COMERICA INC /NEW/
Form 10-Q
October 29, 2015
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)
x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2015
Or
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission file number 1-10706

Comerica Incorporated
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	38-1998421 (I.R.S. Employer Identification No.)

Comerica Bank Tower
1717 Main Street, MC 6404
Dallas, Texas 75201
(Address of principal executive offices)
(Zip Code)
(214) 462-6831
(Registrant’s telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No o

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

Large accelerated filer ý	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.
$5 par value common stock:
Outstanding as of October 26, 2015: 176,734,815 shares

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Part I. FINANCIAL INFORMATION
Item 1. Financial Statements

CONSOLIDATED BALANCE SHEETS
Comerica Incorporated and Subsidiaries

(in millions, except share data)	September 30, 2015 (unaudited)	December 31, 2014
ASSETS		
Cash and due from banks	$1,101	$1,026
Interest-bearing deposits with banks	6,099	5,045
Other short-term investments	107	99
Investment securities available-for-sale	8,749	8,116
Investment securities held-to-maturity	1,863	1,935
Commercial loans	31,777	31,520
Real estate construction loans	1,874	1,955
Commercial mortgage loans	8,787	8,604
Lease financing	751	805
International loans	1,382	1,496
Residential mortgage loans	1,880	1,831
Consumer loans	2,491	2,382
Total loans	48,942	48,593
Less allowance for loan losses	(622)	(594)
Net loans	48,320	47,999
Premises and equipment	541	532
Accrued income and other assets	4,232	4,434
Total assets	$71,012	$69,186
LIABILITIES AND SHAREHOLDERS' EQUITY		
Noninterest-bearing deposits	$28,697	$27,224
Money market and interest-bearing checking deposits	23,948	23,954
Savings deposits	1,853	1,752
Customer certificates of deposit	4,126	4,421
Foreign office time deposits	144	135
Total interest-bearing deposits	30,071	30,262
Total deposits	58,768	57,486
Short-term borrowings	109	116
Accrued expenses and other liabilities	1,413	1,507
Medium- and long-term debt	3,100	2,675
Total liabilities	63,390	61,784
Common stock - $5 par value:		
Authorized - 325,000,000 shares		
Issued - 228,164,824 shares	1,141	1,141
Capital surplus	2,165	2,188

Accumulated other comprehensive loss	(345)	(412)
Retained earnings	7,007	6,744
Less cost of common stock in treasury - 51,010,418 shares at 9/30/15 and 49,146,225 shares at 12/31/14	(2,346)	(2,259)
Total shareholders' equity	7,622	7,402
Total liabilities and shareholders' equity	$71,012	$69,186

See notes to consolidated financial statements.

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CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (unaudited)
Comerica Incorporated and Subsidiaries

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in millions, except per share data)	2015	2014	2015	2014
INTEREST INCOME				
Interest and fees on loans	$390	$381	$1,156	$1,142
Interest on investment securities	54	52	160	160
Interest on short-term investments	4	3	11	10
Total interest income	448	436	1,327	1,312
INTEREST EXPENSE				
Interest on deposits	11	11	33	33
Interest on medium- and long-term debt	15	11	38	39
Total interest expense	26	22	71	72
Net interest income	422	414	1,256	1,240
Provision for credit losses	26	5	87	25
Net interest income after provision for credit losses	396	409	1,169	1,215
NONINTEREST INCOME				
Service charges on deposit accounts	56	54	167	162
Fiduciary income	47	44	142	133
Commercial lending fees	22	26	69	69
Card fees	75	23	214	68
Letter of credit fees	13	14	39	43
Bank-owned life insurance	10	11	29	31
Foreign exchange income	10	9	29	30
Brokerage fees	5	4	13	13
Net securities losses	—	(1)	(2)	—
Other noninterest income	26	31	80	94
Total noninterest income	264	215	780	643
NONINTEREST EXPENSES				
Salaries and benefits expense	243	248	747	735
Net occupancy expense	41	46	118	125
Equipment expense	14	14	40	43
Outside processing fee expense	86	31	249	89
Software expense	26	25	73	72
Litigation-related expense	(3)	(2)	(32)	4
FDIC insurance expense	9	9	27	25
Advertising expense	6	5	17	16
Gain on debt redemption	—	(32)	—	(32)
Other noninterest expenses	39	53	117	130
Total noninterest expenses	461	397	1,356	1,207
Income before income taxes	199	227	593	651
Provision for income taxes	63	73	188	207
NET INCOME	136	154	405	444
Less income allocated to participating securities	2	2	5	6
Net income attributable to common shares	$134	$152	$400	$438
Earnings per common share:				
Basic	$0.76	$0.85	$2.27	$2.44

Diluted	0.74	0.82	2.20	2.35
Comprehensive income	187	141	472	518
Cash dividends declared on common stock	37	36	110	107
Cash dividends declared per common share	0.21	0.20	0.62	0.59

See notes to consolidated financial statements.

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CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (unaudited)
Comerica Incorporated and Subsidiaries

(in millions, except per share data)	Common Stock Shares Outstanding	Common Stock Amount	Capital Surplus	Accumulated Other Comprehensive Loss	Retained Earnings	Treasury Stock	Total Shareholders' Equity
BALANCE AT DECEMBER 31, 2013	182.3	$1,141	$2,179	$ (391)	$6,318	$(2,097)	$7,150
Net income	—	—	—	—	444	—	444
Other comprehensive income, net of tax	—	—	—	74	—	—	74
Cash dividends declared on common stock ($0.59 per share)	—	—	—	—	(107)	—	(107)
Purchase of common stock	(4.1)	—	—	—	—	(200)	(200)
Net issuance of common stock under employee stock plans	2.0	—	(26)	—	(24)	91	41
Share-based compensation	—	—	31	—	—	—	31
Other	—	—	(1)	—	—	1	—
BALANCE AT SEPTEMBER 30, 2014	180.2	$1,141	$2,183	$ (317)	$6,631	$(2,205)	$7,433
BALANCE AT DECEMBER 31, 2014	179.0	$1,141	$2,188	$ (412)	$6,744	$(2,259)	$7,402
Net income	—	—	—	—	405	—	405
Other comprehensive income, net of tax	—	—	—	67	—	—	67
Cash dividends declared on common stock ($0.62 per share)	—	—	—	—	(110)	—	(110)
Purchase of common stock	(3.8)	—	—	—	—	(175)	(175)
Purchase and retirement of warrants	—	—	(10)	—	—	—	(10)
Net issuance of common stock under employee stock plans	1.0	—	(21)	—	(10)	45	14
Net issuance of common stock for warrants	1.0	—	(21)	—	(22)	43	—
Share-based compensation	—	—	29	—	—	—	29
BALANCE AT SEPTEMBER 30, 2015	177.2	$1,141	$2,165	$ (345)	$7,007	$(2,346)	$7,622

See notes to consolidated financial statements.

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CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)
Comerica Incorporated and Subsidiaries

	Nine Months Ended September 30,	
(in millions)	2015	2014
OPERATING ACTIVITIES		
Net income	$405	$444
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for credit losses	87	25
Provision (benefit) for deferred income taxes	(52)	7
Depreciation and amortization	90	92
Net periodic defined benefit cost	34	29
Share-based compensation expense	29	31
Net amortization of securities	11	9
Accretion of loan purchase discount	(6)	(25)
Net securities losses	2	—
Net gains on sales of foreclosed property	(2)	(3)
Gain on debt redemption	—	(32)
Excess tax benefits from share-based compensation arrangements	(3)	(6)
Net change in:		
Trading securities	—	1
Accrued income receivable	(9)	(2)
Accrued expenses payable	(70)	(44)
Other, net	147	39
Net cash provided by operating activities	663	565
INVESTING ACTIVITIES		
Investment securities available-for-sale:		
Maturities and redemptions	1,282	1,328
Sales	51	—
Purchases	(1,933)	(1,413)
Investment securities held-to-maturity:		
Maturities and redemptions	244	—
Purchases	(166)	—
Net change in loans	(436)	(2,254)
Proceeds from sales of foreclosed property	8	13
Net increase in premises and equipment	(78)	(38)
Sales of Federal Home Loan Bank stock	—	41
Other, net	5	(4)
Net cash used in investing activities	(1,023)	(2,327)
FINANCING ACTIVITIES		
Net change in:		
Deposits	1,361	4,205
Short-term borrowings	(7)	(51)
Medium- and long-term debt:		
Maturities and redemptions	(606)	(1,406)
Issuances	1,016	596
Common stock:		
Repurchases	(175)	(200)

Cash dividends paid	(109)	(101)
Issuances under employee stock plans	21	45
Purchase and retirement of warrants	(10)	—
Excess tax benefits from share-based compensation arrangements	3	6
Other, net	(5)	4
Net cash provided by financing activities	1,489	3,098
Net increase in cash and cash equivalents	1,129	1,336
Cash and cash equivalents at beginning of period	6,071	6,451
Cash and cash equivalents at end of period	$7,200	$7,787
Interest paid	$64	$74
Income tax paid	46	154
Noncash investing and financing activities:		
Loans transferred to other real estate	9	13
Loans transferred from portfolio to held-for-sale	19	—
Lease residual transferred to other assets	16	—

See notes to consolidated financial statements.

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Notes to Consolidated Financial Statements (unaudited)
Comerica Incorporated and Subsidiaries

NOTE 1 - BASIS OF PRESENTATION AND ACCOUNTING POLICIES
Organization
The accompanying unaudited consolidated financial statements were prepared in accordance with United States (U.S.) generally accepted accounting principles (GAAP) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, the statements do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation were included. The results of operations for the nine months ended September 30, 2015 are not necessarily indicative of the results that may be expected for the year ending December 31, 2015. Certain items in prior periods were reclassified to conform to the current presentation. For further information, refer to the consolidated financial statements and footnotes thereto included in the Annual Report of Comerica Incorporated and Subsidiaries (the Corporation) on Form 10-K for the year ended December 31, 2014.
Revenue Recognition
In the first quarter 2015, the Corporation entered into a new contract for an existing debit card program. Guidance provided in Accounting Standards Code 605-45, "Principal Agent Considerations," indicates whether revenue should be reported gross or net for this type of arrangement. Management assessed various principal versus agent indicators provided in the guidance and concluded that the Corporation bears the risks and rewards of providing the services for the card program based on the new contract terms and, therefore, gross presentation of revenues and expenses is appropriate. This change in presentation resulted in increases of $48 million and $136 million to both "card fees" in noninterest income and "outside processing fee expense" in noninterest expenses for the three- and nine-month periods ended September 30, 2015, respectively.
Recently Adopted Accounting Pronouncements
Effective January 1, 2015, the Corporation prospectively adopted Accounting Standards Update (ASU) No. 2014-04, “Receivables – Troubled Debt Restructurings by Creditors (Subtopic 310-40): Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure,” (ASU 2014-04), which clarifies when an in-substance foreclosure or repossession of residential real estate property occurs, requiring a creditor to reclassify the loan to other real estate. According to ASU 2014-04, a consumer mortgage loan should be reclassified to other real estate either upon the creditor obtaining legal title to the real estate collateral or when the borrower voluntarily conveys all interest in the real estate property to the creditor through a deed in lieu of foreclosure or similar legal agreement. ASU 2014-04 also clarifies that a creditor that has obtained legal title to a foreclosed property should not delay reclassification when a borrower has a legal right of redemption for a period of time. The Corporation's existing accounting treatment is consistent with the new guidance, and therefore the adoption of ASU 2014-04 had no impact to the Corporation's financial condition and results of operations. Disclosures required by ASU 2014-04 are provided in Note 4.
Also effective January 1, 2015, the Corporation prospectively adopted ASU No. 2014-12, “Compensation-Stock Compensation (Topic 718): Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period,” (ASU 2014-12). The new guidance requires that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. The Corporation's current accounting treatment of performance conditions for employees who are or become retirement eligible prior to the achievement of the performance target is consistent with ASU 2014-12, and as such the adoption of ASU 2014-12 had no impact to the Corporation’s financial condition and results of operations.
In the second quarter 2015, the Corporation early adopted ASU 2015-03, "Interest - Imputation of Interest (Subtopic 835-30)," which amends the presentation of debt issuance costs in the balance sheet as a direct deduction from the carrying amount of the related debt liability rather than as a deferred charge. The new guidance was retrospectively applied, which resulted in a decrease of $4 million to both "accrued income and other assets" and "medium- and long-term debt" on the consolidated balance sheets as of December 31, 2014. Unamortized debt issuance costs

deducted from the carrying amount of medium- and long-term debt totaled $9 million at September 30, 2015.

