

COMERICA INC /NEW/  
Form 10-Q  
October 31, 2018  
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

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FORM 10-Q

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(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2018

Or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission file number 1-10706

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

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Delaware 38-1998421  
(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) 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)

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

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

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

Large accelerated filer  Accelerated filer   
Non-accelerated filer  Smaller reporting company

Emerging growth company

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

Exchange Act.

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

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 25, 2018: 161,698,314 shares

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COMERICA INCORPORATED AND SUBSIDIARIES

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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,<br>2018 | December 31,<br>2017 |
|---|-----------------------|----------------------|
|   | (unaudited)           |                      |
| <b>ASSETS</b>                                       |                       |                      |
| Cash and due from banks                             | \$ 945                | \$ 1,438             |
| Interest-bearing deposits with banks                | 4,894                 | 4,407                |
| Other short-term investments                        | 136                   | 96                   |
| Investment securities available-for-sale            | 11,862                | 10,938               |
| Investment securities held-to-maturity              | —                     | 1,266                |
| Commercial loans                                    | 30,889                | 31,060               |
| Real estate construction loans                      | 3,158                 | 2,961                |
| Commercial mortgage loans                           | 9,019                 | 9,159                |
| Lease financing                                     | 471                   | 468                  |
| International loans                                 | 1,090                 | 983                  |
| Residential mortgage loans                          | 1,947                 | 1,988                |
| Consumer loans                                      | 2,436                 | 2,554                |
| Total loans   | 49,010                | 49,173               |
| Less allowance for loan losses                      | (664                  | ) (712               |
| Net loans   | 48,346                | 48,461               |
| Premises and equipment                              | 472                   | 466                  |
| Accrued income and other assets                     | 4,793                 | 4,495                |
| Total assets  | \$ 71,448             | \$ 71,567            |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>         |                       |                      |
| Noninterest-bearing deposits                        | \$ 29,301             | \$ 32,071            |
| Money market and interest-bearing checking deposits | 22,449                | 21,500               |
| Savings deposits                                    | 2,192                 | 2,152                |
| Customer certificates of deposit                    | 2,051                 | 2,165                |
| Foreign office time deposits                        | 13                    | 15                   |
| Total interest-bearing deposits                     | 26,705                | 25,832               |
| Total deposits                                      | 56,006                | 57,903               |
| Short-term borrowings                               | 84                    | 10                   |
| Accrued expenses and other liabilities              | 1,154                 | 1,069                |
| Medium- and long-term debt                          | 6,418                 | 4,622                |
| Total liabilities                                   | 63,662                | 63,604               |
| Common stock - \$5 par value:                       |                       |                      |
| Authorized - 325,000,000 shares                     |                       |                      |

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|  |           |           |
|--|-----------|-----------|
| Issued - 228,164,824 shares  | 1,141     | 1,141     |
| Capital surplus  | 2,144     | 2,122     |
| Accumulated other comprehensive loss   | (611      | ) (451    |
| Retained earnings  | 8,587     | 7,887     |
| Less cost of common stock in treasury - 62,224,198 shares at 9/30/18 and 55,306,483 shares at 12/31/17 | (3,475    | ) (2,736  |
| Total shareholders' equity   | 7,786     | 7,963     |
| Total liabilities and shareholders' equity   | \$ 71,448 | \$ 71,567 |
| See notes to consolidated financial statements (unaudited).  |           |           |

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Comerica Incorporated and Subsidiaries

|   | Three<br>Months<br>Ended<br>September<br>30, |            | Nine Months<br>Ended<br>September 30, |            |   |
|---|--|------------|---------------------------------------|------------|---|
| (in millions, except per share data)                  | 2018   | 2017       | 2018                                  | 2017       |   |
| <b>INTEREST INCOME</b>                                |  |            |                                       |            |   |
| Interest and fees on loans                            | \$581  | \$500      | \$1,658                               | \$1,374    |   |
| Interest on investment securities                     | 66   | 63         | 194                                   | 186        |   |
| Interest on short-term investments                    | 28   | 16         | 63                                    | 44         |   |
| Total interest income                                 | 675  | 579        | 1,915                                 | 1,604      |   |
| <b>INTEREST EXPENSE</b>                               |  |            |                                       |            |   |
| Interest on deposits                                  | 35   | 11         | 79                                    | 29         |   |
| Interest on short-term borrowings                     | 1  | 3          | 1                                     | 3          |   |
| Interest on medium- and long-term debt                | 40   | 19         | 97                                    | 56         |   |
| Total interest expense                                | 76   | 33         | 177                                   | 88         |   |
| Net interest income                                   | 599  | 546        | 1,738                                 | 1,516      |   |
| Provision for credit losses                           | —  | 24         | (17                                   | ) 57       |   |
| Net interest income after provision for credit losses | 599  | 522        | 1,755                                 | 1,459      |   |
| <b>NONINTEREST INCOME</b>                             |  |            |                                       |            |   |
| Card fees   | 61   | 85         | 180                                   | 242        |   |
| Service charges on deposit accounts                   | 53   | 57         | 160                                   | 172        |   |
| Fiduciary income                                      | 51   | 48         | 155                                   | 148        |   |
| Commercial lending fees                               | 21   | 21         | 62                                    | 63         |   |
| Letter of credit fees                                 | 9  | 11         | 30                                    | 34         |   |
| Bank-owned life insurance                             | 11   | 12         | 29                                    | 31         |   |
| Foreign exchange income                               | 12   | 11         | 36                                    | 33         |   |
| Brokerage fees  | 7  | 6          | 20                                    | 17         |   |
| Net securities losses                                 | (20  | ) —        | (19                                   | ) —        |   |
| Other noninterest income                              | 29   | 24         | 73                                    | 82         |   |
| Total noninterest income                              | 234  | 275        | 726                                   | 822        |   |
| <b>NONINTEREST EXPENSES</b>                           |  |            |                                       |            |   |
| Salaries and benefits expense                         | 254  | 237        | 759                                   | 713        |   |
| Outside processing fee expense                        | 65   | 92         | 190                                   | 267        |   |
| Net occupancy expense                                 | 38   | 38         | 113                                   | 114        |   |
| Equipment expense                                     | 12   | 12         | 34                                    | 34         |   |
| Restructuring charges                                 | 12   | 7          | 39                                    | 32         |   |
| Software expense                                      | 32   | 35         | 95                                    | 95         |   |
| FDIC insurance expense                                | 11   | 13         | 36                                    | 38         |   |
| Advertising expense                                   | 8  | 8          | 22                                    | 19         |   |
| Litigation-related expense                            | —  | —          | —                                     | (2         | ) |
| Other noninterest expenses                            | 20   | 21         | 58                                    | 67         |   |
| Total noninterest expenses                            | 452  | 463        | 1,346                                 | 1,377      |   |
| Income before income taxes                            | 381  | 334        | 1,135                                 | 904        |   |
| Provision for income taxes                            | 63   | 108        | 210                                   | 273        |   |
| <b>NET INCOME</b>                                     | <b>318</b>                                   | <b>226</b> | <b>925</b>                            | <b>631</b> |   |

