-U.S. offices	**35,157**	**2**	53,912	4	(35)
Total deposits	**$ 1,404,381**	**100 %**	$ 1,322,626	100 %	6

Equity

Total equity was $185.9 billion at December 31, 2020, compared with $188.0 billion at December 31, 2019. The decrease was driven by:
- common stock repurchases of $3.4 billion (substantially all of which occurred in first quarter 2020); and
- dividends of $6.3 billion;

partially offset by:
- net income of $3.3 billion; and
- issuances of common stock of $2.7 billion predominantly related to employee stock ownership plans.

Off-Balance Sheet Arrangements

In the ordinary course of business, we engage in financial transactions that are not recorded on the consolidated balance sheet, or may be recorded on the consolidated balance sheet in amounts that are different from the full contract or notional amount of the transaction. Our off-balance sheet arrangements include commitments to lend and purchase debt and equity securities, transactions with unconsolidated entities, guarantees, derivatives, and other commitments. These transactions are designed to (1) meet the financial needs of customers, (2) manage our credit, market or liquidity risks, and/or (3) diversify our funding sources.

Commitments to Lend

We enter into commitments to lend to customers, which are usually at a stated interest rate, if funded, and for specific purposes and time periods. When we enter into commitments, we are exposed to credit risk. The maximum credit risk for these commitments will generally be lower than the contractual amount because a significant portion of these commitments are not funded. For additional information, see Note 4 (Loans and Related Allowance for Credit Losses) to Financial Statements in this Report.

Transactions with Unconsolidated Entities

In the normal course of business, we enter into various types of on- and off-balance sheet transactions with special purpose entities (SPEs), which are corporations, trusts, limited liability companies or partnerships that are established for a limited purpose. Generally, SPEs are formed in connection with securitization transactions and are considered variable interest entities (VIEs). For additional information, see Note 8 (Securitizations and Variable Interest Entities) to Financial Statements in this Report.

Guarantees and Other Arrangements

Guarantees are contracts that contingently require us to make payments to a guaranteed party based on an event or a change in an underlying asset, liability, rate or index. Guarantees are generally in the form of standby letters of credit, direct pay letters of credit, written options, recourse obligations, exchange and clearing house guarantees, indemnifications, and other types of similar arrangements. For additional information, see Note 13 (Guarantees and Other Commitments) to Financial Statements in this Report.

Commitments to Purchase Debt and Equity Securities

We enter into commitments to purchase securities under resale agreements. We also may enter into commitments to purchase debt and equity securities to provide capital for customers' funding, liquidity or other future needs. For additional information, see Note 13 (Guarantees and Other Commitments) to Financial Statements in this Report.

Derivatives

We use derivatives to manage exposure to market risk, including interest rate risk, credit risk and foreign currency risk, and to assist customers with their risk management objectives. Derivatives are recorded on the consolidated balance sheet at fair value, and volume can be measured in terms of the notional amount, which is generally not exchanged, but is used only as the basis on which interest and other payments are determined. The notional amount is not recorded on the consolidated balance sheet and is not, when viewed in isolation, a meaningful measure of the risk profile of the instruments. For additional information, see Note 16 (Derivatives) to Financial Statements in this Report.

Wells Fargo manages a variety of risks that can significantly affect our financial performance and our ability to meet the expectations of our customers, shareholders, regulators and other stakeholders.

Risk is Part of our Business Model. The Company measures and manages risk as part of our business, including in connection with the products and services we offer to our customers. The risks we take include financial, such as credit, interest rate, market, liquidity and funding risks, and non-financial, such as operational including compliance and model risks, strategic and reputation risks.

Risk Profile. Our risk profile is a holistic view of all risks we hold at a point in time, including emerging risks. The Company monitors its risk profile, and the Board periodically reviews reports and analysis concerning our risk profile.

Risk Capacity. Risk capacity refers to the maximum level of risk that the Company could assume given its current level of resources before triggering regulatory and other constraints on its capital and liquidity needs.

Risk Appetite. Management defines and the Board approves the Company's risk appetite, which is the amount of risk the Company is comfortable taking given its current level of resources. Risk appetite defines which risks are acceptable and at what level and guides business and risk leaders. Risk appetite boundaries are set within the Company's risk capacity. The Company's risk appetite is articulated in a statement of risk appetite, which is approved at least annually by the Board. The Company continuously monitors its risk appetite, and the Board reviews periodic risk appetite reports and analysis.

Risk and Strategy. The Company's risk profile, risk capacity, risk appetite, and risk management effectiveness (i.e., the holistic measure of the quality and effectiveness of the Company's risk management activities, including the functional or programmatic use of controls and capabilities to manage risks) are considered in the strategic planning process, which is closely linked with the Company's capital planning process. The Company's Independent Risk Management (IRM) organization participates in strategic planning at several points in the process, providing challenge to and independent assessment of the Company's self-assessment of the risks associated with strategic planning initiatives. IRM also independently assesses the impact of the strategic plan on risk capacity, risk appetite, and risk management effectiveness at the principal line of business, enterprise function, and aggregate Company level. After review by management, the strategic plan is presented to the Board each year for review and approval.

Everyone Manages Risk. Every employee creates risk in the course of performing business activities and is required to manage that risk. Risk is everyone's responsibility. Every employee is required to comply with applicable laws, regulations, and Company policies.

Risk and Culture. Senior management sets the "tone at the top" by supporting a strong culture, defined by the Company's expectations, that guides how employees conduct themselves, work with colleagues, and make decisions. The Board holds senior management accountable for establishing and maintaining the right culture and effectively managing risk. Employees are strongly encouraged and expected to speak up when they see something that could cause harm to the Company's customers, communities, employees, shareholders, or reputation. Because risk management is everyone's responsibility, all employees are expected to challenge risk decisions when appropriate and to escalate their concerns when they have not been addressed. Employee performance evaluations are tied to, and take into account, effective risk management. The Company's performance management and incentive compensation programs are designed to establish a balanced framework for risk and reward under core principles that employees are expected to know and practice. The Board, through its Human Resources Committee, plays an important role in overseeing and providing credible challenge to the Company's performance management and incentive compensation programs.

Risk Management Framework. The Company's risk management framework sets forth the core principles on how the Company seeks to manage and govern its risk. Many Company policies and documents anchor to the risk management framework's core principles. The Board's Risk Committee annually reviews and approves the risk management framework.

Wells Fargo's top priority is to strengthen our company by building the right risk and control infrastructure. We continue to enhance our risk management programs, including our operational and compliance risk management as required by the FRB's February 2, 2018, and the CFPB/OCC's April 20, 2018, consent orders.

Risk Governance

Role of the Board. The Board oversees the Company's business, including its risk management. The Board assesses management's performance, provides credible challenge, and holds management accountable for maintaining an effective risk management program and for adhering to risk management expectations.

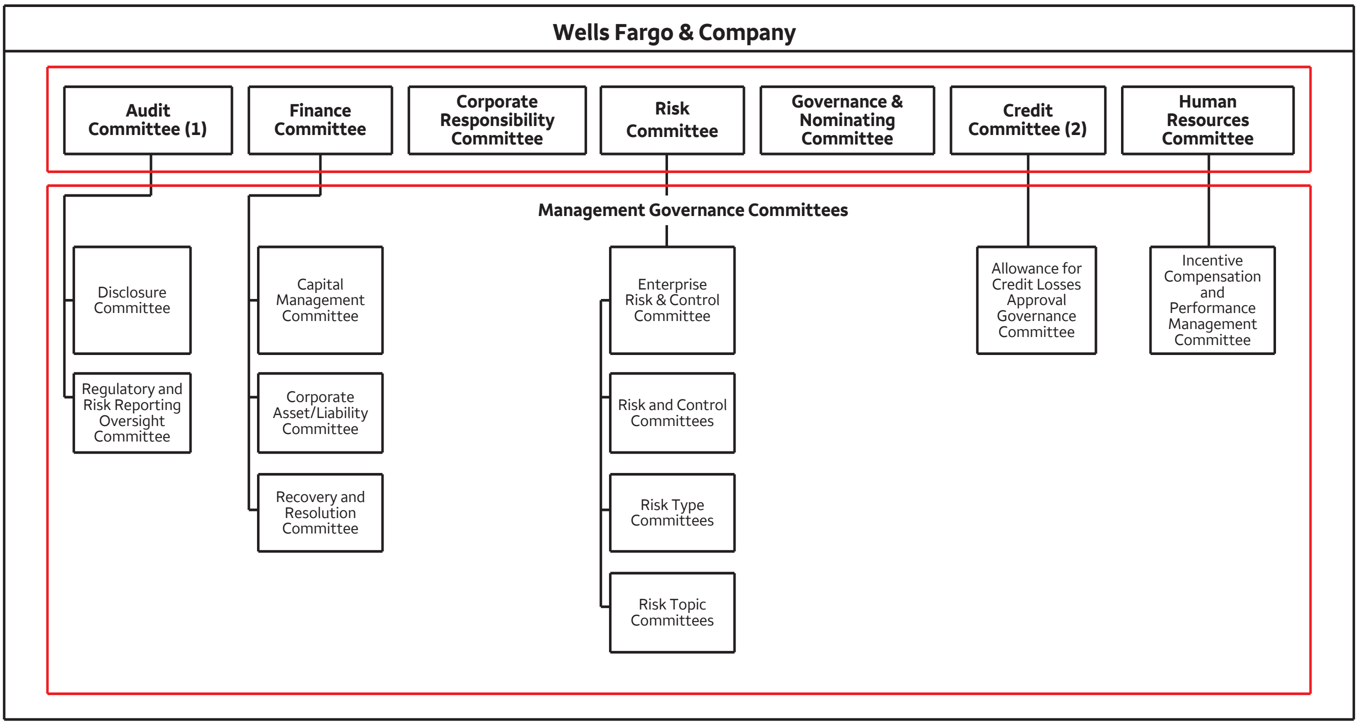
Board Committee Structure. The Board carries out its risk oversight responsibilities directly and through its committees. The Risk Committee approves the Company's risk management framework and oversees its implementation, including the processes established by management to identify, assess, measure, monitor, and manage risks. It also monitors the Company's adherence to its risk appetite. In addition, the Risk Committee oversees IRM and the performance of the Chief Risk Officer (CRO) who reports functionally to the Risk Committee and administratively to the CEO.

Management Committee Structure. The Company has established management committees, including those focused on risk, that support management in carrying out its governance and risk management responsibilities. One type of management committee is a governance committee, which is a decision making body that operates for a particular purpose.

Each management governance committee is expected to discuss, document, and make decisions regarding significant risk issues, emerging risks, and risk acceptances; review and monitor progress related to critical and high-risk issues and remediation efforts within its scope, including lessons learned; and report key challenges, decisions, escalations, other actions, and open issues as appropriate.

Table 13 presents, as of December 31, 2020, the structure of the Company's Board committees and management governance committees reporting to a Board committee, including relevant reporting and escalation paths.

Table 13: Board and Management-level Governance Committee Structure



(1) The Audit Committee additionally oversees the internal audit function; external auditor independence, activities, and performance; and the disclosure framework for financial, regulatory and risk reports prepared for the Board, management, and bank regulatory agencies; and assists the Board in its oversight of the Company's compliance with legal and regulatory requirements.
(2) Effective March 1, 2021, the Risk Committee will have primary oversight responsibility for credit risk and the Credit Committee will become a subcommittee of the Risk Committee.

Management Governance Committees Reporting to the Risk Committee of the Board. The Enterprise Risk & Control Committee (ERCC) governs the management of all risk types, including financial risks and non-financial risks. The ERCC receives information about risk and control events, addresses escalated risks and issues, actively oversees risk control, and provides regular updates to the Risk Committee regarding current and emerging risks and management's assessment of the effectiveness of the Company's risk management program.

The ERCC is co-chaired by the CEO and CRO, with membership comprised of the CEOs of our five principal lines of business (Consumer and Small Business Banking, Consumer Lending, Commercial Banking, Corporate and Investment Banking, and Wealth and Investment Management) and certain enterprise functions. The Chief Auditor or a designee attends all meetings of the ERCC. The ERCC has a direct escalation path to the Risk Committee. The ERCC also escalates market risks and issues and interest rate risks and issues to the Finance Committee and certain human capital risks and issues to the Human Resources Committee. In addition, the CRO has the authority to escalate risks and issues directly to the Board. Risks and issues are escalated to the ERCC in accordance with applicable policies and procedures governing escalations.

Each principal line of business and enterprise function has a risk and control committee, which is a management governance committee with a mandate that aligns with the ERCC but with its scope limited to the relevant principal line of business or enterprise function. The focus of these risk and control committees is on the risks that each principal line of business or enterprise function generates and is responsible for managing, and the controls each principal line of business or enterprise function is expected to have in place.

In addition to each risk and control committee, management governance committees dedicated to specific risk types and risk topics also report to the ERCC to help provide more comprehensive governance of risks.

Risk Operating Model – Roles and Responsibilities

The Company has three lines of defense: the front line, Independent Risk Management, and Internal Audit. Our risk operating model creates necessary interaction, interdependencies, and ongoing engagement among the lines of defense:

- **Front Line** The front line, which is composed of our five principal lines of business and certain activities of enterprise functions, is the first line of defense. In the course of its business activities, the front line identifies, measures and assesses, manages, controls, monitors, and reports on risk associated with its business activities and balances risk and reward in decision making while remaining within the Company's risk appetite.
- **Independent Risk Management** IRM is the second line of defense. It establishes and maintains the Company's risk management program and provides oversight, including challenge to and independent assessment of the front line's execution of its risk management responsibilities.
- **Internal Audit** Internal Audit is the third line of defense. It is responsible for acting as an independent assurance function and validates that the risk management program is adequately designed and functioning effectively.

Risk Type Classifications

The Company uses common classifications, hierarchies, and ratings to enable consistency across risk management programs and aggregation of information. Risk type classifications permit the Company to identify and prioritize its risk exposures, including emerging risk exposures.

Operational Risk Management

Operational risk, which in addition to those discussed in this section, includes compliance risk and model risk, is the risk resulting from inadequate or failed internal processes, people and systems, or from external events.

The Board's Risk Committee has primary oversight responsibility for all aspects of operational risk, including significant supporting programs and/or policies regarding the Company's business resiliency and disaster recovery, data management, information security, technology, and third-party risk management. As part of its oversight responsibilities, the Board's Risk Committee reviews and approves significant operational risk policies and oversees the Company's operational risk management program.

At the management level, Operational Risk Management, which is part of IRM, has oversight responsibility for operational risk. Operational Risk Management reports to the CRO and provides periodic reports related to operational risk to the Board's Risk Committee. Operational Risk Management's oversight responsibilities include change management risk, human capital risk, technology risk, third-party risk, information risk management, information security risk, and data management risk.

Information security is a significant operational risk for financial institutions such as Wells Fargo, and includes the risk arising from unauthorized access, use, disclosure, disruption, modification, or destruction of information or information systems. The Board is actively engaged in the oversight of the Company's information security risk management and cyber defense programs. The Board's Risk Committee has primary oversight responsibility for information security risk and approves the Company's information security program, which includes the information security policy and the cyber defense program. A Technology Subcommittee of the Risk Committee assists the Risk Committee in providing oversight of technology, information security, and cybersecurity risks as well as data management risk. The Technology Subcommittee reviews and recommends to the Risk Committee for approval any significant programs and/or policies supporting information security risk (including cybersecurity risk), technology risk, and data management risk. The Technology Subcommittee reports to the Risk Committee and both provide updates to the full Board.

Wells Fargo and other financial institutions continue to be the target of various evolving and adaptive cyber attacks, including malware, ransomware, phishing, and denial-of-service, as part of an effort to disrupt the operations of financial institutions, potentially test their cybersecurity capabilities, commit fraud, or obtain confidential, proprietary or other information. Cyber attacks have also focused on targeting online applications and services, such as online banking, as well as cloud-based and other products and services provided by third parties, and have targeted the infrastructure of the internet causing the widespread unavailability of websites and degrading website performance. Wells Fargo has not experienced any material losses relating to these or other types of cyber attacks. Cybersecurity risk is a priority for Wells Fargo, and we continue to develop and enhance our controls, processes and systems in order to protect our networks, computers, software and data from attack, damage or unauthorized access. Wells Fargo is also proactively involved in industry cybersecurity efforts and working with other parties, including our third-party service providers and governmental agencies, to continue to enhance defenses and improve resiliency to cybersecurity threats. See the "Risk Factors" section in this Report for additional information regarding the risks associated with a failure or breach of our operational or security systems or infrastructure, including as a result of cyber attacks.

Compliance Risk Management

Compliance risk (a type of operational risk) is the risk resulting from the failure to comply with laws (legislation, regulations and rules) and regulatory guidance, and the failure to appropriately address associated impacts, including to customers. Compliance risk encompasses violations of applicable internal policies, program requirements, procedures, and standards related to ethical principles applicable to the banking industry.

The Board's Risk Committee has primary oversight responsibility for all aspects of compliance risk, including financial crimes risk. As part of its oversight responsibilities, the Board's Risk Committee reviews and approves significant supporting compliance risk and financial crimes risk policies and programs and oversees the Company's compliance risk management and financial crimes risk management programs.

Conduct risk, a sub-category of compliance risk, is the risk of inappropriate, unethical, or unlawful behavior on the part of employees or individuals acting on behalf of the Company, caused by deliberate or unintentional actions or business practices. In connection with its oversight of conduct risk, the Board oversees the alignment of employee conduct to the Company's risk appetite (which the Board approves annually). The Board's Risk Committee has primary oversight responsibility for conduct risk and risk management components of the Company's culture, while the responsibilities of the Board's Human Resources Committee include oversight of the Company's culture, Code of Ethics and Business Conduct, human capital management (including talent management and succession planning), performance management program, and incentive compensation risk management program.

At the management level, the Compliance function, which is part of IRM, monitors the implementation of the Company's compliance and conduct risk programs. Financial Crimes Risk Management, which is part of the Compliance function, oversees and monitors financial crimes risk. The Compliance function reports to the CRO and provides periodic reports related to compliance risk to the Board's Risk Committee.

Model Risk Management

Model risk (a type of operational risk) is the risk arising from the potential for adverse consequences from decisions made based on model outputs that may be incorrect or used inappropriately.

The Board's Risk Committee has primary oversight responsibility for model risk. As part of its oversight responsibilities, the Board's Risk Committee oversees the Company's model risk management policy, model governance, model performance, model issue remediation status, and adherence to model risk appetite metrics.

At the management level, the Model Risk function, which is part of IRM, has oversight responsibility for model risk and is responsible for governance, validation and monitoring of model risk across the Company. The Model Risk function reports to the CRO and provides periodic reports related to model risk to the Board's Risk Committee.

Strategic Risk Management

Strategic risk is the risk to earnings, capital, or liquidity arising from adverse business decisions, improper implementation of strategic initiatives, or inadequate responses to changes in the external operating environment.

The Board has primary oversight responsibility for strategic planning and oversees management's development and implementation of and approves the Company's strategic plan, and considers whether it is aligned with the Company's risk appetite and risk management effectiveness. Management develops, executes and recommends significant strategic corporate transactions and the Board evaluates management's proposals, including their impact on the Company's risk profile and financial position. The Board's Risk Committee has primary oversight responsibility for the Company's strategic risk and the adequacy of the Company's strategic risk management program, including associated risk management practices, processes and controls. The Board's Risk Committee also receives updates from management regarding new business initiatives activity and risks related to new or changing products, as appropriate.

At the management level, the Strategic Risk Oversight function, which is part of IRM, has oversight responsibility for strategic risk. The Strategic Risk Oversight function reports into the CRO and supports periodic reports related to strategic risk provided to the Board's Risk Committee.

Reputation Risk Management

Reputation risk is the risk arising from the potential that negative stakeholder opinion or negative publicity regarding the Company's business practices, whether true or not, will adversely impact current or projected financial conditions and resilience, cause a decline in the customer base, or result in costly litigation. Stakeholders include employees, customers, communities, shareholders, regulators, elected officials, advocacy groups, and media organizations.

The Board's Risk Committee has primary oversight responsibility for reputation risk, while each Board committee has reputation risk oversight responsibilities related to their primary oversight responsibilities. As part of its oversight responsibilities, the Board's Risk Committee receives reports from management that help it monitor how effectively the Company is managing reputation risk. As part of its oversight responsibilities for social and public responsibility matters, the Board's Corporate Responsibility Committee receives reports from management relating to stakeholder perceptions of the Company.

At the management level, the Reputation Risk Oversight function, which is part of IRM, has oversight responsibility for reputation risk. The Reputation Risk Oversight function reports into the CRO and supports periodic reports related to reputation risk provided to the Board's Risk Committee.

Credit Risk Management

We define credit risk as the risk of loss associated with a borrower or counterparty default (failure to meet obligations in accordance with agreed upon terms). Credit risk exists with many of our assets and exposures such as debt security holdings, certain derivatives, and loans.

Effective March 1, 2021, the Board's Risk Committee will have primary oversight responsibility for credit risk and the Credit Committee will become a subcommittee of the Risk Committee. At the management level, Credit Risk, which is part of IRM, has oversight responsibility for credit risk. Credit Risk reports to the CRO and supports periodic reports related to credit risk provided to the Board's Risk Committee or its Credit Subcommittee.

Loan Portfolio

Our loan portfolios represent the largest component of assets on our consolidated balance sheet for which we have credit risk. Table 14 presents our total loans outstanding by portfolio segment and class of financing receivable.

Table 14: Total Loans Outstanding by Portfolio Segment and Class of Financing Receivable

(in millions)	Dec 31, 2020	Dec 31, 2019
Commercial:		
Commercial and industrial	$ 318,805	354,125
Real estate mortgage	121,720	121,824
Real estate construction	21,805	19,939
Lease financing	16,087	19,831
Total commercial	478,417	515,719
Consumer:		
Residential mortgage – first lien	276,674	293,847
Residential mortgage – junior lien	23,286	29,509
Credit card	36,664	41,013
Auto	48,187	47,873
Other consumer	24,409	34,304
Total consumer	409,220	446,546
Total loans	$ 887,637	962,265

We manage our credit risk by establishing what we believe are sound credit policies for underwriting new business, while monitoring and reviewing the performance of our existing loan portfolios. We employ various credit risk management and monitoring activities to mitigate risks associated with multiple risk factors affecting loans we hold including:

- Loan concentrations and related credit quality;
- Counterparty credit risk;
- Economic and market conditions;
- Legislative or regulatory mandates;
- Changes in interest rates;
- Merger and acquisition activities; and
- Reputation risk.

Our credit risk management oversight process is governed centrally, but provides for direct management and accountability by our lines of business. Our overall credit process includes comprehensive credit policies, disciplined credit underwriting, frequent and detailed risk measurement and modeling, extensive credit training programs, and a continual loan review and audit process.

A key to our credit risk management is adherence to a well-controlled underwriting process, which we believe is appropriate for the needs of our customers as well as investors who purchase the loans or securities collateralized by the loans.

Credit Quality Overview Credit quality in 2020 was affected by the economic impact that the COVID-19 pandemic had on our customer base. In particular:

- Nonaccrual loans were $8.7 billion at December 31, 2020, up from $5.3 billion at December 31, 2019. Commercial nonaccrual loans increased to $4.8 billion at December 31, 2020, compared with $2.3 billion at December 31, 2019, and consumer nonaccrual loans increased to $3.9 billion at December 31, 2020, compared with $3.1 billion at December 31, 2019. Nonaccrual loans represented 0.98% of total loans at December 31, 2020, compared with 0.56% at December 31, 2019.
- Net loan charge-offs as a percentage of our average commercial and consumer loan portfolios were 0.31% and 0.39%, respectively, in 2020, compared with 0.13% and 0.48% in 2019.
- Loans that are not government insured/guaranteed and 90 days or more past due and still accruing were $78 million and $612 million in our commercial and consumer portfolios, respectively, at December 31, 2020, compared with $78 million and $855 million at December 31, 2019.
- Our provision for credit losses for loans was $14.0 billion in 2020, compared with $2.7 billion in 2019.
- The ACL for loans increased to $19.7 billion, or 2.22% of total loans, at December 31, 2020, compared with $10.5 billion, or 1.09%, at December 31, 2019.

Additional information on our loan portfolios and our credit quality trends follows.

TROUBLED DEBT RESTRUCTURING RELIEF The CARES Act provides banks optional, temporary relief from accounting for certain loan modifications as TDRs. The modifications must be related to the adverse effects of COVID-19, and certain other criteria are required to be met in order to apply the relief. In first quarter 2020, we elected to apply the TDR relief provided by the CARES Act. On December 27, 2020, the CAA was signed into law which extended the expiration of the TDR relief to no later than January 1, 2022.

On April 7, 2020, federal banking regulators issued the *Interagency Statement on Loan Modifications and Reporting for Financial Institutions Working with Customers Affected by the Coronavirus (Revised)* (the Interagency Statement). The Interagency Statement provides additional TDR relief as it clarifies that it is not necessary to consider the impact of COVID-19 on the financial condition of a borrower in connection with short-term (e.g., six months or less) loan modifications related to COVID-19 provided the borrower is current at the date the modification program is implemented. For additional information regarding the TDR relief provided by the CARES Act and the clarifying TDR accounting guidance from the Interagency Statement, see Note 1 (Summary of Significant Accounting Policies) to Financial Statements in this Report.

The TDR relief provided under the CARES Act, as well as from the Interagency Statement, does not change our processes for monitoring the credit quality of our loan portfolios or for updating our measurement of the ACL for loans based on expected losses.

Additionally, our election to apply the TDR relief provided by the CARES Act and the Interagency Statement impacts our regulatory capital ratios as these loan modifications related to COVID-19 are not adjusted to a higher risk-weighting normally required with TDR classification.

COVID-Related Lending Accommodations During 2020, we provided accommodations to customers in response to the COVID-19 pandemic, including fee reversals for consumer and small business banking customers, and payment deferrals, fee waivers, covenant waivers, and other expanded assistance for mortgage, credit card, auto, small business, personal and commercial lending customers. Certain foreclosure, collection and credit bureau reporting activities were also suspended. Additionally, we deferred rental payments on certain leased assets for which we are the lessor.

Table 15 summarizes the unpaid principal balance (UPB) of consumer loans that received accommodations under loan modification programs established to assist customers with the economic impact of the COVID-19 pandemic (COVID-related modifications) and that remained in a deferral period as of December 31, 2020. These amounts included accommodations made for customers with loans reported on our consolidated balance sheet and excluded accommodations made for customers with loans that we service for others. COVID-related modifications primarily included payment deferrals of principal, interest or both, as well as interest and fee waivers. As of December 31, 2020, $1.7 billion of unpaid principal balance of commercial loans were still in a deferral period, which represented less than 1% of our total outstanding commercial loans.

Customer payment deferral activities instituted in response to the COVID-19 pandemic could continue to delay the recognition of net charge-offs, delinquencies, and nonaccrual status for those customers who would have otherwise moved into past due or nonaccrual status. As of December 31, 2020, the COVID-related modification programs described in Table 15 expired, except for the programs for residential mortgage loans. However, based on the terms of the modifications provided under the programs in Table 15, certain balances may remain in a deferral period during 2021. Customers requiring assistance after receiving payment deferrals under the programs described in Table 15 may be eligible to receive modifications consistent with those offered prior to the COVID-19 pandemic, such as interest rate reductions, term extensions, or principal forgiveness. Additional modifications provided to customers after their exit from COVID-related modification programs may be eligible for the TDR relief provided by the CARES Act and the Interagency Statement.

As of December 31, 2020, substantially all of our consumer loans were current after exiting the deferral period. Customer loans that are not further modified upon exit from the deferral period may be placed on nonaccrual status or charged-off in accordance with our policies if customers are unable to resume making payments in accordance with the contractual terms of their agreement. See Note 1 (Summary of Significant Accounting Policies) to Financial Statements in this Report for additional information on our nonaccrual and charge-off policies.

Of the total modifications granted during 2020, $6.9 billion of unpaid principal balance of consumer loans were classified as TDRs as of December 31, 2020, including $4.0 billion that were already classified as a TDR when the COVID-related modification was granted.

For information related to loans that are classified as TDRs, see Note 4 (Loans and Related Allowance for Credit Losses) to Financial Statements in this Report.

Table 15: Consumer Loan Modifications Related to COVID-19

($ in millions)		Unpaid principal balance of modified loans still in deferral period at Dec 31, 2020	% of loan class (1)	% current at Dec 31, 2020 after exit from deferral period (2)	General program description
Consumer:					
Residential mortgage – first lien	$	10,544	4 %	96	Initial deferral up to 90 days of scheduled principal and interest, with available extensions up to a total of 12 months.
Residential mortgage – junior lien		1,355	6	91	Initial deferral up to 90 days of scheduled principal and interest, with available extensions up to a total of 12 months.
Credit card		373	1	87	Initial 90 day deferral of minimum payment and waiver of interest and fees until June 2020, then initial or subsequent 60 day deferral of minimum payment and waiver of certain fees. Deferrals were limited to an initial period and one subsequent deferral; these programs are no longer being offered.
Auto		1,911	4	91	Initial 90 day deferral of scheduled principal and interest, with available extensions of 90 days. This program has expired and deferrals are no longer being offered.
Other consumer		126	1	91	Revolving lines: Initial 90 day deferral of minimum payment and waiver of interest and fees, with available extensions of 60 days. Installment loans: Initial 90 day deferral of scheduled principal and interest, with available extensions of 90 days. This program has expired and deferrals are no longer being offered.
Subtotal		14,309	3		
Residential mortgage – first lien (government insured/guaranteed) (3)		15,925	6		
Total consumer	$	30,234	7%		

(1) Based on total loans outstanding at December 31, 2020.
(2) Represents the UPB of loans that exited the deferral period and had a balance that was less than 30 days past due as of December 31, 2020.
(3) Represents residential mortgage – first lien loans insured by the Federal Housing Administration (FHA) or guaranteed by the Department of Veterans Affairs (VA) that were primarily repurchased from GNMA loan securitization pools. For additional information on GNMA loan securitization pools, see the "Risk Management – Credit Risk Management – Risks Relating to Servicing Activities" section in this Report. FHA/VA loans are entitled to payment deferrals of scheduled principal and interest up to a total of 12 months.

Significant Loan Portfolio Reviews Measuring and monitoring our credit risk is an ongoing process that tracks delinquencies, collateral values, Fair Isaac Corporation (FICO) scores, economic trends by geographic areas, loan-level risk grading for certain portfolios (typically commercial) and other indications of credit risk. Our credit risk monitoring process is designed to enable early identification of developing risk and to support our determination of an appropriate allowance for credit losses. The following discussion provides additional characteristics and analysis of our significant portfolios. See Note 4 (Loans and Related Allowance for Credit Losses) to Financial Statements in this Report for more analysis and credit metric information for each of the following portfolios.

COMMERCIAL AND INDUSTRIAL LOANS AND LEASE FINANCING For purposes of portfolio risk management, we aggregate commercial and industrial loans and lease financing according to market segmentation and standard industry codes. We generally subject commercial and industrial loans and lease financing to individual risk assessment using our internal borrower and collateral quality ratings. Our ratings are aligned to regulatory definitions of pass and criticized categories with criticized segmented among special mention, substandard, doubtful and loss categories.

We had $19.3 billion of the commercial and industrial loan and lease financing portfolio internally classified as criticized in accordance with regulatory guidance at December 31, 2020, compared with $16.6 billion at December 31, 2019, reflecting increases driven by the oil, gas and pipelines, real estate and construction, entertainment and recreation, and technology, telecom and media categories due to the economic impact of the COVID-19 pandemic.

The majority of our commercial and industrial loans and lease financing portfolio is secured by short-term assets, such as accounts receivable, inventory and debt securities, as well as long-lived assets, such as equipment and other business assets. Generally, the primary source of repayment for this portfolio is the operating cash flows of customers, with the collateral securing this portfolio representing a secondary source of repayment.

The decrease in loan balances in the portfolio at December 31, 2020, compared with December 31, 2019, was driven by lower loan demand and higher paydowns reflecting continued customer liquidity and strength in the capital markets. Table 16 provides our commercial and industrial loans and lease financing by industry. The industry categories are based on the North American Industry Classification System.

Table 16: Commercial and Industrial Loans and Lease Financing by Industry

	December 31, 2020				December 31, 2019			
(in millions)	Nonaccrual loans	Total portfolio	% of total loans	Total commitments (1)	Nonaccrual loans	Total portfolio	% of total loans	Total commitments (1)
Financials except banks	$ 160	117,726	13%	$ 206,999	$ 112	117,312	12%	$ 200,848
Technology, telecom and media	144	23,061	3	56,500	28	22,447	2	53,343
Real estate and construction	133	23,113	3	51,526	47	22,011	2	48,217
Retail	94	17,393	2	41,669	105	19,923	2	41,938
Equipment, machinery and parts manufacturing	81	18,158	2	41,332	36	23,457	2	42,040
Materials and commodities	39	12,071	1	33,879	33	16,375	2	39,369
Health care and pharmaceuticals	145	15,322	2	32,154	28	14,920	2	30,168
Oil, gas and pipelines	953	10,471	1	30,055	615	13,562	1	35,445
Food and beverage manufacturing	17	12,401	1	28,908	9	14,991	2	29,172
Auto related	79	11,817	1	25,034	24	15,996	2	26,310
Commercial services	107	10,284	1	24,442	50	10,455	*	22,713
Utilities	2	5,031	*	18,564	224	5,995	*	19,390
Entertainment and recreation	263	9,884	1	17,551	44	13,462	1	19,854
Transportation services	573	9,236	1	15,531	224	10,957	*	17,660
Diversified or miscellaneous	7	5,437	*	14,717	4	4,600	*	11,290
Insurance and fiduciaries	2	3,297	*	14,334	1	5,525	*	15,596
Banks	—	12,789	1	13,842	—	20,070	*	20,728
Agribusiness	81	6,314	*	11,642	35	7,539	*	12,901
Government and education	9	5,464	*	11,065	6	5,363	*	12,267
Other (2)	68	5,623	*	23,315	15	8,996	1%	21,698
Total	$ 2,957	334,892	33%	$ 713,059	$ 1,640	373,956	39 %	$ 720,947

* Less than 1%.
(1) Total commitments consist of loans outstanding plus unfunded credit commitments, excluding issued letters of credit.
(2) No other single industry had total loans in excess of $3.8 billion and $4.7 billion at December 31, 2020 and 2019, respectively.

Loans to financials except banks, our largest industry concentration, is predominantly comprised of loans to investment firms, financial vehicles, and nonbank creditors. We had $80.0 billion and $75.9 billion of loans originated by our Asset Backed Finance (ABF) and Financial Institution Group (FIG) lines of business at December 31, 2020, and December 31, 2019, respectively. These loans include: (i) loans to customers related to their subscription or capital calls, (ii) loans to nonbank lenders collateralized by commercial loans, and (iii) loans to originators or servicers of financial assets collateralized by residential real estate or other consumer loans such as credit cards, auto loans and leases, student loans and other financial assets eligible for the securitization market. These ABF and FIG loans are limited to a percentage of the value of the underlying financial assets considering underlying credit risk, asset duration, and ongoing performance. These ABF and FIG loans may also have other features to manage credit risk such as cross-collateralization, credit enhancements, and contractual re-margining of collateral supporting the loans. In addition, loans to financials except banks included CLOs in loan form, all of which were rated AA or above, of $7.9 billion and $7.0 billion at December 31, 2020, and December 31, 2019, respectively.