Pending Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued ASU No. 2014-09, “Revenue from Contracts with Customers (Topic 606),” (ASU 2014-09), which is intended to improve and converge the financial reporting requirements for revenue contracts with customers. Previous GAAP comprised broad revenue recognition concepts along with numerous industry-specific requirements. The new guidance establishes a five-step model which entities must follow to recognize revenue and removes inconsistencies and weaknesses in existing guidance. The guidance under ASU 2014-09 is effective for annual and interim periods beginning after December 15, 2017 and must be retrospectively applied. Entities will have the option of presenting prior periods as impacted by the new guidance or presenting the cumulative effect of initial application along with supplementary disclosures. Early adoption is permitted, but not before annual and interim periods beginning after December 15, 2016. The Corporation is currently evaluating the impact of adopting ASU 2014-09.

In February 2015, the FASB issued ASU 2015-02, "Consolidation (Topic 810): Amendments to the Consolidation Analysis," (ASU 2015-02), which makes targeted amendments to the considerations applied by reporting entities when determining if a legal entity should be consolidated, including placing more emphasis on risk of loss when determining a controlling financial interest. Low-income housing tax credit investments that meet the criteria for the proportional amortization method are not impacted by these amendments. ASU 2015-02 is effective for annual and interim periods beginning after December 15, 2015, and must be retrospectively applied. Early adoption is permitted. The Corporation does not expect the adoption of ASU 2015-02 to have a material effect on its financial condition and results of operations.

In April 2015, the FASB issued ASU 2015-05, "Goodwill and Other - Internal-Use Software (Subtopic 350-40)," (ASU 2015-05), which defines specific criteria entities must apply to determine if a cloud computing arrangement includes an in-substance software license. The result of the assessment will direct the entity to apply either software licensing or service contract guidance to record the related costs. ASU 2015-05 is effective for annual and interim periods beginning after December 15, 2015, and can be prospectively or retrospectively applied. Early adoption is permitted. The Corporation does not expect the adoption to have a material effect on its financial condition and results of operations.

In May 2015, the FASB issued ASU 2015-07, “Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent),” (ASU 2015-07) which amends disclosure requirements for entities that utilize net asset value per share (or its equivalent) to measure fair value as a practical expedient. The update eliminates the requirement to classify these investments within the fair value hierarchy and instead requires disclosure of sufficient information about these investments to permit reconciliation of the fair value of investments categorized within the fair value hierarchy to the investments presented in the consolidated balance sheet. ASU 2015-07 is effective for annual and interim periods beginning after December 15, 2015 and must be applied retrospectively. Early adoption is permitted. The adoption of ASU 2015-07 will have no impact on the Corporation's financial condition or results of operations.

NOTE 2 – FAIR VALUE MEASUREMENTS

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

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

Refer to Note 1 to the consolidated financial statements in the Corporation's Annual Report on Form 10-K for the year ended December 31, 2014 for further information about the fair value hierarchy, descriptions of the valuation methodologies and key inputs used to measure financial assets and liabilities recorded at fair value, as well as a description of the methods and significant assumptions used to estimate fair value disclosures for financial instruments not recorded at fair value in their entirety on a recurring basis. When credit valuation adjustments are significant to the overall fair value of a derivative, the Corporation classifies the over-the-counter derivative valuation in Level 3 of the fair value hierarchy; otherwise, over-the-counter derivative valuations are classified in Level 2.

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Notes to Consolidated Financial Statements (unaudited)
Comerica Incorporated and Subsidiaries

ASSETS AND LIABLILITIES RECORDED AT FAIR VALUE ON A RECURRING BASIS
The following tables present the recorded amount of assets and liabilities measured at fair value on a recurring basis as of September 30, 2015 and December 31, 2014.

(in millions)	Total	Level 1	Level 2	Level 3	
September 30, 2015					
Trading securities:					
Deferred compensation plan assets	$89	$89	$—	$—	
Equity and other non-debt securities	3	3	—	—	
State and municipal securities	1	—	1	—	
Total trading securities	93	92	1	—	
Investment securities available-for-sale:					
U.S. Treasury and other U.S. government agency securities	930	930	—	—	
Residential mortgage-backed securities (a)	7,559	—	7,559	—	
State and municipal securities	9	—	—	9	(b)
Corporate debt securities	45	—	44	1	(b)
Equity and other non-debt securities	206	137	—	69	(b)
Total investment securities available-for-sale	8,749	1,067	7,603	79	
Derivative assets:					
Interest rate contracts	375	—	364	11	
Energy derivative contracts	459	—	459	—	
Foreign exchange contracts	51	—	51	—	
Warrants	3	—	—	3	
Total derivative assets	888	—	874	14	
Total assets at fair value	$9,730	$1,159	$8,478	$93	
Derivative liabilities:					
Interest rate contracts	$140	$—	$140	$—	
Energy derivative contracts	456	—	456	—	
Foreign exchange contracts	44	—	44	—	
Other	1	—	—	1	
Total derivative liabilities	641	—	640	1	
Deferred compensation plan liabilities	89	89	—	—	
Total liabilities at fair value	$730	$89	$640	$1	

(a) Residential mortgage-backed securities issued and/or guaranteed by U.S. government agencies or U.S. government-sponsored enterprises.
(b) Auction-rate securities.

(in millions)	Total	Level 1	Level 2	Level 3	
December 31, 2014					
Trading securities:					
Deferred compensation plan assets	$94	$94	$—	$—	
Investment securities available-for-sale:					
U.S. Treasury and other U.S. government agency securities	526	526	—	—	
Residential mortgage-backed securities (a)	7,274	—	7,274	—	
State and municipal securities	23	—	—	23	(b)
Corporate debt securities	51	—	50	1	(b)
Equity and other non-debt securities	242	130	—	112	(b)
Total investment securities available-for-sale	8,116	656	7,324	136	
Derivative assets:					
Interest rate contracts	328	—	328	—	
Energy derivative contracts	527	—	527	—	
Foreign exchange contracts	39	—	39	—	
Warrants	4	—	—	4	
Total derivative assets	898	—	894	4	
Total assets at fair value	$9,108	$750	$8,218	$140	
Derivative liabilities:					
Interest rate contracts	$102	$—	$102	$—	
Energy derivative contracts	525	—	525	—	
Foreign exchange contracts	34	—	34	—	
Other	1	—	—	1	
Total derivative liabilities	662	—	661	1	
Deferred compensation plan liabilities	94	94	—	—	
Total liabilities at fair value	$756	$94	$661	$1	

(a) Residential mortgage-backed securities issued and/or guaranteed by U.S. government agencies or U.S. government-sponsored enterprises.
(b) Auction-rate securities.

There were no transfers of assets or liabilities recorded at fair value on a recurring basis into or out of Level 1, Level 2 and Level 3 fair value measurements during each of the three- and nine-month periods ended September 30, 2015 and 2014.

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Notes to Consolidated Financial Statements (unaudited)
Comerica Incorporated and Subsidiaries

The following table summarizes the changes in Level 3 assets and liabilities measured at fair value on a recurring basis for the three- and nine-month periods ended September 30, 2015 and 2014.

		Net Realized/Unrealized Gains (Losses) (Pretax)				
		Recorded in Earnings				
(in millions)	Balance at Beginning of Period	Realized	Unrealized	Recorded in Other Comprehensive Income	Sales	Balance at End of Period
Three Months Ended September 30, 2015						
Investment securities available-for-sale:						
State and municipal securities (a)	$ 23	$—	$—	$ —	$(14)	$ 9
Corporate debt securities (a)	1	—	—	—	—	1
Equity and other non-debt securities (a)	71	—	—	(1) (b)	(1)	69
Total investment securities available-for-sale	95	—	—	(1) (b)	(15)	79
Derivative assets:						
Interest rate contracts	2	—	9 (d)	—	—	11
Warrants	3	5 (d)	—	—	(5)	3
Derivative liabilities:						
Other	1	—	—	—	—	1
Three Months Ended September 30, 2014						
Investment securities available-for-sale:						
State and municipal securities (a)	$ 23	$—	$—	$ —	$—	$ 23
Corporate debt securities (a)	1	—	—	—	—	1
Equity and other non-debt securities (a)	118	1 (c)	—	1 (b)	(7)	113
Total investment securities available-for-sale	142	1 (c)	—	1 (b)	(7)	137
Derivative assets:						
Warrants	4	2 (d)	—	—	(2)	4
Derivative liabilities:						
Other	2	—	(1) (c)	—	—	3
Nine Months Ended September 30, 2015						
Investment securities available-for-sale:						
State and municipal securities (a)	$ 23	$—	$—	$ —	$(14)	$ 9
Corporate debt securities (a)	1	—	—	—	—	1
Equity and other non-debt securities (a)	112	(2) (c)	—	—	(41)	69
Total investment securities available-for-sale	136	(2) (c)	—	—	(55)	79
Derivative assets:						
Interest rate contracts	—	—	11 (d)	—	—	11
Warrants	4	6 (d)	(1) (d)	—	(6)	3
Derivative liabilities:						
Other	1	—	—	—	—	1
Nine Months Ended September 30, 2014						
Investment securities available-for-sale:						
State and municipal securities (a)	$ 22	$—	$—	$ 1 (b)	$—	$ 23
Corporate debt securities (a)	1	—	—	—	—	1
Equity and other non-debt securities (a)	136	2 (c)	—	7 (b)	(32)	113
Total investment securities available-for-sale	159	2 (c)	—	8 (b)	(32)	137
Derivative assets:						

Warrants	3	6 (d)	1 (d)	—	(6) 4
Derivative liabilities:					
Other	2	—	(1) (c)	—	— 3

(a) Auction-rate securities.

(b) Recorded in "net unrealized gains (losses) on investment securities available-for-sale" in other comprehensive income.

(c) Realized and unrealized gains and losses due to changes in fair value recorded in "net securities gains" on the consolidated statements of comprehensive income.

(d) Realized and unrealized gains and losses due to changes in fair value recorded in "other noninterest income" on the consolidated statements of comprehensive income.

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Comerica Incorporated and Subsidiaries

ASSETS AND LIABILITIES RECORDED AT FAIR VALUE ON A NONRECURRING BASIS
The Corporation may be required, from time to time, to record certain assets and liabilities at fair value on a nonrecurring basis. These include assets that are recorded at the lower of cost or fair value that were recognized at fair value below cost at the end of the period. The following table presents assets recorded at fair value on a nonrecurring basis at September 30, 2015 and December 31, 2014. No liabilities were recorded at fair value on a nonrecurring basis at September 30, 2015 and December 31, 2014.