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|   |        |        |        |        |
|---|--------|--------|--------|--------|
| Less income allocated to participating securities           | 2      | 2      | 6      | 5      |
| Net income attributable to common shares                    | \$316  | \$224  | \$919  | \$626  |
| Earnings per common share:                                  |        |        |        |        |
| Basic   | \$1.89 | \$1.29 | \$5.41 | \$3.58 |
| Diluted   | 1.86   | 1.26   | 5.32   | 3.50   |
| <br>  |        |        |        |        |
| Comprehensive income  | 296    | 228    | 764    | 655    |
| <br>  |        |        |        |        |
| Cash dividends declared on common stock                     | 100    | 53     | 210    | 141    |
| Cash dividends declared per common share                    | 0.60   | 0.30   | 1.24   | 0.79   |
| See notes to consolidated financial statements (unaudited). |        |        |        |        |

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## CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (unaudited)

Comerica Incorporated and Subsidiaries

| (in millions, except per share data)                       | Common Stock          |          | Capital<br>Surplus | Accumulated                    | Retained | Treasury  | Total    |
|--|-----------------------|----------|--------------------|--------------------------------|----------|-----------|----------|
|  | Shares<br>Outstanding | Amount   |                    | Other<br>Comprehensive<br>Loss |          |           |          |
| BALANCE AT DECEMBER 31, 2016                               | 175.3                 | \$ 1,141 | \$ 2,135           | \$ (383 )                      | \$ 7,331 | \$(2,428) | \$ 7,796 |
| Cumulative effect of change in accounting principle        | —                     | —        | 3                  | —                              | (2 )     | —         | 1        |
| Net income   | —                     | —        | —                  | —                              | 631      | —         | 631      |
| Other comprehensive income, net of tax                     | —                     | —        | —                  | 24                             | —        | —         | 24       |
| Cash dividends declared on common stock (\$0.79 per share) | —                     | —        | —                  | —                              | (141 )   | —         | (141 )   |
| Purchase of common stock                                   | (5.7 )                | —        | —                  | —                              | —        | (396 )    | (396 )   |
| Net issuance of common stock under employee stock plans    | 3.0                   | —        | (26 )              | —                              | (22 )    | 138       | 90       |
| Net issuance of common stock for warrants                  | 1.7                   | —        | (28 )              | —                              | (51 )    | 79        | —        |
| Share-based compensation                                   | —                     | —        | 29                 | —                              | —        | —         | 29       |
| Other  | —                     | —        | (1 )               | —                              | —        | 1         | —        |
| BALANCE AT SEPTEMBER 30, 2017                              | 174.3                 | \$ 1,141 | \$ 2,112           | \$ (359 )                      | \$ 7,746 | \$(2,606) | \$ 8,034 |
| BALANCE AT DECEMBER 31, 2017                               | 172.9                 | \$ 1,141 | \$ 2,122           | \$ (451 )                      | \$ 7,887 | \$(2,736) | \$ 7,963 |
| Cumulative effect of change in accounting principles       | —                     | —        | —                  | 1                              | 14       | —         | 15       |
| Net income   | —                     | —        | —                  | —                              | 925      | —         | 925      |
| Other comprehensive loss, net of tax                       | —                     | —        | —                  | (161 )                         | —        | —         | (161 )   |
| Cash dividends declared on common stock (\$1.24 per share) | —                     | —        | —                  | —                              | (210 )   | —         | (210 )   |
| Purchase of common stock                                   | (8.7 )                | —        | (7 )               | —                              | —        | (821 )    | (828 )   |
| Net issuance of common stock under employee stock plans    | 1.5                   | —        | (9 )               | —                              | (24 )    | 74        | 41       |
| Net issuance of common stock for warrants                  | 0.2                   | —        | (3 )               | —                              | (5 )     | 8         | —        |
| Share-based compensation                                   | —                     | —        | 41                 | —                              | —        | —         | 41       |
| BALANCE AT SEPTEMBER 30, 2018                              | 165.9                 | \$ 1,141 | \$ 2,144           | \$ (611 )                      | \$ 8,587 | \$(3,475) | \$ 7,786 |

See notes to consolidated financial statements (unaudited).