Oil, gas and pipelines loans included $7.5 billion and $9.2 billion of senior secured loans outstanding at December 31, 2020 and 2019, respectively. Oil, gas and pipelines nonaccrual loans increased at December 31, 2020, compared with December 31, 2019, due to new downgrades to nonaccrual status in 2020.

We continue to perform escalated credit monitoring for certain industries that we consider to be directly and most adversely affected by the COVID-19 pandemic.

Our commercial and industrial loans and lease financing portfolio also includes non-U.S. loans of $63.8 billion and $71.7 billion at December 31, 2020 and 2019, respectively. Significant industry concentrations of non-U.S. loans at December 31, 2020 and 2019, respectively, included:

- $36.2 billion and $31.2 billion in the financials except banks category;
- $12.8 billion and $19.9 billion in the banks category; and
- $1.6 billion and $1.5 billion in the oil, gas and pipelines category.

Risk mitigation actions, including the restructuring of repayment terms, securing collateral or guarantees, and entering into extensions, are based on a re-underwriting of the loan and our assessment of the borrower's ability to perform under the agreed-upon terms. Extension terms generally range from six to thirty-six months and may require that the borrower provide additional economic support in the form of partial repayment, or additional collateral or guarantees. In cases where the value of collateral or financial condition of the borrower is insufficient to repay our loan, we may rely upon the support of an outside repayment guarantee in providing the extension.

Our ability to seek performance under a guarantee is directly related to the guarantor's creditworthiness, capacity and willingness to perform, which is evaluated on an annual basis, or more frequently as warranted. Our evaluation is based on the most current financial information available and is focused on various key financial metrics, including net worth, leverage, and current and future liquidity. We consider the guarantor's reputation, creditworthiness, and willingness to work with us based on our analysis, as well as other lenders' experience with the guarantor. Our assessment of the guarantor's credit strength is reflected in our loan risk ratings for such loans. The loan risk rating and accruing status are important factors in our allowance for credit losses methodology.

In considering the accrual status of the loan, we evaluate the collateral and future cash flows, as well as the anticipated support of any repayment guarantor. In many cases, the strength of the guarantor provides sufficient assurance that full repayment of the loan is expected. When full and timely collection of the loan becomes uncertain, including the performance of the guarantor, we place the loan on nonaccrual status. As appropriate, we also charge the loan down in accordance with our charge-off policies, generally to the net realizable value of the collateral securing the loan, if any.

COMMERCIAL REAL ESTATE (CRE) We generally subject CRE loans to individual risk assessment using our internal borrower and collateral quality ratings. Our ratings are aligned to regulatory definitions of pass and criticized categories with criticized segmented among special mention, substandard, doubtful and loss categories. We had $12.0 billion of CRE mortgage loans and $1.6 billion of CRE construction loans classified as criticized at December 31, 2020, compared with $3.8 billion and $187 million, respectively, at December 31, 2019. The increase in criticized CRE mortgage and CRE construction loans was driven by the hotel/motel, shopping center, and retail (excluding shopping center) property types and reflected the economic impact of the COVID-19 pandemic. Due to the significant uncertainty related to the duration and severity of the economic impact of the COVID-19 pandemic, the credit quality of certain property types within our CRE loan portfolio, such as retail, hotel/motel, office buildings, and shopping centers, could continue to be adversely affected.

The total CRE loan portfolio increased $1.8 billion in 2020 driven by an increase in CRE construction loans predominantly related to the apartments property type. The CRE loan portfolio included $8.9 billion of non-U.S. CRE loans at December 31, 2020. The portfolio is diversified both geographically and by property type. The largest geographic concentrations of CRE loans are in California, New York, Florida and Texas, which combined represented 48% of the total CRE portfolio. The largest property type concentrations are office buildings at 26% and apartments at 19% of the portfolio. Table 17 summarizes CRE loans by state and property type with the related nonaccrual totals at December 31, 2020.

Table 17: CRE Loans by State and Property Type

							December 31, 2020
	Real estate mortgage		Real estate construction		Total		
(in millions)	Nonaccrual loans	Total portfolio	Nonaccrual loans	Total portfolio	Nonaccrual loans	Total portfolio	% of total loans
By state:							
California	$ 224	31,356	3	4,468	227	35,824	4 %
New York	71	12,341	2	2,030	73	14,371	2
Florida	28	8,169	1	1,471	29	9,640	1
Texas	336	7,823	6	1,209	342	9,032	1
Washington	144	3,890	6	924	150	4,814	*
North Carolina	11	3,863	—	728	11	4,591	*
Georgia	10	3,989	—	313	10	4,302	*
Arizona	50	3,897	—	321	50	4,218	*
New Jersey	88	2,884	—	895	88	3,779	*
Colorado	85	3,120	—	595	85	3,715	*
Other (1)	727	40,388	30	8,851	757	49,239	6
Total	$ 1,774	121,720	48	21,805	1,822	143,525	16 %
By property:							
Office buildings	$ 272	34,066	2	3,185	274	37,251	4 %
Apartments	30	19,722	—	8,187	30	27,909	3
Industrial/warehouse	86	15,666	1	1,442	87	17,108	2
Retail (excluding shopping center)	283	13,643	3	165	286	13,808	2
Hotel/motel	267	10,370	6	1,764	273	12,134	1
Shopping center	588	10,479	—	962	588	11,441	1
Institutional	72	4,171	21	2,521	93	6,692	*
Mixed use properties	98	5,357	—	835	98	6,192	*
Collateral pool	—	2,691	—	279	—	2,970	*
1-4 family structure	—	8	—	1,338	—	1,346	*
Other	78	5,547	15	1,127	93	6,674	*
Total	$ 1,774	121,720	48	21,805	1,822	143,525	16 %

* Less than 1%.
(1) Includes 40 states; no state in Other had loans in excess of $3.7 billion.

NON-U.S. LOANS Our classification of non-U.S. loans is based on whether the borrower's primary address is outside of the United States. At December 31, 2020, non-U.S. loans totaled $72.9 billion, representing approximately 8% of our total consolidated loans outstanding, compared with $80.5 billion, or approximately 8% of total consolidated loans outstanding, at December 31, 2019. Non-U.S. loans were approximately 4% of our consolidated total assets at both December 31, 2020 and 2019.

COUNTRY RISK EXPOSURE Our country risk monitoring process incorporates centralized monitoring of economic, political, social, legal, and transfer risks in countries where we do or plan to do business, along with frequent dialogue with our customers, counterparties and regulatory agencies. We establish exposure limits for each country through a centralized oversight process based on customer needs, and through consideration of the relevant and distinct risk of each country. We monitor exposures closely and adjust our country limits in response to changing conditions. We evaluate our individual country risk exposure based on our assessment of the borrower's ability to repay, which gives consideration for allowable transfers of risk, such as guarantees and collateral, and may be different from the reporting based on the borrower's primary address.

Our largest single country exposure outside the U.S., based on our assessment of risk at December 31, 2020, was the United Kingdom, which totaled $42.1 billion, or approximately 2% of our total assets, and included $15.4 billion of sovereign claims. Our United Kingdom sovereign claims arise predominantly from deposits we have placed with the Bank of England pursuant to regulatory requirements in support of our London branch.

Table 18 provides information regarding our top 20 exposures by country (excluding the U.S.), based on our assessment of risk, which gives consideration to the country of any guarantors and/or underlying collateral. With respect to Table 18:

- Lending and deposits exposure includes outstanding loans, unfunded credit commitments, and deposits with non-U.S. banks. These balances are presented prior to the deduction of allowance for credit losses or collateral received under the terms of the credit agreements, if any.
- Securities exposure represents debt and equity securities of non-U.S. issuers. Long and short positions are netted, and net short positions are reflected as negative exposure.
- Derivatives and other exposure represents foreign exchange contracts, derivative contracts, securities resale agreements, and securities lending agreements.

Table 18: Select Country Exposures

									December 31, 2020
	Lending and deposits		Securities		Derivatives and other		Total exposure		
(in millions)	Sovereign	Non-sovereign	Sovereign	Non-sovereign	Sovereign	Non-sovereign	Sovereign	Non-sovereign (1)	Total
Top 20 country exposures:									
United Kingdom	$ 15,366	23,859	—	980	8	1,852	15,374	26,691	42,065
Japan	20	772	16,815	10	—	9	16,835	791	17,626
Canada	3	15,671	21	(120)	2	484	26	16,035	16,061
Ireland (EU)	1,554	4,652	—	121	—	165	1,554	4,938	6,492
Cayman Islands	—	6,096	—	—	—	207	—	6,303	6,303
Luxembourg (EU)	—	4,030	—	118	—	213	—	4,361	4,361
Guernsey	—	3,753	—	—	—	5	—	3,758	3,758
China	—	2,792	(10)	434	115	61	105	3,287	3,392
Germany (EU)	—	3,146	33	65	4	66	37	3,277	3,314
Bermuda	—	2,927	—	48	—	164	—	3,139	3,139
Netherlands (EU)	—	2,441	—	536	—	161	—	3,138	3,138
South Korea	—	2,080	2	265	—	14	2	2,359	2,361
France (EU)	—	2,098	—	53	115	15	115	2,166	2,281
Switzerland	—	1,844	—	(72)	—	127	—	1,899	1,899
Australia	—	1,184	—	319	—	23	—	1,526	1,526
Brazil	—	1,387	—	2	1	—	1	1,389	1,390
Singapore	—	603	—	370	—	70	—	1,043	1,043
Norway	—	1,019	—	13	—	—	—	1,032	1,032
Hong Kong	—	939	—	(4)	3	4	3	939	942
United Arab Emirates	—	928	—	—	—	4	—	932	932
Total top 20 country exposures	$ 16,943	82,221	16,861	3,138	248	3,644	34,052	89,003	123,055

(1) Total non-sovereign exposure comprised $45.2 billion exposure to financial institutions and $43.8 billion to non-financial corporations at December 31, 2020.

RESIDENTIAL MORTGAGE LOANS Our residential mortgage loan portfolio is comprised of 1-4 family first and junior lien mortgage loans. Residential mortgage – first lien loans comprised 92% of the total residential mortgage loan portfolio at December 31, 2020, compared with 91% at December 31, 2019.

The residential mortgage loan portfolio includes some loans with adjustable-rate features and some with an interest-only feature as part of the loan terms. Interest-only loans were approximately 3% of total loans at both December 31, 2020 and 2019. We believe our origination process appropriately addresses our adjustable-rate mortgage (ARM) reset risk across our residential mortgage loan portfolios and our ACL for loans considers this risk. We do not offer option ARM products, nor do we offer variable-rate mortgage products with fixed payment amounts, commonly referred to within the financial services industry as negative amortizing mortgage loans. In connection with our adoption of CECL on January 1, 2020, our residential mortgage purchased credit-impaired (PCI) loans, which had a carrying value of $568 million, were reclassified as purchased credit deteriorated (PCD) loans. PCD loans are generally accounted for in the same manner as non-PCD loans. For additional information on PCD loans, see Note 1 (Summary of Significant Accounting Policies) to Financial Statements in this Report.

We continue to modify residential mortgage loans to assist homeowners and other borrowers experiencing financial difficulties. Loans are generally underwritten at the time of the modification in accordance with underwriting guidelines established for our loan modification programs. Under these programs, we may provide concessions such as interest rate reductions, forbearance of principal, and in some cases, principal forgiveness. These programs generally include trial payment periods of three to four months, and after successful completion and compliance with terms during this period, the loan is permanently modified. Loans included under these programs are accounted for as TDRs at the start of the trial period or at the time of permanent modification, if no trial period is used. See the "Critical Accounting Policies – Allowance for Credit Losses" section in this Report for discussion on how we determine the ACL attributable to our modified residential mortgage loan portfolios. For additional information on customer accommodations, including loan modifications, in response to the COVID-19 pandemic, see the "Risk Management – Credit Risk Management – COVID-Related Lending Accommodations" section in this Report.

We monitor changes in real estate values and underlying economic or market conditions for all geographic areas of our residential mortgage portfolios as part of our credit risk management process. Our underwriting and periodic review of loans and lines secured by residential real estate collateral includes original appraisals adjusted for the change in Home Price Index (HPI) or estimates from automated valuation models (AVMs) to support property values. AVMs are computer-based tools used to estimate the market value of homes. AVMs are a lower-cost alternative to appraisals and support valuations of large numbers of properties in a short period of time using market comparables and price trends for local market areas. The primary risk associated with the use of AVMs is that the value of an individual property may vary significantly from the average for the market area. We have processes to periodically validate AVMs and specific risk management guidelines addressing the circumstances when AVMs may be used. AVMs are not allowed in residential mortgage origination underwriting. Broker evaluations and enhanced desktop appraisal reports are allowed in junior lien originations and some first lien line of credit originations up to $250,000. An appraisal is required for all residential mortgage commitments greater than $250,000. Additional information about appraisals, AVMs, and our policy for their use can be found in Note 4 (Loans and Related Allowance for Credit Losses) to Financial Statements in this Report.

Part of our credit monitoring includes tracking delinquency, current FICO scores and loan/combined loan to collateral values (LTV/CLTV) on the entire residential mortgage loan portfolio. Excluding government insured/guaranteed loans, these credit risk indicators on the residential mortgage portfolio were:

- Loans 30 days or more delinquent at December 31, 2020, totaled $4.7 billion, or 2% of total mortgages, compared with $3.0 billion, or 1%, at December 31, 2019. Customer payment deferral activities instituted in response to the COVID-19 pandemic could continue to delay the recognition of delinquencies;
- Loans with FICO scores lower than 640 totaled $5.6 billion, or 2% of total mortgages at December 31, 2020, compared with $7.6 billion, or 2%, at December 31, 2019; and
- Mortgages with a LTV/CLTV greater than 100% totaled $1.6 billion at December 31, 2020, or 1% of total mortgages, compared with $2.5 billion, or 1%, at December 31, 2019.

Information regarding credit quality indicators can be found in Note 4 (Loans and Related Allowance for Credit Losses) to Financial Statements in this Report. Residential mortgage loans by state are presented in Table 19.

Table 19: Residential Mortgage Loans by State

				December 31, 2020
($ in millions)	Residential mortgage – first lien	Residential mortgage – junior lien	Total residential mortgage	% of total loans
Residential mortgage loans:				
California (1)	$ 104,260	6,237	110,497	12 %
New York	31,028	1,271	32,299	4
New Jersey	12,073	2,258	14,331	2
Florida	10,623	2,119	12,742	1
Washington	9,094	505	9,599	1
Texas	7,775	468	8,243	1
Virginia	6,811	1,355	8,166	1
North Carolina	4,986	1,102	6,088	1
Colorado	5,361	488	5,849	1
Other (2)	54,423	7,483	61,906	7
Government insured/guaranteed loans (3)	30,240	—	30,240	3
Total	$ 276,674	23,286	299,960	34 %

(1) Our residential mortgage loans to borrowers in California are located predominantly within the larger metropolitan areas, with no single California metropolitan area consisting of more than 4% of total loans.
(2) Consists of 41 states; no state in Other had loans in excess of $5.8 billion.
(3) Represents loans whose repayments are predominantly insured by the Federal Housing Administration (FHA) or guaranteed by the Department of Veterans Affairs (VA).

Residential Mortgage – First Lien Portfolio Our total residential mortgage – first lien portfolio decreased $17.2 billion in 2020, driven by loan paydowns as a result of the low interest rate environment, partially offset by mortgage loan originations of $57.6 billion and our repurchase of $30.0 billion of loans from GNMA loan securitization pools.

Table 20 shows certain delinquency and loss information for the residential mortgage – first lien portfolio and lists the top five states by outstanding balance.

Table 20: Residential Mortgage – First Lien Portfolio Performance

	Outstanding balance		% of loans 30 days or more past due		Loss (recovery) rate	
	December 31,		December 31,		Year ended December 31,	
($ in millions)	**2020**	2019	**2020**	2019	**2020**	2019
California	$ **104,260**	118,256	**1.00 %**	0.48	**(0.01)**	(0.02)
New York	**31,028**	31,336	**1.40**	0.83	**0.01**	0.02
New Jersey	**12,073**	14,113	**1.92**	1.40	**—**	0.02
Florida	**10,623**	11,804	**2.56**	1.81	**—**	(0.06)
Washington	**9,094**	10,863	**0.66**	0.29	**(0.01)**	(0.02)
Other	**79,356**	95,750	**1.60**	1.20	**0.01**	(0.02)
Total	**246,434**	282,122	**1.34**	0.86	**—**	(0.02)
Government insured/guaranteed loans	**30,240**	11,170				
PCI (1)	**N/A**	555				
Total first mortgage portfolio	$ **276,674**	293,847				

(1) In connection with our adoption of CECL on January 1, 2020, PCI loans were reclassified as PCD loans and are therefore included with other non-PCD loans in this table. For additional information, see Note 1 (Summary of Significant Accounting Policies) to Financial Statements in this Report.

Residential Mortgage – Junior Lien Portfolio The residential mortgage – junior lien portfolio consists of residential mortgage lines and loans that are subordinate in rights to an existing lien on the same property. It is not unusual for these lines and loans to have draw periods, interest-only payments, balloon payments, adjustable rates and similar features. Junior lien loan products are primarily amortizing payment loans with fixed interest rates and repayment periods between five to 30 years. We continuously monitor the credit performance of our residential mortgage – junior lien portfolio for trends and factors that influence the frequency and severity of losses, such as residential mortgage – junior lien performance when the residential mortgage – first lien loan is delinquent.

The decrease in the residential mortgage – junior lien portfolio at December 31, 2020, compared with December 31, 2019, predominantly reflected loan paydowns. Beginning in second quarter 2020, we suspended the origination of residential mortgage – junior lien loans. Table 21 shows certain delinquency and loss information for the residential mortgage – junior lien portfolio and lists the top five states by outstanding balance.

Table 21: Residential Mortgage – Junior Lien Portfolio Performance

	Outstanding balance		% of loans 30 days or more past due		Loss (recovery) rate	
	December 31,		December 31,		Year ended December 31,	
(in millions)	**2020**	2019	**2020**	2019	**2020**	2019
California	$ **6,237**	8,054	**2.20 %**	1.62	**(0.35)**	(0.44)
New Jersey	**2,258**	2,744	**2.84**	2.74	**(0.02)**	0.07
Florida	**2,119**	2,600	**3.06**	2.93	**(0.14)**	(0.09)
Pennsylvania	**1,377**	1,674	**2.30**	2.16	**(0.15)**	(0.10)
Virginia	**1,355**	1,712	**2.41**	1.97	**(0.10)**	(0.02)
Other	**9,940**	12,712	**2.31**	2.05	**(0.19)**	(0.18)
Total	**23,286**	29,496	**2.41**	2.07	**(0.21)**	(0.21)
PCI (1)	**N/A**	13				
Total junior lien mortgage portfolio	$ **23,286**	29,509				

(1) In connection with our adoption of CECL on January 1, 2020, PCI loans were reclassified as PCD loans and are therefore included with other non-PCD loans in this table. For additional information, see Note 1 (Summary of Significant Accounting Policies) to Financial Statements in this Report.

As of December 31, 2020, with respect to loans in the residential mortgage – junior lien portfolio that had a CLTV ratio in excess of 100%:

- such loans totaled 3% of the outstanding balance of the residential mortgage – junior lien portfolio;
- 3% were 30 days or more past due. Customer payment deferral activities instituted in response to the COVID-19 pandemic could continue to delay the recognition of delinquencies; and
- the unsecured portion (the outstanding amount that was in excess of the most recent property collateral value) of the outstanding balances of these loans totaled 1% of the residential mortgage – junior lien portfolio.

CLTV represents the ratio of the total loan balance of first and junior lien mortgages (including unused line amounts for credit line products) to property collateral value. For additional information on consumer loans by LTV/CLTV, see Table 4.12 in Note 4 (Loans and Related Allowance for Credit Losses) to Financial Statements in this Report.

Residential Mortgage – Junior Lien Line and Loan and Residential Mortgage – First Lien Line Our junior lien, as well as first lien, lines of credit portfolios generally have draw periods of 10, 15 or 20 years with variable interest rate and payment options available during the draw period of (1) interest-only or (2) 1.5% of outstanding principal balance plus accrued interest. As of December 31, 2020, lines of credit in a draw period primarily used the interest-only option.

During the draw period, the borrower has the option of converting all or a portion of the line from a variable interest rate to a fixed rate with terms including interest-only payments for a fixed period between three to seven years or a fully amortizing payment with a fixed period between five to 30 years. At the end of the draw period, a line of credit generally converts to an amortizing payment schedule with repayment terms of up to 30 years based on the balance at time of conversion. Certain lines and loans have been structured with a balloon payment, which requires full repayment of the outstanding balance at the end of the term period. The conversion of lines or loans to fully amortizing or balloon payoff may result in a significant payment increase, which can affect some borrowers' ability to repay the outstanding balance.

The lines that enter their amortization period may experience higher delinquencies and higher loss rates than the ones in their draw or term period. We have considered this increased risk in our ACL for loans estimate.

In anticipation of our borrowers reaching the end of their contractual commitment, we have created a program to inform, educate and help these borrowers transition from interest-only to fully-amortizing payments or full repayment. We monitor the performance of the borrowers moving through the program in an effort to refine our ongoing program strategy.

Table 22 reflects the outstanding balance of our portfolio of residential mortgage – junior liens, including lines and loans, and residential mortgage – first lien lines segregated into scheduled end of draw or end-of-term periods and products that are currently amortizing, or in balloon repayment status. The unfunded credit commitments for residential mortgage – junior and first lien lines totaled $53.6 billion at December 31, 2020.

Table 22: Residential Mortgage – Junior Lien Line and Loan and Residential Mortgage – First Lien Line Portfolios Payment Schedule

			Scheduled end of draw/term						
		Outstanding balance						2026 and	
($ in millions)		**December 31, 2020**	2021	2022	2023	2024	2025	thereafter (1)	Amortizing (2)
Residential mortgage – junior lien lines and loans	**$**	**23,286**	622	2,651	1,808	1,443	2,394	7,247	7,121
Residential mortgage – first lien lines		**8,879**	324	1,367	1,032	805	1,098	2,762	1,491
Total	**$**	**32,165**	946	4,018	2,840	2,248	3,492	10,009	8,612
% of portfolios		**100 %**	3	12	9	7	11	31	27

(1) Substantially all lines and loans are scheduled to convert to amortizing loans by the end of 2030, with annual scheduled amounts through 2030 ranging from $1.1 billion to $3.8 billion and averaging $2.0 billion per year.
(2) Includes $63 million of end-of-term balloon payments which were past due.

At December 31, 2020, $381 million, or 2%, of lines in their draw period were 30 days or more past due, compared with $378 million, or 5%, of amortizing lines of credit. Customer payment deferral activities instituted in response to the COVID-19 pandemic could continue to delay the recognition of delinquencies. On a monthly basis, we monitor the payment characteristics of borrowers in our residential mortgage – first and junior lien lines of credit portfolios. In December 2020, excluding borrowers with COVID-related loan modification payment deferrals:

- Approximately 43% of these borrowers paid only the minimum amount due and approximately 51% paid more than the minimum amount due. The rest were either delinquent or paid less than the minimum amount due.
- For the borrowers with an interest-only payment feature, approximately 28% paid only the minimum amount due and approximately 66% paid more than the minimum amount due.

Table 23: Credit Card, Auto, and Other Consumer Loans

		December 31, 2020			December 31, 2019	
($ in millions)		**Outstanding balance**	**% of total loans**		Outstanding balance	% of total loans
Credit card	**$**	**36,664**	**4.13%**	$	41,013	4.26%
Auto		**48,187**	**5.43**		47,873	4.98
Other consumer (1)		**24,409**	**2.75**		34,304	3.56
Total	**$**	**109,260**	**12.31%**	$	123,190	12.80%

(1) Other consumer loans primarily included securities-based loans.

CREDIT CARDS The decrease in the outstanding balance at December 31, 2020, compared with December 31, 2019, was driven by changes in consumer spending due to the economic impact of the COVID-19 pandemic.

AUTO The outstanding balance at December 31, 2020, compared with December 31, 2019, was flat as originations of $22.8 billion in 2020 were offset by paydowns.

OTHER CONSUMER The decrease in the outstanding balance at December 31, 2020, compared with December 31, 2019, was driven by $9.8 billion of student loans transferred to loans held for sale after the announced sale of our student loan portfolio in fourth quarter 2020.

NONPERFORMING ASSETS (NONACCRUAL LOANS AND FORECLOSED ASSETS) We generally place loans on nonaccrual status when:

- the full and timely collection of interest or principal becomes uncertain (generally based on an assessment of the borrower's financial condition and the adequacy of collateral, if any), such as in bankruptcy or other circumstances;
- they are 90 days (120 days with respect to residential mortgages) past due for interest or principal, unless the loan is both well-secured and in the process of collection or the loan is in an active payment deferral as a result of the COVID-19 pandemic;
- part of the principal balance has been charged off; or
- for junior lien mortgages, we have evidence that the related first lien mortgage may be 120 days past due or in the process of foreclosure regardless of the junior lien delinquency status.

Customer payment deferral activities instituted in response to the COVID-19 pandemic could continue to delay the recognition of nonaccrual loans for those customers who would have otherwise moved into nonaccrual status. For additional information on customer accommodations, including loan modifications, in response to the COVID-19 pandemic, see the "Risk Management – Credit Risk Management – COVID-Related Lending Accommodations" section in this Report.

Consumer credit card loans are not placed on nonaccrual status, but are generally fully charged off when the loan reaches 180 days past due.

Table 24 summarizes nonperforming assets (NPAs) for each of the last five years.

Table 24: Nonperforming Assets (Nonaccrual Loans and Foreclosed Assets)

					December 31,
(in millions)	**2020**	2019	2018	2017	2016
Nonaccrual loans:					
Commercial:					
Commercial and industrial	**$ 2,698**	1,545	1,486	1,899	3,199
Real estate mortgage	**1,774**	573	580	628	685
Real estate construction	**48**	41	32	37	43
Lease financing	**259**	95	90	76	115
Total commercial	**4,779**	2,254	2,188	2,640	4,042
Consumer:					
Residential mortgage – first lien (1)	**2,957**	2,150	3,183	3,732	4,516
Residential mortgage – junior lien (1)	**754**	796	945	1,086	1,206
Auto	**202**	106	130	130	106
Other consumer	**36**	40	50	58	51
Total consumer	**3,949**	3,092	4,308	5,006	5,879
Total nonaccrual loans (2)(3)	**$ 8,728**	5,346	6,496	7,646	9,921
As a percentage of total loans	**0.98 %**	0.56	0.68	0.80	1.03
Foreclosed assets:					
Government insured/guaranteed (4)	**$ 18**	50	88	120	197
Non-government insured/guaranteed	**141**	253	363	522	781
Total foreclosed assets	**159**	303	451	642	978
Total nonperforming assets	**$ 8,887**	5,649	6,947	8,288	10,899
As a percentage of total loans	**1.00 %**	0.59	0.73	0.87	1.13

(1) Residential mortgage loans predominantly insured by the FHA or guaranteed by the VA are not placed on nonaccrual status because they are insured or guaranteed.
(2) Financial information for periods prior to December 31, 2018, has been revised to exclude LHFS and loans held at fair value of $390 million and $463 million at December 31, 2017, and 2016, respectively.
(3) Prior to January 1, 2020, PCI loans were excluded from nonaccrual loans because they continued to earn interest income from accretable yield, independent of performance in accordance with their contractual terms. However, as a result of our adoption of CECL on January 1, 2020, $275 million of residential mortgage loans were reclassified from PCI to PCD loans, and as a result, were also classified as nonaccrual loans given their contractual delinquency. For additional information on PCD loans, see Note 1 (Summary of Significant Accounting Policies) to Financial Statements in this Report.
(4) Consistent with regulatory reporting requirements, foreclosed real estate resulting from government insured/guaranteed loans are classified as nonperforming. Both principal and interest related to these foreclosed real estate assets are collectible because the loans were predominantly insured by the FHA or guaranteed by the VA. Receivables related to the foreclosure of certain government guaranteed real estate mortgage loans are excluded from this table and included in Accounts Receivable in Other Assets. For more information on the classification of certain government-guaranteed mortgage loans upon foreclosure, see Note 1 (Summary of Significant Accounting Policies) to Financial Statements in this Report.

The increase in commercial nonaccrual loans at December 31, 2020, compared with December 31, 2019, was driven by:

- an increase in commercial and industrial loans in the oil and gas, transportation services, and entertainment and recreation portfolios; and
- an increase in commercial real estate mortgage loans in hotel/motel, shopping center, and office buildings property types reflecting the economic impact of the COVID-19 pandemic.

The increase in consumer nonaccrual loans at December 31, 2020, compared with December 31, 2019, was driven by:

- an increase in residential mortgage loans driven by COVID-related payment deferral programs that were classified as nonaccrual because they did not qualify for legislative or regulatory relief; and
- the implementation of CECL, which required PCI loans to be classified as nonaccruing based on performance.

Table 25 provides a summary of nonperforming assets during 2020.

Table 25: Nonperforming Assets by Quarter During 2020

(in millions)	December 31, 2020 Balance	December 31, 2020 % of total loans	September 30, 2020 Balance	September 30, 2020 % of total loans	June 30, 2020 Balance	June 30, 2020 % of total loans	March 31, 2020 Balance	March 31, 2020 % of total loans
Nonaccrual loans:								
Commercial:								
Commercial and industrial	**$ 2,698**	**0.85 %**	$ 2,834	0.88 %	$ 2,896	0.83 %	$ 1,779	0.44 %
Real estate mortgage	**1,774**	**1.46**	1,343	1.10	1,217	0.98	944	0.77
Real estate construction	**48**	**0.22**	34	0.15	34	0.16	21	0.10
Lease financing	**259**	**1.61**	187	1.10	138	0.79	131	0.68
Total commercial	**4,779**	**1.00**	4,398	0.91	4,285	0.83	2,875	0.51
Consumer:								
Residential mortgage – first lien (1)	**2,957**	**1.07**	2,641	0.90	2,393	0.86	2,372	0.81
Residential mortgage – junior lien (1)	**754**	**3.24**	767	3.05	753	2.81	769	2.70
Auto	**202**	**0.42**	176	0.36	129	0.26	99	0.20
Other consumer	**36**	**0.15**	40	0.12	45	0.14	41	0.12
Total consumer	**3,949**	**0.97**	3,624	0.83	3,320	0.79	3,281	0.74
Total nonaccrual loans	**8,728**	**0.98**	8,022	0.87	7,605	0.81	6,156	0.61
Foreclosed assets:								
Government insured/guaranteed (2)	**18**		22		31		43	
Non-government insured/guaranteed	**141**		134		164		209	
Total foreclosed assets	**159**		156		195		252	
Total nonperforming assets	**$ 8,887**	**1.00 %**	$ 8,178	0.89 %	$ 7,800	0.83 %	$ 6,408	0.63 %
Change in NPAs from prior quarter	**$ 709**		378		1,392		759	

(1) Residential mortgage loans predominantly insured by the FHA or guaranteed by the VA are not placed on nonaccrual status because they are insured or guaranteed.
(2) Consistent with regulatory reporting requirements, foreclosed real estate resulting from government insured/guaranteed loans are classified as nonperforming. Both principal and interest related to these foreclosed real estate assets are collectible because the loans were predominantly insured by the FHA or guaranteed by the VA. Receivables related to the foreclosure of certain government guaranteed real estate mortgage loans are excluded from this table and included in Accounts Receivable in Other Assets. For additional information on foreclosed assets, see Note 1 (Summary of Significant Accounting Policies) to Financial Statements in this Report.

Table 26 provides an analysis of the changes in nonaccrual loans. Typically, changes to nonaccrual loans period-over-period represent inflows for loans that are placed on nonaccrual status in accordance with our policies, offset by reductions for loans that are paid down, charged off, sold, foreclosed, or are no longer classified as nonaccrual as a result of continued performance and an improvement in the borrower's financial condition and loan repayment capabilities.

Table 26: Analysis of Changes in Nonaccrual Loans

(in millions)	Quarter ended Dec 31, 2020	Quarter ended Sep 30, 2020	Quarter ended Jun 30, 2020	Quarter ended Mar 31, 2020	Year ended Dec 31, 2020	Year ended Dec 31, 2019
Commercial nonaccrual loans						
Balance, beginning of period	**$ 4,398**	4,285	2,875	2,254	**2,254**	2,188
Inflows	**1,696**	1,316	2,741	1,479	**7,232**	3,221
Outflows:						
Returned to accruing	**(99)**	(166)	(64)	(56)	**(385)**	(265)
Foreclosures	**(37)**	—	—	—	**(37)**	(95)
Charge-offs	**(367)**	(382)	(560)	(360)	**(1,669)**	(740)
Payments, sales and other	**(812)**	(655)	(707)	(442)	**(2,616)**	(2,055)
Total outflows	**(1,315)**	(1,203)	(1,331)	(858)	**(4,707)**	(3,155)
Balance, end of period	**4,779**	4,398	4,285	2,875	**4,779**	2,254
Consumer nonaccrual loans						
Balance, beginning of period	**3,624**	3,320	3,281	3,092	**3,092**	4,308
Inflows (1)	**792**	696	379	749	**2,616**	1,910
Outflows:						
Returned to accruing	**(208)**	(160)	(135)	(254)	**(757)**	(999)
Foreclosures	**(5)**	(4)	(6)	(21)	**(36)**	(137)
Charge-offs	**(36)**	(36)	(39)	(48)	**(159)**	(172)
Payments, sales and other	**(218)**	(192)	(160)	(237)	**(807)**	(1,818)
Total outflows	**(467)**	(392)	(340)	(560)	**(1,759)**	(3,126)
Balance, end of period	**3,949**	3,624	3,320	3,281	**3,949**	3,092
Total nonaccrual loans	**$ 8,728**	8,022	7,605	6,156	**8,728**	5,346

(1) In connection with our adoption of CECL on January 1, 2020, we classified $275 million of PCD loans as nonaccruing based on performance.

We believe exposure to loss on nonaccrual loans is mitigated by the following factors at December 31, 2020:

- 95% of total commercial nonaccrual loans and 99% of total consumer nonaccrual loans are secured. Of the consumer nonaccrual loans, 94% are secured by real estate and 91% have a combined LTV (CLTV) ratio of 80% or less.
- losses of $732 million and $1.0 billion have already been recognized on 19% of commercial nonaccrual loans and 31% of consumer nonaccrual loans, respectively, in accordance with our charge-off policies. Once we write down loans to the net realizable value (fair value of collateral less estimated costs to sell), we re-evaluate each loan regularly and record additional write-downs if needed.
- 77% of commercial nonaccrual loans were current on interest and 70% of commercial nonaccrual loans were current on both principal and interest, but were on nonaccrual status because the full or timely collection of interest or principal had become uncertain.
- of the $1.2 billion of consumer loans in bankruptcy or discharged in bankruptcy, and classified as nonaccrual, $747 million were current.
- the remaining risk of loss of all nonaccrual loans has been considered in developing our allowance for loan losses.

If interest due on all nonaccrual loans (including loans that were, but are no longer on nonaccrual status at year end) had been accrued under the original terms, approximately $329 million of interest would have been recorded as income on these loans, compared with $303 million actually recorded as interest income in 2020, versus $361 million and $316 million, respectively, in 2019.

We continue to work with our customers experiencing financial difficulty to determine if they can qualify for a loan modification. Under our proprietary modification programs, customers may be required to provide updated documentation, and some programs require completion of payment during trial periods to demonstrate sustained performance before the loan can be removed from nonaccrual status.