(in millions)	Total	Level 2	Level 3
September 30, 2015			
Loans held-for-sale:			
Commercial	$12	$12	$—
Loans:			
Commercial	124	—	124
Commercial mortgage	12	—	12
International	8	—	8
Total loans	144	—	144
Nonmarketable equity securities	1	—	1
Other real estate	3	—	3
Total assets at fair value	$160	$12	$148
December 31, 2014			
Loans:			
Commercial	38	—	$38
Commercial mortgage	26	—	26
Total loans	64	—	64
Nonmarketable equity securities	2	—	2
Other real estate	2	—	2
Total assets at fair value	$68	$—	$68

Level 3 assets recorded at fair value on a nonrecurring basis at September 30, 2015 and December 31, 2014 included loans for which a specific allowance was established based on the fair value of collateral and other real estate for which fair value of the properties was less than the cost basis. For both asset classes, the unobservable inputs were the additional adjustments applied by management to the appraised values to reflect such factors as non-current appraisals and revisions to estimated time to sell. These adjustments are determined based on qualitative judgments made by management on a case-by-case basis and are not quantifiable inputs, although they are used in the determination of fair value.
The following table presents quantitative information related to the significant unobservable inputs utilized in the Corporation's Level 3 recurring fair value measurement as of September 30, 2015 and December 31, 2014. The Corporation's Level 3 recurring fair value measurements include auction-rate securities where fair value is determined using an income approach based on a discounted cash flow model. The inputs in the table below reflect management's expectation of continued illiquidity in the secondary auction-rate securities market due to a lack of market activity for the issuers remaining in the portfolio, a lack of market incentives for issuer redemptions, and the expectation for a continuing low interest rate environment. The September 30, 2015 workout periods reflect management's view that short-term interest rates could begin to rise in 2015.

		Discounted Cash Flow Model Unobservable Input	
	Fair Value (in millions)	Discount Rate	Workout Period (in years)
September 30, 2015			
State and municipal securities (a)	$9	3% - 10%	1 - 3

Equity and other non-debt securities (a)	69	4% - 9%	1 - 2
December 31, 2014			
State and municipal securities (a)	$23	3% - 9%	1 - 3
Equity and other non-debt securities (a)	112	4% - 8%	1 - 2

(a) Auction-rate securities.

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ESTIMATED FAIR VALUES OF FINANCIAL INSTRUMENTS NOT RECORDED AT FAIR VALUE ON A RECURRING BASIS

The Corporation typically holds the majority of its financial instruments until maturity and thus does not expect to realize many of the estimated fair value amounts disclosed. The disclosures also do not include estimated fair value amounts for items that are not defined as financial instruments, but which have significant value. These include such items as core deposit intangibles, the future earnings potential of significant customer relationships and the value of trust operations and other fee generating businesses. The Corporation believes the imprecision of an estimate could be significant.

The carrying amount and estimated fair value of financial instruments not recorded at fair value in their entirety on a recurring basis on the Corporation's consolidated balance sheets are as follows:

	Carrying	Estimated Fair Value			
(in millions)	Amount	Total	Level 1	Level 2	Level 3
September 30, 2015					
Assets					
Cash and due from banks	$1,101	$1,101	$1,101	$—	$—
Interest-bearing deposits with banks	6,099	6,099	6,099	—	—
Investment securities held-to-maturity	1,863	1,872	—	1,872	—
Loans held-for-sale (a)	15	15	—	15	—
Total loans, net of allowance for loan losses (b)	48,320	48,244	—	—	48,244
Customers' liability on acceptances outstanding	5	5	5	—	—
Nonmarketable equity securities (c)	10	19	—	—	19
Restricted equity investments	92	92	92	—	—
Liabilities					
Demand deposits (noninterest-bearing)	28,697	28,697	—	28,697	—
Interest-bearing deposits	25,945	25,945	—	25,945	—
Customer certificates of deposit	4,126	4,119	—	4,119	—
Total deposits	58,768	58,761	—	58,761	—
Short-term borrowings	109	109	109	—	—
Acceptances outstanding	5	5	5	—	—
Medium- and long-term debt	3,100	3,047	—	3,047	—
Credit-related financial instruments	(89)	(89)	—	—	(89)
December 31, 2014					
Assets					
Cash and due from banks	$1,026	$1,026	$1,026	$—	$—
Interest-bearing deposits with banks	5,045	5,045	5,045	—	—
Investment securities held-to-maturity	1,935	1,933	—	1,933	—
Loans held-for-sale (a)	5	5	—	5	—
Total loans, net of allowance for loan losses (b)	47,999	47,932	—	—	47,932
Customers' liability on acceptances outstanding	10	10	10	—	—
Nonmarketable equity securities (c)	11	18	—	—	18
Restricted equity investments	92	92	92	—	—
Liabilities					
Demand deposits (noninterest-bearing)	27,224	27,224	—	27,224	—
Interest-bearing deposits	25,841	25,841	—	25,841	—
Customer certificates of deposit	4,421	4,411	—	4,411	—
Total deposits	57,486	57,476	—	57,476	—
Short-term borrowings	116	116	116	—	—

Acceptances outstanding	10	10	10	—	—
Medium- and long-term debt	2,675	2,681	—	2,681	—
Credit-related financial instruments	(85)	(85)	—	—	(85)

(a) Included $12 million and no impaired loans held-for-sale recorded at fair value on a nonrecurring basis at September 30, 2015 and December 31, 2014, respectively.

(b) Included $144 million and $64 million of impaired loans recorded at fair value on a nonrecurring basis at September 30, 2015 and December 31, 2014, respectively.

(c) Included $1 million and $2 million of nonmarketable equity securities recorded at fair value on a nonrecurring basis at September 30, 2015 and December 31, 2014, respectively.

NOTE 3 - INVESTMENT SECURITIES

A summary of the Corporation's investment securities follows:

(in millions)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
September 30, 2015				
Investment securities available-for-sale:				
U.S. Treasury and other U.S. government agency securities	$917	$13	$—	$930
Residential mortgage-backed securities (a)	7,445	133	19	7,559
State and municipal securities	9	—	—	9
Corporate debt securities	45	—	—	45
Equity and other non-debt securities	206	1	1	206
Total investment securities available-for-sale (b)	$8,622	$147	$20	$8,749
Investment securities held-to-maturity (c):				
Residential mortgage-backed securities (a)	$1,863	$10	$1	$1,872
December 31, 2014				
Investment securities available-for-sale:				
U.S. Treasury and other U.S. government agency securities	$526	$—	$—	$526
Residential mortgage-backed securities (a)	7,192	122	40	7,274
State and municipal securities	24	—	1	23
Corporate debt securities	51	—	—	51
Equity and other non-debt securities	242	1	1	242
Total investment securities available-for-sale (b)	$8,035	$123	$42	$8,116
Investment securities held-to-maturity (c):				
Residential mortgage-backed securities (a)	$1,935	$—	$2	$1,933

(a) Residential mortgage-backed securities issued and/or guaranteed by U.S. government agencies or U.S. government-sponsored enterprises.

(b) Included auction-rate securities at amortized cost and fair value of $80 million and $79 million, respectively as of September 30, 2015 and $137 million and $136 million, respectively, as of December 31, 2014.

(c) The amortized cost of investment securities held-to-maturity included net unrealized losses of $17 million at September 30, 2015 and $23 million at December 31, 2014 related to securities transferred from available-for-sale, which are included in accumulated other comprehensive loss.

A summary of the Corporation's investment securities in an unrealized loss position as of September 30, 2015 and December 31, 2014 follows:

(in millions)	Temporarily Impaired Less than 12 Months Fair Value	Unrealized Losses		12 Months or more Fair Value	Unrealized Losses		Total Fair Value	Unrealized Losses	
September 30, 2015									
Residential mortgage-backed securities (b)	$642	$3		$2,071	$37		$2,713	$40	
State and municipal securities (c)	—	—		9	—	(a)	9	—	(a)
Corporate debt securities (c)	—	—		1	—	(a)	1	—	(a)
Equity and other non-debt securities (c)	70	1		—	—		70	1	
Total temporarily impaired securities	$712	$4		$2,081	$37		$2,793	$41	
December 31, 2014									
U.S. Treasury and other U.S. government agency securities	$298	$—	(a)	$—	$—		$298	$—	(a)
Residential mortgage-backed securities (b)	626	3		3,112	71		3,738	74	
State and municipal securities (c)	—	—		22	1		22	1	
Corporate debt securities (c)	—	—		1	—	(a)	1	—	(a)
Equity and other non-debt securities (c)	—	—		112	1		112	1	
Total temporarily impaired securities	$924	$3		$3,247	$73		$4,171	$76	

(a) Unrealized losses less than $0.5 million.
(b) Residential mortgage-backed securities issued and/or guaranteed by U.S. government agencies or U.S. government-sponsored enterprises.
(c) Auction-rate securities.

At September 30, 2015, the Corporation had 123 securities in an unrealized loss position with no credit impairment, including 68 residential mortgage-backed securities, 38 auction-rate preferred securities, 16 state and municipal auction-rate securities, and one corporate auction-rate debt security. As of September 30, 2015, approximately 94 percent of the aggregate par value of auction-rate securities have been redeemed or sold since acquisition, of which approximately 91 percent were redeemed at or above cost. The unrealized losses for these securities resulted from changes in market interest rates and liquidity. The Corporation ultimately expects full collection of the carrying amount of these securities, does not intend to sell the securities in an unrealized loss position, and it is not more-likely-than-not that the Corporation will be required to sell the securities in an unrealized loss position prior to recovery of amortized cost. The Corporation does not consider these securities to be other-than-temporarily impaired at September 30, 2015.

Sales, calls and write-downs of investment securities available-for-sale resulted in the following gains and losses recorded in "net securities losses" on the consolidated statements of comprehensive income, computed based on the adjusted cost of the specific security.

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in millions)	2015	2014	2015	2014
Securities gains	$—	$—	$—	$1
Securities losses	—	(1)	(2)	(1)
Net securities losses	$—	$(1)	$(2)	$—

The following table summarizes the amortized cost and fair values of debt securities by contractual maturity. Securities with multiple maturity dates are classified in the period of final maturity. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

(in millions)	Available-for-sale		Held-to-maturity	
September 30, 2015	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Contractual maturity				
Within one year	$74	$74	$—	$—
After one year through five years	1,123	1,136	—	—
After five years through ten years	929	976	—	—
After ten years	6,290	6,357	1,863	1,872
Subtotal	8,416	8,543	1,863	1,872
Equity and other non-debt securities	206	206		
Total investment securities	$8,622	$8,749	$1,863	$1,872

Included in the contractual maturity distribution in the table above were residential mortgage-backed securities available-for-sale with total amortized cost and fair value of $7.4 billion and $7.6 billion, respectively, and residential mortgage-backed securities held-to-maturity with a total amortized cost and fair value of $1.9 billion. The actual cash flows of mortgage-backed securities may differ from contractual maturity as the borrowers of the underlying loans may exercise prepayment options.

At September 30, 2015, investment securities with a carrying value of $2.9 billion were pledged where permitted or required by law to secure $2.1 billion of liabilities, primarily public and other deposits of state and local government agencies and derivative instruments.

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NOTE 4 – CREDIT QUALITY AND ALLOWANCE FOR CREDIT LOSSES
The following table presents an aging analysis of the recorded balance of loans.