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## CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

Comerica Incorporated and Subsidiaries

| (in millions)   | Nine Months<br>Ended<br>September 30, |          |
|---|---------------------------------------|----------|
|   | 2018                                  | 2017     |
| <b>OPERATING ACTIVITIES</b>   |                                       |          |
| Net income  | \$925                                 | \$631    |
| Adjustments to reconcile net income to net cash provided by operating activities: |                                       |          |
| Provision for credit losses   | (17 )                                 | 57       |
| Provision (benefit) for deferred income taxes                                     | 37                                    | (48 )    |
| Depreciation and amortization   | 90                                    | 91       |
| Net periodic defined benefit credit   | (14 )                                 | (14 )    |
| Share-based compensation expense  | 41                                    | 29       |
| Net amortization of securities  | 3                                     | 5        |
| Accretion of loan purchase discount   | (1 )                                  | (3 )     |
| Net securities losses   | 19                                    | —        |
| Net gains on sales of foreclosed property   | (1 )                                  | (2 )     |
| Net change in:  |                                       |          |
| Accrued income receivable   | (36 )                                 | (21 )    |
| Accrued expenses payable  | 19                                    | 28       |
| Other, net  | (98 )                                 | 97       |
| Net cash provided by operating activities   | 967                                   | 850      |
| <b>INVESTING ACTIVITIES</b>   |                                       |          |
| Investment securities available-for-sale:   |                                       |          |
| Maturities and redemptions  | 1,366                                 | 1,198    |
| Sales   | 1,256                                 | 1,259    |
| Purchases   | (2,618 )                              | (2,655 ) |
| Investment securities held-to-maturity:   |                                       |          |
| Maturities and redemptions  | —                                     | 241      |
| Net change in loans   | 120                                   | (193 )   |
| Proceeds from sales of foreclosed property  | 7                                     | 18       |
| Net increase in premises and equipment  | (65 )                                 | (43 )    |
| Federal Home Loan Bank stock:   |                                       |          |
| Purchases   | (41 )                                 | (42 )    |
| Redemptions   | —                                     | 21       |
| Proceeds from bank-owned life insurance settlements                               | 4                                     | 8        |
| Other, net  | (2 )                                  | 2        |
| Net cash provided by (used in) investing activities                               | 27                                    | (186 )   |
| <b>FINANCING ACTIVITIES</b>   |                                       |          |
| Net change in:  |                                       |          |
| Deposits  | (1,978 )                              | (1,208 ) |
| Short-term borrowings   | 74                                    | 484      |
| Medium- and long-term debt:   |                                       |          |
| Maturities  | —                                     | (500 )   |
| Issuances and advances  | 1,850                                 | —        |
| Terminations  | —                                     | (16 )    |
| Common stock:   |                                       |          |

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|   |          |          |
|---|----------|----------|
| Repurchases   | (837 )   | (412 )   |
| Cash dividends paid   | (161 )   | (128 )   |
| Issuances under employee stock plans                                | 50       | 106      |
| Other, net  | 2        | (4 )     |
| Net cash used in financing activities                               | (1,000 ) | (1,678 ) |
| Net decrease in cash and cash equivalents                           | (6 )     | (1,014 ) |
| Cash and cash equivalents at beginning of period                    | 5,845    | 7,218    |
| Cash and cash equivalents at end of period                          | \$5,839  | \$6,204  |
| Interest paid   | \$172    | \$89     |
| Income tax paid   | 125      | 247      |
| Noncash investing and financing activities:                         |          |          |
| Loans transferred to other real estate                              | 2        | 6        |
| Securities transferred from held-to-maturity to available-for-sale  | 1,266    | —        |
| Securities transferred from available-for-sale to equity securities | 81       | —        |
| See notes to consolidated financial statements (unaudited).         |          |          |

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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, 2018 are not necessarily indicative of the results that may be expected for the year ending December 31, 2018. 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, 2017.

Revenue Recognition

Effective January 1, 2018, the Corporation adopted the provision of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 606, "Revenue from Contracts with Customers" (Topic 606), using the modified retrospective method applied to all open contracts as of January 1, 2018.

Under Topic 606, card fee revenue from certain products is generally presented net of network costs, including interchange costs, surcharge fees and assessment fees, as opposed to the previous presentation of associated network costs in outside processing fees in the Consolidated Statements of Comprehensive Income. Similar adjustments were made for other revenue streams that resulted in certain costs being recognized in the same category as the associated revenues in noninterest income.

The adoption of Topic 606 resulted in decreases of \$34 million in card fees and \$2 million in service charges on deposits accounts, included in noninterest income, and a corresponding \$36 million decrease in outside processing fees included in noninterest expenses, in the Consolidated Statements of Comprehensive Income for the three months ended September 30, 2018. For the nine months ended September 30, 2018, the impact on the Consolidated Statements of Comprehensive Income was a \$105 million decrease in card fees, a \$4 million decrease in service charges on deposit accounts and a \$109 million decrease in outside processing fee expense.

The Corporation previously deferred recognition of certain treasury management fees included in service charges on deposit accounts in the Consolidated Statements of Comprehensive Income until the amount of compensation was considered fixed and determinable. Under the new guidance, the portion of these fees that are based on agreed-upon rates less estimated credits expected to be earned by the customer is recognized as services are rendered. As a result, the Corporation recorded a transition adjustment of \$14 million, after tax, to retained earnings, included in cumulative effect of change in accounting principles in the accompanying Consolidated Statements of Changes in Shareholders Equity. Similar adjustments were made for other revenue streams that resulted in an additional cumulative transition after-tax adjustment to retained earnings of \$2 million.

Revenues from contracts with customers may be recognized when services are complete or as they are rendered, although contracts are generally short-term by nature. Services provided over a period of time are typically transferred to customers evenly over the term of the contracts and revenue is recognized evenly over the period services are provided. Contract receivables are included in accrued income and other assets on the Consolidated Balance Sheets. Payment terms vary by services offered, and the time between completion of performance obligations and payment is typically not significant.

Card fees comprise interchange and other fee income earned on government card, commercial card, debit/automated teller machine card and merchant payment processing programs. Card fees are presented net of network costs, as performance obligations for card services are limited to transaction processing and settlement with the card network on behalf of the customers. Network costs were approximately \$34 million and \$29 million for the three months ended September 30, 2018 and 2017, respectively, and \$105 million and \$80 million for the nine months ended September 30, 2018 and 2017, respectively. Fees for these services are primarily based on interchange rates set by the network

and transaction volume. The Corporation also provides ongoing card program support services, for which fees are based on contractually agreed prices and customer demand for services.