Table 27 provides a summary of foreclosed assets and an analysis of changes in foreclosed assets.

Table 27: Foreclosed Assets

				Quarter ended			Year ended Dec 31,
(in millions)		**Dec 31, 2020**	Sep 30, 2020	Jun 30, 2020	Mar 31, 2020	**2020**	2019
Summary by loan segment							
Government insured/guaranteed	$	**18**	22	31	43	$ **18**	50
Commercial		**70**	39	45	49	**70**	62
Consumer		**71**	95	119	160	**71**	191
Total foreclosed assets		**159**	156	195	252	**159**	303
Analysis of changes in foreclosed assets							
Balance, beginning of period	$	**156**	195	252	303	$ **303**	451
Net change in government insured/guaranteed (1)		**(4)**	(9)	(12)	(7)	**(32)**	(38)
Additions to foreclosed assets (2)		**114**	60	51	107	**332**	698
Reductions:							
Sales		**(104)**	(88)	(98)	(154)	**(444)**	(809)
Write-downs and gains (losses) on sales		**(3)**	(2)	2	3	**—**	1
Total reductions		**(107)**	(90)	(96)	(151)	**(444)**	(808)
Balance, end of period	$	**159**	156	195	252	$ **159**	303

(1) Foreclosed government insured/guaranteed loans are temporarily transferred to and held by us as servicer, until reimbursement is received from FHA or VA.
(2) Includes loans moved into foreclosed assets from nonaccrual status and repossessed autos.

Foreclosed assets at December 31, 2020, included $73 million of foreclosed residential real estate, of which 24% is predominantly FHA insured or VA guaranteed and expected to have minimal or no loss content. The remaining amount of foreclosed assets has been written down to estimated net realizable value. Of the $159 million in foreclosed assets at December 31, 2020, 55% have been in the foreclosed assets portfolio for one year or less.

As part of our actions to support customers during the COVID-19 pandemic, we have temporarily suspended certain mortgage foreclosure activities, which has affected the amount of our foreclosed assets. For additional information on loans in process of foreclosure, see Note 4 (Loans and Related Allowance for Credit Losses) to Financial Statements in this Report.

TROUBLED DEBT RESTRUCTURINGS (TDRs) Table 28 and Table 29 provide information regarding the recorded investment of loans modified in TDRs.

Table 28: TDR Balances

(in millions)					December 31,
	2020	2019	2018	2017	2016
Commercial:					
Commercial and industrial	$ **1,933**	1,183	1,623	2,096	2,584
Real estate mortgage	**774**	669	704	901	1,119
Real estate construction	**15**	36	39	44	91
Lease financing	**9**	13	56	35	6
Total commercial TDRs	**2,731**	1,901	2,422	3,076	3,800
Consumer:					
Residential mortgage – first lien	**9,764**	7,589	10,629	12,080	14,134
Residential mortgage – junior lien	**1,237**	1,407	1,639	1,849	2,074
Credit card	**458**	520	449	356	300
Auto	**176**	81	89	87	85
Other consumer	**67**	170	154	126	101
Trial modifications	**90**	115	149	194	299
Total consumer TDRs	**11,792**	9,882	13,109	14,692	16,993
Total TDRs	$ **14,523**	11,783	15,531	17,768	20,793
TDRs on nonaccrual status	$ **4,456**	2,833	4,058	4,801	6,193
TDRs on accrual status:					
Government insured/guaranteed	**3,721**	1,190	1,299	1,359	1,526
Non-government insured/guaranteed	**6,346**	7,760	10,174	11,608	13,074
Total TDRs	$ **14,523**	11,783	15,531	17,768	20,793

TDRs at December 31, 2020, increased, compared with December 31, 2019, due to higher loan modifications as a result of the economic impact of the COVID-19 pandemic on our customers. The amount of our TDRs at December 31, 2020, would have otherwise been higher without the TDR relief provided by the CARES Act and Interagency Statement.

Table 29: TDRs Balance by Quarter During 2020

(in millions)	**Dec 31, 2020**	Sep 30, 2020	Jun 30, 2020	Mar 31, 2020
Commercial:				
Commercial and industrial	$ **1,933**	2,082	1,882	1,302
Real estate mortgage	**774**	805	717	697
Real estate construction	**15**	21	20	33
Lease financing	**9**	9	10	10
Total commercial TDRs	**2,731**	2,917	2,629	2,042
Consumer:				
Residential mortgage – first lien	**9,764**	9,420	7,176	7,284
Residential mortgage – junior lien	**1,237**	1,298	1,309	1,356
Credit card	**458**	494	510	527
Auto	**176**	156	108	76
Other consumer	**67**	190	173	172
Trial modifications	**90**	91	91	108
Total consumer TDRs	**11,792**	11,649	9,367	9,523
Total TDRs	$ **14,523**	14,566	11,996	11,565
TDRs on nonaccrual status	$ **4,456**	4,163	3,475	2,846
TDRs on accrual status:				
Government insured/guaranteed	**3,721**	3,467	1,277	1,157
Non-government insured/guaranteed	**6,346**	6,936	7,244	7,562
Total TDRs	$ **14,523**	14,566	11,996	11,565

In those situations where principal is forgiven, the entire amount of such forgiveness is immediately charged off. When we delay the timing on the repayment of a portion of principal (principal forbearance), we charge off the amount of forbearance if that amount is not considered fully collectible. The allowance for loan losses for TDRs was $565 million and $1.0 billion at December 31, 2020 and 2019, respectively. As part of our actions to support customers during the COVID-19 pandemic, we have provided borrowers relief in the form of loan modifications. Under the CARES Act and the Interagency Statement, loan modifications related to the COVID-19 pandemic will not be classified as TDRs if they meet certain eligibility criteria. For additional information on the CARES Act and the Interagency Statement, see the "Risk Management – Credit Risk Management – Credit Quality Overview – Troubled Debt Restructuring Relief" section in this Report.

Our nonaccrual policies are generally the same for all loan types when a restructuring is involved. We typically re-underwrite loans at the time of restructuring to determine whether there is sufficient evidence of sustained repayment capacity based on the borrower's documented income, debt to income ratios, and other factors. Loans lacking sufficient evidence of sustained repayment capacity at the time of modification are charged down to the fair value of the collateral, if applicable. For an accruing loan that has been modified, if the borrower has demonstrated performance under the previous terms and the underwriting process shows the capacity to continue to perform under the restructured terms, the loan will generally remain in accruing status. Otherwise, the loan will be placed in nonaccrual status and may be returned to accruing status when the borrower demonstrates a sustained period of performance, generally six consecutive months of payments, or equivalent, inclusive of consecutive payments made prior to modification. Loans will also be placed on nonaccrual status, and a corresponding charge-off is recorded to the loan balance, when we believe that principal and interest contractually due under the modified agreement will not be collectible. See Note 4 (Loans and Related Allowance for Credit Losses) to Financial Statements in this Report for additional information regarding TDRs.

Table 30 provides an analysis of the changes in TDRs. Loans modified more than once as a TDR are reported as inflows only in the period they are first modified. In addition to foreclosures, sales and transfers to held for sale, we may remove loans from TDR classification, but only if they have been refinanced or restructured at market terms and qualify as a new loan.

Table 30: Analysis of Changes in TDRs

				Quarter ended	Year ended Dec 31,	
(in millions)	**Dec 31, 2020**	Sep 30, 2020	Jun 30, 2020	Mar 31, 2020	**2020**	2019
Commercial TDRs						
Balance, beginning of period	$ **2,917**	2,629	2,042	1,901	**1,901**	2,422
Inflows (1)	**486**	866	971	452	**2,775**	1,540
Outflows						
Charge-offs	**(72)**	(77)	(60)	(56)	**(265)**	(195)
Foreclosure	**—**	—	—	—	**—**	(1)
Payments, sales and other (2)	**(600)**	(501)	(324)	(255)	**(1,680)**	(1,865)
Balance, end of period	**2,731**	2,917	2,629	2,042	**2,731**	1,901
Consumer TDRs						
Balance, beginning of period	**11,649**	9,367	9,523	9,882	**9,882**	13,109
Inflows (1)	**1,226**	2,805	425	312	**4,768**	1,485
Outflows						
Charge-offs	**(57)**	(58)	(46)	(63)	**(224)**	(234)
Foreclosure	**(5)**	(7)	(8)	(57)	**(77)**	(290)
Payments, sales and other (2)	**(1,020)**	(458)	(510)	(544)	**(2,532)**	(4,154)
Net change in trial modifications (3)	**(1)**	—	(17)	(7)	**(25)**	(34)
Balance, end of period	**11,792**	11,649	9,367	9,523	**11,792**	9,882
Total TDRs	$ **14,523**	14,566	11,996	11,565	**14,523**	11,783

(1) Inflows include loans that modify, even if they resolve within the period, as well as gross advances on term loans that modified in a prior period and net advances on revolving TDRs that modified in a prior period.

(2) Other outflows include normal amortization/accretion of loan basis adjustments and loans transferred to held for sale. Occasionally, loans that have been refinanced or restructured at market terms qualify as new loans, which are also included as other outflows.

(3) Net change in trial modifications includes: inflows of new TDRs entering the trial payment period, net of outflows for modifications that either (i) successfully perform and enter into a permanent modification, or (ii) did not successfully perform according to the terms of the trial period plan and are subsequently charged-off, foreclosed upon or otherwise resolved.

LOANS 90 DAYS OR MORE PAST DUE AND STILL ACCRUING Loans 90 days or more past due are still accruing if they are (1) well-secured and in the process of collection or (2) residential mortgage loans or consumer loans exempt under regulatory rules from being classified as nonaccrual until later delinquency, usually 120 days past due. Prior to January 1, 2020, PCI loans were excluded from loans 90 days or more past due and still accruing loans because they continued to earn interest income from accretable yield, independent of performance in accordance with their contractual terms. In connection with our adoption of CECL, PCI loans were reclassified as PCD loans and classified as accruing or nonaccruing based on performance.

Table 31 reflects loans 90 days or more past due and still accruing by class for loans not government insured/guaranteed.

Table 31: Loans 90 Days or More Past Due and Still Accruing (1)

					December 31,
(in millions)	2020	2019	2018	2017	2016
Total (2):	$ 7,041	7,285	8,704	11,532	11,437
Less: FHA insured/VA guaranteed (3)	6,351	6,352	7,725	10,475	10,467
Less: Student loans guaranteed under the FFELP (4)	—	—	—	—	3
Total, not government insured/guaranteed	$ 690	933	979	1,057	967
By segment and class, not government insured/guaranteed:					
Commercial:					
Commercial and industrial	$ 39	47	43	26	28
Real estate mortgage	38	31	51	23	36
Real estate construction	1	—	—	—	—
Total commercial	78	78	94	49	64
Consumer:					
Residential mortgage – first lien	135	112	124	213	170
Residential mortgage – junior lien	19	32	32	60	56
Credit card	365	546	513	492	452
Auto	65	78	114	143	112
Other consumer	28	87	102	100	113
Total consumer	612	855	885	1,008	903
Total, not government insured/guaranteed	$ 690	933	979	1,057	967

(1) Financial information for periods prior to December 31, 2018, has been revised to exclude LHFS and loans held at fair value, which reduced "Total, not government insured/guaranteed" by $6 million, $5 million and $4 million at December 31, 2018, 2017 and 2016, respectively.
(2) PCI loans totaling $102 million, $3.7 billion, $1.4 billion and $2.0 billion at December 31, 2019, 2018, 2017 and 2016, respectively, are excluded from this table. PCI loans were reclassified as PCD loans and classified as accruing or nonaccruing based on performance beginning January 1, 2020.
(3) Represents loans whose repayments are predominantly insured by the FHA or guaranteed by the VA.
(4) Represents loans whose repayments are primarily guaranteed by agencies on behalf of the U.S. Department of Education under the Federal Family Education Loan Program (FFELP). All remaining student loans guaranteed under the FFELP were sold as of March 31, 2017.

Excluding government insured/guaranteed loans, loans 90 days or more past due and still accruing at December 31, 2020, were down from December 31, 2019, due to lower delinquencies in consumer loans as payment deferral activities instituted in response to the COVID-19 pandemic delayed recognition of delinquencies for customers who would have otherwise moved into past due status.

Loans 90 days or more past due and still accruing whose repayments are predominantly insured by the FHA or guaranteed by the VA for mortgages at December 31, 2020, were flat compared with December 31, 2019, as our repurchases of accruing loans more than 90 days past due from GNMA loan securitization pools were offset by paydowns and transfers to LHFS. For additional information on delinquencies by loan class, see Note 4 (Loans and Related Allowance for Credit Losses) to Financial Statements in this Report.

NET CHARGE-OFFS Table 32 presents net charge-offs for the four quarters and full year of 2020 and 2019.

Table 32: Net Loan Charge-offs

	Year ended		Quarter ended							
	December 31,		December 31,		September 30,		June 30,		March 31,	
($ in millions)	Net loan charge-offs	% of avg. loans	Net loan charge-offs	% of avg. loans (1)	Net loan charge-offs	% of avg. loans (1)	Net loan charge-offs	% of avg. loans (1)	Net loan charge-offs	% of avg. loans (1)
2020										
Commercial:										
Commercial and industrial	**$ 1,239**	**0.36 %**	**$ 111**	**0.14 %**	**$ 274**	**0.33 %**	**$ 521**	**0.55 %**	**$ 333**	**0.37 %**
Real estate mortgage	**283**	**0.23**	**162**	**0.53**	**56**	**0.18**	**67**	**0.22**	**(2)**	**(0.01)**
Real estate construction	**(19)**	**(0.09)**	**—**	**—**	**(2)**	**(0.03)**	**(1)**	**(0.02)**	**(16)**	**(0.32)**
Lease financing	**87**	**0.49**	**35**	**0.83**	**28**	**0.66**	**15**	**0.33**	**9**	**0.19**
Total commercial	**1,590**	**0.31**	**308**	**0.26**	**356**	**0.29**	**602**	**0.44**	**324**	**0.25**
Consumer:										
Residential mortgage – first lien	**(5)**	**—**	**(3)**	**—**	**(1)**	**—**	**2**	**—**	**(3)**	**—**
Residential mortgage – junior lien	**(55)**	**(0.21)**	**(24)**	**(0.39)**	**(14)**	**(0.22)**	**(12)**	**(0.17)**	**(5)**	**(0.07)**
Credit card	**1,139**	**3.07**	**190**	**2.09**	**245**	**2.71**	**327**	**3.60**	**377**	**3.81**
Auto	**270**	**0.56**	**51**	**0.43**	**31**	**0.25**	**106**	**0.88**	**82**	**0.68**
Other consumer	**350**	**1.10**	**62**	**0.88**	**66**	**0.80**	**88**	**1.09**	**134**	**1.59**
Total consumer	**1,699**	**0.39**	**276**	**0.26**	**327**	**0.30**	**511**	**0.48**	**585**	**0.53**
Total	**$ 3,289**	**0.35 %**	**$ 584**	**0.26 %**	**$ 683**	**0.29 %**	**$ 1,113**	**0.46 %**	**$ 909**	**0.38 %**
2019										
Commercial:										
Commercial and industrial	$ 607	0.17 %	$ 168	0.19 %	$ 147	0.17 %	$ 159	0.18 %	$ 133	0.15 %
Real estate mortgage	6	—	4	0.01	(8)	(0.02)	4	0.01	6	0.02
Real estate construction	(12)	(0.06)	—	—	(8)	(0.14)	(2)	(0.04)	(2)	(0.04)
Lease financing	51	0.26	31	0.63	8	0.17	4	0.09	8	0.17
Total commercial	652	0.13	203	0.16	139	0.11	165	0.13	145	0.11
Consumer:										
Residential mortgage – first lien	(50)	(0.02)	(3)	—	(5)	(0.01)	(30)	(0.04)	(12)	(0.02)
Residential mortgage – junior lien	(66)	(0.21)	(16)	(0.20)	(22)	(0.28)	(19)	(0.24)	(9)	(0.10)
Credit card	1,370	3.53	350	3.48	319	3.22	349	3.68	352	3.73
Auto	306	0.67	87	0.73	76	0.65	52	0.46	91	0.82
Other consumer	550	1.59	148	1.71	138	1.60	136	1.56	128	1.47
Total consumer	2,110	0.48	566	0.51	506	0.46	488	0.45	550	0.51
Total	$ 2,762	0.29 %	$ 769	0.32 %	$ 645	0.27 %	$ 653	0.28 %	$ 695	0.30 %

(1) Quarterly net charge-offs (recoveries) as a percentage of average respective loans are annualized.

The increase in commercial net loan charge-offs in 2020 was driven by:

- higher commercial and industrial losses primarily in our oil, gas and pipelines portfolio; and
- higher commercial real estate mortgage losses.

The decrease in consumer net loan charge-offs in 2020 was driven by:

- lower losses in credit card and other consumer loans as a result of payment deferral activities in response to the COVID-19 pandemic.

The COVID-19 pandemic may continue to impact the credit quality of our loan portfolio. Although the potential impacts were considered in our allowance for credit losses for loans, payment deferral activities instituted in response to the COVID-19 pandemic could continue to delay the recognition of net loan charge-offs. For additional information on customer accommodations in response to the COVID-19 pandemic, see the "Risk Management – Credit Risk Management – COVID-Related Lending Accommodations" section in this Report.

ALLOWANCE FOR CREDIT LOSSES We maintain an allowance for credit losses (ACL) for loans, which is management's estimate of the expected credit losses in the loan portfolio and unfunded credit commitments, at the balance sheet date, excluding loans and unfunded credit commitments carried at fair value or held for sale. Additionally, we maintain an ACL for debt securities classified as either AFS or HTM, other financial assets measured at amortized cost, net investments in leases, and other off-balance sheet credit exposures.

We apply a disciplined process and methodology to establish our ACL each quarter. The process for establishing the ACL for loans takes into consideration many factors, including historical and forecasted loss trends, loan-level credit quality ratings and loan grade-specific characteristics. The process involves subjective and complex judgments. In addition, we review a variety of credit metrics and trends. These credit metrics and trends, however, do not solely determine the amount of the allowance as we use several analytical tools. For additional information on our ACL, see the "Critical Accounting Policies – Allowance for Credit Losses" section and Note 1 (Summary of Significant Accounting Policies) to Financial Statements in this Report. For additional information on our ACL for loans, see Note 4 (Loans and Related Allowance for Credit Losses) to Financial Statements in this Report, and for additional information on our ACL for debt securities, see the "Balance Sheet Analysis – Available-For-Sale and Held-To-Maturity Debt Securities" section and Note 3 (Available-for-Sale and Held-to-Maturity Debt Securities) to Financial Statements in this Report.

Table 33 presents the allocation of the ACL for loans by loan segment and class for the last five years.

Table 33: Allocation of the ACL for Loans (1)

	Dec 31, 2020		Dec 31, 2019		Dec 31, 2018		Dec 31, 2017		Dec 31, 2016	
($ in millions)	**ACL**	**Loans as % of total loans**	ACL	Loans as % of total loans	ACL	Loans as % of total loans	ACL	Loans as % of total loans	ACL	Loans as % of total loans
Commercial:										
Commercial and industrial	**$ 7,230**	**36 %**	$ 3,600	37 %	$ 3,628	37 %	$ 3,752	35 %	$ 4,560	34 %
Real estate mortgage	**3,167**	**14**	1,236	13	1,282	13	1,374	13	1,320	14
Real estate construction	**410**	**2**	1,079	2	1,200	2	1,238	3	1,294	2
Lease financing	**709**	**2**	330	2	307	2	268	2	220	2
Total commercial	**11,516**	**54**	6,245	54	6,417	54	6,632	53	7,394	52
Consumer:										
Residential mortgage – first lien	**1,600**	**31**	692	30	750	30	1,085	30	1,270	29
Residential mortgage – junior lien	**653**	**3**	247	3	431	3	608	4	815	5
Credit card	**4,082**	**4**	2,252	4	2,064	4	1,944	4	1,605	4
Auto	**1,230**	**5**	459	5	475	5	1,039	5	817	6
Other consumer	**632**	**3**	561	4	570	4	652	4	639	4
Total consumer	**8,197**	**46**	4,211	46	4,290	46	5,328	47	5,146	48
Total	**$ 19,713**	**100 %**	$ 10,456	100 %	$ 10,707	100 %	$ 11,960	100 %	$ 12,540	100 %

	Dec 31, 2020	Dec 31, 2019	Dec 31, 2018	Dec 31, 2017	Dec 31, 2016
Components:					
Allowance for loan losses	**$ 18,516**	9,551	9,775	11,004	11,419
Allowance for unfunded credit commitments	**1,197**	905	932	956	1,121
Allowance for credit losses	**$ 19,713**	10,456	10,707	11,960	12,540
Allowance for loan losses as a percentage of total loans	**2.09%**	0.99	1.03	1.15	1.18
Allowance for loan losses as a percentage of total net charge-offs	**563**	346	356	376	324
Allowance for credit losses for loans as a percentage of total loans	**2.22**	1.09	1.12	1.25	1.30
Allowance for credit losses for loans as a percentage of total nonaccrual loans	**226**	196	165	156	126

(1) Disclosure is not comparative due to our adoption of CECL on January 1, 2020. For additional information, see Note 1 (Summary of Significant Accounting Policies) to Financial Statements in this Report.

The ratios for the allowance for loan losses and the ACL for loans presented in Table 33 may fluctuate from period to period due to such factors as the mix of loan types in the portfolio, borrower credit strength, and the value and marketability of collateral.

The ACL for loans increased $9.3 billion, or 89%, from December 31, 2019, driven by a $10.6 billion increase in the ACL for loans in 2020, reflecting current and forecasted economic conditions due to the COVID-19 pandemic and their impact on borrower performance, partially offset by a $1.3 billion decrease as a result of adopting CECL. Total provision for credit losses for loans was $14.0 billion in 2020, compared with $2.7 billion in 2019. The increase in the provision for credit losses for loans in 2020, compared with 2019, reflected an increase in the ACL for loans due to the economic impact of the COVID-19 pandemic. The detail of the changes in the ACL for loans by portfolio segment (including charge-offs and recoveries by loan class) is included in Note 4 (Loans and Related Allowance for Credit Losses) to Financial Statements in this Report.

We consider multiple economic scenarios to develop our estimate of the ACL for loans. The scenarios generally include a base scenario, along with an optimistic (upside) and one or more pessimistic (downside) scenarios. Our estimate of the ACL for loans at December 31, 2020, was based on a weighting of the base and a downside economic scenario of 50% and 50%, respectively, with no weighting applied to an upside scenario. The base scenario assumed near-term economic stress recovering into late 2021. The downside scenario assumed more sustained adverse economic impacts resulting from the COVID-19 pandemic, compared with the base scenario. The downside scenario assumed U.S. real GDP increasing but not fully recovering during 2021, and a sustained elevation in the U.S. unemployment rate until mid-2022. We considered within each scenario our expectations for the impact of customer accommodation activity, as well as the estimated impact on certain industries that we consider to be directly and most adversely affected by the COVID-19 pandemic.

In addition to quantitative estimates, we consider qualitative factors that represent risks inherent in our processes and assumptions such as economic environmental factors, modeling assumptions and performance, and other subjective factors, including industry trends and emerging risk assessments. During 2020, we considered the significant uncertainty related to the duration and severity of the economic impacts from the COVID-19 pandemic and the incremental risks to our loan portfolio.

The forecasted key economic variables used in our estimate of the ACL for loans at September 30 and December 31, 2020, are presented in Table 34.

Table 34: Forecasted Key Economic Variables

	2Q 2021	4Q 2021	2Q 2022
Blend of economic scenarios (1):			
U.S. unemployment rate (2):			
Sep 30, 2020	7.3	6.0	5.3
Dec 31, 2020	**8.1**	**7.1**	**6.2**
U.S. real GDP (3):			
Sep 30, 2020	3.9	2.8	3.1
Dec 31, 2020	**5.5**	**4.5**	**4.0**
Home price index (4):			
Sep 30, 2020	(2.0)	(1.8)	1.4
Dec 31, 2020	**1.7**	**(0.2)**	**2.5**
Commercial real estate asset prices (4):			
Sep 30, 2020	(10.9)	(5.5)	0.1
Dec 31, 2020	**(9.2)**	**(9.8)**	**(5.3)**

(1) Represents a weighting of the forecasted economic variable inputs based on a weighting of 50% for the base and 50% for a downside scenario at December 31, 2020, and a weighting of 80% for the base and 20% for a downside scenario at September 30, 2020.
(2) Quarterly average.
(3) Percent change from the preceding period, seasonally adjusted annualized rate.
(4) Percent change year over year of national average; outlook differs by geography and property type.

Future amounts of the ACL for loans will be based on a variety of factors, including loan balance changes, portfolio credit quality and mix changes, and changes in general economic conditions and expectations (including for unemployment and GDP), among other factors. Based on economic conditions at the end of fourth quarter 2020, it was difficult to estimate the length and severity of the economic downturn that may result from the COVID-19 pandemic and the impact of other factors that may influence the level of eventual losses and corresponding requirements for future amounts of the ACL, including the impact of economic stimulus programs and customer accommodation activity. The COVID-19 pandemic could continue to impact the recognition of credit losses in our loan portfolios and may result in increases in our ACL, particularly if the impact on the economy worsens.

We believe the ACL for loans of $19.7 billion at December 31, 2020, was appropriate to cover expected credit losses, including unfunded credit commitments, at that date. The entire allowance is available to absorb credit losses from the total loan portfolio. The ACL for loans is subject to change and reflects existing factors as of the date of determination, including economic or market conditions and ongoing internal and external examination processes. Due to the sensitivity of the ACL for loans to changes in the economic and business environment, it is possible that we will incur incremental credit losses not anticipated as of the balance sheet date. Our process for determining the allowance for credit losses is discussed in the "Critical Accounting Policies – Allowance for Credit Losses" section and Note 1 (Summary of Significant Accounting Policies) to Financial Statements in this Report.

LIABILITY FOR MORTGAGE LOAN REPURCHASE LOSSES We sell residential mortgage loans to various parties, including (1) government-sponsored entities (GSEs) Federal Home Loan Mortgage Corporation (FHLMC) and Federal National Mortgage Association (FNMA) who include the mortgage loans in GSE-guaranteed mortgage securitizations, (2) SPEs that issue private label MBS, and (3) other financial institutions that purchase mortgage loans for investment or private label securitization. In addition, we pool FHA-insured and VA-guaranteed mortgage loans that are then used to back securities guaranteed by the Government National Mortgage Association (GNMA). We may be required to repurchase these mortgage loans, indemnify the securitization trust, investor or insurer, or reimburse the securitization trust, investor or insurer for credit losses incurred on loans (collectively, repurchase) in the event of a breach of contractual representations or warranties that is not remedied within a period (usually 90 days or less) after we receive notice of the breach.

In connection with our sales and securitization of residential mortgage loans to various parties, we have established a mortgage repurchase liability, initially at fair value, related to various representations and warranties that reflect management's estimate of losses for loans for which we could have a repurchase obligation, whether or not we currently service those loans, based on a combination of factors. Our mortgage repurchase liability estimation process also incorporates a forecast of repurchase demands associated with mortgage insurance rescission activity.

Customary with industry practice, we have the right of recourse against correspondent lenders from whom we have purchased loans with respect to representations and warranties. Historical recovery rates as well as projected lender performance are incorporated in the establishment of our mortgage repurchase liability.

We do not typically receive repurchase requests from GNMA, FHA and the Department of Housing and Urban Development (HUD) or VA. As an originator of an FHA-insured or VA-guaranteed loan, we are responsible for obtaining the insurance with the FHA or the guarantee with the VA. To the extent we are not able to obtain the insurance or the guarantee we must request permission to repurchase the loan from the GNMA pool. Such repurchases from GNMA pools typically represent a self-initiated process upon discovery of the uninsurable loan (usually within 180 days from funding of the loan). Alternatively, in lieu of repurchasing loans from GNMA pools, we may be asked by FHA/HUD or the VA to indemnify them (as applicable) for defects found in the Post Endorsement Technical Review process or audits performed by FHA/HUD or the VA. The Post Endorsement Technical Review is a process whereby HUD performs underwriting audits of closed/insured FHA loans for potential deficiencies. Our liability for mortgage loan repurchase losses incorporates probable losses associated with such indemnification.

RISKS RELATING TO SERVICING ACTIVITIES In addition to servicing loans in our portfolio, we act as servicer and/or master servicer of residential mortgage loans included in GSE-guaranteed mortgage securitizations, GNMA-guaranteed mortgage securitizations of FHA-insured/VA-guaranteed mortgages and private label mortgage securitizations, as well as for unsecuritized loans owned by institutional investors.

The loans we service were originated by us or by other mortgage loan originators. As servicer, our primary duties are typically to (1) collect payments due from borrowers, (2) advance certain delinquent payments of principal and interest on the mortgage loans, (3) maintain and administer any hazard, title or primary mortgage insurance policies relating to the mortgage loans, (4) maintain any required escrow accounts for payment of taxes and insurance and administer escrow payments, (5) foreclose on defaulted mortgage loans or, to the extent consistent with the related servicing agreement, consider alternatives to foreclosure, such as loan modifications or short sales, and (6) for loans sold into private label securitizations, manage the foreclosed property through liquidation.

The amount and timing of reimbursement of advances of delinquent payments vary by investor and the applicable servicing agreements. Due to continued customer requests for payment deferrals as a result of the COVID-19 pandemic, the amount of our servicing advances of principal and interest remained elevated. The amount of these advances may continue to increase if additional payment deferrals are provided. Payment deferrals also delay the collection of contractually specified servicing fees, resulting in lower net servicing income.

In accordance with applicable servicing guidelines, delinquency status continues to advance for loans with COVID-related payment deferrals, which has resulted in an increase in delinquent loans serviced for others and a corresponding increase in loans eligible for repurchase from GNMA loan securitization pools. Upon transfer as servicer, we retain the option to repurchase loans from GNMA loan securitization pools, which becomes exercisable when three scheduled loan payments remain unpaid by the borrower. We generally repurchase these loans for cash and as a result, our total consolidated assets do not change. Since April 1, 2020, we repurchased $28.6 billion of these delinquent loans, substantially all of which had COVID-related payment deferrals.

Loans that regain current status or are otherwise modified in accordance with applicable servicing guidelines may be included in future GNMA loan securitization pools. However, in accordance with guidance issued by GNMA, loans repurchased after June 30, 2020, with COVID-related payment deferrals are ineligible for inclusion in future GNMA loan securitization pools until the borrower has timely made six consecutive payments. This requirement may delay our ability to resell loans into the securitization market. At December 31, 2020, the amount of repurchased GNMA loans with COVID-related payment deferrals that were ineligible for inclusion in future GNMA loan securitization pools due to this requirement was $22.6 billion.

As master servicer, our primary duties are typically to (1) supervise, monitor and oversee the servicing of the mortgage loans by the servicer, (2) consult with each servicer and use reasonable efforts to cause the servicer to observe its servicing obligations, (3) prepare monthly distribution statements to security holders and, if required by the securitization documents, certain periodic reports required to be filed with the Securities and Exchange Commission (SEC), (4) if required by the securitization documents, calculate distributions and loss allocations on the mortgage-backed securities, (5) prepare tax and information returns of the securitization trust, and (6) advance amounts required by non-affiliated servicers who fail to perform their advancing obligations.

Each agreement under which we act as servicer or master servicer generally specifies a standard of responsibility for actions we take in such capacity and provides protection against expenses and liabilities we incur when acting in compliance with the specified standard. For example, private label securitization agreements under which we act as servicer or master servicer typically provide that the servicer and the master servicer are entitled to indemnification by the securitization trust for taking action or refraining from taking action in good faith or for errors in judgment. However, we are not indemnified, but rather are required to indemnify the securitization trustee, against any failure by us, as servicer or master servicer, to perform our servicing obligations or against any of our acts or omissions that involve willful misfeasance, bad faith or gross negligence in the performance of, or reckless disregard of, our duties. In addition, if we commit a material breach of our obligations as servicer or master servicer, we may be subject to termination if the breach is not cured within a specified period following notice, which can generally be given by the securitization trustee or a specified percentage of security holders. Whole loan sale contracts under which we act as servicer generally include similar provisions with respect to our actions as servicer. The standards governing servicing in GSE-guaranteed securitizations, and the possible remedies for violations of such standards, vary, and those standards and remedies are determined by servicing guides maintained by the GSEs, contracts between the GSEs and individual servicers and topical guides published by the GSEs from time to time. Such remedies could include indemnification or repurchase of an affected mortgage loan. In addition, in connection with our servicing activities, we could become subject to consent orders and settlement agreements with federal and state regulators for alleged servicing issues and practices. In general, these can require us to provide customers with loan modification relief, refinancing relief, and foreclosure prevention and assistance, and can result in the imposition of certain monetary penalties on us.

Asset/Liability Management

Asset/liability management involves evaluating, monitoring and managing interest rate risk, market risk, liquidity and funding. Primary oversight of interest rate risk and market risk resides with the Finance Committee of the Board, which oversees the administration and effectiveness of financial risk management policies and processes used to assess and manage these risks. Primary oversight of liquidity and funding resides with the Risk Committee of the Board. At the management level, the Corporate Asset/Liability Committee (Corporate ALCO), which consists of management from finance, risk and business groups, oversees these risks and supports periodic reports provided to the Board's Finance Committee and Risk Committee as appropriate. As discussed in more detail for market risk activities below, we employ separate management level oversight specific to market risk.

INTEREST RATE RISK Interest rate risk is created in our role as a financial intermediary for customers based on investments such as loans and other extensions of credit and debt securities. Interest rate risk can have a significant impact to our earnings. We are subject to interest rate risk because:

- assets and liabilities may mature or reprice at different times. If assets reprice faster than liabilities and interest rates are generally rising, earnings will initially increase;
- assets and liabilities may reprice at the same time but by different amounts;
- short-term and long-term market interest rates may change by different amounts. For example, the shape of the yield curve may affect yield for new loans and funding costs differently;
- the remaining maturity for various assets or liabilities may shorten or lengthen as interest rates change. For example, if long-term mortgage interest rates increase sharply, MBS held in the debt securities portfolio may pay down at a slower rate than anticipated, which could impact portfolio income; or
- interest rates may have a direct or indirect effect on loan demand, collateral values, credit losses, mortgage origination volume, and the fair value of MSRs and other financial instruments.

Currently, our profile is such that we project net interest income will benefit from higher interest rates as our assets would reprice faster and to a greater degree than our liabilities, while in the case of lower interest rates, our assets would reprice downward and to a greater degree than our liabilities resulting in lower net interest income.

We assess interest rate risk by comparing outcomes under various net interest income simulations using many interest rate scenarios that differ in the direction of interest rate changes, the degree of change over time, the speed of change and the projected shape of the yield curve. These simulations require assumptions regarding drivers of earnings and balance sheet composition such as loan originations, prepayment speeds on loans and debt securities, deposit flows and mix, as well as pricing strategies.