	Loans Past Due and Still Accruing						
(in millions)	30-59 Days	60-89 Days	90 Days or More	Total	Nonaccrual Loans	Current Loans	Total Loans
September 30, 2015							
Business loans:							
Commercial	$83	$8	$2	$93	$214	$31,470	$31,777
Real estate construction:							
Commercial Real Estate business line (a)	4	—	—	4	—	1,558	1,562
Other business lines (b)	1	—	—	1	1	310	312
Total real estate construction	5	—	—	5	1	1,868	1,874
Commercial mortgage:							
Commercial Real Estate business line (a)	21	—	—	21	17	1,964	2,002
Other business lines (b)	13	3	2	18	49	6,718	6,785
Total commercial mortgage	34	3	2	39	66	8,682	8,787
Lease financing	—	—	—	—	8	743	751
International	3	—	1	4	8	1,370	1,382
Total business loans	125	11	5	141	297	44,133	44,571
Retail loans:							
Residential mortgage	12	1	—	13	31	1,836	1,880
Consumer:							
Home equity	5	1	—	6	28	1,680	1,714
Other consumer	2	—	—	2	1	774	777
Total consumer	7	1	—	8	29	2,454	2,491
Total retail loans	19	2	—	21	60	4,290	4,371
Total loans	$144	$13	$5	$162	$357	$48,423	$48,942
December 31, 2014							
Business loans:							
Commercial	$58	$13	$1	$72	$109	$31,339	$31,520
Real estate construction:							
Commercial Real Estate business line (a)	3	—	—	3	1	1,602	1,606
Other business lines (b)	12	—	—	12	1	336	349
Total real estate construction	15	—	—	15	2	1,938	1,955
Commercial mortgage:							
Commercial Real Estate business line (a)	8	1	1	10	22	1,758	1,790
Other business lines (b)	16	12	2	30	73	6,711	6,814
Total commercial mortgage	24	13	3	40	95	8,469	8,604
Lease financing	—	—	—	—	—	805	805
International	9	—	—	9	—	1,487	1,496
Total business loans	106	26	4	136	206	44,038	44,380
Retail loans:							
Residential mortgage	9	2	—	11	36	1,784	1,831

Consumer:							
Home equity	5	3	—	8	30	1,620	1,658
Other consumer	12	—	1	13	1	710	724
Total consumer	17	3	1	21	31	2,330	2,382
Total retail loans	26	5	1	32	67	4,114	4,213
Total loans	$132	$31	$5	$168	$273	$48,152	$48,593

(a) Primarily loans to real estate developers.

(b) Primarily loans secured by owner-occupied real estate.

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The following table presents loans by credit quality indicator, based on internal risk ratings assigned to each business loan at the time of approval and subjected to subsequent reviews, generally at least annually, and to pools of retail loans with similar risk characteristics.

	Internally Assigned Rating				
(in millions)	Pass (a)	Special Mention (b)	Substandard (c)	Nonaccrual (d)	Total
September 30, 2015					
Business loans:					
Commercial	$29,571	$1,035	$ 957	$ 214	$31,777
Real estate construction:					
Commercial Real Estate business line (e)	1,554	—	8	—	1,562
Other business lines (f)	303	—	8	1	312
Total real estate construction	1,857	—	16	1	1,874
Commercial mortgage:					
Commercial Real Estate business line (e)	1,920	33	32	17	2,002
Other business lines (f)	6,441	160	135	49	6,785
Total commercial mortgage	8,361	193	167	66	8,787
Lease financing	719	16	8	8	751
International	1,281	69	24	8	1,382
Total business loans	41,789	1,313	1,172	297	44,571
Retail loans:					
Residential mortgage	1,816	1	32	31	1,880
Consumer:					
Home equity	1,682	1	3	28	1,714
Other consumer	757	9	10	1	777
Total consumer	2,439	10	13	29	2,491
Total retail loans	4,255	11	45	60	4,371
Total loans	$46,044	$1,324	$ 1,217	$ 357	$48,942
December 31, 2014					
Business loans:					
Commercial	$30,310	$560	$ 541	$ 109	$31,520
Real estate construction:					
Commercial Real Estate business line (e)	1,594	11	—	1	1,606
Other business lines (f)	336	7	5	1	349
Total real estate construction	1,930	18	5	2	1,955
Commercial mortgage:					
Commercial Real Estate business line (e)	1,652	69	47	22	1,790
Other business lines (f)	6,434	138	169	73	6,814
Total commercial mortgage	8,086	207	216	95	8,604
Lease financing	778	26	1	—	805
International	1,468	15	13	—	1,496
Total business loans	42,572	826	776	206	44,380
Retail loans:					
Residential mortgage	1,790	2	3	36	1,831
Consumer:					
Home equity	1,620	—	8	30	1,658
Other consumer	718	3	2	1	724

Total consumer	2,338	3	10	31	2,382
Total retail loans	4,128	5	13	67	4,213
Total loans	$46,700	$831	$ 789	$ 273	$48,593

(a) Includes all loans not included in the categories of special mention, substandard or nonaccrual.

(b) Special mention loans are accruing loans that have potential credit weaknesses that deserve management’s close attention, such as loans to borrowers who may be experiencing financial difficulties that may result in deterioration of repayment prospects from the borrower at some future date.

(c) Substandard loans are accruing loans that have a well-defined weakness, or weaknesses, such as loans to borrowers who may be experiencing losses from operations or inadequate liquidity of a degree and duration that jeopardizes the orderly repayment of the loan. Substandard loans also are distinguished by the distinct possibility of loss in the future if these weaknesses are not corrected. This category is generally consistent with the "substandard" category as defined by regulatory authorities.

(d) Nonaccrual loans are loans for which the accrual of interest has been discontinued. For further information regarding nonaccrual loans, refer to the Nonperforming Assets subheading in Note 1 - Basis of Presentation and Accounting Policies - on page F-55 in the Corporation's 2014 Annual Report. A significant majority of nonaccrual loans are generally consistent with the "substandard" category and the remainder are generally consistent with the "doubtful" category as defined by regulatory authorities.

(e) Primarily loans to real estate developers.

(f) Primarily loans secured by owner-occupied real estate.

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The following table summarizes nonperforming assets.

(in millions)	September 30, 2015	December 31, 2014
Nonaccrual loans	$357	$273
Reduced-rate loans (a)	12	17
Total nonperforming loans	369	290
Foreclosed property (b)	12	10
Total nonperforming assets	$381	$300

(a) Reduced-rate business loans were zero at both September 30, 2015 and December 31, 2014, and reduced-rate retail loans were $12 million and $17 million at September 30, 2015 and December 31, 2014, respectively.
(b) Foreclosed residential real estate properties.

Nonaccrual loans included retail loans secured by residential real estate properties in process of foreclosure of $1 million at September 30, 2015.

Allowance for Credit Losses

The following table details the changes in the allowance for loan losses and related loan amounts.

(in millions)	2015 Business Loans	Retail Loans	Total	2014 Business Loans	Retail Loans	Total
Three Months Ended September 30						
Allowance for loan losses:						
Balance at beginning of period	$563	$55	$618	$528	$63	$591
Loan charge-offs	(31)	(3)	(34)	(20)	(4)	(24)
Recoveries on loans previously charged-off	10	1	11	19	2	21
Net loan charge-offs	(21)	(2)	(23)	(1)	(2)	(3)
Provision for loan losses	25	3	28	2	2	4
Foreign currency translation adjustment	(1)	—	(1)	—	—	—
Balance at end of period	$566	$56	$622	$529	$63	$592
Nine Months Ended September 30						
Allowance for loan losses:						
Balance at beginning of period	$534	$60	$594	$531	$67	$598
Loan charge-offs	(83)	(9)	(92)	(71)	(11)	(82)
Recoveries on loans previously charged-off	38	5	43	50	8	58
Net loan charge-offs	(45)	(4)	(49)	(21)	(3)	(24)
Provision for loan losses	79	—	79	19	(1)	18
Foreign currency translation adjustment	(2)	—	(2)	—	—	—
Balance at end of period	$566	$56	$622	$529	$63	$592
As a percentage of total loans	1.27%	1.29%	1.27%	1.21%	1.52%	1.24%
September 30						
Allowance for loan losses:						

Individually evaluated for impairment	$47	$—	$47	$40	$—	$40
Collectively evaluated for impairment	519	56	575	489	63	552
Total allowance for loan losses	$566	$56	$622	$529	$63	$592
Loans:						
Individually evaluated for impairment	$338	$51	$389	$204	$44	$248
Collectively evaluated for impairment	44,233	4,318	48,551	43,384	4,073	47,457
Purchased credit impaired (PCI) loans	—	2	2	—	3	3
Total loans evaluated for impairment	$44,571	$4,371	$48,942	$43,588	$4,120	$47,708

Changes in the allowance for credit losses on lending-related commitments, included in "accrued expenses and other liabilities" on the consolidated balance sheets, are summarized in the following table.

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in millions)	2015	2014	2015	2014
Balance at beginning of period	$50	$42	$41	$36
Charge-offs on lending related commitments (a)	—	—	(1)	—
Provision for credit losses on lending-related commitments	(2)	1	8	7
Balance at end of period	$48	$43	$48	$43

(a) Charge-offs result from the sale of unfunded lending-related commitments.

Individually Evaluated Impaired Loans

The following table presents additional information regarding individually evaluated impaired loans.

(in millions)	Recorded Investment In: Impaired Loans with No Related Allowance	Impaired Loans with Related Allowance	Total Impaired Loans	Unpaid Principal Balance	Related Allowance for Loan Losses
September 30, 2015					
Business loans:					
Commercial	$60	$216	$276	$327	$37
Real estate construction:					
Other business lines (a)	—	1	1	1	—
Commercial mortgage:					
Commercial Real Estate business line (b)	7	8	15	38	2
Other business lines (a)	6	30	36	52	5
Total commercial mortgage	13	38	51	90	7
International	—	10	10	17	3
Total business loans	73	265	338	435	47
Retail loans:					
Residential mortgage	31	—	31	32	—
Consumer:					
Home equity	12	—	12	16	—
Other consumer	8	—	8	11	—
Total consumer	20	—	20	27	—
Total retail loans (c)	51	—	51	59	—
Total individually evaluated impaired loans	$124	$265	$389	$494	$47
December 31, 2014					
Business loans:					
Commercial	$7	$103	$110	$148	$29
Real estate construction:					
Other business lines (a)	—	1	1	1	—
Commercial mortgage:					
Commercial Real Estate business line (b)	—	19	19	41	8
Other business lines (a)	4	43	47	63	2
Total commercial mortgage	4	62	66	104	10
Total business loans	11	166	177	253	39
Retail loans:					
Residential mortgage	25	—	25	28	—
Consumer:					
Home equity	12	—	12	16	—
Other consumer	5	—	5	7	—
Total consumer	17	—	17	23	—
Total retail loans (c)	42	—	42	51	—
Total individually evaluated impaired loans	$53	$166	$219	$304	$39

(a) Primarily loans secured by owner-occupied real estate.

(b) Primarily loans to real estate developers.

(c) Individually evaluated retail loans had no related allowance for loan losses, primarily due to policy changes which resulted in direct write-downs of restructured retail loans.

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The following table presents information regarding average individually evaluated impaired loans and the related interest recognized. Interest income recognized for the period primarily related to performing restructured loans.