Service charges on deposit accounts comprise charges on retail and business accounts, including fees for treasury management services. These treasury management services include transaction-based services related to payment processing, overdrafts, non-sufficient funds and other deposit account activity, as well as account management services that are provided over time. Business customers can earn credits depending on deposit balances maintained with the Corporation, which may be used to offset fees. Fees and credits are based on predetermined, agreed-upon rates.

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

Fiduciary income includes fees and commissions from asset management, custody, recordkeeping, investment advisory and other services provided primarily to personal and institutional trust customers. Revenue is recognized as the services are performed and is based either on the market value of the assets managed or the services provided, as well as agreed-upon rates.

Commercial lending fees include both revenue from contracts with customers (primarily loan servicing fees) and other sources of revenue. Commercial loan servicing fees are based on contractually agreed-upon prices and when the services are provided. Other sources of revenue in commercial lending fees primarily include fees assessed on the unused portion of commercial lines of credit (unused commitment fees) and syndication arrangements.

Brokerage fees are commissions earned for facilitating securities transactions for customers, as well as other brokerage services provided. Revenue is recognized when services are complete and are based on the type of services provided and agreed-upon rates. The Corporation pays commissions based on brokerage fee revenue. These are typically recognized when incurred because the amortization period is one year or less and are included in salaries and benefits expense in the Consolidated Statements of Comprehensive Income.

Other revenues, consisting primarily of other retail fees, investment banking fees and insurance commissions, are typically recognized when services or transactions are completed and are based on the type of services provided and agreed-upon rates.

Except as discussed above, commissions and other incentives paid to employees are generally based on several internal and external metrics and, as a result, are not solely dependent on revenue generating activities.

Classification and Measurement of Financial Instruments

Effective January 1, 2018, the Corporation adopted the provisions of Accounting Standards Update (ASU) No. 2016-01, "Financial Instruments - Overall (Subtopic 825-10): Recognition of Financial Assets and Financial Liabilities," (ASU 2016-01). ASU 2016-01 requires equity investments, other than equity method investments, to be measured at fair value with changes in fair value recognized in net income. At adoption, an immaterial amount of cumulative net unrealized losses on equity securities previously recognized in accumulated other comprehensive income (AOCI) was reclassified to the opening balance of retained earnings, included in cumulative effect of change in accounting principles in the accompanying Consolidated Statements of Changes in Shareholders Equity. Changes to the fair value of equity securities occurring after December 31, 2017, other than equity method investments, are included in net securities losses in the Consolidated Statements of Comprehensive Income. Also, as part of adopting ASU 2016-01, the Corporation refined the calculation used to determine the estimated fair value of loans disclosed in note 2 to the consolidated financial statements.

Statement of Cash Flows

The Corporation adopted FASB issued ASU No. 2016-15, "Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments," (ASU 2016-15) on January 1, 2018 and, as a result, reclassified \$8 million of proceeds from settlement of bank-owned life insurance policies from operating activities to investing activities for the nine-month period ended September 30, 2017.

Defined Benefit Pension and Other Postretirement Costs

The Corporation retrospectively adopted the provisions of ASU No. 2017-07, "Compensation - Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost" (ASU 2017-07) on January 1, 2018, which requires employers to report service cost as part of compensation expense and the other components of net benefit credit separately from service cost. As a result, \$12 million and \$36 million of benefit from the other components of net benefit credit was reclassified from salaries and benefits expense to other noninterest expenses in the Consolidated Statements of Comprehensive Income for the three and nine months ended September 30, 2017, respectively. The Corporation based the adjustment to the prior periods on amounts disclosed in note 10.

Derivatives Instruments and Hedging Activities

The Corporation adopted ASU No. 2017-12, "Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities" (ASU 2017-12), effective January 1, 2018. At transition, the Corporation elected to

change the measurement methodology of all long-haul fair value hedges existing at December 31, 2017. The prior period effect of this election was a \$1 million reduction to opening retained earnings, included in cumulative effect of change in accounting principles in the Consolidated Statements of Shareholders' Equity. In addition, the Corporation made a transition election to reclassify the portfolio of held-to-maturity securities to available-for-sale in January 2018 as the securities are eligible to be hedged. This resulted in the recognition of additional unrealized losses of \$11 million at the date of transfer.

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Notes to Consolidated Financial Statements (unaudited)

Comerica Incorporated and Subsidiaries

Income Taxes

The Tax Cuts and Jobs Act (the "Act"), enacted on December 22, 2017, reduced the U.S. federal corporate tax rate from 35 percent to 21 percent. Also, on December 22, 2017, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 118 (SAB 118), which provides guidance on accounting for tax effects of the Act. SAB 118 provides a measurement period of up to one year from the enactment date to complete the accounting. Based on the information available and current interpretation of the rules, the Corporation has made reasonable estimates of the impact of the reduction in the corporate tax rate and remeasurement of certain deferred tax assets and liabilities based on the rate at which they are expected to reverse in the future, generally 21 percent. The provisional amount recorded related to the remeasurement of the Corporation's deferred tax balance was \$99 million, including \$107 million recognized in the year ended December 31, 2017 and an \$8 million downward revision to the estimated impact recorded in the nine months ended September 30, 2018. The final impact of the Act may differ from these estimates as a result of changes in management's interpretations and assumptions, as well as new guidance that may be issued by the Internal Revenue Service (IRS).