Our most recent simulations, as presented in Table 35, estimate net interest income sensitivity over the next 12 months using instantaneous movements across the yield curve with both lower and higher interest rates relative to our base scenario. Steeper and flatter scenarios measure non-parallel changes in the yield curve, with long-term interest rates defined as all tenors three years and longer (e.g., 10-year U.S. Treasury securities) and short-term interest rates defined as all tenors less than three years. Where applicable, U.S. dollar interest rates are floored at 0.00%. The following describes the simulation assumptions for the scenarios presented in Table 35:

- Simulations are dynamic and reflect anticipated changes to our assets and liabilities.
- Other macroeconomic variables that could be correlated with the changes in interest rates are held constant.
- Mortgage prepayment and origination assumptions vary across scenarios and reflect only the impact of the higher or lower interest rates.
- Our base scenario deposit forecast incorporates mix changes consistent with the base interest rate trajectory. Deposit mix is modeled to be the same as in the base scenario across the alternative scenarios. In higher interest rate scenarios, customer activity that shifts balances into higher-yielding products could reduce expected net interest income.
- We hold the size of the projected debt and equity securities portfolios constant across scenarios.

Table 35: Net Interest Income Sensitivity

($ in billions)		December 31, 2020
Parallel Shift:		
+100 bps shift in interest rates	$	6.7
-100 bps shift in interest rates		(2.7)
Steeper yield curve:		
+50 bps shift in long-term interest rates		1.3
Flatter yield curve:		
+50 bps shift in short-term interest rates		2.2
-50 bps shift in long-term interest rates		(1.4)

The sensitivity results above do not capture noninterest income or expense impacts. Our interest rate sensitive noninterest income and expense are predominantly driven by mortgage banking activities, and may move in the opposite direction of our net interest income. Mortgage originations generally decline in response to higher interest rates and generally increase in response to lower interest rates, particularly refinancing activity. Mortgage banking results are also impacted by the valuation of MSRs and related hedge positions. See the "Risk Management – Asset/Liability Management – Mortgage Banking Interest Rate and Market Risk" section in this Report for additional information.

Interest rate sensitive noninterest income also results from changes in earnings credit for noninterest-bearing deposits that reduce treasury management deposit service fees. Additionally, our trading assets are (before the effects of certain economic hedges) generally less sensitive to changes in interest rates than the related funding liabilities. As a result, net interest income from the trading portfolio contracts and expands as interest rates rise and fall, respectively. The impact to net interest income does not include the fair value changes of trading securities, which, along with the effects of related economic hedges, are recorded in noninterest income. For more information on our trading assets and liabilities, see Note 2 (Trading Activities) to Financial Statements in this Report.

We use the debt securities portfolio and exchange-traded and over-the-counter (OTC) interest rate derivatives to manage our interest rate exposures. See Note 1 (Summary of Significant Accounting Policies) and Note 3 (Available-for-Sale and Held-to-Maturity Debt Securities) to Financial Statements in this Report for additional information on the use of the debt securities portfolios. The notional or contractual amount, credit risk amount and fair value of the derivatives used to hedge our interest rate risk exposures as of December 31, 2020, and December 31, 2019, are presented in Note 16 (Derivatives) to Financial Statements in this Report. We use derivatives for asset/liability management in two main ways:

- to convert the cash flows from selected asset and/or liability instruments/portfolios including investments, commercial loans and long-term debt, from fixed-rate payments to floating-rate payments, or vice versa; and
- to economically hedge our mortgage origination pipeline, funded mortgage loans, and MSRs.

MORTGAGE BANKING INTEREST RATE AND MARKET RISK We originate, fund and service mortgage loans, which subjects us to various risks, including credit, liquidity and interest rate risks. Based on market conditions and other factors, we reduce credit and liquidity risks by selling or securitizing mortgage loans. We determine whether mortgage loans will be held for investment or held for sale at the time of commitment, but may change our intent to hold loans for investment or sale as part of our corporate asset/liability management activities. We may also retain securities in our investment portfolio at the time we securitize mortgage loans.

We typically originate agency residential mortgage loans as held for sale and certain prime non-agency residential mortgage loans as held for investment. Occasionally, we designate some of our non-agency residential mortgage loan originations as held for sale in support of future issuances of private label residential mortgage-backed securities (RMBS). We issued $2.6 billion and $2.4 billion of RMBS in 2020 and 2019, respectively.

Interest rate and market risk can be substantial in our mortgage businesses. Changes in interest rates may impact origination and servicing fees, the fair value of our residential MSRs, LHFS, and derivative loan commitments (interest rate "locks") extended to mortgage applicants, as well as the associated income or loss in mortgage banking noninterest income, including the gains or losses related to economic hedges of MSRs and LHFS. Given the time it takes for customer behavior to fully react to interest rate changes, as well as the time required for processing a new application, providing the commitment, and securitizing and selling the loan, interest rate changes will generally affect our mortgage banking noninterest income on a lagging basis. The amount and timing of the impact will depend on the magnitude, speed and duration of the changes in interest rates.

The valuation of our residential MSRs can be highly subjective and involve complex judgments by management about matters that are inherently unpredictable. See the "Critical Accounting Policies – Valuation of Residential Mortgage Servicing Rights" section in this Report for additional information. Changes in interest rates influence a variety of significant assumptions included in the periodic valuation of residential MSRs, including prepayment speeds, expected returns and potential risks on the servicing asset portfolio, costs to service, the value of escrow balances and other servicing valuation elements. For additional information on mortgage banking, including key economic assumptions and the sensitivity of the fair value of MSRs, see Note 9 (Mortgage Banking Activities) and Note 17 (Fair Values of Assets and Liabilities) to Financial Statements in this Report.

An increase in interest rates generally reduces the propensity for refinancing, extends the expected duration of the servicing portfolio and, therefore, increases the estimated fair value of the MSRs. However, an increase in interest rates can also reduce mortgage loan demand, which reduces noninterest income from origination activities. A decline in interest rates would generally have an opposite impact.

To reduce our exposure to changes in interest rates, our residential MSRs are economically hedged with a combination of derivative instruments, including highly liquid mortgage forward contracts, interest rate swaps and interest rate options. MSR hedging results include a combination of directional gain or loss due to market changes as well as any carry income related to mortgage forward contracts. Carry income represents accretion from the forward delivery price to the spot price including both the yield earned on the reference securities and the market implied cost of financing during the period. A steep yield curve generally produces higher carry income while a flat or inverted yield curve can result in lower or potentially negative carry income.

The size of the hedge and the particular combination of forward hedging instruments at any point in time is designed to reduce the volatility of our earnings over various time frames within a range of mortgage interest rates. Because market factors, the composition of the mortgage servicing portfolio and the relationship between the origination and servicing sides of our mortgage businesses change continually, the types of instruments used in our hedging are reviewed daily and rebalanced based on our evaluation of current market factors and the interest rate risk inherent in our portfolio.

Hedging the various sources of interest rate risk in mortgage banking is a complex process that requires sophisticated modeling and constant monitoring. There are several potential risks to earnings from mortgage banking related to origination volumes and mix, valuation of MSRs and associated hedging results, the relationship and degree of volatility between short-term and long-term interest rates, and changes in servicing and foreclosures costs. While we attempt to balance our mortgage banking interest rate and market risks, the financial instruments we use may not perfectly correlate with the values and income being hedged.

MARKET RISK Market risk is the risk of possible economic loss from adverse changes in market risk factors such as interest rates, credit spreads, foreign exchange rates, equity and commodity prices, and the risk of possible loss due to counterparty exposure. This applies to implied volatility risk, basis risk, and market liquidity risk. It also includes price risk in the trading book, mortgage servicing rights and the hedge effectiveness risk associated with the mortgage book, and impairment on private equity investments.

The Board's Finance Committee has primary oversight responsibility for market risk and oversees the Company's market risk exposure and market risk management strategies. In addition, the Board's Risk Committee has certain oversight responsibilities with respect to market risk, including adjusting the Company's market risk appetite with input from the Finance Committee. The Finance Committee also reports key market risk matters to the Risk Committee.

At the management level, the Market and Counterparty Risk Management function, which is part of IRM, has oversight responsibility for market risk. The Market and Counterparty Risk Management function reports into the CRO and provides periodic reports related to market risk to the Board's Finance Committee.

MARKET RISK – TRADING ACTIVITIES We engage in trading activities to accommodate the investment and risk management activities of our customers and to execute economic hedging to manage certain balance sheet risks. These trading activities predominantly occur within our CIB businesses and to a lesser extent other businesses of the Company. Debt securities held for trading, equity securities held for trading, trading loans and trading derivatives are financial instruments used in our trading activities, and all are carried at fair value. Income earned on the financial instruments used in our trading activities include net interest income, changes in fair value and realized gains and losses. Net interest income earned from our trading activities is reflected in the interest income and interest expense components of our consolidated statement of income. Changes in fair value of the financial instruments used in our trading activities are reflected in net gains from trading activities. For more information on the financial instruments used in our trading activities and the income from these trading activities, see Note 2 (Trading Activities) to Financial Statements in this Report.

Value-at-risk (VaR) is a statistical risk measure used to estimate the potential loss from adverse moves in the financial markets. The Company uses VaR metrics complemented with sensitivity analysis and stress testing in measuring and monitoring market risk. These market risk measures are monitored at both the business unit level and at aggregated levels on a daily basis. Our corporate market risk management function aggregates and monitors all exposures to ensure risk measures are within our established risk appetite. Changes to the market risk profile are analyzed and reported on a daily basis. The Company monitors various market risk exposure measures from a variety of perspectives, including line of business, product, risk type, and legal entity.

Trading VaR is the measure used to provide insight into the market risk exhibited by the Company's trading positions. The Company calculates Trading VaR for risk management purposes to establish line of business and Company-wide risk limits. Trading VaR is calculated based on all trading positions on our consolidated balance sheet.

Table 36 shows the Company's Trading General VaR by risk category. Our Trading General VaR uses a historical simulation model which assumes that historical changes in market values are representative of the potential future outcomes and measures the expected earnings loss of the Company over a 1-day time interval at a 99% confidence level. Our historical simulation model is based on equally weighted data from a 12-month historical look-back period. We believe using a 12-month look-back period helps ensure the Company's VaR is responsive to current market conditions. The 99% confidence level equates to an expectation that the Company would incur single-day trading losses in excess of the VaR estimate on average once every 100 trading days.

Average Company Trading General VaR was $123 million for the year ended December 31, 2020, compared with $22 million for the year ended December 31, 2019. The increase in average Company Trading General VaR for the year ended December 31, 2020, was driven by market volatility due to the COVID-19 pandemic, in particular changes in interest rate curves and a significant widening of credit spreads entering the 12-month historical look-back window used to calculate VaR.

Table 36: Trading 1-Day 99% General VaR by Risk Category

	Year ended December 31,							
	2020				2019			
(in millions)	**Period end**	**Average**	**Low**	**High**	Period end	Average	Low	High
Company Trading General VaR Risk Categories								
Credit	**$ 106**	**72**	**15**	**121**	15	17	11	30
Interest rate	**81**	**104**	**5**	**241**	14	27	9	49
Equity	**32**	**14**	**4**	**35**	5	5	4	11
Commodity	**3**	**3**	**1**	**8**	2	2	1	6
Foreign exchange	**1**	**1**	**1**	**6**	1	1	1	1
Diversification benefit (1)	**(126)**	**(71)**			(13)	(30)		
Company Trading General VaR	**$ 97**	**123**			24	22		

(1) The period-end VaR was less than the sum of the VaR components described above, which is due to portfolio diversification. The diversification effect arises because the risks are not perfectly correlated causing a portfolio of positions to usually be less risky than the sum of the risks of the positions alone. The diversification benefit is not meaningful for low and high metrics since they may occur on different days.

Sensitivity Analysis Given the inherent limitations of the VaR models, the Company uses other measures, including sensitivity analysis, to measure and monitor risk. Sensitivity analysis is the measure of exposure to a single risk factor, such as a 0.01% increase in interest rates or a 1% increase in equity prices. We conduct and monitor sensitivity on interest rates, credit spreads, volatility, equity, commodity, and foreign exchange exposure. Sensitivity analysis complements VaR as it provides an indication of risk relative to each factor irrespective of historical market moves.

Stress Testing While VaR captures the risk of loss due to adverse changes in markets using recent historical market data, stress testing is designed to capture the Company's exposure to extreme but low probability market movements. Stress scenarios estimate the risk of losses based on management's assumptions of abnormal but severe market movements such as severe credit spread widening or a large decline in equity prices. These scenarios assume that the market moves happen instantaneously and no repositioning or hedging activity takes place to mitigate losses as events unfold (a conservative approach since experience demonstrates otherwise).

An inventory of scenarios is maintained representing both historical and hypothetical stress events that affect a broad range of market risk factors with varying degrees of correlation and differing time horizons. Hypothetical scenarios assess the impact of large movements in financial variables on portfolio values. Typical examples include a 1% (100 basis point) increase across the yield curve or a 10% decline in equity market indexes. Historical scenarios utilize an event-driven approach: the stress scenarios are based on plausible but rare events, and the analysis addresses how these events might affect the risk factors relevant to a portfolio.

The Company's stress testing framework is also used in calculating results in support of the Federal Reserve Board's Comprehensive Capital Analysis and Review (CCAR) and internal stress tests. Stress scenarios are regularly reviewed and updated to address potential market events or concerns. For more detail on the CCAR process, see the "Capital Management" section in this Report.

MARKET RISK – EQUITY SECURITIES We are directly and indirectly affected by changes in the equity markets. We make and manage direct investments in start-up businesses, emerging growth companies, management buy-outs, acquisitions and corporate recapitalizations. We also invest in non-affiliated funds that make similar private equity investments. These private equity investments are made within capital allocations approved by management and the Board. The Board's policy is to review business developments, key risks and historical returns for the private equity investment portfolio at least annually. Management reviews these investments at least quarterly to assess them for impairment and observable price changes. For nonmarketable equity securities, the analysis is based on facts and circumstances of each individual investment and the expectations for that investment's cash flows, capital needs, the viability of its business model, our exit strategy, and observable price changes that are similar to the investments held. Investments in nonmarketable equity securities include private equity investments accounted for under the equity method, fair value through net income, and the measurement alternative.

In conjunction with the March 2008 initial public offering (IPO) of Visa, Inc. (Visa), we received approximately 20.7 million shares of Visa Class B common stock, the class which was apportioned to member banks of Visa at the time of the IPO. To manage our exposure to Visa and realize the value of the appreciated Visa shares, we incrementally sold these shares through a series of sales, thereby eliminating this position as of September 30, 2015. As part of these sales, we agreed to compensate the buyer for any additional contributions to a litigation settlement fund for the litigation matters associated with the Class B shares we sold. Our exposure to this retained litigation risk has been updated quarterly and is reflected on our consolidated balance sheet. For additional information about the associated litigation matters, see the "Interchange Litigation" section in Note 15 (Legal Actions) to Financial Statements in this Report.

As part of our business to support our customers, we trade public equities, listed/OTC equity derivatives and convertible bonds. We have parameters that govern these activities. We also have marketable equity securities that include investments relating to our venture capital activities. We manage these marketable equity securities within capital risk limits approved by management and the Board and monitored by Corporate ALCO and the Market Risk Committee. The fair value changes in these marketable equity securities are recognized in net income. For additional information, see Note 6 (Equity Securities) to Financial Statements in this Report.

Changes in equity market prices may also indirectly affect our net income by (1) the value of third-party assets under management and, hence, fee income, (2) borrowers whose ability to repay principal and/or interest may be affected by the stock market, or (3) brokerage activity, related commission income and other business activities. Each business line monitors and manages these indirect risks.

LIQUIDITY RISK AND FUNDING In the ordinary course of business, we enter into contractual obligations that may require future cash payments, including funding for customer loan requests, customer deposit maturities and withdrawals, debt service, leases for premises and equipment, and other cash commitments. The objective of effective liquidity management is to ensure that we can meet our contractual obligations and other cash commitments efficiently under both normal operating conditions and under periods of Wells Fargo-specific and market stress. For more information on these obligations, see the following sections and Notes to Financial Statements in this Report:

- "Commitments to Lend" section within Loans and Related Allowance for Credit Losses (Note 4)
- Leasing Activity (Note 5)
- Deposits (Note 11)
- Long-Term Debt (Note 12)
- Guarantees and Other Commitments (Note 13)
- Employee Benefits and Other Expenses (Note 21)
- Income Taxes (Note 23)

To help achieve this objective, the Board establishes liquidity guidelines that require sufficient asset-based liquidity to cover potential funding requirements and to avoid over-dependence on volatile, less reliable funding markets. These guidelines are monitored on a monthly basis by the Corporate ALCO and on a quarterly basis by the Board. These guidelines are established and monitored for both the consolidated company and for the Parent on a stand-alone basis to ensure that the Parent is a source of strength for its regulated, deposit-taking banking subsidiaries. The Parent acts as a source of funding for the Company through the issuance of long-term debt and equity, and WFC Holdings, LLC, an intermediate holding company and subsidiary of the Parent (the "IHC"), provides funding support for the ongoing operational requirements of the Parent and certain of its direct and indirect subsidiaries. For more information on the IHC, see the "Regulatory Matters – 'Living Will' Requirements and Related Matters" section in this Report.

Liquidity Stress Tests Liquidity stress tests are performed to help ensure that the Company has sufficient liquidity to meet contractual and contingent outflows modeled under a variety of stress scenarios. Our scenarios utilize market-wide as well as corporate-specific events, including a range of stress conditions and time horizons. Stress testing results facilitate evaluation of the Company's projected liquidity position during stress and inform future needs in the Company's funding plan.

Contingency Funding Plan Our contingency funding plan (CFP), which is approved by Corporate ALCO and the Board's Risk Committee, sets out the Company's strategies and action plans to address potential liquidity needs during market-wide or idiosyncratic liquidity events. The CFP establishes measures for monitoring emerging liquidity events and describes the processes for communicating and managing stress events should they occur. The CFP also identifies alternate funding and liquidity strategies available to the Company in a period of stress.

Liquidity Standards We are subject to a rule, issued by the FRB, OCC and FDIC, that establishes a quantitative minimum liquidity requirement consistent with the liquidity coverage ratio (LCR) established by the Basel Committee on Banking Supervision (BCBS). The rule requires a covered banking organization, such as Wells Fargo, to hold high-quality liquid assets (HQLA), predominantly consisting of central bank deposits, government debt securities, and mortgage-backed securities of federal agencies that can be converted easily and quickly into cash, in an amount equal to or greater than its projected net cash outflows during a 30-day stress period. The LCR applies to the Company on a consolidated basis and to our insured depository institutions (IDIs) with total assets of $10 billion or more. In addition, rules issued by the FRB impose enhanced liquidity risk management standards on large BHCs, such as Wells Fargo.

The FRB, OCC and FDIC have also issued a rule implementing a stable funding requirement, known as the net stable funding ratio (NSFR), which requires a covered banking organization, such as Wells Fargo, to maintain a minimum amount of stable funding, including common equity, long-term subordinated debt and most types of deposits, in relation to its assets, derivative exposures and commitments over a one-year horizon period. The NSFR will become effective on July 1, 2021, and applies to the Company on a consolidated basis and to our IDIs with total assets of $10 billion or more. Based on our liquidity profile at December 31, 2020, we expect to be compliant with the NSFR requirement.

Liquidity Coverage Ratio As of December 31, 2020, the consolidated Company, Wells Fargo Bank, N.A., and Wells Fargo National Bank West exceeded the minimum LCR requirement of 100%, which is calculated as HQLA divided by projected net cash outflows, as each is defined under the LCR rule. Table 37 presents the Company's quarterly average values for the daily-calculated LCR and its components calculated pursuant to the LCR rule requirements.

Table 37: Liquidity Coverage Ratio

	Average for Quarter ended		
(in millions, except ratio)	**Dec 31, 2020**	Sep 30, 2020	Dec 31, 2019
HQLA (1):			
Eligible cash	**$ 213,937**	210,715	117,693
Eligible securities (2)	**201,060**	213,358	255,669
Total HQLA	**414,997**	424,073	373,362
Projected net cash outflows	**312,697**	317,064	312,019
LCR	**133%**	134	120

(1) Excludes excess HQLA at certain subsidiaries that is not transferable to other Wells Fargo entities.
(2) Net of applicable haircuts required under the LCR rule.

Liquidity Sources We maintain liquidity in the form of cash, cash equivalents and unencumbered high-quality, liquid debt securities. These assets make up our primary sources of liquidity. Our primary sources of liquidity are substantially the same in composition as HQLA under the LCR rule; however, our primary sources of liquidity will generally exceed HQLA calculated under the LCR rule due to the applicable haircuts to HQLA and the exclusion of excess HQLA at our subsidiary IDIs required under the LCR rule. Our primary sources of liquidity are presented in Table 38, which also includes encumbered securities that are not included as available HQLA in the calculation of the LCR.

Our cash is predominantly on deposit with the Federal Reserve. Debt securities included as part of our primary sources of liquidity are comprised of U.S. Treasury and federal agency debt, and MBS issued by federal agencies within our debt securities portfolio. We believe these debt securities provide quick sources of liquidity through sales or by pledging to obtain financing, regardless of market conditions. Some of these debt securities are within our HTM portfolio and, as such, are not intended for sale but may be pledged to obtain financing.

Table 38: Primary Sources of Liquidity

			December 31, 2020			December 31, 2019
(in millions)	**Total**	**Encumbered**	**Unencumbered**	Total	Encumbered	Unencumbered
Interest-earning deposits with banks	**$ 236,376**	**—**	**236,376**	119,493	—	119,493
Debt securities of U.S. Treasury and federal agencies	**70,756**	**5,370**	**65,386**	61,099	3,107	57,992
Mortgage-backed securities of federal agencies	**258,668**	**49,156**	**209,512**	258,589	41,135	217,454
Total	**$ 565,800**	**54,526**	**511,274**	439,181	44,242	394,939

In addition to our primary sources of liquidity shown in Table 38, liquidity is also available through the sale or financing of other debt securities including trading and/or AFS debt securities, as well as through the sale, securitization or financing of loans, to the extent such debt securities and loans are not encumbered. As of December 31, 2020, we also maintained approximately $244.1 billion of available borrowing capacity at various Federal Home Loan Banks and the Federal Reserve Discount Window.

Deposits have historically provided a sizable source of relatively low-cost funds. Deposits were 158% and 137% of total loans at December 31, 2020 and 2019, respectively. Additional funding is provided by long-term debt and short-term borrowings. Table 39 shows selected information for short-term borrowings, which generally mature in less than 30 days. We pledge certain financial instruments that we own to collateralize repurchase agreements and other securities financings. For additional information, see the "Pledged Assets" section of Note 14 (Pledged Assets and Collateral) to Financial Statements in this Report.

Table 39: Short-Term Borrowings

		2020		2019		2018
(in millions)	**Amount**	**Rate**	Amount	Rate	Amount	Rate
As of December 31,						
Federal funds purchased and securities sold under agreements to repurchase	**$ 46,362**	**(0.03)%**	$ 92,403	1.54 %	$ 92,430	2.65 %
Other short-term borrowings	**12,637**	**(0.29)**	12,109	0.60	13,357	1.63
Total	**$ 58,999**	**(0.09)**	$ 104,512	1.43	$ 105,787	2.52
Year ended December 31,						
Average daily balance						
Federal funds purchased and securities sold under agreements to repurchase	**$ 58,971**	**0.47**	$ 102,888	2.11	$ 90,348	1.78
Other short-term borrowings	**11,235**	**(0.22)**	12,449	1.20	13,919	0.79
Total	**$ 70,206**	**0.36**	$ 115,337	2.01	$ 104,267	1.65
Maximum month-end balance						
Federal funds purchased and securities sold under agreements to repurchase (1)	**$ 91,121**	**N/A**	$ 111,726	N/A	$ 93,918	N/A
Other short-term borrowings (2)	**13,253**	**N/A**	14,129	N/A	16,924	N/A

N/A – Not applicable
(1) Highest month-end balance in each of the last three years was February 2020, October 2019 and November 2018.
(2) Highest month-end balance in each of the last three years was March 2020, February 2019 and January 2018.

Long-Term Debt We access domestic and international capital markets for long-term funding (generally greater than one year) through issuances of registered debt securities, private placements and asset-backed secured funding. We issue long-term debt in a variety of maturities and currencies to achieve cost-efficient funding and to maintain an appropriate maturity profile. Proceeds from securities issued were used for general corporate purposes, and, unless otherwise specified in the applicable prospectus or prospectus supplement, we expect the proceeds from securities issued in the future will be used for the same purposes. Depending on market conditions, we may purchase our outstanding debt securities from time to time in privately negotiated or open market transactions, by tender offer, or otherwise. We issued $38.1 billion of long-term debt in 2020. For additional information, see Note 12 (Long-Term Debt) to Financial Statements in this Report.

Credit Ratings Investors in the long-term capital markets, as well as other market participants, generally will consider, among other factors, a company's debt rating in making investment decisions. Rating agencies base their ratings on many quantitative and qualitative factors, including capital adequacy, liquidity, asset quality, business mix, the level and quality of earnings, and rating agency assumptions regarding the probability and extent of federal financial assistance or support for certain large financial institutions. Adverse changes in these factors could result in a reduction of our credit rating; however, our debt securities do not contain credit rating covenants.

There were no actions undertaken by the rating agencies with regard to our credit ratings during fourth quarter 2020.

See the "Risk Factors" section in this Report for additional information regarding our credit ratings and the potential impact a credit rating downgrade would have on our liquidity and operations, as well as Note 16 (Derivatives) to Financial Statements in this Report for information regarding additional collateral and funding obligations required for certain derivative instruments in the event our credit ratings were to fall below investment grade.

The credit ratings of the Parent and Wells Fargo Bank, N.A., as of December 31, 2020, are presented in Table 40.

Table 40: Credit Ratings as of December 31, 2020

	Wells Fargo & Company		Wells Fargo Bank, N.A.	
	Senior debt	Short-term borrowings	Long-term deposits	Short-term borrowings
Moody's	A2	P-1	Aa1	P-1
S&P Global Ratings	BBB+	A-2	A+	A-1
Fitch Ratings, Inc.	A+	F1	AA	F1+
DBRS Morningstar	AA (low)	R-1 (middle)	AA	R-1 (high)

FEDERAL HOME LOAN BANK MEMBERSHIP The Federal Home Loan Banks (the FHLBs) are a group of cooperatives that lending institutions use to finance housing and economic development in local communities. We are a member of the FHLBs based in Dallas, Des Moines and San Francisco. FHLB members are required to maintain a minimum investment in capital stock of the applicable FHLB. The board of directors of each FHLB can increase the minimum investment requirements in the event it has concluded that additional capital is required to allow it to meet its own regulatory capital requirements. Any increase in the minimum investment requirements outside of specified ranges requires the approval of the Federal Housing Finance Agency. Because the extent of any obligation to increase our investment in any of the FHLBs depends entirely upon the occurrence of a future event, the amount of any future investment in the capital stock of the FHLBs is not determinable.

Capital Management

We have an active program for managing capital through a comprehensive process for assessing the Company's overall capital adequacy. Our objective is to maintain capital at an amount commensurate with our risk profile and risk tolerance objectives, and to meet both regulatory and market expectations. We primarily fund our capital needs through the retention of earnings net of both dividends and share repurchases, as well as through the issuance of preferred stock and long- and short-term debt. Retained earnings at December 31, 2020, decreased $3.8 billion from December 31, 2019, predominantly as a result of common and preferred stock dividends of $6.3 billion, partially offset by $3.3 billion of Wells Fargo net income. During 2020, we issued $2.7 billion of common stock, substantially all of which was issued in connection with employee stock ownership plans, excluding conversions of preferred shares. During 2020, we repurchased 75.7 million shares of common stock at a cost of $3.4 billion, substantially all of which occurred in first quarter 2020. For additional information about capital planning, including the FRB's recent restrictions on capital distributions, see the "Capital Planning and Stress Testing" section below.

In 2020, we issued $3.2 billion of preferred stock and redeemed $3.3 billion of preferred stock. In January 2021, we issued $3.5 billion of our Preferred Stock, Series BB, and in February 2021, we issued $1.05 billion of our Preferred Stock, Series CC. Additionally, in February 2021, we announced the redemption of our Preferred Stock, Series I, Series P and Series W, and a partial redemption of our Preferred Stock, Series N, for an aggregate cost of $4.5 billion. For additional information, see Note 18 (Preferred Stock) to Financial Statements in this Report.

Regulatory Capital Requirements

The Company and each of our IDIs are subject to various regulatory capital adequacy requirements administered by the FRB and the OCC. Risk-based capital rules establish risk-adjusted ratios relating regulatory capital to different categories of assets and off-balance sheet exposures as discussed below.

RISK-BASED CAPITAL AND RISK-WEIGHTED ASSETS The Company is subject to rules issued by federal banking regulators to implement Basel III capital requirements for U.S. banking organizations. The rules contain two frameworks for calculating capital requirements, a Standardized Approach and an Advanced Approach applicable to certain institutions, including Wells Fargo. Our capital adequacy is assessed based on the lower of our risk-based capital ratios calculated under the two approaches. The Company is required to satisfy the risk-based capital ratio requirements to avoid restrictions on capital distributions and discretionary bonus payments. Table 41 and Table 42 present the risk-based capital requirements applicable to the Company on a fully phased-in basis under the Standardized Approach and Advanced Approach, respectively, as of December 31, 2020.

Table 41: Risk-Based Capital Requirements – Standardized Approach

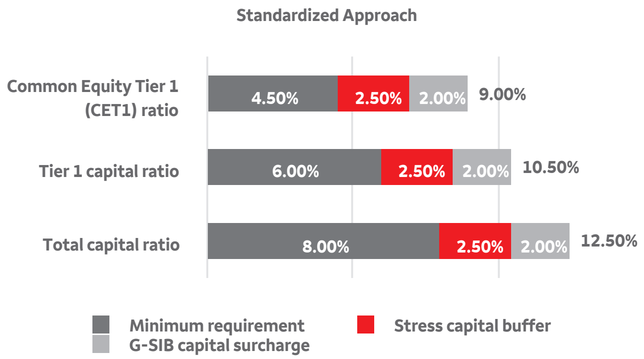
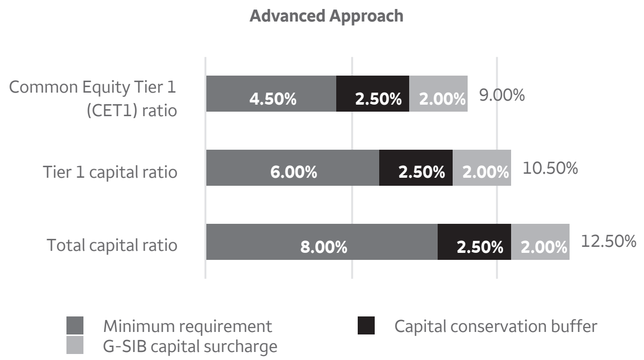


Table 42: Risk-Based Capital Requirements – Advanced Approach



In addition to the risk-based capital requirements described in Table 41 and Table 42, if the FRB determines that a period of excessive credit growth is contributing to an increase in systemic risk, a countercyclical buffer of up to 2.50% could be added to the risk-based capital ratio requirements under federal banking regulations.

The capital conservation buffer is applicable to certain institutions, including Wells Fargo, under the Advanced Approach and is intended to absorb losses during times of economic or financial stress.

The stress capital buffer, which replaced the capital conservation buffer under the Standardized Approach beginning October 1, 2020, is calculated based on the decrease in a BHC's risk-based capital ratios under the severely adverse scenario in the FRB's annual supervisory stress test and related Comprehensive Capital Analysis and Review (CCAR), plus four quarters of planned common stock dividends. Because the stress capital buffer is calculated annually based on data that can differ over time, our stress capital buffer, and thus our risk-based capital ratio requirements under the Standardized Approach, are subject to change in future years. In August 2020, the FRB announced that the Company's stress capital buffer for the period October 1, 2020, through September 30, 2021, is 2.50%. However, in December 2020, in conjunction with a capital plan resubmission process, the FRB announced that it was extending through March 31, 2021, the time period during which it can recalculate the stress capital buffers of large BHCs.

As a global systemically important bank (G-SIB), we are also subject to the FRB's rule implementing an additional capital surcharge of between 1.00-4.50% on the risk-based capital ratio requirements of G-SIBs. Under the rule, we must annually calculate our surcharge under two methods and use the higher of the two surcharges. The first method (method one) considers our size, interconnectedness, cross-jurisdictional activity, substitutability, and complexity, consistent with the methodology developed by the BCBS and the Financial Stability Board (FSB). The second method (method two) uses similar inputs, but replaces substitutability with use of short-term wholesale funding and will generally result in higher surcharges than under method one. Because the G-SIB capital surcharge is calculated annually based on data that can differ over time, the amount of the surcharge is subject to change in future years.

The Basel III capital requirements for calculating CET1 and tier 1 capital, along with risk-weighted assets (RWAs), are fully phased-in. However, the requirements for determining tier 2 and total capital are still in accordance with Transition Requirements and are scheduled to be fully phased-in by the end of 2021.

Under the risk-based capital rules, on-balance sheet assets and credit equivalent amounts of derivatives and off-balance sheet items are assigned to one of several broad risk categories according to the obligor, or, if relevant, the guarantor or the nature of any collateral. The aggregate dollar amount in each risk category is then multiplied by the risk weight associated with that category. The resulting weighted values from each of the risk categories are aggregated for determining total RWAs.

The tables that follow provide information about our risk-based capital and related ratios as calculated under Basel III capital rules. Although we report certain capital amounts and ratios in accordance with Transition Requirements for bank regulatory reporting purposes, we manage our capital on a fully phased-in basis. For information about our capital requirements calculated in accordance with Transition Requirements, see Note 28 (Regulatory Capital Requirements and Other Restrictions) to Financial Statements in this Report.

Table 43 summarizes our CET1, tier 1 capital, total capital, RWAs and capital ratios on a fully phased-in basis at December 31, 2020 and 2019. Fully phased-in total capital amounts and ratios are considered non-GAAP financial measures that are used by management, bank regulatory agencies, investors and analysts to assess and monitor the Company's capital position. See Table 44 for information regarding the calculation and components of our CET1, tier 1 capital, total capital and RWAs, as well as a corresponding reconciliation to GAAP financial measures for our fully phased-in total capital amounts.

Table 43: Capital Components and Ratios (Fully Phased-In)

(in millions, except ratios)		Required Capital Ratios (1)	December 31, 2020 Advanced Approach	December 31, 2020 Standardized Approach	December 31, 2019 Advanced Approach	December 31, 2019 Standardized Approach
Common Equity Tier 1	(A)		$ 138,297	138,297	138,760	138,760
Tier 1 Capital	(B)		158,196	158,196	158,949	158,949
Total Capital	(C)		186,803	196,529	187,813	195,703
Risk-Weighted Assets (2)	(D)		1,158,355	1,193,744	1,165,079	1,245,853
Common Equity Tier 1 Capital Ratio (2)	(A)/(D)	9.00 %	11.94	11.59 *	11.91	11.14 *
Tier 1 Capital Ratio (2)	(B)/(D)	10.50	13.66	13.25 *	13.64	12.76 *
Total Capital Ratio (2)	(C)/(D)	12.50	16.13 *	16.46	16.12	15.71 *

* Denotes the binding ratio based on the lower calculation under the Advanced and Standardized Approaches.
(1) Represents the minimum ratios required to avoid restrictions on capital distributions and discretionary bonus payments. The required ratios were the same under both the Standardized and Advanced Approaches at December 31, 2020.
(2) RWAs and capital ratios for December 31, 2019, have been revised as a result of a decrease in RWAs under the Advanced Approach due to the correction of duplicated operational loss amounts.

Table 44 provides information regarding the calculation and composition of our risk-based capital under the Advanced and Standardized Approaches at December 31, 2020 and 2019.