	Individually Evaluated Impaired Loans			
	2015		2014	
(in millions)	Average Balance for the Period	Interest Income Recognized for the Period	Average Balance for the Period	Interest Income Recognized for the Period
Three Months Ended September 30				
Business loans:				
Commercial	$236	$1	$74	$1
Real estate construction:				
Commercial Real Estate business line (a)	—	—	16	—
Commercial mortgage:				
Commercial Real Estate business line (a)	15	—	49	—
Other business lines (b)	37	1	70	—
Total commercial mortgage	52	1	119	—
International	10	—	1	—
Total business loans	298	2	210	1
Retail loans:				
Residential mortgage	23	—	29	—
Consumer loans:				
Home equity	12	—	11	—
Other consumer	7	—	4	—
Total consumer	19	—	15	—
Total retail loans	42	—	44	—
Total individually evaluated impaired loans	$340	$2	$254	$1
Nine Months Ended September 30				
Business loans:				
Commercial	$172	$3	$68	$1
Real estate construction:				
Commercial Real Estate business line (a)	—	—	17	—
Other business lines (b)	—	—	1	—
Total real estate construction	—	—	18	—
Commercial mortgage:				
Commercial Real Estate business line (a)	17	—	56	—
Other business lines (b)	41	1	68	2
Total commercial mortgage	58	1	124	2
International	5	—	2	—
Total business loans	235	4	212	3
Retail loans:				
Residential mortgage	23	—	31	—
Consumer:				
Home equity	12	—	12	—
Other consumer	6	—	4	—
Total consumer	18	—	16	—
Total retail loans	41	—	47	—

Total individually evaluated impaired loans	$276	$4	$259	$3

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

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Troubled Debt Restructurings
The following tables detail the recorded balance at September 30, 2015 and 2014 of loans considered to be TDRs that were restructured during the three- and nine-month periods ended September 30, 2015 and 2014, by type of modification. In cases of loans with more than one type of modification, the loans were categorized based on the most significant modification.

(in millions)	2015 Type of Modification Principal Deferrals (a)	2015 Interest Rate Reductions	2015 Total Modifications	2014 Type of Modification Principal Deferrals (a)	2014 Interest Rate Reductions	2014 Total Modifications
Three Months Ended September 30						
Business loans:						
Commercial	$100	$—	$ 100	$2	$—	$ 2
Commercial mortgage:						
Commercial Real Estate business line (b)	7	—	7	—	—	—
Other business lines (c)	3	—	3	6	—	6
Total commercial mortgage	10	—	10	6	—	6
International	2	—	2	—	—	—
Total business loans	112	—	112	8	—	8
Retail loans:						
Residential mortgage	18	—	18	—	—	—
Consumer:						
Home equity	1	1	2	1	—	1
Total retail loans	19	1	20	1	—	1
Total loans	$131	$1	$ 132	$9	$—	$ 9
Nine Months Ended September 30						
Business loans:						
Commercial	$102	$—	$ 102	$3	$—	$ 3
Commercial mortgage:						
Commercial Real Estate business line (b)	9	—	9	—	—	—
Other business lines (c)	7	—	7	10	—	10
Total commercial mortgage	16	—	16	10	—	10
International	2	—	2	1	—	1
Total business loans	120	—	120	14	—	14
Retail loans:						
Residential mortgage	18	—	18	—	—	—
Consumer:						
Home equity	1	1	2	1	2	3
Total retail loans	19	1	20	1	2	3
Total loans	$139	$1	$ 140	$15	$2	$ 17

(a) Primarily represents loan balances where terms were extended 90 days or more at or above contractual interest rates.
(b) Primarily loans to real estate developers.
(c) Primarily loans secured by owner-occupied real estate.

Commitments to lend additional funds to borrowers whose terms have been modified in TDRs were $1 million at September 30, 2015 and $3 million at December 31, 2014.

The majority of the modifications considered to be TDRs that occurred during the nine months ended September 30, 2015 and 2014 were principal deferrals. The Corporation charges interest on principal balances outstanding during deferral periods. Additionally, none of the modifications involved forgiveness of principal. As a result, the current and future financial effects of the recorded balance of loans considered to be TDRs that were restructured during the nine months ended September 30, 2015 and 2014 were insignificant.

On an ongoing basis, the Corporation monitors the performance of modified loans to their restructured terms. In the event of a subsequent default, the allowance for loan losses continues to be reassessed on the basis of an individual evaluation of the loan.

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The following table presents information regarding the recorded balance at September 30, 2015 and 2014 of loans modified by principal deferral during the twelve-month periods ended September 30, 2015 and 2014, and those principal deferrals which experienced a subsequent default during the three- and nine-month periods ended September 30, 2015 and 2014. For principal deferrals, incremental deterioration in the credit quality of the loan, represented by a downgrade in the risk rating of the loan, for example, due to missed interest payments or a reduction of collateral value, is considered a subsequent default.

	2015				2014			
(in millions)	Balance at September 30		Subsequent Default in the Three Months Ended September 30	Subsequent Default in the Nine Months Ended September 30	Balance at September 30		Subsequent Default in the Three Months Ended September 30	Subsequent Default in the Nine Months Ended September 30
Principal deferrals:								
Business loans:								
Commercial	$108		$1	$3	$13		$6	$9
Commercial mortgage:								
Commercial Real Estate business line (a)	9		—	—	4		—	—
Other business lines (b)	7		—	1	10		4	4
Total commercial mortgage	16		—	1	14		4	4
International	2		—	—	1		—	—
Total business loans	126		1	4	28		10	13
Retail loans:								
Residential mortgage	18	(c)	—	—	2	(c)	—	—
Consumer:								
Home equity	1	(c)	—	—	2	(c)	—	—
Total retail loans	19		—	—	4		—	—
Total principal deferrals	$145		$1	$4	$32		$10	$13

(a) Primarily loans to real estate developers.
(b) Primarily loans secured by owner-occupied real estate.
(c) Includes bankruptcy loans for which the court has discharged the borrower's obligation and the borrower has not reaffirmed the debt.

During the twelve-month periods ended September 30, 2015 and 2014, loans with a carrying value of $2 million and $3 million, respectively, were modified by interest rate reduction. For reduced-rate loans a subsequent payment default is defined in terms of delinquency, when a principal or interest payment is 90 days past due. There were no subsequent payment defaults of reduced-rate loans during the three- and nine-month periods ended September 30, 2015 and 2014.

Purchased Credit-Impaired Loans

Acquired loans are initially recorded at fair value with no carryover of any allowance for loan losses. Loans acquired with evidence of credit quality deterioration at acquisition for which it was probable that the Corporation would not be able to collect all contractual amounts due were accounted for as PCI loans. The Corporation aggregated the acquired PCI loans into pools of loans based on common risk characteristics.

No allowance for loan losses was required on the acquired PCI loan pools at both September 30, 2015 and December 31, 2014. The carrying amount of acquired PCI loans included in the consolidated balance sheet and the related outstanding balance at September 30, 2015 and December 31, 2014 were as follows.

(in millions)	September 30, 2015	December 31, 2014

Acquired PCI loans:		
Carrying amount	$2	$2
Outstanding balance (principal and unpaid interest)	6	8

Changes in the accretable yield for acquired PCI loans for the three- and nine-month periods ended September 30, 2015 and 2014 were as follows.

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in millions)	2015	2014	2015	2014
Balance at beginning of period	$1	$6	$1	$15
Reclassifications from nonaccretable	1	1	2	10
Accretion	(1)	(1)	(2)	(19)
Balance at end of period	$1	$6	$1	$6

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NOTE 5 - DERIVATIVE AND CREDIT-RELATED FINANCIAL INSTRUMENTS

In the normal course of business, the Corporation enters into various transactions involving derivative and credit-related financial instruments to manage exposure to fluctuations in interest rate, foreign currency and other market risks and to meet the financing needs of customers (customer-initiated derivatives). These financial instruments involve, to varying degrees, elements of market and credit risk. Market and credit risk are included in the determination of fair value.

Market risk is the potential loss that may result from movements in interest rates, foreign currency exchange rates or energy commodity prices that cause an unfavorable change in the value of a financial instrument. The Corporation manages this risk by establishing monetary exposure limits and monitoring compliance with those limits. Market risk inherent in interest rate and energy contracts entered into on behalf of customers is mitigated by taking offsetting positions, except in those circumstances when the amount, tenor and/or contract rate level results in negligible economic risk, whereby the cost of purchasing an offsetting contract is not economically justifiable. The Corporation mitigates most of the inherent market risk in foreign exchange contracts entered into on behalf of customers by taking offsetting positions and manages the remainder through individual foreign currency position limits and aggregate value-at-risk limits. These limits are established annually and reviewed quarterly. Market risk inherent in derivative instruments held or issued for risk management purposes is typically offset by changes in the fair value of the assets or liabilities being hedged.

Credit risk is the possible loss that may occur in the event of nonperformance by the counterparty to a financial instrument. The Corporation attempts to minimize credit risk arising from customer-initiated derivatives by evaluating the creditworthiness of each customer, adhering to the same credit approval process used for traditional lending activities and obtaining collateral as deemed necessary. Derivatives with dealer counterparties are either cleared through a clearinghouse or settled directly with a single counterparty. For derivatives settled directly with dealer counterparties, the Corporation utilizes counterparty risk limits and monitoring procedures as well as master netting arrangements and bilateral collateral agreements to facilitate the management of credit risk. Master netting arrangements effectively reduce credit risk by permitting settlement of positive and negative positions and offset cash collateral held with the same counterparty on a net basis. Bilateral collateral agreements require daily exchange of cash or highly rated securities issued by the U.S. Treasury or other U.S. government entities to collateralize amounts due to either party beyond certain risk limits. At September 30, 2015, counterparties with bilateral collateral agreements had pledged $143 million of marketable investment securities and deposited $342 million of cash with the Corporation to secure the fair value of contracts in an unrealized gain position, and the Corporation had pledged $12 million of marketable investment securities and posted $6 million of cash as collateral for contracts in an unrealized loss position. For those counterparties not covered under bilateral collateral agreements, collateral is obtained, if deemed necessary, based on the results of management’s credit evaluation of the counterparty. Collateral varies, but may include cash, investment securities, accounts receivable, equipment or real estate. Included in the fair value of derivative instruments are credit valuation adjustments reflecting counterparty credit risk. These adjustments are determined by applying a credit spread for the counterparty or the Corporation, as appropriate, to the total expected exposure of the derivative.

The aggregate fair value of all derivative instruments with credit-risk-related contingent features that were in a liability position at September 30, 2015 was $5 million, for which the Corporation had pledged collateral of $1 million. The credit-risk-related contingent features require the Corporation's debt to maintain an investment grade credit rating from each of the major credit rating agencies. If the Corporation's debt were to fall below investment grade, the counterparties to the derivative instruments could require additional overnight collateral on derivative instruments in net liability positions. If the credit-risk-related contingent features underlying these agreements had been triggered on September 30, 2015, the Corporation would have been required to assign an additional $4 million of collateral to its counterparties.

Derivative Instruments

Derivative instruments utilized by the Corporation are negotiated over-the-counter and primarily include swaps, caps and floors, forward contracts and options, each of which may relate to interest rates, energy commodity prices or foreign currency exchange rates. Swaps are agreements in which two parties periodically exchange cash payments based on specified indices applied to a specified notional amount until a stated maturity. Caps and floors are agreements which entitle the buyer to receive cash payments based on the difference between a specified reference rate or price and an agreed strike rate or price, applied to a specified notional amount until a stated maturity. Forward contracts are over-the-counter agreements to buy or sell an asset at a specified future date and price. Options are similar to forward contracts except the purchaser has the right, but not the obligation, to buy or sell the asset during a specified period or at a specified future date.

Over-the-counter contracts are tailored to meet the needs of the counterparties involved and, therefore, contain a greater degree of credit risk and liquidity risk than exchange-traded contracts, which have standardized terms and readily available price information. The Corporation reduces exposure to market and liquidity risks from over-the-counter derivative instruments entered into for risk management purposes, and transactions entered into to mitigate the market risk associated with customer-initiated transactions, by conducting hedging transactions with investment grade domestic and foreign financial institutions and subjecting counterparties to credit approvals, limits and collateral monitoring procedures similar to those used in making other extensions of credit. In addition, certain derivative contracts executed bilaterally with a dealer counterparty in the over-the-counter market are cleared through a clearinghouse, whereby the clearinghouse becomes the counterparty to the transaction.