Pending Accounting Pronouncements

In February 2016, the FASB issued ASU No. 2016-02, "Leases (Topic 842)," (ASU 2016-02), to increase the transparency and comparability of lease recognition and disclosure. ASU 2016-02 requires lessees to recognize lease contracts with a term greater than one year on the balance sheet, while recognizing expenses on the income statement in a manner similar to current guidance. ASU 2016-02 is effective for the Corporation on January 1, 2019 and must be applied using the modified retrospective approach. In July 2018, the FASB issued ASU 2018-11 "Leases (Topic 842): Targeted Improvements," which provides lessees the option to apply the new leasing standard to all open leases as of the adoption date. The Corporation expects to make use of this transition option and is currently finalizing review of key assumptions and evaluation of service contracts for embedded leases. Based on preliminary evaluation, the right-of-use asset and corresponding lease obligation liability are expected to range between \$450 million and \$550 million at adoption, resulting in an 8- to 10-basis point decrease in the common equity tier 1 capital (CET1) ratio. Preliminary estimates are based on the current interest rate environment which may differ from those at the time of adoption of the standard. The Corporation will continue to evaluate other impacts of adoption but does not anticipate these to be significant.

In June 2016, the FASB issued ASU No. 2016-13, "Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments," (ASU 2016-13), which addresses concerns regarding the perceived delay in recognition of credit losses under the existing incurred loss model. The amendment introduces a new, single model for recognizing credit losses on all financial instruments presented on a cost basis. Under the new model, entities must estimate current expected credit losses by considering all available relevant information, including historical and current information, as well as reasonable and supportable forecasts of future events. The update also requires additional qualitative and quantitative information to allow users to better understand the credit risk within the portfolio and the methodologies for determining the allowance for credit losses. ASU 2016-13 is effective for the Corporation on January 1, 2020 and must be applied using the modified retrospective approach with limited exceptions. Early adoption is permitted. The Corporation will adopt the standard on January 1, 2020 and is currently evaluating the impact of adoption.

In August 2018, the FASB issued ASU No. 2018-15, "Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract," (ASU 2018-15), to align the requirements for capitalizing implementation costs in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs relating to internal-use software. The ASU 2018-15 update requires entities in a hosting arrangement that is a service contract to follow the guidance in Subtopic 350-40 to determine which implementation costs to capitalize as an asset and which costs to expense. ASU 2018-15 is effective for the Corporation on January 1, 2020 and may be applied using either the retrospective or prospective approach. Early adoption is permitted. The Corporation is currently evaluating the impact of adopting ASU 2018-15.

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.

Equity securities, investment securities available-for-sale, derivatives and deferred compensation plan assets and 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),

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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, 2017 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.

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## ASSETS AND LIABILITIES RECORDED AT FAIR VALUE ON A RECURRING BASIS

The following tables present the recorded amount of assets and liabilities measured at fair value on a recurring basis as of September 30, 2018 and December 31, 2017.

| (in millions)   | Total    | Level 1 | Level 2 | Level 3 |
|---|----------|---------|---------|---------|
| September 30, 2018  |          |         |         |         |
| Deferred compensation plan assets                         | \$94     | \$94    | \$—     | \$—     |
| Equity securities   | 40       | 40      | —       | —       |
| Investment securities available-for-sale:                 |          |         |         |         |
| U.S. Treasury and other U.S. government agency securities | 2,699    | 2,699   | —       | —       |
| Residential mortgage-backed securities (a)                | 9,163    | —       | 9,163   | —       |
| Total investment securities available-for-sale            | 11,862   | 2,699   | 9,163   | —       |
| Derivative assets:  |          |         |         |         |
| Interest rate contracts                                   | 31       | —       | 29      | 2       |
| Energy derivative contracts                               | 219      | —       | 219     | —       |
| Foreign exchange contracts                                | 17       | —       | 17      | —       |
| Warrants  | 2        | —       | —       | 2       |
| Total derivative assets                                   | 269      | —       | 265     | 4       |
| Total assets at fair value                                | \$12,265 | \$2,833 | \$9,428 | \$ 4    |
| Derivative liabilities:                                   |          |         |         |         |
| Interest rate contracts                                   | \$131    | \$—     | \$131   | \$—     |
| Energy derivative contracts                               | 219      | —       | 219     | —       |
| Foreign exchange contracts                                | 14       | —       | 14      | —       |
| Total derivative liabilities                              | 364      | —       | 364     | —       |
| Deferred compensation plan liabilities                    | 94       | 94      | —       | —       |
| Total liabilities at fair value                           | \$458    | \$94    | \$364   | \$—     |
| December 31, 2017   |          |         |         |         |
| Trading securities:                                       |          |         |         |         |
| Deferred compensation plan assets                         | \$92     | \$92    | \$—     | \$—     |
| Investment securities available-for-sale:                 |          |         |         |         |
| U.S. Treasury and other U.S. government agency securities | 2,727    | 2,727   | —       | —       |
| Residential mortgage-backed securities (a)                | 8,124    | —       | 8,124   | —       |
| State and municipal securities                            | 5        | —       | —       | 5 (b)   |
| Equity and other non-debt securities                      | 82       | 38      | —       | 44 (b)  |
| Total investment securities available-for-sale            | 10,938   | 2,765   | 8,124   | 49      |
| Derivative assets:  |          |         |         |         |
| Interest rate contracts                                   | 57       | —       | 43      | 14      |
| Energy derivative contracts                               | 93       | —       | 93      | —       |
| Foreign exchange contracts                                | 42       | —       | 42      | —       |
| Warrants  | 2        | —       | —       | 2       |
| Total derivative assets                                   | 194      | —       | 178     | 16      |
| Total assets at fair value                                | \$11,224 | \$2,857 | \$8,302 | \$ 65   |
| Derivative liabilities:                                   |          |         |         |         |
| Interest rate contracts                                   | \$59     | \$—     | \$59    | \$—     |
| Energy derivative contracts                               | 91       | —       | 91      | —       |
| Foreign exchange contracts                                | 40       | —       | 40      | —       |
| Total derivative liabilities                              | 190      | —       | 190     | —       |
| Deferred compensation plan liabilities                    | 92       | 92      | —       | —       |

|  |       |      |       |      |
|--|-------|------|-------|------|
| Total liabilities at fair value  | \$282 | \$92 | \$190 | \$ — |
| (a) 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, 2018 and 2017.