Table 44: Risk-Based Capital Calculation and Components

			December 31, 2020		December 31, 2019	
(in millions)			**Advanced Approach**	**Standardized Approach**	Advanced Approach	Standardized Approach
Total equity		$	**185,920**	**185,920**	187,984	187,984
Adjustments:						
Preferred stock			**(21,136)**	**(21,136)**	(21,549)	(21,549)
Additional paid-in capital on preferred stock			**152**	**152**	(71)	(71)
Unearned ESOP shares			**875**	**875**	1,143	1,143
Noncontrolling interests			**(1,033)**	**(1,033)**	(838)	(838)
Total common stockholders' equity			**164,778**	**164,778**	166,669	166,669
Adjustments:						
Goodwill			**(26,392)**	**(26,392)**	(26,390)	(26,390)
Certain identifiable intangible assets (other than MSRs)			**(342)**	**(342)**	(437)	(437)
Goodwill and other intangibles on nonmarketable equity securities (included in other assets)			**(1,965)**	**(1,965)**	(2,146)	(2,146)
Applicable deferred taxes related to goodwill and other intangible assets (1)			**856**	**856**	810	810
CECL transition provision (2)			**1,720**	**1,720**	—	—
Other			**(358)**	**(358)**	254	254
Common Equity Tier 1		$	**138,297**	**138,297**	138,760	138,760
Preferred stock			**21,136**	**21,136**	21,549	21,549
Additional paid-in capital on preferred stock			**(152)**	**(152)**	71	71
Unearned ESOP shares			**(875)**	**(875)**	(1,143)	(1,143)
Other			**(210)**	**(210)**	(288)	(288)
Total Tier 1 capital	(A)	$	**158,196**	**158,196**	158,949	158,949
Long-term debt and other instruments qualifying as Tier 2			**24,387**	**24,387**	26,515	26,515
Qualifying allowance for credit losses (3)			**4,408**	**14,134**	2,566	10,456
Other			**(188)**	**(188)**	(217)	(217)
Total Tier 2 capital (Fully Phased-In)	(B)	$	**28,607**	**38,333**	28,864	36,754
Effect of Basel III Transition Requirements			**131**	**131**	520	520
Total Tier 2 capital (Basel III Transition Requirements)		$	**28,738**	**38,464**	29,384	37,274
Total qualifying capital (Fully Phased-In)	(A)+(B)	$	**186,803**	**196,529**	187,813	195,703
Total Effect of Basel III Transition Requirements			**131**	**131**	520	520
Total qualifying capital (Basel III Transition Requirements)		$	**186,934**	**196,660**	188,333	196,223
Risk-Weighted Assets (RWAs)(4):						
Credit risk (5)		$	**752,999**	**1,125,813**	790,784	1,210,209
Market risk			**67,931**	**67,931**	35,644	35,644
Operational risk (6)			**337,425**	**—**	338,651	—
Total RWAs (6)		$	**1,158,355**	**1,193,744**	1,165,079	1,245,853

(1) Determined by applying the combined federal statutory rate and composite state income tax rates to the difference between book and tax basis of the respective goodwill and intangible assets at period end.
(2) At December 31, 2020, the impact of the CECL transition provision issued by federal banking regulators on our regulatory capital was an increase in capital of $1.7 billion, reflecting a $991 million (post-tax) increase in capital recognized upon our initial adoption of CECL, offset by 25% of the $10.8 billion increase in our ACL under CECL from January 1, 2020, through December 31, 2020.
(3) Under the Advanced Approach the allowance for credit losses that exceeds expected credit losses is eligible for inclusion in tier 2 capital, to the extent the excess allowance does not exceed 0.60% of Advanced credit RWAs, and under the Standardized Approach, the allowance for credit losses is includable in tier 2 capital up to 1.25% of Standardized credit RWAs, in each case with any excess allowance for credit losses being deducted from the respective total RWAs.
(4) RWAs calculated under the Advanced Approach utilize a risk-sensitive methodology, which relies upon the use of internal credit models based upon our experience with internal rating grades. Advanced Approach also includes an operational risk component, which reflects the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events.
(5) Includes an increase of $1.4 billion under the Standardized Approach and a decrease of $1.4 billion under the Advanced Approach related to the impact of the CECL transition provision on our excess allowance for credit losses as of December 31, 2020. See footnote (3) to this table.
(6) Amounts for December 31, 2019, have been revised as a result of a decrease in RWAs under the Advanced Approach due to the correction of duplicated operational loss amounts.

Table 45 presents the changes in CET1 under the Advanced Approach for the year ended December 31, 2020.

Table 45: Analysis of Changes in Common Equity Tier 1 (Advanced Approach)

(in millions)		
Common Equity Tier 1 at December 31, 2019	$	138,760
Net income applicable to common stock		1,710
Common stock dividends		(5,015)
Common stock issued, repurchased, and stock compensation-related items		(1,256)
Changes in cumulative other comprehensive income		1,505
Cumulative effect from change in accounting policies (1)		991
Goodwill		(2)
Certain identifiable intangible assets (other than MSRs)		95
Goodwill and other intangibles on nonmarketable equity securities (included in other assets)		181
Applicable deferred taxes related to goodwill and other intangible assets (2)		46
CECL transition provision (3)		1,720
Other		(438)
Change in Common Equity Tier 1		(463)
Common Equity Tier 1 at December 31, 2020	**$**	**138,297**

(1) Effective January 1, 2020, we adopted CECL. For additional information, see Note 1 (Summary of Significant Accounting Policies) to Financial Statements in this Report.
(2) Determined by applying the combined federal statutory rate and composite state income tax rates to the difference between book and tax basis of the respective goodwill and intangible assets at period end.
(3) At December 31, 2020, the impact of the CECL transition provision issued by federal banking regulators on our regulatory capital was an increase in capital of $1.7 billion, reflecting a $991 million (post-tax) increase in capital recognized upon our initial adoption of CECL, offset by 25% of the $10.8 billion increase in our ACL under CECL from January 1, 2020, through December 31, 2020.

Table 46 presents net changes in the components of RWAs under the Advanced and Standardized Approaches for the year ended December 31, 2020.

Table 46: Analysis of Changes in RWAs

(in millions)		Advanced Approach	Standardized Approach
RWAs at December 31, 2019 (1)	$	1,165,079	1,245,853
Net change in credit risk RWAs (2)		(37,785)	(84,396)
Net change in market risk RWAs		32,287	32,287
Net change in operational risk RWAs		(1,226)	—
Total change in RWAs		(6,724)	(52,109)
RWAs at December 31, 2020	**$**	**1,158,355**	**1,193,744**

(1) Amount for December 31, 2019, has been revised as a result of a decrease in RWAs under the Advanced Approach due to the correction of duplicated operational loss amounts.
(2) Includes an increase of $1.4 billion under the Standardized Approach and a decrease of $1.4 billion under the Advanced Approach related to the impact of the CECL transition provision on our excess allowance for credit losses. See Table 44 for additional information.

TANGIBLE COMMON EQUITY We also evaluate our business based on certain ratios that utilize tangible common equity. Tangible common equity is a non-GAAP financial measure and represents total equity less preferred equity, noncontrolling interests, goodwill, certain identifiable intangible assets (other than MSRs) and goodwill and other intangibles on nonmarketable equity securities, net of applicable deferred taxes. The ratios are (i) tangible book value per common share, which represents tangible common equity divided by common shares outstanding; and (ii) return on average tangible common equity (ROTCE), which represents our annualized earnings as a percentage of tangible common equity. The methodology of determining tangible common equity may differ among companies. Management believes that tangible book value per common share and return on average tangible common equity, which utilize tangible common equity, are useful financial measures because they enable management, investors, and others to assess the Company's use of equity.

Table 47 provides a reconciliation of these non-GAAP financial measures to GAAP financial measures.

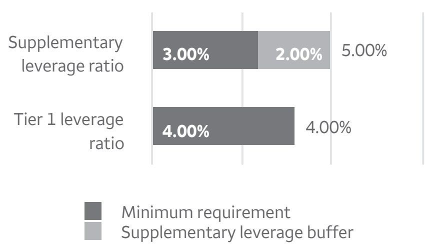
Table 47: Tangible Common Equity

		Balance at period end			Average balance		
(in millions, except ratios)		**Dec 31, 2020**	Dec 31, 2019	Dec 31, 2018	**Dec 31, 2020**	Dec 31, 2019	Dec 31, 2018
Total equity		**$ 185,920**	187,984	197,066	**185,214**	197,621	203,356
Adjustments:							
Preferred stock		**(21,136)**	(21,549)	(23,214)	**(21,364)**	(22,522)	(24,956)
Additional paid-in capital on preferred stock		**152**	(71)	(95)	**148**	(81)	(125)
Unearned ESOP shares		**875**	1,143	1,502	**1,007**	1,306	2,159
Noncontrolling interests		**(1,033)**	(838)	(900)	**(769)**	(962)	(929)
Total common stockholders' equity	(A)	**164,778**	166,669	174,359	**164,236**	175,362	179,505
Adjustments:							
Goodwill		**(26,392)**	(26,390)	(26,418)	**(26,387)**	(26,409)	(26,453)
Certain identifiable intangible assets (other than MSRs)		**(342)**	(437)	(559)	**(389)**	(493)	(1,088)
Goodwill and other intangibles on nonmarketable equity securities (included in other assets)		**(1,965)**	(2,146)	(2,187)	**(2,002)**	(2,174)	(2,197)
Applicable deferred taxes related to goodwill and other intangible assets (1)		**856**	810	785	**834**	792	866
Tangible common equity	(B)	**$ 136,935**	138,506	145,980	**136,292**	147,078	150,633
Common shares outstanding	(C)	**4,144.0**	4,134.4	4,581.3	**N/A**	N/A	N/A
Net income applicable to common stock	(D)	**N/A**	N/A	N/A	**$ 1,710**	17,938	20,689
Book value per common share	(A)/(C)	**$ 39.76**	40.31	38.06	**N/A**	N/A	N/A
Tangible book value per common share	(B)/(C)	**33.04**	33.50	31.86	**N/A**	N/A	N/A
Return on average common stockholders' equity (ROE)	(D)/(A)	**N/A**	N/A	N/A	**1.04 %**	10.23	11.53
Return on average tangible common equity (ROTCE)	(D)/(B)	**N/A**	N/A	N/A	**1.25**	12.20	13.73

(1) Determined by applying the combined federal statutory rate and composite state income tax rates to the difference between book and tax basis of the respective goodwill and intangible assets at period end.

LEVERAGE REQUIREMENTS As a BHC, we are required to maintain a supplementary leverage ratio (SLR) to avoid restrictions on capital distributions and discretionary bonus payments and maintain a minimum tier 1 leverage ratio. Table 48 presents the leverage requirements applicable to the Company as of December 31, 2020.

Table 48: Leverage Requirements Applicable to the Company



In addition, our IDIs are required to maintain an SLR of at least 6.00% to be considered well capitalized under applicable regulatory capital adequacy rules and maintain a minimum tier 1 leverage ratio of 4.00%.

The FRB and OCC have proposed rules (Proposed SLR rules) that would replace the 2.00% supplementary leverage buffer with a buffer equal to one-half of our G-SIB capital surcharge. The Proposed SLR rules would similarly tailor the current 6.00% SLR requirement for our IDIs.

In April 2020, the FRB issued an interim final rule that temporarily allows a BHC to exclude on-balance sheet amounts of U.S. Treasury securities and deposits at Federal Reserve Banks from the calculation of its total leverage exposure in the denominator of the SLR. This interim final rule became effective on April 1, 2020, and expires on March 31, 2021.

At December 31, 2020, the Company's SLR was 8.05%, and each of our IDIs exceeded their applicable SLR requirements. In addition, the Company's SLR at December 31, 2020, would have been 7.10% without relying on the FRB's April 2020 interim final rule that temporarily allows for the exclusion of specific on-balance sheet amounts. Table 49 presents information regarding the calculation and components of the Company's SLR and tier 1 leverage ratio.

Table 49: Leverage Ratios for the Company

(in millions, except ratio)			Quarter ended December 31, 2020
Tier 1 capital	(A)	$	158,196
Total average assets			1,928,592
Less: Goodwill and other permitted Tier 1 capital deductions (net of deferred tax liabilities)			28,334
Less: Other SLR exclusions			265,323
Total adjusted average assets			1,634,935
Plus adjustments for off-balance sheet exposures:			
Derivatives (1)			62,320
Repo-style transactions (2)			2,914
Other (3)			263,802
Total off-balance sheet exposures			329,036
Total leverage exposure	(B)	$	1,963,971
Supplementary leverage ratio	(A)/(B)		8.05%
Tier 1 leverage ratio (4)			8.32%

(1) Adjustment represents derivatives and collateral netting exposures as defined for supplementary leverage ratio determination purposes.
(2) Adjustment represents counterparty credit risk for repo-style transactions where Wells Fargo & Company is the principal counterparty facing the client.
(3) Adjustment represents credit equivalent amounts of other off-balance sheet exposures not already included as derivatives and repo-style transactions exposures.
(4) The tier 1 leverage ratio consists of tier 1 capital divided by total average assets, excluding goodwill and certain other items as determined under the rule.

TOTAL LOSS ABSORBING CAPACITY As a G-SIB, we are required to have a minimum amount of equity and unsecured long-term debt for purposes of resolvability and resiliency, often referred to as Total Loss Absorbing Capacity (TLAC). U.S. G-SIBs are required to have a minimum amount of TLAC (consisting of CET1 capital and additional tier 1 capital issued directly by the top-tier or covered BHC plus eligible external long-term debt) to avoid restrictions on capital distributions and discretionary bonus payments, as well as a minimum amount of eligible unsecured long-term debt. Our minimum TLAC and eligible unsecured long-term debt requirements as of December 31, 2020, are presented in Table 50.

Table 50: TLAC and Eligible Unsecured Long-Term Debt Requirements

TLAC requirement

Greater of:

18.00% of RWAs + TLAC buffer (equal to 2.50% of RWAs + method one G-SIB capital surcharge + any countercyclical buffer)	7.50% of total leverage exposure (the denominator of the SLR calculation) + External TLAC leverage buffer (equal to 2.00% of total leverage exposure)

Minimum amount of eligible unsecured long-term debt

Greater of:

6.00% of RWAs + Method two G-SIB capital surcharge	4.50% of total leverage exposure

Under the Proposed SLR rules, the 2.00% external TLAC leverage buffer would be replaced with a buffer equal to one-half of our applicable G-SIB capital surcharge, and the leverage component for calculating the minimum amount of eligible unsecured long-term debt would be modified from 4.50% of total leverage exposure to 2.50% of total leverage exposure plus one-half of our applicable G-SIB capital surcharge.

As of December 31, 2020, our eligible external TLAC as a percentage of total RWAs was 25.74%, compared with a required minimum of 22.00%. Effective January 1, 2021, the Company's G-SIB capital surcharge calculated under method one, which is a component of our TLAC buffer requirement, decreased from 1.50% to 1.00%. Accordingly, effective January 1, 2021, our TLAC requirement as a percentage of total RWAs decreased from 22.00% to 21.50%. Similar to the risk-based capital requirements, our minimum TLAC requirement is assessed based on the greater of RWAs determined under the Standardized and Advanced Approaches.

OTHER REGULATORY CAPITAL AND LIQUIDITY MATTERS As discussed in the "Risk Management – Asset/ Liability Management – Liquidity Risk and Funding – Liquidity Standards" section in this Report, federal banking regulators have issued final rules regarding the U.S. implementation of the Basel III LCR and NSFR.

Capital Planning and Stress Testing

Our planned long-term capital structure is designed to meet regulatory and market expectations. We believe that our long-term targeted capital structure enables us to invest in and grow our business, satisfy our customers' financial needs in varying environments, access markets, and maintain flexibility to return capital to our shareholders. Our long-term targeted capital structure also considers capital levels sufficient to exceed capital requirements including the G-SIB capital surcharge. Accordingly, we currently target a long-term CET1 capital ratio at or in excess of 10.00%. Our capital targets are subject to change based on various factors, including changes to the regulatory capital framework and expectations for large banks promulgated by bank regulatory agencies, changes to the regulatory requirements for our capital ratios, planned capital actions, changes in our risk profile and other factors.

The FRB capital plan rule establishes capital planning and other requirements that govern capital distributions, including dividends and share repurchases, by certain BHCs, including Wells Fargo. The FRB assesses, among other things, the overall financial condition, risk profile, and capital adequacy of BHCs when evaluating their capital plans.

We submitted our 2020 capital plan to the FRB on April 3, 2020. As part of the 2020 CCAR, the FRB also generated a supervisory stress test. The FRB reviewed the supervisory stress test results as required under the Dodd-Frank Act using a common set of capital actions for all large BHCs and also reviewed the Company's proposed capital actions. The FRB published its supervisory stress test results on June 25, 2020.

On June 25, 2020, the FRB also announced that it was requiring large BHCs, including Wells Fargo, to update and resubmit their capital plans. We updated and resubmitted our capital plan on November 2, 2020, and the FRB published its resubmission supervisory stress test results on December 18, 2020.

On December 18, 2020, the FRB announced that it was extending, with certain adjustments, measures it announced on June 25, 2020, limiting large BHCs, including Wells Fargo, from making any capital distribution (excluding any capital distribution arising from the issuance of a capital instrument eligible for inclusion in the numerator of a regulatory capital ratio), unless otherwise approved by the FRB. For first quarter 2021, the FRB has generally authorized BHCs to (i) provided that the BHC does not increase the amount of its common stock dividends to be larger than the level paid in second quarter 2020, pay common stock dividends and make share repurchases that, in the aggregate, do not exceed an amount equal to the average of the BHC's net income for the four preceding calendar quarters; (ii) make share repurchases that equal the amount of share issuances related to expensed employee compensation; and (iii) redeem and make scheduled payments on additional tier 1 and tier 2 capital instruments. The FRB is expected to announce by March 31, 2021, whether these capital distribution limitations will be extended for another quarter.

Concurrently with CCAR, federal banking regulators also require large BHCs and banks to conduct their own stress tests to evaluate whether the institution has sufficient capital to continue to operate during periods of adverse economic and financial conditions. We submitted the results of our stress test to the FRB and disclosed a summary of the results in June 2020.

Securities Repurchases

From time to time the Board authorizes the Company to repurchase shares of our common stock. Although we announce when the Board authorizes share repurchases, we typically do not give any public notice before we repurchase our shares. Various factors determine the amount of our share repurchases, including our capital requirements, the number of shares we expect to issue for employee benefit plans and acquisitions, market conditions (including the trading price of our stock), and regulatory and legal considerations, including under the FRB's capital plan rule. Due to the various factors that may impact the amount of our share repurchases and the fact that we tend to be in the market regularly to satisfy repurchase considerations under our capital plan, our share repurchases occur at various price levels. We may suspend share repurchase activity at any time.

As discussed in the "Capital Planning and Stress Testing" section above, on December 18, 2020, the FRB announced that it was extending, with certain adjustments, measures prohibiting large BHCs subject to the FRB's capital plan rule from making capital distributions subject to certain limited exceptions.

At December 31, 2020, we had remaining Board authority to repurchase approximately 167 million shares, subject to regulatory and legal conditions. On January 15, 2021, we announced that the Board approved an increase in the Company's authority to repurchase common stock by an additional 500 million shares. For more information about share repurchases during fourth quarter 2020, see Part II, Item 5 in our 2020 Form 10-K.

Regulatory Matters

The U.S. financial services industry is subject to significant regulation and regulatory oversight initiatives. This regulation and oversight may continue to impact how U.S. financial services companies conduct business and may continue to result in increased regulatory compliance costs. The following highlights the more significant regulations and regulatory oversight initiatives that have affected or may affect our business. For additional information about the regulatory matters discussed below and other regulations and regulatory oversight matters, see Part I, Item 1 "Regulation and Supervision" of our 2020 Form 10-K, and the "Capital Management," "Forward-Looking Statements" and "Risk Factors" sections and Note 28 (Regulatory Capital Requirements and Other Restrictions) to Financial Statements in this Report.

Dodd-Frank Act

The Dodd-Frank Act is the most significant financial reform legislation since the 1930s. The following provides additional information on the Dodd-Frank Act, including certain of its rulemaking initiatives.

- *Enhanced supervision and regulation of systemically important firms.* The Dodd-Frank Act grants broad authority to federal banking regulators to establish enhanced supervisory and regulatory requirements for systemically important firms. The FRB has finalized a number of regulations implementing enhanced prudential requirements for large bank holding companies (BHCs) like Wells Fargo regarding risk-based capital and leverage, risk and liquidity management, single counterparty credit limits, and imposing debt-to-equity limits on any BHC that regulators determine poses a grave threat to the financial stability of the United States. The FRB and OCC have also finalized rules implementing stress testing requirements for large BHCs and national banks. In addition, the FRB has proposed a rule to establish remediation requirements for large BHCs experiencing financial distress and has proposed additional requirements regarding effective risk management practices at large BHCs, including its expectations for boards of directors and senior management. The OCC, under separate authority, has also finalized guidelines establishing heightened governance and risk management standards for large national banks such as Wells Fargo Bank, N.A. The OCC guidelines require covered banks to establish and adhere to a written risk governance framework to manage and control their risk-taking activities. The guidelines also formalize roles and responsibilities for risk management practices within covered banks and create certain risk oversight responsibilities for their boards of directors. In addition to the authorization of enhanced supervisory and regulatory requirements for systemically important firms, the Dodd-Frank Act also established the Financial Stability Oversight Council and the Office of Financial Research, which may recommend new systemic risk management requirements and require new reporting of systemic risks.
- *Regulation of consumer financial products.* The Dodd-Frank Act established the Consumer Financial Protection Bureau (CFPB) to ensure that consumers receive clear and accurate disclosures regarding financial products and are protected from unfair, deceptive or abusive practices. The CFPB has issued a number of rules impacting consumer financial products, including rules regarding the origination, notification, disclosure and other requirements with respect to residential mortgage lending, as well as rules impacting prepaid cards, credit cards, and other financial products. In addition to these rulemaking activities, the CFPB is continuing its ongoing supervisory examination activities of the financial services industry with respect to a number of consumer businesses and products, including mortgage lending and servicing, fair lending requirements, and auto finance.
- *Regulation of swaps and other derivatives activities.* The Dodd-Frank Act established a comprehensive framework for regulating over-the-counter derivatives, and, pursuant to authority granted by the Dodd-Frank Act, the CFTC and the SEC have adopted comprehensive sets of rules regulating swaps and security-based swaps, respectively, and the OCC

and other federal regulatory agencies have adopted margin requirements for uncleared swaps and security-based swaps. Wells Fargo Bank, N.A., as a provisionally-registered swap dealer, is subject to the CFTC's swap rules and will become subject to the SEC's security-based swap rules if it registers as a security-based swap dealer, which it is currently expected to do by November 1, 2021. These rules, as well as others adopted or under consideration by regulators in the United States and other jurisdictions, may negatively impact customer demand for over-the-counter derivatives, impact our ability to offer customers new derivatives or amendments to existing derivatives, and may increase our costs for engaging in swaps, security-based swaps, and other derivatives activities.

Regulatory Capital, Leverage, and Liquidity Requirements
The Company and each of our IDIs are subject to various regulatory capital adequacy requirements administered by the FRB and the OCC. For example, the Company is subject to rules issued by federal banking regulators to implement Basel III risk-based capital requirements for U.S. banking organizations. The Company and its IDIs are also required to maintain specified leverage and supplementary leverage ratios. In addition, the Company is required to have a minimum amount of total loss absorbing capacity for purposes of resolvability and resiliency. Federal banking regulators have also issued final rules requiring a liquidity coverage ratio and a net stable funding ratio. For more information on the final risk-based capital, leverage and liquidity rules, and additional capital requirements applicable to us, see the "Capital Management" and "Risk Management – Asset/ Liability Management – Liquidity Risk and Funding – Liquidity Standards" sections in this Report.

"Living Will" Requirements and Related Matters
Rules adopted by the FRB and the FDIC under the Dodd-Frank Act require large financial institutions, including Wells Fargo, to prepare and periodically submit resolution plans, also known as "living wills," that would facilitate their rapid and orderly resolution in the event of material financial distress or failure. Under the rules, rapid and orderly resolution means a reorganization or liquidation of the covered company under the U.S. Bankruptcy Code that can be accomplished in a reasonable period of time and in a manner that substantially mitigates the risk that failure would have serious adverse effects on the financial stability of the United States. In addition to the Company's resolution plan, our national bank subsidiary, Wells Fargo Bank, N.A. (the "Bank"), is also required to prepare and periodically submit a resolution plan. If the FRB and/or FDIC determine that our resolution plan has deficiencies, they may impose more stringent capital, leverage or liquidity requirements on us or restrict our growth, activities or operations until we adequately remedy the deficiencies. If the FRB and/or FDIC ultimately determine that we have been unable to remedy any deficiencies, they could require us to divest certain assets or operations. On June 27, 2019, we submitted our resolution plan to the FRB and FDIC. On December 17, 2019, the FRB and FDIC announced that the Company's 2019 resolution plan did not have any deficiencies, but they identified a specific shortcoming that would need to be addressed.

If Wells Fargo were to fail, it may be resolved in a bankruptcy proceeding or, if certain conditions are met, under the resolution regime created by the Dodd-Frank Act known as the "orderly liquidation authority." The orderly liquidation authority allows for the appointment of the FDIC as receiver for a systemically important financial institution that is in default or in danger of default if, among other things, the resolution of the institution under the U.S. Bankruptcy Code would have serious adverse effects on financial stability in the United States. If the FDIC is appointed as receiver for Wells Fargo & Company (the "Parent"), then the orderly liquidation authority, rather than the U.S. Bankruptcy Code, would determine the powers of the receiver and the rights and obligations of our security holders. The FDIC's orderly liquidation authority requires that security holders of a company in receivership bear all losses before U.S. taxpayers are exposed to any losses, and allows the FDIC to disregard the strict priority of creditor claims under the U.S. Bankruptcy Code in certain circumstances.

The strategy described in our most recent resolution plan is a single point of entry strategy, in which the Parent would likely be the only material legal entity to enter resolution proceedings. However, we are not obligated to maintain a single point of entry strategy, and the strategy described in our resolution plan is not binding in the event of an actual resolution of Wells Fargo, whether conducted under the U.S. Bankruptcy Code or by the FDIC under the orderly liquidation authority. The FDIC has announced that a single point of entry strategy may be a desirable strategy under its implementation of the orderly liquidation authority, but not all aspects of how the FDIC might exercise this authority are known and additional rulemaking is possible.

To facilitate the orderly resolution of systemically important financial institutions in case of material distress or failure, federal banking regulations require that institutions, such as Wells Fargo, maintain a minimum amount of equity and unsecured debt to absorb losses and recapitalize operating subsidiaries. Federal banking regulators have also required measures to facilitate the continued operation of operating subsidiaries notwithstanding the failure of their parent companies, such as limitations on parent guarantees, and have issued guidance encouraging institutions to take legally binding measures to provide capital and liquidity resources to certain subsidiaries to facilitate an orderly resolution. In response to the regulators' guidance and to facilitate the orderly resolution of the Company, on June 28, 2017, the Parent entered into a support agreement, as amended and restated on June 26, 2019 (the "Support Agreement"), with WFC Holdings, LLC, an intermediate holding company and subsidiary of the Parent (the "IHC"), the Bank, Wells Fargo Securities, LLC ("WFS"), Wells Fargo Clearing Services, LLC ("WFCS"), and certain other direct and indirect subsidiaries of the Parent designated as material entities for resolution planning purposes (the "Covered Entities") or identified as related support entities in our resolution plan (the "Related Support Entities"). Pursuant to the Support Agreement, the Parent transferred a significant amount of its assets, including the majority of its cash, deposits, liquid securities and intercompany loans (but excluding its equity interests in its subsidiaries and certain other assets), to the IHC and will continue to transfer those types of assets to the IHC from time to time. In the event of our material financial distress or failure, the IHC will be obligated to use the transferred assets to provide capital and/or liquidity to the Bank, WFS, WFCS, and the Covered Entities pursuant to the Support Agreement. Under the Support Agreement, the IHC will also provide funding and liquidity to the Parent through subordinated notes and a committed line of credit, which, together with the issuance of dividends, is expected to provide the Parent, during business as usual operating conditions, with the same access to cash necessary to service its debts, pay dividends, repurchase its shares, and perform its other obligations as it would have had if it had not entered into these arrangements and transferred any assets. If certain liquidity and/or capital metrics fall below defined triggers, or if the Parent's board of directors authorizes it to file a case under the U.S. Bankruptcy Code, the subordinated notes would be forgiven, the committed line of credit would terminate, and the IHC's ability to pay dividends to the Parent would be restricted, any of which could materially and adversely impact the Parent's liquidity and its ability to satisfy its debts and other obligations, and could result in the commencement of bankruptcy proceedings by the Parent at an earlier time than might have otherwise occurred if the Support Agreement were not implemented. The respective obligations under the Support Agreement of the Parent, the IHC, the Bank, and the Related Support Entities are secured pursuant to a related security agreement.

In addition to our resolution plans, we must also prepare and submit to the FRB a recovery plan that identifies a range of options that we may consider during times of idiosyncratic or systemic economic stress to remedy any financial weaknesses and restore market confidence without extraordinary government support. Recovery options include the possible sale, transfer or disposal of assets, securities, loan portfolios or businesses. The Bank must also prepare and submit to the OCC a recovery plan that sets forth the Bank's plan to remain a going concern when the Bank is experiencing considerable financial or operational stress, but has not yet deteriorated to the point where liquidation or resolution is imminent. If either the FRB or the OCC determines that our recovery plan is deficient, they may impose fines, restrictions on our business or ultimately require us to divest assets.

Other Regulatory Related Matters

- *Regulatory actions.* The Company is subject to a number of consent orders and regulatory agreements, which may require the Company, among other things, to undertake certain changes to its business, products and services, and risk management practices, and include the following:
  - *FRB consent order regarding governance oversight and compliance and operational risk management.* On February 2, 2018, the Company entered into a consent order with the FRB. As required by the consent order, the Board submitted to the FRB a plan to further enhance the Board's governance and oversight of the Company, and the Company submitted to the FRB a plan to further improve the Company's compliance and operational risk management program. The Company continues to engage with the FRB as the Company works to address the consent order provisions. The consent order also requires the Company, following the FRB's acceptance and approval of the plans and the Company's adoption and implementation of the plans, to complete an initial third-party review of the enhancements and improvements provided for in the plans. Until this third-party review is complete and the plans are approved and implemented to the satisfaction of the FRB, the Company's total consolidated assets as defined under the consent order will be limited to the level as of December 31, 2017. Compliance with this asset cap is measured on a two-quarter daily average basis to allow for management of temporary fluctuations. Due to the COVID-19 pandemic, on April 8, 2020, the FRB amended the consent order to allow the Company to exclude from the asset cap any on-balance sheet exposure resulting from loans made by the Company in connection with the Small Business Administration's Paycheck Protection Program and the FRB's Main Street Lending Program. As required under the amendment to the consent order, to the extent the Company chooses to exclude these exposures from the asset cap, certain fees and other economic benefits received by the Company from loans made in connection with these programs shall be transferred to the U.S. Treasury or to non-profit organizations approved by the FRB that support small businesses. After removal of the asset cap, a second third-party review must also be conducted to assess the efficacy and sustainability of the enhancements and improvements.
  - *Consent orders with the CFPB and OCC regarding compliance risk management program, automobile collateral protection insurance policies, and mortgage interest rate lock extensions.* On April 20, 2018, the Company entered into consent orders with the CFPB and the OCC to pay an aggregate of $1 billion in civil money penalties to resolve matters regarding the Company's compliance risk management program and past practices involving certain automobile collateral protection insurance policies and certain mortgage interest rate lock extensions. As required by the consent orders, the Company submitted to the CFPB and OCC an enterprise-wide compliance risk management plan and a plan to enhance the Company's internal audit program with respect to federal consumer financial law and the terms of the consent orders. In addition, as required by the consent orders, the Company submitted for non-objection plans to remediate customers affected by the automobile collateral protection insurance and mortgage interest rate lock matters, as well as a plan for the management of remediation activities conducted by the Company.
  - *OCC approval of director and senior executive officer appointments and certain post-termination payments.* Under the April 2018 consent order with the OCC, Wells Fargo Bank, N.A., remains subject to requirements that were originally imposed in November 2016 to provide prior written notice to, and obtain non-objection from, the OCC with respect to changes in directors and senior executive officers, and remains subject to certain regulatory limitations on post-termination payments to certain individuals and employees.
- *Regulatory Developments Related to COVID-19.* In response to the COVID-19 pandemic and related events, federal banking regulators undertook a number of measures to help stabilize the banking sector, support the broader economy, and facilitate the ability of banking organizations like Wells Fargo to continue lending to consumers and businesses. For example, in order to facilitate the Coronavirus Aid, Relief and Economic Security Act (CARES Act), federal banking regulators issued rules designed to encourage financial institutions to participate in stimulus measures, such as the Small Business Administration's Paycheck Protection Program. Similarly, the FRB launched a number of lending facilities designed to enhance liquidity and the functioning of markets, including facilities covering money market mutual funds and term asset-backed securities loans. Federal banking regulators also issued several rules amending the regulatory capital and TLAC rules and other prudential regulations to ease certain restrictions on banking organizations and encourage the use of certain FRB-established facilities in order to further promote lending to consumers and businesses.

In addition, the OCC and the FRB issued guidelines for banks and BHCs related to working with customers affected by the COVID-19 pandemic, including guidance with respect to waiving fees, offering repayment accommodations, and providing payment deferrals. Any current or future rules, regulations, and guidance related to the COVID-19 pandemic and its impacts could require us to change certain of our business practices, reduce our revenue and earnings, impose additional costs on us, or otherwise adversely affect our business operations and/or competitive position.

Critical Accounting Policies

Our significant accounting policies (see Note 1 (Summary of Significant Accounting Policies) to Financial Statements in this Report) are fundamental to understanding our results of operations and financial condition because they require that we use estimates and assumptions that may affect the value of our assets or liabilities and financial results. Six of these policies are critical because they require management to make difficult, subjective and complex judgments about matters that are inherently uncertain and because it is likely that materially different amounts would be reported under different conditions or using different assumptions. These policies govern:

- the allowance for credit losses;
- the valuation of residential MSRs;
- the fair value of financial instruments;
- income taxes;
- liability for contingent litigation losses; and
- goodwill impairment.

Beginning in fourth quarter 2020, goodwill impairment was designated as one of our critical accounting policies.

Management has discussed these critical accounting policies and the related estimates and judgments with the Board's Audit Committee.

Allowance for Credit Losses

We maintain an ACL for loans, which is management's estimate of the expected credit losses in the loan portfolio and unfunded credit commitments, at the balance sheet date, excluding loans and unfunded credit commitments carried at fair value or held for sale. Additionally, we maintain an ACL for debt securities classified as either HTM or AFS, other financial assets measured at amortized cost, net investments in leases, and other off-balance sheet credit exposures. In connection with our adoption of CECL, we updated our approach for estimating expected credit losses, which includes new areas for management judgment, described more fully below, and updated relevant accounting policies. For additional information, see Note 1 (Summary of Significant Accounting Policies) to Financial Statements in this Report.