The following table presents the composition of the Corporation's derivative instruments held or issued for risk management purposes or in connection with customer-initiated and other activities at September 30, 2015 and December 31, 2014. The table excludes commitments, warrants accounted for as derivatives and a derivative related to the Corporation's 2008 sale of its remaining ownership of Visa shares.

	September 30, 2015			December 31, 2014		
		Fair Value			Fair Value	
(in millions)	Notional/ Contract Amount (a)	Gross Derivative Assets	Gross Derivative Liabilities	Notional/ Contract Amount (a)	Gross Derivative Assets	Gross Derivative Liabilities
Risk management purposes						
Derivatives designated as hedging instruments						
Interest rate contracts:						
Swaps - fair value - receive fixed/pay floating	$2,525	$186	$—	$1,800	$175	$—
Derivatives used as economic hedges						
Foreign exchange contracts:						
Spot, forwards and swaps	632	1	1	508	4	—
Total risk management purposes	3,157	187	1	2,308	179	—
Customer-initiated and other activities						
Interest rate contracts:						
Caps and floors written	270	—	—	274	—	—
Caps and floors purchased	270	—	—	274	—	—
Swaps	12,073	189	140	11,780	153	102
Total interest rate contracts	12,613	189	140	12,328	153	102
Energy contracts:						
Caps and floors written	714	—	101	1,218	—	173
Caps and floors purchased	714	101	—	1,218	173	—
Swaps	2,130	358	355	2,496	354	352
Total energy contracts	3,558	459	456	4,932	527	525
Foreign exchange contracts:						
Spot, forwards, options and swaps	2,028	50	43	1,994	35	34
Total customer-initiated and other activities	18,199	698	639	19,254	715	661
Total gross derivatives	$21,356	885	640	$21,562	894	661
Amounts offset in the consolidated balance sheets:						
Netting adjustment - Offsetting derivative assets/liabilities		(123)	(123)		(133)	(133)
Netting adjustment - Cash collateral received/posted		(282)	(6)		(262)	—
Net derivatives included in the consolidated balance sheets (b)		480	511		499	528

Amounts not offset in the consolidated balance sheets:				
Marketable securities pledged under bilateral collateral agreements	(141)	(12)	(239)	(2)
Net derivatives after deducting amounts not offset in the consolidated balance sheets	$339	$499	$260	$526

(a) Notional or contractual amounts, which represent the extent of involvement in the derivatives market, are used to determine the contractual cash flows required in accordance with the terms of the agreement. These amounts are typically not exchanged, significantly exceed amounts subject to credit or market risk and are not reflected in the consolidated balance sheets.

(b) Net derivative assets are included in “accrued income and other assets” and net derivative liabilities are included in “accrued expenses and other liabilities” on the consolidated balance sheets. Included in the fair value of net derivative assets and net derivative liabilities are credit valuation adjustments reflecting counterparty credit risk and credit risk of the Corporation. The fair value of net derivative assets included credit valuation adjustments for counterparty credit risk of $5 million and $2 million at September 30, 2015 and December 31, 2014, respectively.

Risk Management

As an end-user, the Corporation employs a variety of financial instruments for risk management purposes, including cash instruments, such as investment securities, as well as derivative instruments. Activity related to these instruments is centered predominantly in the interest rate markets and mainly involves interest rate swaps. Various other types of instruments also may be used to manage exposures to market risks, including interest rate caps and floors, total return swaps, foreign exchange forward contracts and foreign exchange swap agreements.

The Corporation entered into interest rate swap agreements for interest rate risk management purposes. These interest rate swap agreements effectively modify the Corporation's exposure to interest rate risk by converting fixed-rate debt to a floating rate. These agreements involve the receipt of fixed-rate interest amounts in exchange for floating-rate interest payments over the life of the agreement, without an exchange of the underlying principal amount. Risk management fair value interest rate swaps generated net interest income of $18 million for both the three-month periods ended September 30, 2015 and 2014, and $52 million and $54 million for the nine months ended September 30, 2015 and 2014, respectively. The Corporation recognized $3 million of net gains and $1 million of net losses for the three months ended September 30, 2015 and 2014, respectively, and $2 million of net gains and $1 million of net losses for the nine months ended September 30, 2015 and 2014, respectively, for the ineffective portion of risk management derivative instruments designated as fair value hedges of fixed-rate debt, included in "other noninterest income" in the consolidated statements of comprehensive income.

Foreign exchange rate risk arises from changes in the value of certain assets and liabilities denominated in foreign currencies. The Corporation employs spot and forward contracts in addition to swap contracts to manage exposure to these and other risks. The Corporation recognized $1 million of net gains for both the three- and nine-month periods ended September 30, 2015 and an insignificant amount of net gains for the three- and nine-month periods ended September 30, 2014 on risk management derivative instruments used as economic hedges, included in "other noninterest income" in the consolidated statements of comprehensive income. The following table summarizes the expected weighted average remaining maturity of the notional amount of risk management interest rate swaps and the weighted average interest rates associated with amounts expected to be received or paid on interest rate swap agreements as of September 30, 2015 and December 31, 2014.

(dollar amounts in millions)	Notional Amount	Weighted Average Remaining Maturity (in years)	Receive Rate		Pay Rate (a)	
September 30, 2015						
Swaps - fair value - receive fixed/pay floating rate						
Medium- and long-term debt designation	$2,525	5.3	3.89	%	1.00	%
December 31, 2014						
Swaps - fair value - receive fixed/pay floating rate						
Medium- and long-term debt designation	1,800	4.6	4.54		0.49	

(a) Variable rates paid on receive fixed swaps are based on six-month LIBOR rates in effect at September 30, 2015 and December 31, 2014.

Management believes these hedging strategies achieve the desired relationship between the rate maturities of assets and funding sources which, in turn, reduce the overall exposure of net interest income to interest rate risk, although there can be no assurance that such strategies will be successful.

Customer-Initiated and Other

The Corporation enters into derivative transactions at the request of customers and generally takes offsetting positions with dealer counterparties to mitigate the inherent market risk. Income primarily results from the spread between the customer derivative and the offsetting dealer position.

For customer-initiated foreign exchange contracts where offsetting positions have not been taken, the Corporation manages the remaining inherent market risk through individual foreign currency position limits and aggregate value-at-risk limits. These limits are established annually and reviewed quarterly. For those customer-initiated derivative contracts which were not offset or where the Corporation holds a position within the limits described above, the Corporation recognized no net gains and $1 million of net gains in “other noninterest income” in the consolidated statements of comprehensive income for the three- and nine-month periods ended September 30, 2015, respectively, and $1 million of net gains for both the three- and nine-month periods ended September 30, 2014.

Fair values of customer-initiated and other derivative instruments represent the net unrealized gains or losses on such contracts and are recorded in the consolidated balance sheets. Changes in fair value are recognized in the consolidated statements of comprehensive income. The net gains recognized in income on customer-initiated derivative instruments, net of the impact of offsetting positions, were as follows.

		Three Months Ended September 30,		Nine Months Ended September 30,	
(in millions)	Location of Gain	2015	2014	2015	2014
Interest rate contracts	Other noninterest income	$4	$3	$11	$11
Energy contracts	Other noninterest income	1	1	2	1
Foreign exchange contracts	Foreign exchange income	9	9	27	29
Total		$14	$13	$40	$41

Credit-Related Financial Instruments

The Corporation issues off-balance sheet financial instruments in connection with commercial and consumer lending activities. The Corporation's credit risk associated with these instruments is represented by the contractual amounts indicated in the following table.

(in millions)	September 30, 2015	December 31, 2014
Unused commitments to extend credit:		
Commercial and other	$26,887	$27,905
Bankcard, revolving check credit and home equity loan commitments	2,376	2,151
Total unused commitments to extend credit	$29,263	$30,056
Standby letters of credit	$3,993	$3,880
Commercial letters of credit	59	75
Other credit-related financial instruments	1	1

The Corporation maintains an allowance to cover probable credit losses inherent in lending-related commitments, including unused commitments to extend credit, letters of credit and financial guarantees. At September 30, 2015 and December 31, 2014, the allowance for credit losses on lending-related commitments, included in "accrued expenses and other liabilities" on the consolidated balance sheets, was $48 million and $41 million, respectively.

Unused Commitments to Extend Credit

Commitments to extend credit are legally binding agreements to lend to a customer, provided there is no violation of any condition established in the contract. These commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many commitments expire without being drawn upon, the total contractual amount of commitments does not necessarily represent future cash requirements of the Corporation. Commercial and other unused commitments are primarily variable rate commitments. The allowance for credit losses on lending-related commitments included $34 million and $30 million at September 30, 2015 and December 31, 2014, respectively, for probable credit losses inherent in the Corporation's unused commitments to extend credit.

Standby and Commercial Letters of Credit

Standby letters of credit represent conditional obligations of the Corporation which guarantee the performance of a customer to a third party. Standby letters of credit are primarily issued to support public and private borrowing arrangements, including commercial paper, bond financing and similar transactions. Commercial letters of credit are issued to finance foreign or domestic trade transactions. These contracts expire in decreasing amounts through the year 2022. The Corporation may enter into participation arrangements with third parties that effectively reduce the maximum amount of future payments which may be required under standby and commercial letters of credit. These risk participations covered $295 million and $316 million, respectively, of the $4.1 billion and $4.0 billion standby and commercial letters of credit outstanding at September 30, 2015 and December 31, 2014, respectively.

The carrying value of the Corporation's standby and commercial letters of credit, included in "accrued expenses and other liabilities" on the consolidated balance sheets, totaled $54 million at September 30, 2015, including $40 million in deferred fees and $14 million in the allowance for credit losses on lending-related commitments. At December 31, 2014, the comparable amounts were $55 million, $44 million and $11 million, respectively.

The following table presents a summary of criticized standby and commercial letters of credit at September 30, 2015 and December 31, 2014. The Corporation's criticized list is generally consistent with the Special mention, Substandard and Doubtful categories defined by regulatory authorities. The Corporation manages credit risk through underwriting, periodically reviewing and approving its credit exposures using Board committee approved credit policies and guidelines.

(dollar amounts in millions)	September 30, 2015		December 31, 2014	
Total criticized standby and commercial letters of credit	$104		$79	
As a percentage of total outstanding standby and commercial letters of credit	2.6	%	2.0	%

Other Credit-Related Financial Instruments

The Corporation enters into credit risk participation agreements, under which the Corporation assumes credit exposure associated with a borrower's performance related to certain interest rate derivative contracts. The Corporation is not a party to the interest rate derivative contracts and only enters into these credit risk participation agreements in instances in which the Corporation is also a party to the related loan participation agreement for such borrowers. The Corporation manages its credit risk on the credit risk participation agreements by monitoring the creditworthiness of the borrowers, which is based on the normal credit review process had it entered into the derivative instruments directly with the borrower. The notional amount of such credit risk participation agreement reflects the pro-rata share of the derivative instrument, consistent with its share of the related participated loan. As of September 30, 2015 and December 31, 2014, the total notional amount of the credit risk participation agreements was approximately $653 million and $598 million, respectively, and the fair value, included in customer-initiated interest rate contracts recorded in "accrued expenses and other liabilities" on the consolidated balance sheets, was insignificant at both September 30, 2015 and December 31, 2014. The maximum estimated exposure to these agreements, as measured by projecting a maximum value of the guaranteed derivative instruments, assuming 100 percent default by all obligors on the maximum values, was approximately $12 million and $7 million at September 30, 2015 and December 31, 2014, respectively. In the event of default, the lead bank has the ability to liquidate the assets of the borrower, in which case the lead bank would be required to return a percentage of the recouped assets to the participating banks. As of September 30, 2015, the weighted average remaining maturity of outstanding credit risk participation agreements was 2.4 years.