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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, 2018 and 2017.

| (in millions)                                  | Balance at Beginning of Period | Change in Classification (a) | Net Realized/Unrealized Gains (Losses) (Pretax) |             |                      |  | Sales and Redemptions | Balance at End of Period |
|--|--------------------------------|------------------------------|---|-------------|----------------------|--|-----------------------|--------------------------|
|  |                                |                              | Realized  | Unrealized  | Recorded in Earnings | Recorded in Other Comprehensive Income |                       |                          |
| Three Months Ended September 30, 2018          |                                |                              |   |             |                      |  |                       |                          |
| Derivative assets:                             |                                |                              |   |             |                      |  |                       |                          |
| Interest rate contracts                        | \$ 6                           | \$ —                         | \$ —  | \$ (4 ) (b) | \$ —                 | \$ —                                   | \$ 2                  |                          |
| Warrants                                       | 2                              | —                            | 2 (b)   | —           | —                    | (2 )                                   | 2                     |                          |
| Three Months Ended September 30, 2017          |                                |                              |   |             |                      |  |                       |                          |
| Investment securities available-for-sale:      |                                |                              |   |             |                      |  |                       |                          |
| State and municipal securities (c)             | \$ 5                           | \$ —                         | \$ —  | \$ —        | \$ —                 | \$ —                                   | \$ 5                  |                          |
| Equity and other non-debt securities (c)       | 46                             | —                            | —   | —           | (1 )                 | —                                      | 45                    |                          |
| Total investment securities available-for-sale | 51                             | —                            | —   | —           | (1 )                 | —                                      | 50                    |                          |
| Derivative assets:                             |                                |                              |   |             |                      |  |                       |                          |
| Interest rate contracts                        | 13                             | —                            | —   | 1 (b)       | —                    | —                                      | 14                    |                          |
| Warrants                                       | 2                              | —                            | —   | —           | —                    | —                                      | 2                     |                          |
| Nine Months Ended September 30, 2018           |                                |                              |   |             |                      |  |                       |                          |
| Equity securities                              | \$ —                           | \$ 44                        | \$ —  | \$ —        | \$ —                 | \$ (44 )                               | \$ —                  |                          |
| Investment securities available-for-sale:      |                                |                              |   |             |                      |  |                       |                          |
| State and municipal securities (c)             | 5                              | —                            | —   | —           | —                    | (5 )                                   | —                     |                          |
| Equity and other non-debt securities (c)       | 44                             | (44 )                        | —   | —           | —                    | —                                      | —                     |                          |
| Total investment securities available-for-sale | 49                             | (44 )                        | —   | —           | —                    | (5 )                                   | —                     |                          |
| Derivative assets:                             |                                |                              |   |             |                      |  |                       |                          |
| Interest rate contracts                        | 14                             | —                            | —   | (12 ) (b)   | —                    | —                                      | 2                     |                          |
| Warrants                                       | 2                              | —                            | 3 (b)   | —           | —                    | (3 )                                   | 2                     |                          |
| Nine Months Ended September 30, 2017           |                                |                              |   |             |                      |  |                       |                          |
| Investment securities available-for-sale:      |                                |                              |   |             |                      |  |                       |                          |
| State and municipal securities (c)             | \$ 7                           | \$ —                         | \$ —  | \$ —        | \$ —                 | \$ (2 )                                | \$ 5                  |                          |
| Equity and other non-debt securities (c)       | 47                             | —                            | —   | —           | (1 )                 | (1 )                                   | 45                    |                          |
| Total investment securities available-for-sale | 54                             | —                            | —   | —           | (1 )                 | (3 )                                   | 50                    |                          |
| Derivative assets:                             |                                |                              |   |             |                      |  |                       |                          |
| Interest rate contracts                        | 11                             | —                            | —   | 3 (b)       | —                    | —                                      | 14                    |                          |
| Warrants                                       | 3                              | —                            | 5 (b)   | (1 ) (b)    | —                    | (5 )                                   | 2                     |                          |

(a) Reflects the reclassification of equity securities resulting from the adoption of ASU 2016-01.

- (b) Realized and unrealized gains and losses due to changes in fair value recorded in Other Noninterest Income on the Consolidated Statements of Comprehensive Income.
- (c) Auction-rate securities.

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Notes to Consolidated Financial Statements (unaudited)

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**ASSETS AND LIABILITIES AT FAIR VALUE ON A NONRECURRING BASIS**

The Corporation may be required to record certain assets and liabilities at fair value on a nonrecurring basis. These include assets that are recorded at the lower of cost or fair value, and were recognized at fair value since it was less than cost at the end of the period.

The following table presents assets recorded at fair value on a nonrecurring basis at September 30, 2018 and December 31, 2017. No liabilities were recorded at fair value on a nonrecurring basis at September 30, 2018 and December 31, 2017.

(in millions)                      Level 3

September 30, 2018

Loans:

Commercial                      \$ 54

Commercial mortgage        4

Total loans                      58

Other real estate              1

Total assets at fair value    \$ 59

December 31, 2017

Loans:

Commercial                      \$ 111

Commercial mortgage        5

Total assets at fair value    \$ 116

Level 3 assets recorded at fair value on a nonrecurring basis at September 30, 2018 and December 31, 2017 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.