For loans and HTM debt securities, the ACL is measured based on the remaining contractual term of the financial asset (including off-balance sheet credit exposures) adjusted, as appropriate, for prepayments and permitted extension options using historical experience, current conditions, and forecasted information. For AFS debt securities, the ACL is measured using a discounted cash flow approach and is limited to the difference between the fair value of the security and its amortized cost.

Changes in the ACL and, therefore, in the related provision for credit losses can materially affect net income. In applying the judgment and review required to determine the ACL, management considerations include the evaluation of past events, historical experience, changes in economic forecasts and conditions, customer behavior, collateral values, the length of the initial loss forecast period, and other influences. From time to time, changes in economic factors or assumptions, business strategy, products or product mix, or debt security investment strategy, may result in a corresponding increase or decrease in our ACL. While our methodology attributes portions of the ACL to specific financial asset classes (loan and debt security portfolios) or loan portfolio segments (commercial and consumer), the entire ACL is available to absorb credit losses of the Company.

Judgment is specifically applied in:

- *Economic assumptions and the length of the initial loss forecast period.* We forecast a wide range of economic variables to estimate expected credit losses. Our key economic variables include gross domestic product (GDP), unemployment rate, and collateral asset prices. While many of these economic variables are evaluated at the macro-economy level, some economic variables are forecasted at more granular levels, for example, using the metro statistical area (MSA) level for unemployment rates, home prices and commercial real estate prices. Quarterly, we assess the length of the initial loss forecast period and have currently set the period to two years. For the initial loss forecast period, we forecast multiple economic scenarios that generally include a base scenario with an optimistic (upside) and one or more pessimistic (downside) scenarios. Management exercises judgment when assigning weight to the economic scenarios that are used to estimate future credit losses.
- *Reversion to historical loss expectations.* Our long-term average loss expectations are estimated by reverting to the long-term average, on a linear basis, for each of the forecasted economic variables. These long-term averages are based on observations over multiple economic cycles. The reversion period, which may be up to two years, is assessed on a quarterly basis.
- *Credit risk ratings applied to individual commercial loans, unfunded credit commitments, and debt securities.* Individually assessed credit risk ratings are considered key credit variables in our modeled approaches to help assess probability of default and loss given default. Borrower quality ratings are aligned to the borrower's financial strength and contribute to forecasted probability of default curves. Collateral quality ratings combined with forecasted collateral prices (as applicable) contribute to the forecasted severity of loss in the event of default. These credit risk ratings are reviewed by experienced senior credit officers and subjected to reviews by an internal team of credit risk specialists.
- *Usage of credit loss estimation models.* We use internally developed models that incorporate credit attributes and economic variables to generate estimates of credit losses. Management uses a combination of judgment and quantitative analytics in the determination of segmentation, modeling approach, and variables that are leveraged in the models. These models are validated in accordance with the Company's policies by an internal model validation group. We routinely assess our model performance and apply adjustments when necessary to improve the accuracy of loss estimation. We also assess our models for limitations against the company-wide risk inventory to help ensure that

we appropriately capture known and emerging risks in our estimate of expected credit losses and apply overlays as needed.

- *Valuation of collateral.* The current fair value of collateral is utilized to assess the expected credit losses when a financial asset is considered to be collateral dependent. We apply judgment when valuing the collateral either through appraisals, evaluation of the cash flows of the property, or other quantitative techniques. Decreases in collateral valuations support incremental charge-downs and increases in collateral valuation are included in the ACL as a negative allowance when the financial asset has been previously written-down below current recovery value.
- *Contractual term considerations.* The remaining contractual term of a loan is adjusted for expected prepayments and certain expected extensions, renewals, or modifications. We extend the contractual term when we are not able to unconditionally cancel contractual renewals or extension options. We also incorporate any scenarios where we reasonably expect to provide an extension through a TDR. Credit card loans have indeterminate maturities, which requires that we determine a contractual life by estimating the application of future payments to the outstanding loan amount.
- *Qualitative factors which may not be adequately captured in the loss models.* These amounts represent management's judgment of risks inherent in the processes and assumptions used in establishing the ACL. We also consider economic environmental factors, modeling assumptions and performance, process risk, and other subjective factors, including industry trends and emerging risk assessments.

Sensitivity The ACL for loans is sensitive to changes in key assumptions which requires significant judgment to be used by management. Future amounts of the ACL for loans will be based on a variety of factors, including loan balance changes, portfolio credit quality, and general economic conditions. General economic conditions are forecasted using economic variables, which could have varying impacts on different financial assets or portfolios. Additionally, throughout numerous credit cycles, there are observed changes in economic variables such as the unemployment rate, GDP and real estate prices which may not move in a correlated manner as variables may move in opposite directions or differ across portfolios or geography.

Our sensitivity analysis does not represent management's view of expected credit losses at the balance sheet date. We applied 100% weight to the downside scenario in our sensitivity analysis to reflect the potential for further economic deterioration from a COVID-19 resurgence. The outcome of the scenario was influenced by the duration, severity, and timing of changes in economic variables within the scenario. The sensitivity analysis resulted in a hypothetical increase in the ACL for loans of approximately $2.6 billion at December 31, 2020. The hypothetical increase in our ACL for loans does not incorporate the impact of management judgment for qualitative factors applied in the current ACL for loans, which may have a positive or negative effect on the results. It is possible that others performing similar sensitivity analyses could reach different conclusions or results.

The sensitivity analysis excludes the ACL for debt securities and other financial assets given its size relative to the overall ACL. Management believes that the estimate for the ACL for loans was appropriate at the balance sheet date.

Valuation of Residential Mortgage Servicing Rights (MSRs)

MSRs are assets that represent the rights to service mortgage loans for others. We recognize MSRs when we purchase servicing rights from third parties, or retain servicing rights in connection with the sale or securitization of loans we originate (asset transfers). We also have acquired MSRs in the past under co-issuer agreements that provide for us to service loans that were originated and securitized by third-party correspondents.

We carry our MSRs related to residential mortgage loans at fair value. Periodic changes in our residential MSRs and the economic hedges used to hedge our residential MSRs are reflected in earnings.

We use a model to estimate the fair value of our residential MSRs. The model is validated in accordance with Company policies by an internal model validation group. The model calculates the present value of estimated future net servicing income and incorporates inputs and assumptions that market participants use in estimating fair value. Certain significant inputs and assumptions generally are not observable in the market and require judgment to determine. If observable market indications do become available, these are factored into the estimates as appropriate:

- *The mortgage loan prepayment speed used to estimate future net servicing income.* The prepayment speed is the annual rate at which borrowers are forecasted to repay their mortgage loan principal; this rate also includes estimated borrower defaults. We use models to estimate prepayment speeds and borrower defaults which are influenced by changes in mortgage interest rates and borrower behavior.
- *The discount rate used to present value estimated future net servicing income.* The discount rate is the required rate of return investors in the market would expect for an asset with similar risk. To determine the discount rate, we consider the risk premium for uncertainties in the cash flow estimates such as from servicing operations (e.g., possible changes in future servicing costs, ancillary income and earnings on escrow accounts).
- *The expected cost to service loans used to estimate future net servicing income.* The cost to service loans includes estimates for unreimbursed expenses, such as delinquency and foreclosure costs, which considers the number of defaulted loans as well as changes in servicing processes associated with default and foreclosure management.

Both prepayment speed and discount rate assumptions can, and generally will, change quarterly as market conditions and mortgage interest rates change. For example, an increase in either the prepayment speed or discount rate assumption results in a decrease in the fair value of the MSRs, while a decrease in either assumption would result in an increase in the fair value of the MSRs. In recent years, there have been significant market-driven fluctuations in loan prepayment speeds and the discount rate. These fluctuations can be rapid and may be significant in the future. Additionally, while our current valuation reflects our best estimate of servicing costs, future regulatory or investor changes in servicing standards, as well as changes in individual state foreclosure legislation or additional market participant information regarding servicing cost assumptions, may have an impact on our servicing cost assumption and our MSR valuation in future periods. We periodically benchmark our MSR fair value estimate to independent appraisals.

For a description of our valuation and sensitivity of MSRs, see Note 1 (Summary of Significant Accounting Policies), Note 8 (Securitizations and Variable Interest Entities), Note 9 (Mortgage Banking Activities) and Note 17 (Fair Values of Assets and Liabilities) to Financial Statements in this Report.

Fair Value of Financial Instruments

Fair value represents the price that would be received to sell the financial asset or paid to transfer the financial liability in an orderly transaction between market participants at the measurement date.

We use fair value measurements to record fair value adjustments to certain financial instruments and to determine fair value disclosures. For example, assets and liabilities held for trading purposes, marketable equity securities, AFS debt securities, derivatives and a majority of our LHFS are carried at fair value each period. Other financial instruments, such as certain LHFS, a majority of nonmarketable equity securities, and loans held for investment, are not carried at fair value each period but may require nonrecurring fair value adjustments due to application of lower-of-cost-or-market accounting, measurement alternative accounting or write-downs of individual assets. We also disclose our estimate of fair value for financial instruments not recorded at fair value, such as loans held for investment or issuances of long-term debt.

The accounting requirements for fair value measurements include a three-level hierarchy for disclosure of assets and liabilities recorded at fair value. The classification of assets and liabilities within the hierarchy is based on whether the inputs to the valuation methodology used for measurement are observable or unobservable. Observable inputs reflect market-derived or market-based information obtained from independent sources, while unobservable inputs reflect our estimates about market data.

When developing fair value measurements, we maximize the use of observable inputs and minimize the use of unobservable inputs. When available, we use quoted prices in active markets to measure fair value. If quoted prices in active markets are not available, fair value measurement is based upon models that generally use market-based or independently sourced market parameters, including interest rate yield curves, prepayment speeds, option volatilities and currency rates. However, when observable market data is limited or not available, fair value estimates are typically determined using internally-developed models based on unobservable inputs. Internal models used to determine fair value are validated in accordance with Company policies by an internal model validation group. Additionally, we use third-party pricing services to obtain fair values, which are used to either record the price of an instrument or to corroborate internally-developed prices. Third-party price validation procedures are performed over the reasonableness of the fair value measurements.

When using internally-developed models based on unobservable inputs, management judgment is necessary as we are required to make judgments about significant assumptions market participants would use to estimate fair value. Determination of these assumptions includes consideration of market conditions and liquidity levels. Changes in the market conditions, such as reduced liquidity in the capital markets or changes in secondary market activities, may reduce the availability and reliability of quoted prices or observable data used to determine fair value. In such cases, it may be appropriate to adjust available quoted prices or observable market data. For example, we may adjust a price received from a third-party pricing service using internal models based on discounted cash flows when the impact of illiquid markets has not already been incorporated in the fair value measurement. Additionally, for certain residential LHFS and certain debt and equity securities where the significant inputs have become unobservable due to illiquid markets and a third-party pricing service is not used, our discounted cash flow model uses a discount rate that reflects what we believe a market participant would require in light of the illiquid market.

We continually assess the level and volume of market activity in our debt and equity security classes in determining adjustments, if any, to price quotes. Given market conditions can change over time, our determination of which securities markets are considered active or inactive can change. If we determine a market to be inactive, the degree to which price quotes require adjustment, can also change.

Significant judgment is also required to determine whether certain assets measured at fair value are classified as Level 2 or Level 3 of the fair value hierarchy. When making this judgment, we consider available information, including observable market data, indications of market liquidity and orderliness, and our understanding of the valuation techniques and significant inputs used to estimate fair value. The classification as Level 2 or Level 3 is based upon the specific facts and circumstances of each instrument or instrument category and judgments are made regarding the significance of unobservable inputs to each instrument's fair value measurement in its entirety. If unobservable inputs are considered significant, the instrument is classified as Level 3.

Table 51 presents our (1) assets and liabilities recorded at fair value on a recurring basis and (2) Level 3 assets and liabilities recorded at fair value on a recurring basis, both presented as a percentage of our total assets and total liabilities.

Table 51: Fair Value Level 3 Summary

	December 31, 2020		December 31, 2019	
($ in billions)	**Total balance**	**Level 3 (1)**	Total balance	Level 3 (1)
Assets recorded at fair value on a recurring basis	**$ 380.3**	**21.9**	428.4	24.1
As a percentage of total assets	**19 %**	**1**	22	1
Liabilities recorded at fair value on a recurring basis	**$ 39.0**	**2.0**	26.5	1.8
As a percentage of total liabilities	**2 %**	*****	2	*

* Less than 1%.
(1) Before derivative netting adjustments.

See Note 17 (Fair Values of Assets and Liabilities) to Financial Statements in this Report for a complete discussion on our fair value of financial instruments, our related measurement techniques and the impact to our financial statements.

Income Taxes

We file income tax returns in the jurisdictions in which we operate and evaluate income tax expense in two components: current and deferred income tax expense. Current income tax expense represents our estimated taxes to be paid or refunded for the current period and includes income tax expense related to uncertain tax positions. Uncertain tax positions that meet the more likely than not recognition threshold are measured to determine the amount of benefit to recognize. An uncertain tax position is measured at the largest amount of benefit that management believes has a greater than 50% likelihood of realization upon settlement. Tax benefits not meeting our realization criteria represent unrecognized tax benefits.

Deferred income taxes are based on the balance sheet method and deferred income tax expense results from changes in deferred tax assets and liabilities between periods. Under the balance sheet method, the net deferred tax asset or liability is based on the tax effects of the differences between the book and tax basis of assets and liabilities, and recognizes enacted changes in tax rates and laws in the period in which they occur. Deferred tax assets are recognized subject to management's judgment that realization is more likely than not. A valuation allowance reduces deferred tax assets to the realizable amount.

The income tax laws of the jurisdictions in which we operate are complex and subject to different interpretations by management and the relevant government taxing authorities. In establishing a provision for income tax expense, we must make judgments about the application of these inherently complex tax laws. We must also make estimates about when in the future certain items will affect taxable income in the various tax jurisdictions. Our interpretations may be subjected to review during examination by taxing authorities and disputes may arise over the respective tax positions. We attempt to resolve these disputes during the tax examination and audit process and ultimately through the court systems when applicable.

We monitor relevant tax authorities and revise our estimate of accrued income taxes due to changes in income tax laws and their interpretation by the courts and regulatory authorities on a quarterly basis. Revisions of our estimate of accrued income taxes also may result from our own income tax planning and from the resolution of income tax controversies. Such revisions in our estimates may be material to our operating results for any given quarter.

See Note 23 (Income Taxes) to Financial Statements in this Report for a further description of our provision for income taxes and related income tax assets and liabilities.

Liability for Contingent Litigation Losses

The Company is involved in a number of judicial, regulatory, governmental, arbitration and other proceedings or investigations concerning matters arising from the conduct of its business activities, and many of those proceedings and investigations expose the Company to potential financial loss. We establish accruals for legal actions when potential losses associated with the actions become probable and the costs can be reasonably estimated. For such accruals, we record the amount we consider to be the best estimate within a range of potential losses that are both probable and estimable; however, if we cannot determine a best estimate, then we record the low end of the range of those potential losses. The actual costs of resolving legal actions may be substantially higher or lower than the amounts accrued for those actions.

We apply judgment when establishing an accrual for potential losses associated with legal actions and in establishing the range of reasonably possible losses in excess of the accrual. Our judgment in establishing accruals and the range of reasonably possible losses in excess of the Company's accrual for probable and estimable losses is influenced by our understanding of information currently available related to the legal evaluation and potential outcome of actions, including input and advice on these matters from our internal counsel, external counsel and senior management. These matters may be in various stages of investigation, discovery or proceedings. They may also involve a wide variety of claims across our businesses, legal entities and jurisdictions. The eventual outcome may be a scenario that was not considered or was considered remote in anticipated occurrence. Accordingly, our estimate of potential losses will change over time and the actual losses may vary significantly.

The outcomes of legal actions are unpredictable and subject to significant uncertainties, and it is inherently difficult to determine whether any loss is probable or even possible. It is also inherently difficult to estimate the amount of any loss and there may be matters for which a loss is probable or reasonably possible but not currently estimable. Accordingly, actual losses may be in excess of the established accrual or the range of reasonably possible loss.

See Note 15 (Legal Actions) to Financial Statements in this Report for further information.

Goodwill Impairment

We test goodwill for impairment annually in the fourth quarter or more frequently as macroeconomic and other business factors warrant. These factors may include trends in short-term or long-term interest rates, negative trends from reduced revenue generating activities or increased costs, adverse actions by regulators, and company specific factors such as a decline in market capitalization. In first and second quarter 2020, we performed interim, quantitative impairment assessments of our goodwill and concluded that there was no impairment of goodwill. In third quarter 2020, we performed a qualitative assessment of goodwill impairment and concluded that it was more likely than not that the fair values of our reporting units were greater than their carrying amounts as of September 30, 2020.

In 2020, we reorganized our management reporting structure, which resulted in newly defined reportable operating segments. We identify reporting units to be assessed for goodwill impairment at the reportable operating segment level or one level below. Goodwill balances were allocated to the reporting units based on the relative fair value of realigned businesses.

For our quantitative goodwill impairment assessments, we calculate carrying amounts as net equity for each reporting unit based on allocated capital plus assigned goodwill and other intangible assets. We allocate capital to the reporting units under a risk-sensitive framework that is primarily based on aspects of our regulatory capital requirements. The estimated fair values of the reporting units are established based on a balanced weighting of fair values using both an income approach and a market approach and are intended to reflect Company performance and expectations as well as external market conditions. The methodologies for calculating carrying amounts and estimating fair values are periodically assessed by senior management and revised as necessary.

The income approach is a discounted cash flow (DCF) analysis, which uses the present value of future cash flows associated with each reporting unit to estimate fair value. There is significant judgment applied in a DCF analysis based on financial forecasts for our lines of business, which include future expectations of economic conditions and balance sheet changes, and assumptions related to future business activities. The near-term forecasts are reviewed by senior management and the Board as part of our annual budgeting process. For periods after our financial forecasts, we use a terminal value calculation based on an assumed long-term growth rate. We apply a discount rate to these forecasted cash flows using the capital asset pricing model which produces an estimated cost of equity specific to that reporting unit. The discount rates used in our fourth quarter 2020 assessment, which ranged from 10% to 12%, were intended to reflect the risks and uncertainties in the financial markets and in our internally generated business projections.

The market approach utilizes observable market data from comparable publicly traded companies, such as price-to-earnings or price-to-tangible book value ratios, to estimate a reporting unit's fair value. The market data is adjusted with a control premium that would be applied in a hypothetical acquisition of the reporting unit. Management uses judgment in the selection of comparable companies for each reporting unit based on the similarity of peer business activities to those of the applicable reporting unit.

The aggregate fair value of our reporting units exceeded our market capitalization for our fourth quarter 2020 assessment. Factors that we considered in our assessment and contributed to this difference included: (i) an overall premium that would be paid to gain control of the operating and financial decisions of the Company, (ii) synergies that we believe may not be reflected in the price of the Company's common stock, (iii) market position or opportunities that a potential buyer would take into consideration when estimating the fair value of an individual reporting unit, (iv) a higher degree of complexity and execution risk at the Company level, compared with the individual reporting unit level, and (v) risks or benefits at the Company level that may not be reflected in the fair value of the individual reporting units.

Based on our fourth quarter 2020 assessment, there was no impairment of goodwill at December 31, 2020. The fair value of each reporting unit exceeded its carrying amount by 10% or higher based on forecasts and valuations. Although the fair value of our Commercial Banking reporting unit exceeded its carrying amount by over 20%, it was the most sensitive to adverse changes in valuation assumptions. An adverse change to valuation assumptions could result in an impairment of the goodwill allocated to the Commercial Banking reporting unit, which was $2.9 billion at December 31, 2020.

Declines in our ability to generate revenue, significant increases in credit losses or other expenses, or adverse actions from regulators are factors that could result in material goodwill impairment in a future period. Given the uncertainty of the severity or length of the current economic downturn, we will continue to monitor our performance against our internal forecasts as well as market conditions for circumstances that could have a further negative effect on the estimated fair values of our reporting units.

For additional information on goodwill and our reportable operating segments, see Note 1 (Summary of Significant Accounting Policies), Note 10 (Intangible Assets), and Note 26 (Operating Segments) to Financial Statements in this Report.

Current Accounting Developments

Table 52 provides the significant accounting updates applicable to us that have been issued by the Financial Accounting Standards Board (FASB) but are not yet effective.

Table 52: Current Accounting Developments – Issued Standards

Description	Effective date and financial statement impact
ASU 2018-12 – Financial Services – Insurance (Topic 944): *Targeted Improvements to the Accounting for Long-Duration Contracts* and subsequent related updates	
The Update requires all features in long-duration insurance contracts that meet the definition of a market risk benefit to be measured at fair value through earnings with changes in fair value attributable to our own credit risk recognized in other comprehensive income. The Update requires the use of a standardized discount rate and routine updates for insurance assumptions used in valuing the liability for future policy benefits for traditional long-duration contracts. The Update also simplifies the amortization of deferred acquisition costs.	ASU 2020-11, Financial Services – Insurance (Topic 944): Effective Date and Early Application, issued in fourth quarter 2020, delayed the effective date of this standard to January 1, 2023. Certain of our variable annuity reinsurance products meet the definition of market risk benefits and will require the associated insurance related reserves to be measured at fair value as of the earliest period presented, with the cumulative effect of the difference between fair value and carrying value, excluding the effect of our own credit, to be recognized in the opening balance of retained earnings. The cumulative effect on fair value for changes attributable to our own credit risk will be recognized in the beginning balance of accumulated other comprehensive income. As of December 31, 2020, we held $1.2 billion in insurance-related reserves of which $588 million was in scope of the Update. A total of $531 million was associated with products that meet the definition of market risk benefits, and of this amount, $26 million was measured at fair value under current accounting standards. The market risk benefits are primarily indexed to U.S. equity and fixed income markets. Upon adoption, we may incur periodic earnings volatility from changes in the fair value of market risk benefits generally due to the long duration of these contracts. We plan to economically hedge this volatility, where feasible. The ultimate impact of these changes will depend on the composition of our market risk benefits portfolio at the date of adoption. Changes in the accounting for the liability of future policy benefits for traditional long-duration contracts and deferred acquisition costs will be applied to all outstanding long-duration contracts on the basis of their existing carrying amounts at the beginning of the earliest period presented, and are not expected to be material.

Other Accounting Developments

The following Updates are applicable to us but are not expected to have a material impact on our consolidated financial statements:

- ASU 2021-01 – Reference Rate Reform (Topic 848): Scope
- ASU 2020-10 – Codification Improvements
- ASU 2020-08 – Codification Improvements to Subtopic 310-20, *Receivables-Nonrefundable Fees and Other Costs*
- ASU 2020-06 – Debt – Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging – Contracts in Entity's Own Equity (Subtopic 815-40): *Accounting for Convertible Instruments and Contracts in an Entity's Own Equity*
- ASU 2020-01 – Investments – Equity Securities (Topic 321), Investments – Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815): *Clarifying the Interactions between Topic 321, Topic 323, and Topic 815 (a consensus of the FASB Emerging Issues Task Force)*
- ASU 2019-12 – Income Taxes (Topic 740): *Simplifying the Accounting for Income Taxes*

Forward-Looking Statements

This document contains forward-looking statements. In addition, we may make forward-looking statements in our other documents filed or furnished with the Securities and Exchange Commission, and our management may make forward-looking statements orally to analysts, investors, representatives of the media and others. Forward-looking statements can be identified by words such as “anticipates,” “intends,” “plans,” “seeks,” “believes,” “estimates,” “expects,” “target,” “projects,” “outlook,” “forecast,” “will,” “may,” “could,” “should,” “can” and similar references to future periods. In particular, forward-looking statements include, but are not limited to, statements we make about: (i) the future operating or financial performance of the Company, including our outlook for future growth; (ii) our noninterest expense and efficiency ratio; (iii) future credit quality and performance, including our expectations regarding future loan losses, our allowance for credit losses, and the economic scenarios considered to develop the allowance; (iv) our expectations regarding net interest income and net interest margin; (v) loan growth or the reduction or mitigation of risk in our loan portfolios; (vi) future capital or liquidity levels, ratios or targets; (vii) the performance of our mortgage business and any related exposures; (viii) the expected outcome and impact of legal, regulatory and legislative developments, as well as our expectations regarding compliance therewith; (ix) future common stock dividends, common share repurchases and other uses of capital; (x) our targeted range for return on assets, return on equity, and return on tangible common equity; (xi) expectations regarding our effective income tax rate; (xii) the outcome of contingencies, such as legal proceedings; and (xiii) the Company’s plans, objectives and strategies.

Forward-looking statements are not based on historical facts but instead represent our current expectations and assumptions regarding our business, the economy and other future conditions. Because forward-looking statements relate to the future, they are subject to inherent uncertainties, risks and changes in circumstances that are difficult to predict. Our actual results may differ materially from those contemplated by the forward-looking statements. We caution you, therefore, against relying on any of these forward-looking statements. They are neither statements of historical fact nor guarantees or assurances of future performance. While there is no assurance that any list of risks and uncertainties or risk factors is complete, important factors that could cause actual results to differ materially from those in the forward-looking statements include the following, without limitation:

- current and future economic and market conditions, including the effects of declines in housing prices, high unemployment rates, U.S. fiscal debt, budget and tax matters, geopolitical matters, and any slowdown in global economic growth;
- the effect of the COVID-19 pandemic, including on our credit quality and business operations, as well as its impact on general economic and financial market conditions;
- our capital and liquidity requirements (including under regulatory capital standards, such as the Basel III capital standards) and our ability to generate capital internally or raise capital on favorable terms;
- current, pending or future legislation or regulation that could have a negative effect on our revenue and businesses, including rules and regulations relating to bank products and financial services;
- developments in our mortgage banking business, including the extent of the success of our mortgage loan modification efforts, the amount of mortgage loan repurchase demands that we receive, any negative effects relating to our mortgage servicing, loan modification or foreclosure practices, and the effects of regulatory or judicial requirements or guidance impacting our mortgage banking business and any changes in industry standards;
- our ability to realize any efficiency ratio or expense target as part of our expense management initiatives, including as a result of business and economic cyclicality, seasonality, changes in our business composition and operating environment, growth in our businesses and/or acquisitions, and unexpected expenses relating to, among other things, litigation and regulatory matters;
- the effect of the current interest rate environment or changes in interest rates or in the level or composition of our assets or liabilities on our net interest income, net interest margin and our mortgage originations, mortgage servicing rights and mortgage loans held for sale;
- significant turbulence or a disruption in the capital or financial markets, which could result in, among other things, reduced investor demand for mortgage loans, a reduction in the availability of funding or increased funding costs, and declines in asset values and/or recognition of impairments of securities held in our debt securities and equity securities portfolios;
- the effect of a fall in stock market prices on our investment banking business and our fee income from our brokerage, asset and wealth management businesses;
- negative effects from the retail banking sales practices matter and from other instances where customers may have experienced financial harm, including on our legal, operational and compliance costs, our ability to engage in certain business activities or offer certain products or services, our ability to keep and attract customers, our ability to attract and retain qualified employees, and our reputation;
- resolution of regulatory matters, litigation, or other legal actions, which may result in, among other things, additional costs, fines, penalties, restrictions on our business activities, reputational harm, or other adverse consequences;
- a failure in or breach of our operational or security systems or infrastructure, or those of our third-party vendors or other service providers, including as a result of cyber attacks;
- the effect of changes in the level of checking or savings account deposits on our funding costs and net interest margin;
- fiscal and monetary policies of the Federal Reserve Board;
- changes to U.S. tax guidance and regulations, as well as the effect of discrete items on our effective income tax rate;
- our ability to develop and execute effective business plans and strategies; and
- the other risk factors and uncertainties described under “Risk Factors” in this Report.

In addition to the above factors, we also caution that the amount and timing of any future common stock dividends or repurchases will depend on the earnings, cash requirements and financial condition of the Company, market conditions, capital requirements (including under Basel capital standards), common stock issuance requirements, applicable law and regulations (including federal securities laws and federal banking regulations), and other factors deemed relevant by the Company's Board of Directors, and may be subject to regulatory approval or conditions.

For more information about factors that could cause actual results to differ materially from our expectations, refer to our reports filed with the Securities and Exchange Commission, including the discussion under "Risk Factors" in this Report, as filed with the Securities and Exchange Commission and available on its website at www.sec.gov.[1]

Any forward-looking statement made by us speaks only as of the date on which it is made. Factors or events that could cause our actual results to differ may emerge from time to time, and it is not possible for us to predict all of them. We undertake no obligation to publicly update any forward-looking statement, whether as a result of new information, future developments or otherwise, except as may be required by law.

Forward-looking Non-GAAP Financial Measures. From time to time management may discuss forward-looking non-GAAP financial measures, such as forward-looking estimates or targets for return on average tangible common equity. We are unable to provide a reconciliation of forward-looking non-GAAP financial measures to their most directly comparable GAAP financial measures because we are unable to provide, without unreasonable effort, a meaningful or accurate calculation or estimation of amounts that would be necessary for the reconciliation due to the complexity and inherent difficulty in forecasting and quantifying future amounts or when they may occur. Such unavailable information could be significant to future results.

[1] We do not control this website. Wells Fargo has provided this link for your convenience, but does not endorse and is not responsible for the content, links, privacy policy, or security policy of this website.

An investment in the Company involves risk, including the possibility that the value of the investment could fall substantially and that dividends or other distributions on the investment could be reduced or eliminated. We discuss below risk factors that could adversely affect our financial results and condition, and the value of, and return on, an investment in the Company.

ECONOMIC, FINANCIAL MARKETS, INTEREST RATES, AND LIQUIDITY RISKS

Our financial results have been, and will continue to be, materially affected by general economic conditions, and a deterioration in economic conditions or in the financial markets may materially adversely affect our lending and other businesses and our financial results and condition. We generate revenue from the interest and fees we charge on the loans and other products and services we sell, and a substantial amount of our revenue and earnings comes from the net interest income and fee income that we earn from our consumer and commercial lending and banking businesses, including our mortgage banking business. These businesses have been, and will continue to be, materially affected by the state of the U.S. economy, particularly unemployment levels and home prices. The negative effects and continued uncertainty stemming from U.S. fiscal and political matters, including concerns about deficit and debt levels, taxes and U.S. debt ratings, have impacted and may continue to impact the global economy. Moreover, geopolitical matters, including international political unrest or disturbances, the United Kingdom's exit from the European Union, as well as continued concerns over commodity prices, restrictions on international trade and corresponding retaliatory measures, and global economic difficulties, may impact the stability of financial markets and the global economy. In particular, the United Kingdom's exit from the European Union could increase economic barriers between the United Kingdom and the European Union, limit our ability to conduct business in the European Union, impose additional costs on us, subject us to different laws, regulations and/or regulatory authorities, or adversely impact our business, financial results and operating model. Although we have transitioned certain of our operations to countries within the European Union, there is no guarantee that we will be able to operate or conduct business in the European Union in the same manner or with the same effectiveness as before the United Kingdom's exit. A prolonged period of slow growth in the global economy, particularly in the U.S., or any deterioration in general economic conditions and/or the financial markets resulting from the above matters or any other events or factors that may disrupt or weaken the global economy, could materially adversely affect our financial results and condition.

A weakening in business or economic conditions, including higher unemployment levels or declines in home prices, can also adversely affect our borrowers' ability to repay their loans, which can negatively impact our credit performance. If unemployment levels worsen or if home prices fall we would expect to incur elevated charge-offs and provision expense from increases in our allowance for credit losses. These conditions may adversely affect not only consumer loan performance but also commercial and CRE loans, especially for those business borrowers that rely on the health of industries that may experience deteriorating economic conditions. The ability of these and other borrowers to repay their loans may deteriorate, causing us, as one of the largest commercial and CRE lenders in the U.S., to incur significantly higher credit losses. In addition, weak or deteriorating economic conditions make it more challenging for us to increase our consumer and commercial loan portfolios by making loans to creditworthy borrowers at attractive yields. Furthermore, weak economic conditions, as well as competition and/or increases in interest rates, could soften demand for our loans resulting in our retaining a much higher amount of lower yielding liquid assets on our consolidated balance sheet. If economic conditions do not continue to improve or if the economy worsens and unemployment rises, which also would likely result in a decrease in consumer and business confidence and spending, the demand for our credit products, including our mortgages, may fall, reducing our interest and noninterest income and our earnings.

A deterioration in business and economic conditions, which may erode consumer and investor confidence levels, and/or increased volatility of financial markets, also could adversely affect financial results for our fee-based businesses, including our investment advisory, mutual fund, securities brokerage, wealth management, and investment banking businesses. For example, because investment management fees are often based on the value of assets under management, a fall in the market prices of those assets could reduce our fee income. Changes in stock market prices could affect the trading activity of investors, reducing commissions and other fees we earn from our brokerage business. In addition, adverse market conditions may negatively affect the performance of products we have provided to customers, which may expose us to legal actions or additional costs. The U.S. stock market experienced significant volatility in 2020 and there is no guarantee that high price levels will continue or that price levels will stabilize. Poor economic conditions and volatile or unstable financial markets also can negatively affect our debt and equity underwriting and advisory businesses, as well as our trading activities and venture capital businesses. Any deterioration in global financial markets and economies, including as a result of any international political unrest or disturbances, may adversely affect the revenues and earnings of our international operations, particularly our global financial institution and correspondent banking services.

For more information, refer to the "Risk Management – Asset/Liability Management" and "– Credit Risk Management" sections in this Report.

The COVID-19 pandemic has adversely impacted our business and financial results, and the ultimate impact 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, affected equity market valuations, created significant volatility and disruption in financial markets, and increased unemployment levels. In addition, the pandemic has resulted in restrictions and closures for many businesses, as well as 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 may continue to be significantly impacted, which could adversely affect our revenue. Furthermore, the pandemic could continue to result in the recognition of credit losses in our loan portfolios and increases in our allowance for credit losses, particularly for industries most directly and adversely affected by the pandemic, such as travel and entertainment, and/or if businesses remain closed, the impact on the global economy worsens, or more customers draw on their lines of credit or seek additional loans to help finance their businesses. Similarly, because of changing economic and market conditions affecting issuers, we may be required to recognize further impairments on the securities we hold, as well as reductions in other comprehensive income. Moreover, the persistence of adverse economic conditions and reduced revenue may adversely affect the fair value of our operating segments and underlying reporting units which may result in the impairment of goodwill or other long-lived assets. Our business operations may be further disrupted if significant portions of our workforce are unable to work effectively, including because of illness, quarantines, government actions, or other restrictions in connection with the pandemic, and we have already temporarily closed certain of our branches and offices.

Moreover, the pandemic has created additional operational and compliance risks, including the need to quickly implement and execute new programs and procedures for the products and services we offer our customers, provide enhanced safety measures for our employees and customers, comply with rapidly changing regulatory requirements, address any increased risk of fraudulent activity, and protect the integrity and functionality of our systems, networks and operations while a larger number of our employees and those of our third-party service providers work remotely. The pandemic could also result in or contribute to additional downgrades to our credit ratings or credit outlook. In response to the pandemic, we have temporarily suspended certain mortgage foreclosure activities, and provided fee waivers, payment deferrals, and other expanded assistance for mortgage, credit card, auto, small business, personal and commercial lending customers, and future governmental actions may require these and other types of customer-related responses. Our participation in governmental measures taken to address the economic impact from the COVID-19 pandemic could result in reputational harm, as well as continue to result in litigation and government investigations and proceedings. In addition, we reduced our common stock dividend and temporarily suspended share repurchases, and we could take, or be required to take, other capital actions in the future. The COVID-19 pandemic may also have the effect of increasing the likelihood and/or magnitude of the other risks described herein, including credit, market and operational related risks, particularly if the pandemic continues to adversely affect the global economy. 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, the effectiveness, availability and use of vaccines, and actions taken by governmental authorities and other third parties in response to the pandemic.