In 2008, the Corporation sold its remaining ownership of Visa Class B shares and entered into a derivative contract. Under the terms of the derivative contract, the Corporation will compensate the counterparty primarily for dilutive adjustments made to the conversion factor of the Visa Class B shares to Class A shares based on the ultimate outcome of litigation involving Visa. Conversely, the Corporation will be compensated by the counterparty for any increase in the conversion factor from anti-dilutive adjustments. The notional amount of the derivative contract was equivalent to approximately 780,000 Visa Class B shares. The fair value of the derivative liability, included in "accrued expenses and other liabilities" on the consolidated balance sheets, was $1 million at both September 30, 2015 and December 31, 2014.

NOTE 6 - VARIABLE INTEREST ENTITIES (VIEs)

The Corporation evaluates its interest in certain entities to determine if these entities meet the definition of a VIE and whether the Corporation is the primary beneficiary and should consolidate the entity based on the variable interests it held both at inception and when there is a change in circumstances that requires a reconsideration.

The Corporation holds ownership interests in funds in the form of limited partnerships or limited liability companies (LLCs) investing in affordable housing projects that qualify for the low-income housing tax credit (LIHTC). The Corporation also directly invests in limited partnerships and LLCs which invest in community development projects which generate similar tax credits to investors. As an investor, the Corporation obtains income tax credits and deductions from the operating losses of these tax credit entities. These tax credit entities meet the definition of a VIE; however, the Corporation is not the primary beneficiary of the entities, as the general partner or the managing member has both the power to direct the activities that most significantly impact the economic performance of the entities and the obligation to absorb losses or the right to receive benefits that could be significant to the entities. While the partnership/LLC agreements allow the limited partners/investor members, through a majority vote, to remove the general partner/managing member, this right is not deemed to be substantive as the general partner/managing member can only be removed for cause.

The Corporation accounts for its interests in LIHTC entities using the proportional amortization method. Exposure to loss as a result of the Corporation’s involvement with LIHTC entities at September 30, 2015 was limited to approximately $383 million. Ownership interests in other community development projects which generate similar tax credits to investors (other tax credit entities) are accounted for under either the cost or equity method. Exposure to loss as a result of the Corporation's involvement in other tax credit entities at September 30, 2015 was limited to approximately $10 million.

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Investment balances, including all legally binding commitments to fund future investments, are included in “accrued income and other assets” on the consolidated balance sheets. A liability is recognized in “accrued expenses and other liabilities” on the consolidated balance sheets for all legally binding unfunded commitments to fund tax credit entities ($126 million at September 30, 2015). Amortization and other write-downs of LIHTC investments are presented on a net basis as a component of the "provision for income taxes" on the consolidated statements of comprehensive income, while amortization and write-downs of other tax credit investments are recorded in “other noninterest income." The income tax credits and deductions are recorded as a reduction of income tax expense and a reduction of federal income taxes payable.

The Corporation provided no financial or other support that was not contractually required to any of the above VIEs during the nine months ended September 30, 2015 and 2014.

The following table summarizes the impact of these tax credit entities on line items on the Corporation’s consolidated statements of comprehensive income.

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in millions)	2015	2014	2015	2014
Other noninterest income:				
Amortization of other tax credit investments	$—	$(2)	$1	$(5)
Provision for income taxes:				
Amortization of LIHTC investments	15	15	45	43
Low income housing tax credits	(15)	(15)	(45)	(43)
Other tax benefits related to tax credit entities	(5)	(6)	(15)	(19)
Total provision for income taxes	$(5)	$(6)	(15)	(19)

For further information on the Corporation’s consolidation policy, see Note 1 to the consolidated financial statements in the Corporation's 2014 Annual Report.

NOTE 7 - MEDIUM- AND LONG-TERM DEBT

Medium- and long-term debt is summarized as follows:

(in millions)	September 30, 2015	December 31, 2014
Parent company		
Subordinated notes:		
4.80% subordinated notes due 2015 (a)	$—	$304
3.80% subordinated notes due 2026 (a)	264	257
Medium-term notes:		
3.00% notes due 2015	—	300
2.125% notes due 2019 (a)	354	347
Total parent company	618	1,208
Subsidiaries		
Subordinated notes:		
5.75% subordinated notes due 2016 (a) (b)	662	670
5.20% subordinated notes due 2017 (a)	538	548
4.00% subordinated notes due 2025 (a)	358	—
7.875% subordinated notes due 2026 (a)	228	227
Total subordinated notes	1,786	1,445
Medium-term notes:		
2.50% notes due 2020 (a)	680	—
Other notes:		
6.0% - 6.4% fixed-rate notes due 2020	16	22
Total subsidiaries	2,482	1,467

Total medium- and long-term debt	$3,100	$2,675

(a) The fixed interest rates on these notes have been swapped to a variable rate and designated in a hedging relationship. Accordingly, carrying value has been adjusted to reflect the change in the fair value of the debt as a result of changes in the benchmark rate.

(b) The fixed interest rate on $250 million of $600 million total par value of these notes have been swapped to a variable rate. The remaining amount is not swapped.

Subordinated notes with remaining maturities greater than one year qualify as Tier 2 capital.

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Comerica Bank, a wholly-owned subsidiary of the Corporation (the Bank), is a member of the FHLB, which provides short- and long-term funding to its members through advances collateralized by real estate-related assets. Actual borrowing capacity is contingent on the amount of collateral available to be pledged to the FHLB. At September 30, 2015, $14 billion of real estate-related loans were pledged to the FHLB as blanket collateral for potential future borrowings of approximately $6 billion.

In the second quarter 2015, the Bank issued $500 million of 2.50% medium-term notes due 2020, which were swapped to a floating rate based on six-month LIBOR. Proceeds were used for general corporate purposes.

In the third quarter 2015, the Bank issued $350 million of 4.00% subordinated notes due 2025 and $175 million of 2.50% medium-term notes due 2020, both of which were swapped to a floating rate based on six-month LIBOR. Proceeds were used for general corporate purposes.

NOTE 8 - ACCUMULATED OTHER COMPREHENSIVE LOSS

The following table presents a reconciliation of the changes in the components of accumulated other comprehensive loss and details the components of other comprehensive income (loss) for the nine months ended September 30, 2015 and 2014, including the amount of income tax expense (benefit) allocated to each component of other comprehensive income (loss).

	Nine Months Ended September 30,	
(in millions)	2015	2014
Accumulated net unrealized gains (losses) on investment securities:		
Balance at beginning of period, net of tax	$37	$(68)
Net unrealized holding gains arising during the period	44	85
Less: Provision for income taxes	16	30
Net unrealized holding gains arising during the period, net of tax	28	55
Less:		
Net realized (losses) gains included in net securities (losses) gains	(2)	1
Less: Benefit for income taxes	(1)	—
Reclassification adjustment for net securities (losses) gains included in net income, net of tax	(1)	1
Less:		
Net losses realized as a yield adjustment in interest on investment securities	(6)	—
Less: Benefit for income taxes	(2)	—
Reclassification adjustment for net losses realized as a yield adjustment included in net income, net of tax	(4)	—
Change in net unrealized gains (losses) on investment securities, net of tax	33	54
Balance at end of period, net of tax	$70	$(14)
Accumulated defined benefit pension and other postretirement plans adjustment:		
Balance at beginning of period, net of tax	$(449)	$(323)
Amortization of actuarial net loss	53	30
Amortization of prior service cost	—	1
Amounts recognized in salaries and benefits expense	53	31
Less: Provision for income taxes	19	11
Change in defined benefit pension and other postretirement plans adjustment, net of tax	34	20
Balance at end of period, net of tax	$(415)	$(303)

Total accumulated other comprehensive loss at end of period, net of tax	$(345)	$(317)

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NOTE 9 - NET INCOME PER COMMON SHARE
Basic and diluted net income per common share are presented in the following table.

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in millions, except per share data)	2015	2014	2015	2014
Basic and diluted				
Net income	$136	$154	$405	$444
Less:				
Income allocated to participating securities	2	2	5	6
Net income attributable to common shares	$134	$152	$400	$438
Basic average common shares	176	179	176	179
Basic net income per common share	$0.76	$0.85	$2.27	$2.44
Basic average common shares	176	179	176	179
Dilutive common stock equivalents:				
Net effect of the assumed exercise of stock options	2	2	2	2
Net effect of the assumed exercise of warrants	3	4	4	5
Diluted average common shares	181	185	182	186
Diluted net income per common share	$0.74	$0.82	$2.20	$2.35

The following average shares related to outstanding options to purchase shares of common stock were not included in the computation of diluted net income per common share because the options were anti-dilutive for the period.

	Three Months Ended September 30,		Nine Months Ended September 30,	
(shares in millions)	2015	2014	2015	2014
Average outstanding options	4.6	6.0	5.4	7.3
Range of exercise prices	$46.68 - $60.82	$50.87 - $60.82	$46.68 - $60.82	$48.17 - $61.94

NOTE 10 - EMPLOYEE BENEFIT PLANS
Net periodic benefit costs are charged to "employee benefits expense" on the consolidated statements of comprehensive income. The components of net periodic benefit cost for the Corporation's qualified pension plan, non-qualified pension plan and postretirement benefit plan are as follows.

Qualified Defined Benefit Pension Plan	Three Months Ended September 30,		Nine Months Ended September 30,	
(in millions)	2015	2014	2015	2014
Service cost	$9	$7	$27	$22
Interest cost	22	22	66	66
Expected return on plan assets	(40)	(33)	(120)	(99)
Amortization of prior service cost	1	1	3	4
Amortization of net loss	15	9	44	24
Net periodic defined benefit cost	$7	$6	$20	$17

Non-Qualified Defined Benefit Pension Plan	Three Months Ended September 30,		Nine Months Ended September 30,	
(in millions)	2015	2014	2015	2014
Service cost	$1	$1	$3	$3
Interest cost	2	2	7	7

Amortization of prior service credit	(1)	(1)	(3)	(3)
Amortization of net loss	3	2	8	5
Net periodic defined benefit cost	$5	$4	$15	$12

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Postretirement Benefit Plan	Three Months Ended September 30,		Nine Months Ended September 30,	
(in millions)	2015	2014	2015	2014
Interest cost	$1	$—	$2	$2
Expected return on plan assets	(1)	(1)	(3)	(3)
Amortization of net loss	—	1	1	1
Net periodic postretirement benefit cost	$—	$—	$—	$—

For further information on the Corporation's employee benefit plans, refer to Note 17 to the consolidated financial statements in the Corporation's 2014 Annual Report.

NOTE 11 - INCOME TAXES AND TAX-RELATED ITEMS

At September 30, 2015, net unrecognized tax benefits were $22 million, compared to $14 million at December 31, 2014. The Corporation anticipates that it is reasonably possible that final settlement of federal and state tax issues will result in a decrease in net unrecognized tax benefits of $8 million within the next twelve months. Included in "accrued expense and other liabilities" on the consolidated balance sheets was a $3 million liability for tax-related interest and penalties at September 30, 2015 compared to $2 million at December 31, 2014.

Net deferred tax assets were $132 million at September 30, 2015, compared to $130 million at December 31, 2014. Deferred tax assets were evaluated for realization and it was determined that no valuation allowance was needed at both September 30, 2015 and December 31, 2014. This conclusion was based on sufficient taxable income in the carryback period and projected future reversals of existing taxable temporary differences to absorb the deferred tax assets.