**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.

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Comerica Incorporated and Subsidiaries

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

| (in millions)                                     | Carrying Amount | Estimated Fair Value |          |         |         |
|---|-----------------|----------------------|----------|---------|---------|
|   |                 | Total                | Level 1  | Level 2 | Level 3 |
| September 30, 2018                                |                 |                      |          |         |         |
| Assets  |                 |                      |          |         |         |
| Cash and due from banks                           | \$ 945          | \$ 945               | \$ 945   | \$ —    | \$ —    |
| Interest-bearing deposits with banks              | 4,894           | 4,894                | 4,894    | —       | —       |
| Loans held-for-sale                               | 2               | 2                    | —        | 2       | —       |
| Total loans, net of allowance for loan losses (a) | 48,346          | 48,352               | —        | —       | 48,352  |
| Customers' liability on acceptances outstanding   | 4               | 4                    | 4        | —       | —       |
| Restricted equity investments                     | 248             | 248                  | 248      | —       | —       |
| Nonmarketable equity securities (b)               | 6               | 11                   | —        | —       | —       |
| Liabilities                                       |                 |                      |          |         |         |
| Demand deposits (noninterest-bearing)             | 29,301          | 29,301               | —        | 29,301  | —       |
| Interest-bearing deposits                         | 24,654          | 24,654               | —        | 24,654  | —       |
| Customer certificates of deposit                  | 2,051           | 2,013                | —        | 2,013   | —       |
| Total deposits                                    | 56,006          | 55,968               | —        | 55,968  | —       |
| Short-term borrowings                             | 84              | 84                   | 84       | —       | —       |
| Acceptances outstanding                           | 4               | 4                    | 4        | —       | —       |
| Medium- and long-term debt                        | 6,418           | 6,431                | —        | 6,431   | —       |
| Credit-related financial instruments              | (57 )           | (57 )                | —        | —       | (57 )   |
| December 31, 2017                                 |                 |                      |          |         |         |
| Assets  |                 |                      |          |         |         |
| Cash and due from banks                           | \$ 1,438        | \$ 1,438             | \$ 1,438 | \$ —    | \$ —    |
| Interest-bearing deposits with banks              | 4,407           | 4,407                | 4,407    | —       | —       |
| Investment securities held-to-maturity            | 1,266           | 1,246                | —        | 1,246   | —       |
| Loans held-for-sale                               | 4               | 4                    | —        | 4       | —       |
| Total loans, net of allowance for loan losses (a) | 48,461          | 48,153               | —        | —       | 48,153  |
| Customers' liability on acceptances outstanding   | 2               | 2                    | 2        | —       | —       |
| Restricted equity investments                     | 207             | 207                  | 207      | —       | —       |
| Nonmarketable equity securities (b)               | 6               | 9                    | —        | —       | —       |
| Liabilities                                       |                 |                      |          |         |         |
| Demand deposits (noninterest-bearing)             | 32,071          | 32,071               | —        | 32,071  | —       |
| Interest-bearing deposits                         | 23,667          | 23,667               | —        | 23,667  | —       |
| Customer certificates of deposit                  | 2,165           | 2,142                | —        | 2,142   | —       |
| Total deposits                                    | 57,903          | 57,880               | —        | 57,880  | —       |
| Short-term borrowings                             | 10              | 10                   | 10       | —       | —       |
| Acceptances outstanding                           | 2               | 2                    | 2        | —       | —       |
| Medium- and long-term debt                        | 4,622           | 4,636                | —        | 4,636   | —       |
| Credit-related financial instruments              | (67 )           | (67 )                | —        | —       | (67 )   |

(a) Included \$58 million and \$116 million of impaired loans recorded at fair value on a nonrecurring basis at September 30, 2018 and December 31, 2017, respectively.

Certain investments that are measured at fair value using the net asset value have not been classified in the fair value hierarchy. The fair value amounts presented in the table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the Consolidated Balance Sheets.





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Comerica Incorporated and Subsidiaries

## NOTE 3 - INVESTMENT SECURITIES

A summary of the Corporation's investment securities follows:

| (in millions)   | Amortized<br>Cost | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Fair Value |
|---|-------------------|------------------------------|-------------------------------|------------|
| September 30, 2018  |                   |                              |                               |            |
| Investment securities available-for-sale:                 |                   |                              |                               |            |
| U.S. Treasury and other U.S. government agency securities | \$ 2,731          | \$ —                         | \$ 32                         | \$ 2,699   |
| Residential mortgage-backed securities (a)                | 9,496             | 6                            | 339                           | 9,163      |
| Total investment securities available-for-sale            | \$ 12,227         | \$ 6                         | \$ 371                        | \$ 11,862  |

December 31, 2017

|   |           |       |        |           |
|---|-----------|-------|--------|-----------|
| Investment securities available-for-sale:                 |           |       |        |           |
| U.S. Treasury and other U.S. government agency securities | \$ 2,743  | \$ —  | \$ 16  | \$ 2,727  |
| Residential mortgage-backed securities (a)                | 8,230     | 22    | 128    | 8,124     |
| State and municipal securities                            | 5         | —     | —      | 5         |
| Equity and other non-debt securities                      | 83        | 1     | 2      | 82        |
| Total investment securities available-for-sale (b)        | \$ 11,061 | \$ 23 | \$ 146 | \$ 10,938 |

Investment securities held-to-maturity (c):

|  |          |      |       |          |
|--|----------|------|-------|----------|
| Residential mortgage-backed securities (a) | \$ 1,266 | \$ — | \$ 20 | \$ 1,246 |
|--|----------|------|-------|----------|

(a) 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 \$51 million and \$49 million, respectively, as of December 31, 2017.

(c) The amortized cost of investment securities held-to-maturity included net unrealized losses of \$9 million at December 31, 2017 related to securities transferred from available-for-sale in 2014, which are included in accumulated other comprehensive loss.

In connection with the adoption of ASU 2016-01 on January 1, 2018, cumulative unrealized gains and losses on available-for-sale equity and other non-debt securities were reclassified to retained earnings and the carrying value was reclassified to other short-term investments. Additionally, the Corporation transferred residential mortgage-backed securities with a book value of approximately \$1.3 billion from held-to-maturity to available-for-sale upon the adoption of ASU 2017-12. For additional information about the adoption of ASU 2016-01, refer to note 1.