Changes in interest rates and financial market values could reduce our net interest income and earnings, as well as our other comprehensive income, including as a result of recognizing losses on the debt and equity securities that we hold in our portfolio or trade for our customers. Changes in either our net interest margin or the amount or mix of earning assets we hold, including as a result of the asset cap under the February 2018 consent order with the FRB, could affect our net interest income and our earnings. Changes in interest rates can affect our net interest margin. Although the yield we earn on our assets and our funding costs tend to move in the same direction in response to changes in interest rates, one can rise or fall faster than the other, causing our net interest margin to expand or contract. If our funding costs rise faster than the yield we earn on our assets or if the yield we earn on our assets falls faster than our funding costs, our net interest margin could contract.

The amount and type of earning assets we hold can affect our yield and net interest margin. We hold earning assets in the form of loans and debt and equity securities, among other assets. As noted above, if the economy worsens we may see lower demand for loans by creditworthy customers, reducing our net interest income and yield. In addition, our net interest income and net interest margin can be negatively affected by a prolonged low interest rate environment as it may result in us holding lower yielding loans and securities on our consolidated balance sheet, particularly if we are unable to replace the maturing higher yielding assets with similar higher yielding assets. Increases in interest rates, however, may negatively affect loan demand and could result in higher credit losses as borrowers may have more difficulty making higher interest payments. As described below, changes in interest rates also affect our mortgage business, including the value of our MSRs.

Changes in the slope of the “yield curve” – or the spread between short-term and long-term interest rates – could also reduce our net interest margin. Normally, the yield curve is upward sloping, meaning short-term rates are lower than long-term rates. When the yield curve flattens, or even inverts, our net interest margin could decrease if the cost of our short-term funding increases relative to the yield we can earn on our long-term assets. Moreover, a negative interest rate environment, in which interest rates drop below zero, could reduce our net interest margin and net interest income due to a likely decline in the interest we could earn on loans and other earning assets, while also likely requiring us to pay to maintain our deposits with the FRB.

The interest we earn on our loans may be tied to U.S.-denominated interest rates such as the federal funds rate while the interest we pay on our debt may be based on international rates such as LIBOR. If the federal funds rate were to fall without a corresponding decrease in LIBOR, we might earn less on our loans without any offsetting decrease in our funding costs. This could lower our net interest margin and our net interest income.

We assess our interest rate risk by estimating the effect on our earnings under various scenarios that differ based on assumptions about the direction, magnitude and speed of interest rate changes and the slope of the yield curve. We may hedge some of that interest rate risk with interest rate derivatives. We also rely on the “natural hedge” that our mortgage loan originations and servicing rights can provide as their revenue impact tends to move in opposite directions based on changes in interest rates.

We generally do not hedge all of our interest rate risk. There is always the risk that changes in interest rates, credit spreads or option volatility could reduce our net interest income and earnings, as well as our other comprehensive income, in material amounts, especially if actual conditions turn out to be materially different than what we assumed. For example, if interest rates rise or fall faster than we assumed or the slope of the yield curve changes, we may incur significant losses on debt securities we hold as investments. To reduce our interest rate risk, we may rebalance our portfolios of debt securities, equity securities and loans, refinance our debt and take other strategic actions. We may incur losses when we take such actions.

We hold debt and equity securities, including U.S. Treasury and federal agency securities and federal agency MBS, securities of U.S. states and political subdivisions, residential and commercial MBS, corporate debt securities, other asset-backed securities and marketable equity securities, including securities relating to our venture capital activities. Because of changing economic and market conditions, as well as credit ratings, affecting issuers and the performance of any collateral underlying the securities, we may be required to recognize other-than-temporary impairment (OTTI) in future periods on the securities we hold. Furthermore, the value of the debt securities we hold can fluctuate due to changes in interest rates, issuer creditworthiness, and other factors. Our net income also is exposed to changes in interest rates, credit spreads, foreign exchange rates, and equity and commodity prices in connection with our trading activities, which are conducted primarily to accommodate the investment and risk management activities of our customers, as well as when we execute economic hedging to manage certain balance sheet risks. Trading debt securities and equity securities held for trading are carried at fair value with realized and unrealized gains and losses recorded in noninterest income. As part of our business to support our customers, we trade public debt and equity securities that are subject to market fluctuations with gains and losses recognized in net income. In addition, although high market volatility can increase our exposure to trading-related losses, periods of low volatility may have an adverse effect on our businesses as a result of reduced customer activity levels. Although we have processes in place to measure and monitor the risks associated with our trading activities, including stress testing and hedging strategies, there can be no assurance that our processes and strategies will be effective in avoiding losses that could have a material adverse effect on our financial results.

The value of our marketable and nonmarketable equity securities can fluctuate from quarter to quarter. Marketable equity securities are carried at fair value with unrealized gains and losses reflected in earnings. Nonmarketable equity securities are carried under the cost method, equity method, or measurement alternative, while others are carried at fair value with unrealized gains and losses reflected in earnings. Earnings from our equity securities portfolio may be volatile and hard to predict, and may have a significant effect on our earnings from period to period. When, and if, we recognize gains may depend on a number of factors, including general economic and market conditions, the prospects of the companies in which we invest, when a company goes public, the size of our position relative to the public float, and whether we are subject to any resale restrictions.

Nonmarketable equity securities include our private equity and venture capital investments that could result in significant OTTI losses for those investments carried under the measurement alternative or equity method. If we determine there is OTTI for an investment, we write-down the carrying value of the investment, resulting in a charge to earnings, which could be significant.

For more information, refer to the “Risk Management – Asset/Liability Management – Interest Rate Risk”, “– Mortgage Banking Interest Rate and Market Risk”, “– Market Risk – Trading Activities”, and “– Market Risk – Equity Securities” and the “Balance Sheet Analysis – Available-for-Sale and Held-to-Maturity Debt Securities” sections in this Report and Note 2 (Trading Activities), Note 3 (Available-for-Sale and Held-to-Maturity Debt Securities) and Note 6 (Equity Securities) to Financial Statements in this Report.

Uncertainty about the future of the London Interbank Offered Rate (LIBOR) may adversely affect our business, results of operations, and financial condition. Central banks and global regulators have called for financial market participants to prepare for the discontinuation of LIBOR. The administrator of LIBOR published a consultation regarding its intention to cease the publication of LIBOR after December 31, 2021, with the exception of certain tenors of U.S. dollar LIBOR that it proposed would remain available for use in legacy contracts or as otherwise enumerated by financial regulators until June 30, 2023. We have a significant number of assets and liabilities referenced to LIBOR and other interbank offered rates such as commercial loans, adjustable-rate mortgage loans, derivatives, debt securities, and long-term debt. When any such benchmark rate or other referenced financial metric is significantly changed, replaced or discontinued, or ceases to be recognized as an acceptable market benchmark rate or financial metric, there may be uncertainty or differences in the calculation of the applicable interest rate or payment amount depending on the terms of the governing instrument.

This could impact the financial performance of previously booked transactions, result in losses on financial instruments we hold, require different hedging strategies or result in ineffective or increased basis risk on existing hedges, impact the overall interest rate environment and the availability or cost of floating-rate funding, affect our capital and liquidity planning and management, or have other adverse financial consequences. There can be no assurance that the transition to a new benchmark rate or other financial metric will be an adequate alternative to LIBOR or produce the economic equivalent of LIBOR. In addition, the transition to using any new benchmark rate or other financial metric may require changes to existing transaction data, products, systems, models, operations, and pricing processes, require substantial changes to existing documentation and the renegotiation of a substantial volume of previously booked transactions, and could result in significant operational, systems, or other practical challenges, increased compliance and operational costs, heightened expectations and scrutiny from regulators, litigation, reputational harm, or other adverse consequences. There can be no assurance that we will be able to modify all existing documentation or renegotiate all previously booked transactions before the discontinuation of LIBOR. Furthermore, the transition away from widely used benchmark rates like LIBOR could result in customers or other market participants challenging the determination of their interest payments, disputing the interpretation or implementation of contract “fallback” provisions and other transition related changes, or entering into fewer transactions or postponing their financing needs, which could reduce our revenue and adversely affect our business. Moreover, to the extent borrowers with loans referenced to LIBOR, such as adjustable rate mortgage loans, experience higher interest payments as a result of the transition to a new benchmark rate, our customers’ ability to repay their loans may be adversely affected, which can negatively impact our credit performance.

For additional information on the discontinuation of LIBOR and the steps we are taking to address and mitigate the risks we have identified, refer to the “Overview – Recent Developments – LIBOR Transition” section in this Report.

Effective liquidity management is essential for the operation of our business, and our financial results and condition could be materially adversely affected if we do not effectively manage our liquidity. We primarily rely on customer deposits to be a low-cost and stable source of funding for the loans we make and the operation of our business. In addition to customer deposits, our sources of liquidity include certain debt and equity securities, our ability to sell or securitize loans in secondary markets and to pledge loans to access secured borrowing facilities through the FHLB and the FRB, and our ability to raise funds in domestic and international money through capital markets.

Our liquidity and our ability to fund and run our business could be materially adversely affected by a variety of conditions and factors, including financial and credit market disruption and volatility or a lack of market or customer confidence in financial markets in general similar to what occurred during the financial crisis in 2008 and early 2009, which may result in a loss of customer deposits or outflows of cash or collateral and/or our inability to access capital markets on favorable terms. Market disruption and volatility could impact our credit spreads, which are the amount in excess of the interest rate of U.S. Treasury securities, or other benchmark securities, of the same maturity that we need to pay to our funding providers. Increases in interest rates and our credit spreads could significantly increase our funding costs. Other conditions and factors that could materially adversely affect our liquidity and funding include a lack of market or customer confidence in the Company or negative news about the Company or the financial services industry generally which also may result in a loss of deposits and/or negatively affect our ability to access the capital markets; our inability to sell or securitize loans or other assets; disruptions or volatility in the repurchase market which also may increase our short-term funding costs; regulatory requirements or restrictions; and, as described below, reductions in one or more of our credit ratings. Many of the above conditions and factors may be caused by events over which we have little or no control. There can be no assurance that significant disruption and volatility in the financial markets will not occur in the future. For example, concerns over geopolitical issues, commodity and currency prices, as well as global economic conditions, may cause financial market volatility.

In addition, concerns regarding U.S. government debt levels and any associated downgrade of U.S. government debt ratings may cause uncertainty and volatility as well. A downgrade of the sovereign debt ratings of the U.S. government or the debt ratings of related institutions, agencies or instrumentalities, as well as other fiscal or political events could, in addition to causing economic and financial market disruptions, materially adversely affect the market value of the U.S. government securities that we hold, the availability of those securities as collateral for borrowing, and our ability to access capital markets on favorable terms, as well as have other material adverse effects on the operation of our business and our financial results and condition.

As noted above, we rely heavily on customer deposits for our funding and liquidity. We compete with banks and other financial services companies for deposits. If our competitors raise the rates they pay on deposits our funding costs may increase, either because we raise our rates to avoid losing deposits or because we lose deposits and must rely on more expensive sources of funding. Checking and savings account balances and other forms of customer deposits may decrease when customers perceive alternative investments, such as the stock market, as providing a better risk/return tradeoff. When customers move money out of bank deposits and into other investments, we may lose a relatively low-cost source of funds, increasing our funding costs and negatively affecting our liquidity.

If we are unable to continue to fund our assets through customer deposits or access capital markets on favorable terms or if we suffer an increase in our borrowing costs or otherwise fail to manage our liquidity effectively (including on an intra-day or intra-affiliate basis), our liquidity, net interest margin, financial results and condition may be materially adversely affected. As we did during the financial crisis, we may also need, or be required by our regulators, to raise additional capital through the issuance of common stock, which could dilute the ownership of existing stockholders, or reduce or even eliminate our common stock dividend to preserve capital or to raise additional capital.

For more information, refer to the "Risk Management – Asset/Liability Management" section in this Report.

Adverse changes in our credit ratings could have a material adverse effect on our liquidity, cash flows, financial results and condition. Our borrowing costs and ability to obtain funding are influenced by our credit ratings. Reductions in one or more of our credit ratings could adversely affect our ability to borrow funds and raise the costs of our borrowings substantially and could cause creditors and business counterparties to raise collateral requirements or take other actions that could adversely affect our ability to raise funding. Credit ratings and credit ratings agencies' outlooks are based on the ratings agencies' analysis of many quantitative and qualitative factors, such as our capital adequacy, liquidity, asset quality, business mix, the level and quality of our earnings, rating agency assumptions regarding the probability and extent of federal financial assistance or support, and other rating agency specific criteria. In addition to credit ratings, our borrowing costs are affected by various other external factors, including market volatility and concerns or perceptions about the financial services industry generally. There can be no assurance that we will maintain our credit ratings and outlooks and that credit ratings downgrades in the future would not materially affect our ability to borrow funds and borrowing costs.

Downgrades in our credit ratings also may trigger additional collateral or funding obligations which could negatively affect our liquidity, including as a result of credit-related contingent features in certain of our derivative contracts. Although a one or two notch downgrade in our current credit ratings would not be expected to trigger a material increase in our collateral or funding obligations, a more severe credit rating downgrade of our long-term and short-term credit ratings could increase our collateral or funding obligations and the effect on our liquidity could be material.

For information on our credit ratings, see the "Risk Management – Asset/Liability Management – Liquidity Risk and Funding – Credit Ratings" section and for information regarding additional collateral and funding obligations required of certain derivative instruments in the event our credit ratings were to fall below investment grade, see Note 16 (Derivatives) to Financial Statements in this Report.

We rely on dividends from our subsidiaries for liquidity, and federal and state law, as well as certain contractual arrangements, can limit those dividends. Wells Fargo & Company, the parent holding company (the "Parent"), is a separate and distinct legal entity from its subsidiaries. It receives substantially all of its funding and liquidity from dividends and other distributions from its subsidiaries. We generally use these dividends and distributions, among other things, to pay dividends on our common and preferred stock and interest and principal on our debt. Federal and state laws limit the amount of dividends and distributions that our bank and some of our nonbank subsidiaries, including our broker-dealer subsidiaries, may pay to the Parent. In addition, under a Support Agreement dated June 28, 2017, as amended and restated on June 26, 2019, among the Parent, WFC Holdings, LLC, an intermediate holding company and subsidiary of the Parent (the "IHC"), Wells Fargo Bank, N.A. (the "Bank"), Wells Fargo Securities, LLC, Wells Fargo Clearing Services, LLC, and certain other direct and indirect subsidiaries of the Parent designated as material entities for resolution planning purposes or identified as related support entities in our resolution plan, the IHC may be restricted from making dividend payments to the Parent if certain liquidity and/or capital metrics fall below defined triggers or if the Parent's board of directors authorizes it to file a case under the U.S. Bankruptcy Code. Also, our right to participate in a distribution of assets upon a subsidiary's liquidation or reorganization is subject to the prior claims of the subsidiary's creditors.

For more information, refer to the "Regulation and Supervision – Dividend Restrictions" and "– Holding Company Structure" sections in our 2020 Form 10-K and to Note 28 (Regulatory Capital Requirements and Other Restrictions) to Financial Statements in this Report.

REGULATORY RISKS

Current and future legislation and/or regulation could require us to change certain of our business practices, reduce our revenue and earnings, impose additional costs on us or otherwise adversely affect our business operations and/or competitive position. Our parent company, our subsidiary banks and many of our nonbank subsidiaries such as those related to our brokerage and mutual fund businesses, are subject to significant and extensive regulation under state and federal laws in the U.S., as well as the applicable laws of the various jurisdictions outside of the U.S. where they conduct business. These regulations protect depositors, federal deposit insurance funds, consumers, investors, employees, and the banking and financial system as a whole, not necessarily our security holders. Economic, market and political conditions during the past few years have led to a significant amount of legislation and regulation in the U.S. and abroad affecting the financial services industry, as well as heightened expectations and scrutiny of financial services companies from banking regulators. These laws and regulations may continue to affect the manner in which we do business and the products and services that we provide, affect or restrict our ability to compete in our current businesses or our ability to enter into or acquire new businesses, reduce or limit our revenue, affect our compliance and risk management activities, increase our capital requirements, impose additional fees, assessments or taxes on us, intensify the regulatory supervision of us and the financial services industry, and adversely affect our business operations or have other negative consequences. Our businesses and revenues in non-U.S. jurisdictions are also subject to risks from political, economic and social developments in those jurisdictions, including sanctions or business restrictions, asset freezes or confiscation, unfavorable political or diplomatic developments, or financial or social instability. In addition, greater government oversight and scrutiny of financial services companies has increased our operational and compliance costs as we must continue to devote substantial resources to enhancing our procedures and controls and meeting heightened regulatory standards and expectations. Any failure to meet regulatory requirements, standards or expectations, either in the U.S. or in non-U.S. jurisdictions, could result in fees, penalties, restrictions on our ability to engage in certain business activities, or other adverse consequences.

Our consumer businesses, including our mortgage, auto, credit card and other consumer lending and non-lending businesses, are subject to numerous and, in many cases, highly complex consumer protection laws and regulations, as well as enhanced regulatory scrutiny and more and expanded regulatory examinations and/or investigations. In particular, the CFPB's rules may continue to increase our compliance costs and require changes in our business practices, which could limit or negatively affect the products and services that we offer our customers. If we fail to meet enhanced regulatory requirements and expectations with respect to our consumer businesses, we may be subject to increased costs, fines, penalties, restrictions on our business activities including the products and services we can provide, and/or harm to our reputation.

In addition, the Dodd-Frank Act established a comprehensive framework for regulating over-the-counter derivatives, and the CFTC, SEC, and other federal regulatory agencies have adopted rules regulating swaps, security-based swaps, and derivatives activities. These rules may continue to negatively impact customer demand for over-the-counter derivatives, impact our ability to offer customers new derivatives or amendments to existing derivatives, and increase our costs for engaging in swaps, security-based swaps, and other derivatives activities.

We are also subject to various rules and regulations related to the prevention of financial crimes and combating terrorism, including the U.S. Patriot Act of 2001. These rules and regulations require us to, among other things, implement policies and procedures related to anti-money laundering, anti-bribery and corruption, fraud, compliance, suspicious activities, currency transaction reporting and due diligence on customers. Although we have policies and procedures designed to comply with these rules and regulations, to the extent they are not fully effective or do not meet heightened regulatory standards or expectations, we may be subject to fines, penalties, restrictions on certain activities, reputational harm, or other adverse consequences.

Our businesses are also subject to laws and regulations enacted by U.S. and non-U.S. regulators and governmental authorities relating to the privacy of the information of customers, employees and others. These laws and regulations, among other things, increase our compliance obligations; have a significant impact on our businesses' collection, processing, sharing, use, and retention of personal data and reporting of data breaches; and provide for significantly increased penalties for non-compliance.

In addition, we are subject to a number of consent orders and regulatory agreements with certain of our regulators, including a February 2018 consent order with the FRB regarding the Board's governance and oversight of the Company, and the Company's compliance and operational risk management program. This consent order limits the Company's total consolidated assets as defined under the consent order to the level as of December 31, 2017, until certain conditions are met. This limitation could continue to adversely affect our results of operations or financial condition. We are also subject to April 2018 consent orders with the CFPB and OCC regarding the Company's compliance risk management program and past practices involving certain automobile collateral protection insurance policies and certain mortgage interest rate lock extensions.

Under the April 2018 consent order with the OCC, the Bank remains subject to requirements that were originally imposed in November 2016 to provide prior written notice to, and obtain non-objection from, the OCC with respect to changes in directors and senior executive officers, and remains subject to certain regulatory limitations on post-termination payments to certain individuals and employees.

The Company may be subject to further actions, including the imposition of additional consent orders, regulatory agreements or civil money penalties, by federal regulators regarding similar or other issues. Compliance with the February 2018 FRB consent order, the April 2018 CFPB and OCC consent orders, and any other consent orders or regulatory actions, as well as the implementation of their requirements, may continue to increase the Company's costs, require the Company to reallocate resources away from growing its existing businesses, negatively impact the Company's capital and liquidity, and require the Company to undergo significant changes to its business, products and services. For more information on the February 2018 FRB consent order and the April 2018 CFPB and OCC consent orders, refer to the "Regulatory Matters" section in this Report.

Other future regulatory initiatives that could significantly affect our business include proposals to reform the housing finance market in the United States. These proposals, among other things, consider ending the conservatorships of the GSEs and reducing or eliminating over time the role of the GSEs in buying mortgage loans or guaranteeing mortgage-backed securities (MBS), as well as the implementation of reforms relating to borrowers, lenders, and investors in the mortgage market. The extent and timing of any regulatory reform or the adoption of any legislation regarding the GSEs and/or the home mortgage market, as well as any effect on the Company's business and financial results, are uncertain.

Any other future legislation and/or regulation, if adopted, also could significantly change our regulatory environment and increase our cost of doing business, limit the activities we may pursue or affect the competitive balance among banks, savings associations, credit unions, and other financial services companies, and have a material adverse effect on our financial results and condition.

For more information on the significant regulations and regulatory oversight initiatives that have affected or may affect our business, refer to the "Regulatory Matters" section in this Report and the "Regulation and Supervision" section in our 2020 Form 10-K.

We could be subject to more stringent capital, leverage or liquidity requirements or restrictions on our growth, activities or operations if regulators determine that our resolution or recovery plan is deficient. Pursuant to rules adopted by the FRB and the FDIC, Wells Fargo has prepared and submitted a resolution plan, also known as a "living will," that is designed to facilitate our rapid and orderly resolution in the event of material financial distress or failure. There can be no assurance that the FRB or FDIC will respond favorably to the Company's resolution plans. If the FRB and/or FDIC determine that our resolution plan has deficiencies, they may impose more stringent capital, leverage or liquidity requirements on us or restrict our growth, activities or operations until we adequately remedy the deficiencies. If the FRB and/or FDIC ultimately determine that we have been unable to remedy any deficiencies, they could require us to divest certain assets or operations. On December 17, 2019, the FRB and FDIC announced that the Company's 2019 resolution plan did not have any deficiencies, but they identified a specific shortcoming that would need to be addressed.

In addition to our resolution plans, we must also prepare and submit to the FRB a recovery plan that identifies a range of options that we may consider during times of idiosyncratic or systemic economic stress to remedy any financial weaknesses and restore market confidence without extraordinary government support. The Bank must also prepare and submit to the OCC a recovery plan. If either the FRB or the OCC determines that our recovery plan is deficient, they may impose fines, restrictions on our business or ultimately require us to divest assets.

Our security holders may suffer losses in a resolution of Wells Fargo even if creditors of our subsidiaries are paid in full. If Wells Fargo were to fail, it may be resolved in a bankruptcy proceeding or, if certain conditions are met, under the resolution regime created by the Dodd-Frank Act known as the "orderly liquidation authority." The orderly liquidation authority allows for the appointment of the FDIC as receiver for a systemically important financial institution that is in default or in danger of default if, among other things, the resolution of the institution under the U.S. Bankruptcy Code would have serious adverse effects on financial stability in the United States. If the FDIC is appointed as receiver for the Parent, then the orderly liquidation authority, rather than the U.S. Bankruptcy Code, would determine the powers of the receiver and the rights and obligations of our security holders. The FDIC's orderly liquidation authority requires that security holders of a company in receivership bear all losses before U.S. taxpayers are exposed to any losses, and allows the FDIC to disregard the strict priority of creditor claims under the U.S. Bankruptcy Code in certain circumstances.

The strategy described in our most recent resolution plan is a single point of entry strategy, in which the Parent would likely be the only material legal entity to enter resolution proceedings. However, we are not obligated to maintain a single point of entry strategy, and the strategy described in our resolution plan is not binding in the event of an actual resolution of Wells Fargo, whether conducted under the U.S. Bankruptcy Code or by the FDIC under the orderly liquidation authority. The FDIC has announced that a single point of entry strategy may be a desirable strategy under its implementation of the orderly liquidation authority, but not all aspects of how the FDIC might exercise this authority are known and additional rulemaking is possible.

To facilitate the orderly resolution of systemically important financial institutions in case of material distress or failure, federal banking regulations require that institutions, such as Wells Fargo, maintain a minimum amount of equity and unsecured debt to absorb losses and recapitalize operating subsidiaries. Federal banking regulators have also required measures to facilitate the continued operation of operating subsidiaries notwithstanding the failure of their parent companies, such as limitations on parent guarantees, and have issued guidance encouraging institutions to take legally binding measures to provide capital and liquidity resources to certain subsidiaries to facilitate an orderly resolution. In response to the regulators' guidance and to facilitate the orderly resolution of the Company, on June 28, 2017, the Parent entered into a support agreement, as amended and restated on June 26, 2019 (the "Support Agreement"), with WFC Holdings, LLC, an intermediate holding company and subsidiary of the Parent (the "IHC"), the Bank, and certain other direct and indirect subsidiaries of the Parent. Pursuant to the Support Agreement, the Parent transferred a significant amount of its assets to the IHC and will continue to transfer assets to the IHC from time to time. In the event of our material financial distress or failure, the IHC will be obligated to use the transferred assets to provide capital and/or liquidity to the Bank and certain other direct and indirect subsidiaries of the Parent. Under the Support Agreement, the IHC will provide funding and liquidity to the Parent through subordinated notes and a committed line of credit. If certain liquidity and/or capital metrics fall below defined triggers, or if the Parent's board of directors authorizes it to file a case under the U.S. Bankruptcy Code, the subordinated notes would be forgiven, the committed line of credit would terminate, and the IHC's ability to pay dividends to the Parent would be restricted, any of which could materially and adversely impact the

Parent's liquidity and its ability to satisfy its debts and other obligations, and could result in the commencement of bankruptcy proceedings by the Parent at an earlier time than might have otherwise occurred if the Support Agreement were not implemented.

Any resolution of the Company will likely impose losses on shareholders, unsecured debt holders and other creditors of the Parent, while the Parent's subsidiaries may continue to operate. Creditors of some or all of our subsidiaries may receive significant or full recoveries on their claims, while the Parent's security holders could face significant or complete losses. This outcome may arise whether the Company is resolved under the U.S. Bankruptcy Code or by the FDIC under the orderly liquidation authority, and whether the resolution is conducted using a single point of entry strategy or using a multiple point of entry strategy, in which the Parent and one or more of its subsidiaries would each undergo separate resolution proceedings. Furthermore, in a single point of entry or multiple point of entry strategy, losses at some or all of our subsidiaries could be transferred to the Parent and borne by the Parent's security holders. Moreover, if either resolution strategy proved to be unsuccessful, our security holders could face greater losses than if the strategy had not been implemented.

For more information, refer to the "Regulatory Matters – 'Living Will' Requirements and Related Matters" section in this Report.

Bank regulations and rules may require higher capital and liquidity levels, limiting our ability to pay common stock dividends, repurchase our common stock, invest in our business, or provide loans or other products and services to our customers. The Company and each of our insured depository institutions are subject to various regulatory capital adequacy requirements administered by federal banking regulators. In particular, the Company is subject to rules issued by federal banking regulators to implement Basel III risk-based capital requirements for U.S. banking organizations. These capital rules, among other things, establish required minimum ratios relating capital to different categories of assets and exposures. Federal banking regulators have also finalized rules to impose a leverage ratio and a supplementary leverage ratio on large BHCs like Wells Fargo and our insured depository institutions. The FRB has also finalized rules to address the amount of equity and unsecured long-term debt a U.S. G-SIB must hold to improve its resolvability and resiliency, often referred to as total loss absorbing capacity (TLAC). Similarly, federal banking regulators have issued final rules that implement a liquidity coverage ratio and a net stable funding ratio.

In addition, as part of its obligation to impose enhanced capital and risk-management standards on large financial firms pursuant to the Dodd-Frank Act, the FRB has issued a capital plan rule that establishes capital planning and other requirements that govern capital distributions, including dividends and share repurchases, by certain BHCs, including Wells Fargo. The FRB has also finalized a number of regulations implementing enhanced prudential requirements for large BHCs like Wells Fargo regarding risk-based capital and leverage, risk and liquidity management, single counterparty credit limits, and imposing debt-to-equity limits on any BHC that regulators determine poses a grave threat to the financial stability of the United States. The FRB and OCC have also finalized rules implementing stress testing requirements for large BHCs and national banks. In addition, the FRB has proposed a rule to establish remediation requirements for large BHCs experiencing financial distress and has proposed additional requirements regarding effective risk management practices at large BHCs, including its expectations for boards of directors and senior management. The OCC, under separate authority, has also established heightened governance and risk management standards for large national banks, such as the Bank.

The Basel standards and federal regulatory capital, leverage, liquidity, TLAC, and capital planning requirements may limit or otherwise restrict how we utilize our capital, including common stock dividends and stock repurchases, and may require us to increase our capital and/or liquidity. Any requirement that we increase our regulatory capital, regulatory capital ratios or liquidity, including as a result of business growth, acquisitions or a change in our risk profile, could require us to liquidate assets or otherwise change our business, product offerings and/or investment plans, which may negatively affect our financial results. Although not currently anticipated, proposed capital requirements and/or our regulators may require us to raise additional capital in the future. Issuing additional common stock may dilute the ownership of existing stockholders. In addition, federal banking regulations may continue to increase our compliance costs as well as limit our ability to invest in our business or provide loans or other products and services to our customers.

For more information, refer to the "Capital Management," "Risk Management – Asset/Liability Management – Liquidity Risk and Funding – Liquidity Standards," and "Regulatory Matters" sections in this Report and the "Regulation and Supervision" section in our 2020 Form 10-K.

FRB policies, including policies on interest rates, can significantly affect business and economic conditions and our financial results and condition. The FRB regulates the supply of money in the United States. Its policies determine in large part our cost of funds for lending and investing and the return we earn on those loans and investments, both of which affect our net interest income and net interest margin. The FRB's interest rate policies also can materially affect the value of financial instruments we hold, such as debt securities and MSRs. In addition, its policies can affect our borrowers, potentially increasing the risk that they may fail to repay their loans. Changes in FRB policies, including its target range for the federal funds rate or actions taken to increase or decrease the size of its balance sheet, are beyond our control and can be hard to predict. As noted above, a declining or low interest rate environment and a flattening yield curve which may result from the FRB's actions could negatively affect our net interest income and net interest margin as it may result in us holding lower yielding loans and debt securities on our consolidated balance sheet.

CREDIT RISKS

Increased credit risk, including as a result of a deterioration in economic conditions or changes in market conditions, could require us to increase our provision for credit losses and allowance for credit losses and could have a material adverse effect on our results of operations and financial condition. When we loan money or commit to loan money we incur credit risk, or the risk of losses if our borrowers do not repay their loans. As one of the largest lenders in the U.S., the credit performance of our loan portfolios significantly affects our financial results and condition. As noted above, if the current economic environment were to deteriorate, more of our customers may have difficulty in repaying their loans or other obligations which could result in a higher level of credit losses and provision for credit losses. We reserve for credit losses by establishing an allowance through a charge to earnings. The amount of this allowance is based on our assessment of credit losses inherent in our loan portfolio (including unfunded credit commitments). The process for determining the amount of the allowance is critical to our financial results and condition. It requires difficult, subjective and complex judgments about the future, including forecasts of economic or market conditions that might impair the ability of our borrowers to repay their loans. We might increase the allowance because of changing economic conditions, including falling home prices and higher unemployment, significant loan growth, changes in consumer behavior or other market conditions that adversely affect borrowers, or other factors. Additionally, the regulatory environment or external factors, such as natural disasters, disease pandemics, political or social matters, or trade policies, also can influence recognition of credit losses in our loan portfolios and impact our allowance for credit losses.

Future allowance levels may increase or decrease based on a variety of factors, including loan balance changes, portfolio credit quality and mix changes, and changes in general economic conditions. While we believe that our allowance for credit losses was appropriate at December 31, 2020, there is no assurance that it will be sufficient to cover future credit losses, especially if housing and employment conditions worsen. In the event of significant deterioration in economic conditions or if we experience significant loan growth, we may be required to build reserves in future periods, which would reduce our earnings.

For more information, refer to the "Risk Management – Credit Risk Management" and "Critical Accounting Policies – Allowance for Credit Losses" sections in this Report.

We may have more credit risk and higher credit losses to the extent our loans are concentrated by loan type, industry segment, borrower type, or location of the borrower or collateral. Our credit risk and credit losses can increase if our loans are concentrated to borrowers engaged in the same or similar activities or to borrowers who individually or as a group may be uniquely or disproportionately affected by economic or market conditions. Similarly, challenging economic or market conditions, or trade policies, affecting a particular industry or geography may also impact related or dependent industries or the ability of borrowers living in such affected areas or working in such industries to meet their financial obligations. We experienced the effect of concentration risk in 2009 and 2010 when we incurred greater than expected losses in our residential real estate loan portfolio due to a housing slowdown and greater than expected deterioration in residential real estate values in many markets, including the Central Valley California market and several Southern California metropolitan statistical areas. As California is our largest banking state in terms of loans and deposits, deterioration in real estate values and underlying economic conditions in those markets or elsewhere in California could result in materially higher credit losses. In addition, changes in consumer behavior or other market conditions, such as in response to climate change and other environmental and sustainability concerns, may adversely affect borrowers in certain industries or sectors, which may increase our credit risk and reduce the demand by these borrowers for our products and services. Moreover, deterioration in macro-economic conditions generally across the country could result in materially higher credit losses, including for our residential real estate loan portfolio, which includes nonconforming mortgage loans we retain on our balance sheet. We may experience higher delinquencies and higher loss rates as our consumer real estate secured lines of credit reach their contractual end of draw period and begin to amortize.

We are currently one of the largest CRE lenders in the U.S. A deterioration in economic conditions that negatively affects the business performance of our CRE borrowers, including increases in interest rates, declines in commercial property values, and/or changes in consumer behavior or other market conditions, could result in materially higher credit losses and have a material adverse effect on our financial results and condition.

Challenges and/or changes in non-U.S. economic conditions may increase our non-U.S. credit risk. Economic difficulties in non-U.S. jurisdictions could also indirectly have a material adverse effect on our credit performance and results of operations and financial condition to the extent they negatively affect the U.S. economy and/or our borrowers who have non-U.S. operations.

Due to regulatory requirements, we must clear certain derivative transactions through central counterparty clearinghouses (CCPs), which results in credit exposure to these CCPs. Similarly, because we are a member of various CCPs, we may be required to pay a portion of any losses incurred by the CCP in the event that one or more members of the CCP defaults on its obligations. In addition, we are exposed to the risk of non-performance by our clients for which we clear transactions through CCPs to the extent such non-performance is not sufficiently covered by available collateral.

In order to reduce credit risk and obtain additional funding, from time to time we may securitize or sell similar types or categories of loans that we originate, such as mortgage loans and auto loans. The agreements under which we do this generally contain various representations and warranties regarding the origination and characteristics of the loans. We may be required to repurchase the loans, reimburse investors and others, or incur other losses, including regulatory fines and penalties, as a result of any breaches in these contractual representations and warranties. For more information about our repurchase obligations with respect to mortgage loans, refer to the "Risk Factors – Risks Related to Our Mortgage Business" section in this Report.

For more information regarding credit risk, refer to the "Risk Management – Credit Risk Management" section and Note 4 (Loans and Related Allowance for Credit Losses) to Financial Statements in this Report.