In the ordinary course of business, the Corporation enters into certain transactions that have tax consequences. From time to time, the Internal Revenue Service (IRS) or other tax jurisdictions may review and/or challenge specific interpretive tax positions taken by the Corporation with respect to those transactions. The Corporation believes that its tax returns were filed based upon applicable statutes, regulations and case law in effect at the time of the transactions. The IRS or other tax jurisdictions, an administrative authority or a court, if presented with the transactions, could disagree with the Corporation’s interpretation of the tax law.

Based on current knowledge and probability assessment of various potential outcomes, the Corporation believes that current tax reserves are adequate, and the amount of any potential incremental liability arising is not expected to have a material adverse effect on the Corporation’s consolidated financial condition or results of operations. Probabilities and outcomes are reviewed as events unfold, and adjustments to the reserves are made when necessary.

NOTE 12 - CONTINGENT LIABILITIES

Legal Proceedings

As previously reported in the Corporation's Form 10-K for the year ended December 31, 2014 and Form 10-Q for the periods ended March 31, 2015 and June 30, 2015, Comerica Bank, a wholly owned subsidiary of the Corporation, was named in November 2011 as a third-party defendant in Butte Local Development v. Masters Group v. Comerica Bank (“the case”), for lender liability. The case was tried in January 2014, in the Montana Second District Judicial Court for Silver Bow County in Butte, Montana. On January 17, 2014, a jury awarded Masters $52 million against the Bank. On July 1, 2015, after an appeal filed by the Corporation, the Montana Supreme Court ("the court") reversed the judgment against the Corporation and remanded the case for a new trial with instructions that Michigan law should apply. The court also reversed punitive and consequential damages previously awarded by the jury. The Corporation believes it has meritorious defenses to the remaining claims in this case and intends to continue to defend itself vigorously. Management believes that current reserves related to this case are adequate in the event of a negative outcome.

The Corporation and certain of its subsidiaries are subject to various other pending or threatened legal proceedings arising out of the normal course of business or operations. The Corporation believes it has meritorious defenses to the claims asserted against it in its other currently outstanding legal proceedings and, with respect to such legal proceedings, intends to continue to defend itself vigorously, litigating or settling cases according to management’s judgment as to what is in the best interests of the Corporation and its shareholders. Settlement may result from the

Corporation's determination that it may be more prudent financially to settle, rather than litigate, and should not be regarded as an admission of liability. On at least a quarterly basis, the Corporation assesses its potential liabilities and contingencies in connection with outstanding legal proceedings utilizing the latest information available. On a case-by-case basis, reserves are established for those legal claims for which it is probable that a loss will be incurred either as a result of a settlement or judgment, and the amount of such loss can be reasonably estimated. The actual costs of resolving these claims may be substantially higher or lower than the amounts reserved. Based on current knowledge, and after consultation with legal counsel, management believes that current reserves are adequate, and the amount of any incremental liability arising from these matters is not expected to have a material adverse effect on the Corporation’s consolidated financial condition, consolidated results of operations or consolidated cash flows. Legal fees of $5 million and $8 million were included in "other noninterest expenses" on the consolidated statements of income for the three-month periods ended September 30, 2015 and 2014, respectively, and $15 million and $18 million for the nine-month periods ended September 30, 2015 and 2014, respectively.

For matters where a loss is not probable, the Corporation has not established legal reserves. The Corporation believes the estimate of the aggregate range of reasonably possible losses, in excess of reserves established, for all legal proceedings in which it is involved is from zero to approximately $32 million at September 30, 2015. This estimated aggregate range of reasonably possible losses is based upon currently available information for those proceedings in which the Corporation is involved, taking into account the Corporation’s best estimate of such losses for those cases for which such estimate can be made. For certain cases, the Corporation does not believe that an estimate can currently be made. The Corporation’s estimate involves significant judgment, given the varying stages of the proceedings (including the fact that many are currently in preliminary stages), the existence in certain proceedings of multiple defendants (including the Corporation) whose share of liability has yet to be determined, the numerous yet-unresolved issues in many of the proceedings (including issues regarding class certification and the scope of many of the claims) and the attendant uncertainty of the various potential outcomes of such proceedings. Accordingly, the Corporation’s estimate will change from time to time, and actual losses may be more or less than the current estimate. In the event of unexpected future developments, it is possible that the ultimate resolution of these matters, if unfavorable, may be material to the Corporation's consolidated financial condition, consolidated results of operations or consolidated cash flows.

For information regarding income tax contingencies, refer to Note 11.

NOTE 13 - BUSINESS SEGMENT INFORMATION

The Corporation has strategically aligned its operations into three major business segments: the Business Bank, the Retail Bank and Wealth Management. These business segments are differentiated based on the type of customer and the related products and services provided. In addition to the three major business segments, the Finance Division is also reported as a segment. Business segment results are produced by the Corporation’s internal management accounting system. This system measures financial results based on the internal business unit structure of the Corporation. The performance of the business segments is not comparable with the Corporation's consolidated results and is not necessarily comparable with similar information for any other financial institution. Additionally, because of the interrelationships of the various segments, the information presented is not indicative of how the segments would perform if they operated as independent entities. The management accounting system assigns balance sheet and income statement items to each business segment using certain methodologies, which are regularly reviewed and refined. These methodologies may be modified as the management accounting system is enhanced and changes occur in the organizational structure and/or product lines. For comparability purposes, amounts in all periods are based on business segments and methodologies in effect at September 30, 2015.

In the second quarter 2014, the Corporation enhanced the approach used to determine the standard reserve factors used in estimating the allowance for credit losses, which had the effect of capturing certain elements in the standard reserve component that had formerly been included in the qualitative assessment. The impact of the change was largely neutral to the total allowance for loan losses at June 30, 2014. However, because standard reserves are allocated to the segments at the loan level, while qualitative reserves are allocated at the portfolio level, the impact of the methodology change on the allowance of each segment reflected the characteristics of the individual loans within each segment's portfolio, causing segment reserves to increase or decrease accordingly. As a result, the current year provision for credit losses within each segment is not comparable to prior period amounts.

The following discussion provides information about the activities of each business segment. A discussion of the financial results and the factors impacting performance can be found in the section entitled "Business Segments" in the financial review.

The Business Bank meets the needs of middle market businesses, multinational corporations and governmental entities by offering various products and services, including commercial loans and lines of credit, deposits, cash management, capital market products, international trade finance, letters of credit, foreign exchange management services and loan syndication services.

The Retail Bank includes small business banking and personal financial services, consisting of consumer lending, consumer deposit gathering and mortgage loan origination. In addition to a full range of financial services provided to small business customers, this business segment offers a variety of consumer products, including deposit accounts, installment loans, credit cards, student loans, home equity lines of credit and residential mortgage loans.

Wealth Management offers products and services consisting of fiduciary services, private banking, retirement services, investment management and advisory services, investment banking and brokerage services. This business segment also offers the sale of annuity products, as well as life, disability and long-term care insurance products.

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The Finance segment includes the Corporation's securities portfolio and asset and liability management activities. This segment is responsible for managing the Corporation's funding, liquidity and capital needs, performing interest sensitivity analysis and executing various strategies to manage the Corporation's exposure to liquidity, interest rate risk and foreign exchange risk.
The Other category includes discontinued operations, the income and expense impact of equity and cash, tax benefits not assigned to specific business segments, charges of an unusual or infrequent nature that are not reflective of the normal operations of the business segments and miscellaneous other expenses of a corporate nature.
For further information on the methodologies which form the basis for these results refer to Note 22 to the consolidated financial statements in the Corporation's 2014 Annual Report.
Business segment financial results are as follows:

(dollar amounts in millions) Three Months Ended September 30, 2015	Business Bank	Retail Bank	Wealth Management	Finance	Other	Total
Earnings summary:						
Net interest income (expense) (FTE)	$380	$158	$45	$(162)	$2	$423
Provision for credit losses	30	2	(3)	—	(3)	26
Noninterest income	145	49	59	15	(4)	264
Noninterest expenses	202	185	74	2	(2)	461
Provision (benefit) for income taxes (FTE)	99	7	12	(56)	2	64
Net income (loss)	$194	$13	$21	$(93)	$1	$136
Net loan charge-offs (recoveries)	$23	$1	$(1)	$—	$—	$23
Selected average balances:						
Assets	$39,210	$6,518	$5,228	$12,177	$8,200	$71,333
Loans	38,113	5,835	5,024	—	—	48,972
Deposits	31,397	23,079	4,188	212	264	59,140
Statistical data:						
Return on average assets (a)	1.98 %	0.23 %	1.62 %	N/M	N/M	0.76 %
Efficiency ratio (b)	38.41	89.33	71.11	N/M	N/M	67.08

(dollar amounts in millions) Three Months Ended September 30, 2014	Business Bank	Retail Bank	Wealth Management	Finance	Other	Total
Earnings summary:						
Net interest income (expense) (FTE)	$376	$153	$45	$(166)	$7	$415
Provision for credit losses	(4)	—	7	—	2	5
Noninterest income	97	42	59	15	2	215
Noninterest expenses	152	185	78	(29)	11	397
Provision (benefit) for income taxes (FTE)	114	3	7	(49)	(1)	74
Net income (loss)	$211	$7	$12	$(73)	$(3)	$154
Net loan charge-offs (recoveries)	$(2)	$—	$5	$—	$—	$3
Selected average balances:						
Assets	$37,751	$6,273	$4,998	$11,023	$6,353	$66,398
Loans	36,746	5,605	4,808	—	—	47,159
Deposits	28,815	22,042	3,924	128	254	55,163

Statistical data:										
Return on average assets (a)	2.24	%	0.12	%	0.98	%	N/M	N/M	0.93	%
Efficiency ratio b)	32.12		94.64		75.00		N/M	N/M	62.87	

(a) Return on average assets is calculated based on the greater of average assets or average liabilities and attributed equity.

(b) Noninterest expenses as a percentage of the sum of net interest income (FTE) and noninterest income excluding net securities gains.

FTE – Fully Taxable Equivalent

N/M – not meaningful

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(dollar amounts in millions) Nine Months Ended September 30, 2015	Business Bank	Retail Bank	Wealth Management	Finance	Other	Total
Earnings summary:						
Net interest income (expense) (FTE)	$1,123	$466	$133	$(470)	$7	$1,259
Provision for credit losses	115	(14)	(12)	—	(2)	87
Noninterest income	427	137	177	42	(3)	780
Noninterest expenses	578	542	225	7	4	1,356
Provision (benefit) for income taxes (FTE)	292	26	34	(162)	1	191
Net income (loss)	$565	$49	$63	$(273)	$1	$405
Net loan charge-offs (recoveries)	$54	$3	$(8)	$—	$—	$49
Selected average balances:						
Assets	$39,002	$6,449	$5,137	$12,013	$7,087	$69,688
Loans	37,950	5,767	4,938	—	—	48,655
Deposits	30,594	22,746	4,082	159	270	57,851
Statistical data:						
Return on average assets (a)	1.93 %	0.28 %	1.64 %	N/M	N/M	0.78 %
Efficiency ratio (b)	37.27	89.91	71.97	N/M	N/M	66.41

(dollar amounts in millions) Nine Months Ended September 30, 2014	Business Bank	Retail Bank	Wealth Management	Finance	Other	Total
Earnings summary:						
Net interest income (expense) (FTE)	$1,120	$454	$135	$(485)	$19	$1,243
Provision for credit losses	48	(5)	(11)	—	(7)	25
Noninterest income	288	124	181	44	6	643
Noninterest expenses	440	533	231	(24)	27	1,207
Provision (benefit) for income taxes (FTE)	314	17	34	(160)	5	210
Net income (loss)	$606	$33	$62	$(257)	$—	$444
Net loan charge-offs	$18	$6	$—	$—	$—	$24