OPERATIONAL, STRATEGIC AND LEGAL RISKS

A failure in or breach of our operational or security systems, controls or infrastructure, or those of our third-party vendors and other service providers, could disrupt our businesses, damage our reputation, increase our costs and cause losses. As a large financial institution that serves customers through numerous physical locations, ATMs, the internet, mobile banking and other distribution channels across the U.S. and internationally, we depend on our ability to process, record and monitor a large number of customer transactions on a continuous basis. As our customer base and locations have expanded throughout the U.S. and internationally, as we have increasingly used the internet and mobile banking to provide products and services to our customers, and as customer, public, legislative and regulatory expectations regarding operational and information security have increased, our operational systems, controls and infrastructure must continue to be safeguarded and monitored for potential failures, disruptions and breakdowns. Our business, financial, accounting, data processing systems or other operating systems and facilities may stop operating properly, become insufficient based on our evolving business needs, or become disabled or damaged as a result of a number of factors including events that are wholly or partially beyond our control. For example, there could be sudden increases in customer transaction volume; electrical or telecommunications outages; degradation or loss of internet, website or mobile banking availability; climate change related impacts and natural disasters such as earthquakes, tornados, and hurricanes; disease pandemics; events arising from local or larger scale political or social matters, including terrorist acts; and, as described below, cyber attacks or other information security breaches. Furthermore, enhancements and upgrades to our infrastructure or operating systems may be time-consuming, entail significant costs, and create risks associated with implementing new systems and integrating them with existing ones. Due to the complexity and interconnectedness of our systems, the process of enhancing our infrastructure and operating systems, including their security measures and controls, can itself create a risk of system disruptions and security issues. Similarly, we may not be able to timely recover critical business processes or operations that have been disrupted, which may further increase any associated costs and consequences of such disruptions. Although we have business continuity plans and other safeguards in place to help provide operational resiliency, our business operations may be adversely affected by significant and widespread disruption to our physical infrastructure or operating systems that support our businesses and customers. For example, on February 7, 2019, we experienced system issues caused by an automatic power shutdown at one of our main data center facilities. Although applications and related workloads were systematically re-routed to back-up data centers throughout the day, certain of our services, including our online and mobile banking systems, certain mortgage origination systems, and certain ATM functions, experienced disruptions that delayed service to our customers.

As a result of financial institutions and technology systems becoming more interconnected and complex, any operational incident at a third party may increase the risk of loss or material impact to us or the financial industry as a whole. Furthermore, third parties on which we rely, including those that facilitate our business activities or to which we outsource operations, such as exchanges, clearing houses, financial intermediaries or vendors that provide services or security solutions for our operations, could also be sources of operational risk to us, including from information breaches or loss, breakdowns, disruptions or failures of their own systems or infrastructure, or any deficiencies in the performance of their responsibilities. We are also exposed to the risk that a disruption or other operational incident at a common service provider to those third parties could impede their ability to provide services or perform their responsibilities for us. In addition, we must meet regulatory requirements and expectations regarding our use of third-party service providers, and any failure by our third-party service providers to meet their obligations to us or to comply with applicable laws, rules, regulations, or Wells Fargo policies could result in fines, penalties, restrictions on our business, or other negative consequences.

Disruptions or failures in the physical infrastructure, controls or operating systems that support our businesses and customers, failures of the third parties on which we rely to adequately or appropriately provide their services or perform their responsibilities, or our failure to effectively manage or oversee our third-party relationships, could result in business disruptions, loss of revenue or customers, legal or regulatory proceedings, compliance and other costs, violations of applicable privacy and other laws, reputational damage, or other adverse consequences, any of which could materially adversely affect our results of operations or financial condition.

A cyber attack or other information security breach of our technologies, computer systems or networks, or those of our third-party vendors and other service providers, could disrupt our businesses, result in the disclosure or misuse of confidential or proprietary information, damage our reputation, increase our costs and cause losses. Information security risks for large financial institutions such as Wells Fargo have generally increased in recent years in part because of the proliferation of new technologies, the use of the internet, mobile devices, and cloud technologies to conduct financial transactions, and the increased sophistication and activities of organized crime, hackers, terrorists, activists, and other external parties, including foreign state-sponsored parties. Those parties also may continue to attempt to misrepresent personal or financial information to obtain loans or other financial products from us or attempt to fraudulently induce employees, customers, or other users of our systems to disclose confidential information in order to gain access to our data or that of our customers. As noted above, our operations rely on the secure processing, transmission and storage of confidential information in our computer systems and networks. Our banking, brokerage, investment advisory, and capital markets businesses rely on our digital technologies, computer and email systems, software, hardware, and networks to conduct their operations. In addition, to access our products and services, our customers may use personal smartphones, tablets, and other mobile devices that are beyond our control systems. Although we believe we have robust information security procedures and controls, our technologies, systems, networks, and our customers' devices may become the target of cyber attacks or other information security breaches that could result in the unauthorized release, gathering, monitoring, misuse, loss or destruction of Wells Fargo's or our customers' confidential, proprietary and other information, or otherwise disrupt Wells Fargo's or its customers' or other third parties' business operations. For example, various retailers have reported they were victims of cyber attacks in which large amounts of their customers' data, including debit and credit card information, was obtained. In these situations, we generally incur costs to replace compromised cards and address fraudulent transaction activity affecting our customers. We are also exposed to the risk that an employee or other person acting on behalf of the Company fails to comply with applicable policies and procedures and inappropriately circumvents controls for personal gain or other improper purposes.

Due to the increasing interconnectedness and complexity of financial institutions and technology systems, an information security incident at a third party may increase the risk of loss or material impact to us or the financial industry as a whole. In addition, third parties on which we rely, including those that facilitate our business activities or to which we outsource operations, such as internet, mobile technology, hardware, software, and cloud service providers, could be sources of information security risk to us. If those third parties fail to adequately or appropriately safeguard their technologies, systems, networks, hardware, and software, we may suffer material harm, including business disruptions, losses or remediation costs, reputational damage, legal or regulatory proceedings, or other adverse consequences.

To date we have not experienced any material losses relating to cyber attacks or other information security breaches, but there can be no assurance that we will not suffer such losses in the future. Our risk and exposure to these matters remains heightened because of, among other things, the evolving nature of these threats, the prominent size and scale of Wells Fargo and its role in the financial services industry, our plans to continue to implement our digital and mobile banking channel strategies and develop additional remote connectivity solutions to serve our customers when and how they want to be served, our geographic footprint and international presence, the outsourcing of some of our business operations, and the current global economic and political environment. For example, Wells Fargo and other financial institutions continue to be the target of various evolving and adaptive cyber attacks, including malware, ransomware, phishing, and denial-of-service, as part of an effort to disrupt the operations of financial institutions, potentially test their cybersecurity capabilities, commit fraud, or obtain confidential, proprietary or other information. Cyber attacks have also focused on targeting online applications and services, such as online banking, as well as cloud-based and other products and services provided by third parties, and have targeted the infrastructure of the internet, causing the widespread unavailability of websites and degrading website performance. As a result, information security and the continued development and enhancement of our controls, processes and systems designed to protect our networks, computers, software and data from attack, damage or unauthorized access remain a priority for Wells Fargo. We are also proactively involved in industry cybersecurity efforts and working with other parties, including our third-party service providers and governmental agencies, to continue to enhance defenses and improve resiliency to cybersecurity and other information security threats. As these threats continue to evolve, we may continue to be required to expend significant additional resources to continue to modify or enhance our protective measures or to investigate and remediate any information security vulnerabilities or incidents. Because the investigation of any information security breach is inherently unpredictable and would require time to complete, we may not be able to immediately address the consequences of a breach, which may further increase any associated costs and consequences. Moreover, to the extent our insurance covers aspects of information security risk, such insurance may not be sufficient to cover all losses associated with an information security breach.

Cyber attacks or other information security breaches affecting us or third parties on which we rely, including those that facilitate our business activities or to which we outsource operations, or security breaches of the networks, systems or devices that our customers use to access our products and services, could result in business disruptions, loss of revenue or customers, legal or regulatory proceedings, compliance and other costs, violations of applicable privacy and other laws, reputational damage, or other adverse consequences, any of which could materially adversely affect our results of operations or financial condition.

Our framework for managing risks may not be fully effective in mitigating risk and loss to us. Our risk management framework seeks to mitigate risk and loss to us. We have established processes and procedures intended to identify, measure, monitor, report and analyze the types of risk to which we are subject, including liquidity risk, credit risk, market risk, interest rate risk, operational risk, legal and compliance risk, and reputational risk, among others. However, as with any risk management framework, there are inherent limitations to our risk management strategies as there may exist, or develop in the future, risks that we have not appropriately anticipated, identified or managed. Our risk management framework is also dependent on ensuring that effective operational controls and a sound culture exist throughout the Company. The inability to develop effective operational controls or to foster the appropriate culture in each of our lines of business, including the inability to align performance management and compensation to achieve the desired culture, could adversely impact the effectiveness of our risk management framework. Similarly, if we are unable to effectively manage our business or operations, we may be exposed to increased risks or unexpected losses. We are also exposed to risks if we do not accurately or completely execute a process or transaction, whether due to human error or otherwise, or if an employee fails to comply with applicable policies and procedures or inappropriately circumvents controls. In certain instances, we rely on models to measure, monitor and predict risks, such as market, interest rate and credit risks, as well as to help inform business decisions; however, there is no assurance that these models will appropriately or sufficiently capture all relevant risks or accurately predict future events or exposures. Furthermore, certain of our models are subject to regulatory review and approval, and any failure to meet regulatory standards or expectations could result in fines, penalties, restrictions on our ability to engage in certain business activities, or other adverse consequences, and any required modifications or changes to these models can impact our capital ratios and requirements and result in increased operational and compliance costs. In addition, we rely on data to aggregate and assess our various risk exposures and business activities, and any issues with the quality or effectiveness of our data, including our aggregation, management, and validation procedures, could result in ineffective risk management practices, business decisions or customer service, inefficient use of resources, or inaccurate regulatory or other risk reporting. We also use artificial intelligence to help further inform our business decisions and risk management practices, but there is no assurance that artificial intelligence will appropriately or sufficiently replicate certain outcomes or accurately predict future events or exposures. Previous financial and credit crises and resulting regulatory reforms highlighted both the importance and some of the limitations of managing unanticipated risks, and our regulators remain focused on ensuring that financial institutions build and maintain robust risk management policies and practices. If our risk management framework proves ineffective, we could suffer unexpected losses which could materially adversely affect our results of operations or financial condition.

We may be exposed to additional legal or regulatory proceedings, costs, and other adverse consequences related to sales practices and other instances where customers may have experienced financial harm. Various government entities and offices have undertaken formal or informal inquiries, investigations or examinations arising out of certain sales practices of the Company, and various non-governmental parties have filed lawsuits against us seeking damages or other remedies related to these sales practices. The Company has entered into various settlements to resolve certain of these investigations and proceedings, as a result of which we have incurred monetary penalties, costs, and restrictions. In connection with any still pending matters, we may incur additional monetary penalties and other sanctions or be required to make admissions of wrongdoing and comply with other conditions, which can lead to restrictions on our ability to engage in certain business activities or offer certain products or services, limitations on our ability to access capital markets, limitations on capital distributions, the loss of customers, and/or other direct and indirect adverse consequences. The ultimate resolution of any of these pending legal proceedings or government investigations, depending on the sanctions and remedy sought and granted, could materially adversely affect our results of operations and financial condition. We may continue to incur additional costs and expenses in order to address and defend these pending legal proceedings and government investigations, and we may continue to have increased compliance and other costs related to these matters. Furthermore, negative publicity or public opinion resulting from these matters may increase the risk of reputational harm to our business, which can impact our ability to keep and attract customers, affect our ability to attract and retain qualified employees, result in the loss of revenue, or have other material adverse effects on our results of operations and financial condition.

Furthermore, we may identify other areas or instances where customers may have experienced financial harm, including as a result of our continuing efforts to rebuild trust and to strengthen our risk and control infrastructure. For example, we have identified certain issues related to past practices involving certain automobile collateral protection insurance policies and certain issues related to the unused portion of guaranteed automobile protection waiver or insurance agreements. The identification of such other areas or instances where customers may have experienced financial harm could lead to, and in some cases has already resulted in, additional remediation costs, loss of revenue or customers, legal or regulatory proceedings, compliance and other costs, reputational damage, or other adverse consequences.

For more information, refer to the "Overview – Retail Sales Practices Matters" and "– Other Customer Remediation Activities" sections and Note 15 (Legal Actions) to Financial Statements in this Report.

We may incur fines, penalties and other negative consequences from regulatory violations or from any failure to meet regulatory standards or expectations. We maintain systems and procedures designed to ensure that we comply with applicable laws and regulations. However, we are subject to heightened compliance and regulatory oversight and expectations, particularly due to the evolving and increasing regulatory landscape we operate in. We are also subject to consent orders and agreements with regulators that subject us to various conditions and restrictions. In addition, a single event or issue may give rise to numerous and overlapping investigations and proceedings, either by multiple federal and state agencies in the U.S. or by multiple regulators and other governmental entities in different jurisdictions. Also, the laws and regulations in jurisdictions in which we operate may be different or even conflict with each other, such as differences between U.S. federal and state law or differences between U.S. and non-U.S. laws as to the products and services we may offer or other business activities we may engage in, which can lead to compliance difficulties or issues. Furthermore, many legal and regulatory regimes require us to report transactions and other information to regulators and other governmental authorities, self-regulatory organizations, exchanges, clearing houses and customers. We may be subject to fines, penalties, restrictions on our business, or other negative consequences if we do not timely, completely, or accurately provide regulatory reports, customer notices or disclosures. Moreover, some legal/regulatory frameworks provide for the imposition of fines or penalties for noncompliance even though the noncompliance was inadvertent or unintentional and even though there were systems and procedures in place at the time designed to ensure compliance. For example, we are subject to regulations issued by the Office of Foreign Assets Control (OFAC) that prohibit financial institutions from participating in the transfer of property belonging to the governments of certain non-U.S. countries and designated nationals of those countries. OFAC may impose penalties or restrictions on certain activities for inadvertent or unintentional violations even if reasonable processes are in place to prevent the violations. Any violation of these or other applicable laws or regulatory requirements, even if inadvertent or unintentional, or any failure to meet regulatory standards or expectations, including any failure to satisfy the conditions of any consent orders or regulatory agreements, could result in fees, penalties, restrictions on our ability to engage in certain business activities, reputational harm, loss of customers or other negative consequences.

Reputational harm, including as a result of our actual or alleged conduct or public opinion of the financial services industry generally, could adversely affect our business, results of operations, and financial condition. Reputation risk, or the risk to our business, earnings and capital from negative public opinion, is inherent in our business and has increased substantially because of our size and profile in the financial services industry and sales practices related matters and other instances where customers may have experienced financial harm. Negative public opinion about the financial services industry generally or Wells Fargo specifically could adversely affect our reputation and our ability to keep and attract customers. Negative public opinion could result from our actual or alleged conduct in any number of activities, including sales practices; mortgage, auto or other consumer lending practices; loan origination or servicing activities; mortgage foreclosure actions; management of client accounts or investments; lending, investing or other business relationships; identification and management of potential conflicts of interest from transactions, obligations and interests with and among our customers; environmental, social and governance practices; regulatory compliance; risk management; incentive compensation practices; and disclosure, sharing or inadequate protection or improper use of customer information, and from actions taken by government regulators and community or other organizations in response to that conduct. Although we have policies and procedures in place intended to detect and prevent conduct by employees and third-party service providers that could potentially harm customers or our reputation, there is no assurance that such policies and procedures will be fully effective in preventing such conduct. Furthermore, our actual or perceived failure to address or prevent any such conduct or otherwise to effectively manage our business or operations could result in significant reputational harm. In addition, because we conduct most of our businesses under the "Wells Fargo" brand, negative public opinion about one business also could affect our other businesses. Moreover, actions by the financial services industry generally or by certain members or individuals in the industry also can adversely affect our reputation. The proliferation of social media websites utilized by Wells Fargo and other third parties, as well as the personal use of social media by our employees and others, including personal blogs and social network profiles, also may increase the risk that negative, inappropriate or unauthorized information may be posted or released publicly that could harm our reputation or have other negative consequences, including as a result of our employees interacting with our customers in an unauthorized manner in various social media outlets.

Wells Fargo and other financial institutions have been targeted from time to time by protests and demonstrations, which have included disrupting the operation of our retail banking locations and have resulted in negative public commentary about financial institutions, including the fees charged for various products and services. Wells Fargo and other financial institutions have also been subject to negative publicity as a result of providing financial services to or making investments in industries or organizations subject to stakeholder concerns. There can be no assurance that continued protests or negative public opinion of the Company specifically or large financial institutions generally will not harm our reputation and adversely affect our business, results of operations, and financial condition.

If we are unable to develop and execute effective business plans or strategies or manage change effectively, our competitive standing and results of operations could suffer. We are subject to rapid changes in technology, regulation, and product innovation, face intense competition for customers, sources of revenue, capital, services, qualified employees, and other essential business resources, and are subject to heightened regulatory expectations particularly with respect to compliance and risk management. In order to meet these challenges, we may undertake business plans or strategies related to, among other things, our organizational structure, our compliance and risk management framework, our expenses and efficiency, the types of products and services we offer, the types of businesses we engage in, the geographies in which we operate, the manner in which we serve our clients and customers, the third parties with which we do business, and the methods and distribution channels by which we offer our products and services. Accomplishing these business plans or strategies may be complex, time intensive, require significant financial, technological, management and other resources, may divert management attention and resources away from other areas of the Company, and may impact our expenses and ability to generate revenue. There is no guarantee that any business plans or strategies, including our current efficiency initiatives, will ultimately be successful. To the extent we are unable to develop or execute effective business plans or strategies or manage change effectively, our competitive position, reputation, prospects for growth, and results of operations may be adversely affected.

In addition, from time to time, we may decide to divest certain businesses or assets. Difficulties in executing a divestiture may cause us not to realize any expected cost savings or other benefits from the divestiture, or may result in higher than expected losses of employees or harm our ability to retain customers. The divestiture or winding down of certain businesses or assets may also result in the impairment of goodwill or other long-lived assets related to those businesses or assets.

Similarly, we may explore opportunities to expand our products, services, and assets through strategic acquisitions of companies or businesses in the financial services industry. We generally must receive federal regulatory approvals before we can acquire a bank, bank holding company, or certain other financial services businesses. We cannot be certain when or if, or on what terms and conditions, any required regulatory approvals will be granted. We might be required to sell banks, branches and/or business units or assets or issue additional equity as a condition to receiving regulatory approval for an acquisition. When we do announce an acquisition, our stock price may fall depending on the size of the acquisition, the type of business to be acquired, the purchase price, and the potential dilution to existing stockholders or our earnings per share if we issue common stock in connection with the acquisition. Furthermore, difficulty in integrating an acquired company or business may cause us not to realize expected revenue increases, cost savings, increases in geographic or product presence, and other projected benefits from the acquisition. The integration could result in higher than expected deposit attrition, loss of key employees, an increase in our compliance costs or risk profile, disruption of our business or the acquired business, or otherwise harm our ability to retain customers and employees or achieve the anticipated benefits of the acquisition. Time and resources spent on integration may also impair our ability to grow our existing businesses. Many of the foregoing risks may be increased if the acquired company or business operates internationally or in a geographic location where we do not already have significant business operations and/or employees.

We are exposed to potential financial loss or other adverse consequences from legal actions. Wells Fargo and some of its subsidiaries are involved in judicial, regulatory, governmental, arbitration, and other proceedings or investigations concerning matters arising from the conduct of our business activities, and many of those proceedings and investigations expose Wells Fargo to potential financial loss. There can be no assurance as to the ultimate outcome of any of these legal actions. We establish accruals for legal actions when potential losses associated with the actions become probable and the costs can be reasonably estimated. We may still incur costs for a legal action even if we have not established an accrual. In addition, the actual cost of resolving a legal action may be substantially higher than any amounts accrued for that action. The ultimate resolution of a pending legal proceeding or investigation, depending on the remedy sought and granted, could materially adversely affect our results of operations and financial condition.

As noted above, we are subject to heightened regulatory oversight and scrutiny, which may lead to regulatory investigations, proceedings or enforcement actions. In addition to imposing monetary penalties and other sanctions, regulatory authorities may require criminal pleas or other admissions of wrongdoing and compliance with other conditions in connection with settling such matters, which can lead to reputational harm, loss of customers, restrictions on the ability to access capital markets, limitations on capital distributions, the inability to engage in certain business activities or offer certain products or services, and/or other direct and indirect adverse effects.

For more information, refer to Note 15 (Legal Actions) to Financial Statements in this Report.

MORTGAGE BUSINESS RISKS

Our mortgage banking revenue can be volatile from quarter to quarter, including from the impact of changes in interest rates, and we rely on the GSEs to purchase our conforming loans to reduce our credit risk and provide liquidity to fund new mortgage loans. We are one of the largest mortgage originators and residential mortgage servicers in the U.S., and we earn revenue from fees we receive for originating mortgage loans and for servicing mortgage loans. As a result of our mortgage servicing business, we have a sizable portfolio of MSRs. Changes in interest rates can affect prepayment assumptions and thus the fair value of our MSRs. When interest rates fall, borrowers are usually more likely to prepay their mortgage loans by refinancing them at a lower rate. As the likelihood of prepayment increases, the fair value of our MSRs can decrease. We also measure at fair value certain residential mortgage loans within LHFS and other interests we hold related to residential loan sales and securitizations. Similar to other interest-bearing securities, the value of these residential mortgage LHFS and other interests may be negatively affected by changes in interest rates. For example, if market interest rates increase relative to the yield on these residential mortgage LHFS and other interests, their fair value may fall.

When rates rise, the demand for mortgage loans usually tends to fall, reducing the revenue we receive from loan originations. Under the same conditions, revenue from our MSRs can increase through increases in fair value. When rates fall, mortgage originations usually tend to increase and the value of our MSRs usually tends to decline, also with some offsetting revenue effect. Even though they can act as a "natural hedge," the hedge is not perfect, either in amount or timing. For example, the negative effect on revenue from a decrease in the fair value of residential MSRs is generally immediate, but any offsetting revenue benefit from more originations and the MSRs relating to the new loans would generally accrue over time. It is also possible that, because of economic conditions and/or a weak or deteriorating housing market, even if interest rates were to fall or remain low, mortgage originations may also fall or any increase in mortgage originations may not be enough to offset the decrease in the MSRs value caused by the lower rates.

We typically use derivatives and other instruments to hedge our mortgage banking interest rate risk. We may not hedge all of our risk, and we may not be successful in hedging any of the risk. Hedging is a complex process, requiring sophisticated models and constant monitoring, and is not a perfect science. We may use hedging instruments that may not perfectly correlate with the value or income being hedged. We could incur significant losses from our hedging activities. There may be periods where we elect not to use derivatives and other instruments to hedge mortgage banking interest rate risk.

We rely on the GSEs to guarantee or purchase mortgage loans that meet their conforming loan requirements and on government insuring agencies, such as the Federal Housing Administration (FHA) and the Department of Veterans Affairs (VA), to insure or guarantee loans that meet their policy requirements. In order to meet customer needs, we also originate loans that do not conform to either the GSEs or government insuring agency standards, which are referred to as "nonconforming" loans. We generally retain these nonconforming loans on our balance sheet. When we retain a loan on our balance sheet not only do we keep the credit risk of the loan but we also do not receive any sale proceeds that could be used to generate new loans. If we were unable or unwilling to retain nonconforming loans on our balance sheet, whether due to regulatory, business or other reasons, our ability to originate new nonconforming loans may be reduced, thereby reducing the interest income we could earn from these loans. Similarly, if the GSEs or government insuring agencies were to limit or reduce their purchases, insuring or guaranteeing of loans, our ability to fund, and thus originate new mortgage loans, could also be reduced. We cannot assure that the GSEs or government insuring agencies will not materially limit their purchases, insuring or guaranteeing of conforming loans or change their criteria for what constitutes a conforming loan (e.g., maximum loan amount or borrower eligibility). Each of the GSEs is currently in conservatorship, with its primary regulator, the Federal Housing Finance Agency (FHFA) acting as conservator. While the FHFA has stated that it intends to end the conservatorship, we cannot predict if, when or precisely how the conservatorship will end, or any associated changes to the GSEs business structure and operations that could result. As noted above, there are various proposals to reform the housing finance market in the U.S., including the role of the GSEs in the housing finance market. The impact of any such regulatory reform regarding the housing finance market and the GSEs, including any changes to the GSE's structure, capital requirements, or market presence, as well as any effect on the Company's business and financial results, are uncertain.

For more information, refer to the "Risk Management – Asset/Liability Management – Mortgage Banking Interest Rate and Market Risk," "Critical Accounting Policies – Valuation of Residential Mortgage Servicing Rights" and "Critical Accounting Policies – Fair Value of Financial Instruments" sections in this Report.

We may be required to repurchase mortgage loans or reimburse investors and others as a result of breaches in contractual representations and warranties, and we may incur other losses as a result of real or alleged violations of statutes or regulations applicable to the origination of our residential mortgage loans. We often sell residential mortgage loans that we originate to various parties, including GSEs, SPEs that issue private label MBS, and other financial institutions that purchase mortgage loans for investment or private label securitization. We may also pool FHA-insured and VA-guaranteed mortgage loans which back securities guaranteed by GNMA. The agreements under which we sell mortgage loans and the insurance or guaranty agreements with the FHA and VA contain various representations and warranties regarding the origination and characteristics of the mortgage loans. We may be required to repurchase mortgage loans or indemnify or reimburse the securitization trust, investor or insurer for credit losses incurred on loans in the event of a breach of contractual representations or warranties. We establish a mortgage repurchase liability that reflects management's estimate of losses for loans for which we have a repurchase obligation. Because the level of mortgage loan repurchase losses depends upon economic factors, investor demand strategies and other external conditions that may change over the life of the underlying loans, the level of the liability for mortgage loan repurchase losses is difficult to estimate, requires considerable management judgment, and is subject to change. If economic conditions or the housing market worsen, we could have increased repurchase obligations and increased loss severity on repurchases, requiring significant additions to the repurchase liability.

Additionally, for residential mortgage loans that we originate, borrowers may allege that the origination of the loans did not comply with applicable laws or regulations in one or more respects and assert such violation as an affirmative defense to payment or to the exercise by us of our remedies, including foreclosure proceedings, or in an action seeking statutory and other damages in connection with such violation. If we are not successful in demonstrating that the loans in dispute were originated in accordance with applicable statutes and regulations, we could become subject to monetary damages and other civil penalties, including the loss of certain contractual payments or the inability to exercise certain remedies under the loans.

For more information, refer to the "Risk Management – Credit Risk Management – Liability for Mortgage Loan Repurchase Losses" section in this Report.

We may be terminated as a servicer or master servicer, be required to repurchase a mortgage loan or reimburse investors for credit losses on a mortgage loan, or incur costs, liabilities, fines and other sanctions if we fail to satisfy our servicing obligations, including our obligations with respect to mortgage loan foreclosure actions. We act as servicer and/or master servicer for mortgage loans included in securitizations and for unsecuritized mortgage loans owned by investors. As a servicer or master servicer for those loans we have certain contractual obligations to the securitization trusts, investors or other third parties, including certain foreclosure obligations or, if applicable, considering alternatives to foreclosure such as loan modifications or short-sales, as well as certain servicing obligations for properties that fall within a flood zone. If we fail to satisfy our servicing obligations, we may face a number of consequences, including termination as servicer or master servicer, requirements to indemnify the securitization trustee against losses from any failure by us to perform our servicing obligations, and/or contractual obligations to repurchase a mortgage loan or reimburse investors for credit losses, any of which could significantly reduce our net servicing income.

We may incur costs, liabilities to borrowers, title insurers and/or securitization investors, legal proceedings, or other adverse consequences if we fail to meet our obligations with respect to mortgage foreclosure actions or we experience delays in the foreclosure process. Our net servicing income and the fair value of our MSRs may be negatively affected to the extent our servicing costs increase because of higher foreclosure or other servicing related costs. We may be subject to fines and other sanctions imposed by federal or state regulators as a result of actual or perceived deficiencies in our mortgage servicing practices, including with respect to our foreclosure, loan modification, or forbearance practices or our servicing of flood zone properties. Any of these actions may harm our reputation, negatively affect our residential mortgage origination or servicing business, or result in material fines, penalties, equitable remedies, or other enforcement actions.

For more information, refer to the "Risk Management – Credit Risk Management – Liability for Mortgage Loan Repurchase Losses" and "– Risks Relating to Servicing Activities," and "Critical Accounting Policies – Valuation of Residential Mortgage Servicing Rights" sections and Note 14 (Pledged Assets and Collateral) and Note 15 (Legal Actions) to Financial Statements in this Report.

COMPETITIVE RISKS

We face significant and increasing competition in the rapidly evolving financial services industry. We compete with other financial institutions in a highly competitive industry that is undergoing significant changes as a result of financial regulatory reform, technological advances, increased public scrutiny, and current economic conditions. Our success depends on our ability to develop and maintain deep and enduring relationships with our customers based on the quality of our customer service, the wide variety of products and services that we can offer our customers and the ability of those products and services to satisfy our customers' needs and preferences, the pricing of our products and services, the extensive distribution channels available for our customers, our innovation, and our reputation. Continued or increased competition in any one or all of these areas may negatively affect our customer relationships, market share and results of operations and/or cause us to increase our capital investment in our businesses in order to remain competitive. In addition, our ability to reposition or reprice our products and services from time to time may be limited and could be influenced significantly by the current economic, regulatory and political environment for large financial institutions as well as by the actions of our competitors. Furthermore, any changes in the types of products and services that we offer our customers and/or the pricing for those products and services could result in a loss of customer relationships and market share and could materially adversely affect our results of operations.

Continued technological advances and the growth of e-commerce have made it possible for non-depository institutions to offer products and services that traditionally were banking products, and for financial institutions and other companies to provide electronic and internet-based financial solutions, including electronic securities trading, lending and payment solutions. In addition, technological advances, including digital currencies, may diminish the importance of depository institutions and other financial intermediaries in the transfer of funds between parties. We may not respond effectively to these and other competitive threats from existing and new competitors and may be forced to sell products at lower prices, increase our investment in our business to modify or adapt our existing products and services, and/or develop new products and services to respond to our customers' needs and preferences. To the extent we are not successful in developing and introducing new products and services or responding or adapting to the competitive landscape or to changes in customer preferences, we may lose customer relationships and our revenue growth and results of operations may be materially adversely affected.

Our ability to attract and retain qualified employees is critical to the success of our business and failure to do so could adversely affect our business performance, competitive position and future prospects. The success of Wells Fargo is heavily dependent on the talents and efforts of our employees, including our senior leaders, and in many areas of our business, including commercial banking, brokerage, investment advisory, capital markets, risk management and technology, the competition for highly qualified personnel is intense. We also seek to retain a pipeline of employees to provide continuity of succession for our senior leadership positions. In order to attract and retain highly qualified employees, we must provide competitive compensation, effectively manage employee performance and development, and foster a diverse and inclusive environment. As a large financial institution and additionally to the extent we remain subject to consent orders we may be subject to limitations on compensation by our regulators that may adversely affect our ability to attract and retain these qualified employees, especially if some of our competitors may not be subject to these same compensation limitations. If we are unable to continue to attract and retain qualified employees, including successors for senior leadership positions, our business performance, competitive position and future prospects may be adversely affected.

FINANCIAL REPORTING RISKS

Changes in accounting policies or accounting standards, and changes in how accounting standards are interpreted or applied, could materially affect how we report our financial results and condition. Our accounting policies are fundamental to determining and understanding our financial results and condition. As described below, some of these policies require use of estimates and assumptions that may affect the value of our assets or liabilities and financial results. Any changes in our accounting policies could materially affect our financial statements.

From time to time the FASB and the SEC change the financial accounting and reporting standards that govern the preparation of our external financial statements. For example, on January 1, 2020, we adopted Accounting Standards Update 2016-13 – *Financial Instruments-Credit Losses* (Topic 326), which replaced the previous "incurred loss" model for the allowance for credit losses with an "expected loss" model referred to as the Current Expected Credit Loss model, or CECL.

In addition, accounting standard setters and those who interpret the accounting standards (such as the FASB, SEC, banking regulators and our outside auditors) may change or even reverse their previous interpretations or positions on how these standards should be applied. Changes in financial accounting and reporting standards and changes in current interpretations may be beyond our control, can be hard to predict and could materially affect how we report our financial results and condition. We may be required to apply a new or revised standard retroactively or apply an existing standard differently, also retroactively, in each case potentially resulting in our restating prior period financial statements in material amounts.

For more information, refer to the "Current Accounting Developments" section in this Report.

Our financial statements are based in part on assumptions and estimates which, if wrong, could cause unexpected losses in the future, and our financial statements depend on our internal controls over financial reporting. Pursuant to U.S. GAAP, we are required to use certain assumptions and estimates in preparing our financial statements, including in determining credit loss reserves, reserves for mortgage repurchases, reserves related to litigation and the fair value of certain assets and liabilities, among other items. Several of our accounting policies are critical because they require management to make difficult, subjective and complex judgments about matters that are inherently uncertain and because it is likely that materially different amounts would be reported under different conditions or using different assumptions. For a description of these policies, refer to the "Critical Accounting Policies" section in this Report. If assumptions or estimates underlying our financial statements are incorrect, we may experience material losses.

Certain of our financial instruments, including derivative assets and liabilities, debt securities, certain loans, MSRs, private equity investments, structured notes and certain repurchase and resale agreements, among other items, require a determination of their fair value in order to prepare our financial statements. Where quoted market prices are not available, we may make fair value determinations based on internally developed models or other means which ultimately rely to some degree on management judgment, and there is no assurance that our models will capture or appropriately reflect all relevant inputs required to accurately determine fair value. Some of these and other assets and liabilities may have no direct observable price levels, making their valuation particularly subjective, being based on significant estimation and judgment. In addition, sudden illiquidity in markets or declines in prices of certain loans and securities may make it more difficult to value certain balance sheet items, which may lead to the possibility that such valuations will be subject to further change or adjustment and could lead to declines in our earnings.

The Sarbanes-Oxley Act of 2002 (Sarbanes-Oxley) requires our management to evaluate the Company's disclosure controls and procedures and its internal control over financial reporting and requires our auditors to issue a report on our internal control over financial reporting. We are required to disclose, in our annual report on Form 10-K, the existence of any "material weaknesses" in our internal controls. We cannot assure that we will not identify one or more material weaknesses as of the end of any given quarter or year, nor can we predict the effect on our stock price of disclosure of a material weakness. In addition, our customers may rely on the effectiveness of our internal controls as a service provider, and any deficiency in those controls could affect our customers and damage our reputation or business. Sarbanes-Oxley also limits the types of non-audit services our outside auditors may provide to us in order to preserve their independence from us. If our auditors were found not to be "independent" of us under SEC rules, we could be required to engage new auditors and re-file financial statements and audit reports with the SEC. We could be out of compliance with SEC rules until new financial statements and audit reports were filed, limiting our ability to raise capital and resulting in other adverse consequences.

* * *

Any factor described in this Report or in any of our other SEC filings could by itself, or together with other factors, adversely affect our financial results and condition. Refer to our quarterly reports on Form 10-Q filed with the SEC in 2021 for material changes to the above discussion of risk factors. There are factors not discussed above or elsewhere in this Report that could adversely affect our financial results and condition.