A summary of the Corporation's investment securities in an unrealized loss position as of September 30, 2018 and December 31, 2017 follows:

| (in millions)   | Temporarily Impaired |                   |            |                   | Fair Value | Unrealized Losses |
|---|----------------------|-------------------|------------|-------------------|------------|-------------------|
|   | Less than 12 Months  | 12 Months or more | Fair Value | Unrealized Losses |            |                   |
| September 30, 2018  |                      |                   |            |                   |            |                   |
| U.S. Treasury and other U.S. government agency securities | \$ 1,852             | \$ 30             | \$ 182     | \$ 2              | \$ 2,034   | \$ 32             |
| Residential mortgage-backed securities (a)                | 4,280                | 106               | 4,363      | 233               | 8,643      | 339               |
| Total temporarily impaired securities                     | \$ 6,132             | \$ 136            | \$ 4,545   | \$ 235            | \$ 10,677  | \$ 371            |
| December 31, 2017   |                      |                   |            |                   |            |                   |
| U.S. Treasury and other U.S. government agency securities | \$ 2,727             | \$ 16             | \$ —       | \$ —              | \$ 2,727   | \$ 16             |

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|  |         |       |         |        |          |        |
|--|---------|-------|---------|--------|----------|--------|
| Residential mortgage-backed securities (a) | 3,845   | 32    | 4,003   | 125    | 7,848    | 157    |
| State and municipal securities (b)         | —       | —     | 5       | —      | (c) 5    | — (c)  |
| Equity and other non-debt securities (b)   | —       | —     | 44      | 2      | 44       | 2      |
| Total temporarily impaired securities      | \$6,572 | \$ 48 | \$4,052 | \$ 127 | \$10,624 | \$ 175 |

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

(b) Primarily auction-rate securities.

(c) Unrealized losses less than \$0.5 million.

At September 30, 2018, the Corporation had 409 securities in an unrealized loss position with no credit impairment, including 19 U.S. Treasury securities and 390 residential mortgage-backed securities. The unrealized losses for these securities resulted from changes in market interest rates, not changes in credit quality. 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-

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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, 2018.

Sales, primarily from repositioning \$1.3 billion of lower-yielding treasury securities, 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.

| (in millions)         | Three Months Ended |      | Nine Months Ended  |      |
|-----------------------|--------------------|------|--------------------|------|
|                       | September 30, 2018 |      | September 30, 2017 |      |
|                       | 2018               | 2017 | 2018               | 2017 |
| Securities gains      | \$ —               | \$ — | —\$ 1              | \$ — |
| Securities losses     | (20 )              | —    | (20 )              | —    |
| Net securities losses | \$ (20 )           | \$ — | —\$ (19 )          | \$ — |

The following table summarizes the amortized cost and fair values of debt securities by contractual maturity.

Securities with multiple maturity dates are classified in the period of final maturity. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

(in millions)

| September 30, 2018                 | Amortized Cost |          | Fair Value |
|------------------------------------|----------------|----------|------------|
|                                    | Cost           | Value    |            |
| Contractual maturity               |                |          |            |
| Within one year                    | \$100          | \$100    |            |
| After one year through five years  | 2,993          | 2,958    |            |
| After five years through ten years | 1,634          | 1,598    |            |
| After ten years                    | 7,500          | 7,206    |            |
| Total investment securities        | \$12,227       | \$11,862 |            |

Included in the contractual maturity distribution in the table above were residential mortgage-backed securities with total amortized cost of \$9.5 billion and fair value of \$9.2 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, 2018, investment securities with a carrying value of \$317 million were pledged where permitted or required by law to secure \$224 million of liabilities, primarily public and other deposits of state and local government agencies as well as 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.

| (in millions)                            | Loans Past Due and Still Accruing |               |                    |        | Nonaccrual<br>Loans | Current<br>Loans | Total<br>Loans |
|--|-----------------------------------|---------------|--------------------|--------|---------------------|------------------|----------------|
|  | 30-59<br>Days                     | 60-89<br>Days | 90 Days<br>or More | Total  |                     |                  |                |
| September 30, 2018                       |                                   |               |                    |        |                     |                  |                |
| Business loans:                          |                                   |               |                    |        |                     |                  |                |
| Commercial                               | \$ 74                             | \$ 50         | \$ 25              | \$ 149 | \$ 149              | \$30,591         | \$30,889       |
| Real estate construction:                |                                   |               |                    |        |                     |                  |                |
| Commercial Real Estate business line (a) | —                                 | —             | —                  | —      | —                   | 2,780            | 2,780          |
| Other business lines (b)                 | 36                                | —             | —                  | 36     | —                   | 342              | 378            |
| Total real estate construction           | 36                                | —             | —                  | 36     | —                   | 3,122            | 3,158          |
| Commercial mortgage:                     |                                   |               |                    |        |                     |                  |                |
| Commercial Real Estate business line (a) | 1                                 | —             | —                  | 1      | 2                   | 1,757            | 1,760          |
| Other business lines (b)                 | 31                                | 6             | 3                  | 40     | 20                  | 7,199            | 7,259          |
| Total commercial mortgage                | 32                                | 6             | 3                  | 41     | 22                  | 8,956            | 9,019          |
| Lease financing                          | —                                 | —             | —                  | —      | 2                   | 469              | 471            |
| International                            | —                                 | —             | —                  | —      | 4                   | 1,086            | 1,090          |
| Total business loans                     | 142                               | 56            | 28                 | 226    | 177                 | 44,224           | 44,627         |
| Retail loans:                            |                                   |               |                    |        |                     |                  |                |
| Residential mortgage                     | 11                                | 7             | —                  | 18     | 34                  | 1,895            | 1,947          |
| Consumer:                                |                                   |               |                    |        |                     |                  |                |
| Home equity                              | 6                                 | 2             | —                  | 8      | 19                  | 1,699            | 1,726          |
| Other consumer                           | 2                                 | —             | —                  | 2      | —                   | 708              | 710            |
| Total consumer                           | 8                                 | 2             | —                  | 10     | 19                  | 2,407            | 2,436          |
| Total retail loans                       | 19                                | 9             | —                  | 28     | 53                  | 4,302            | 4,383          |
| Total loans                              | \$ 161                            | \$ 65         | \$ 28              | \$ 254 | \$ 230              | \$48,526         | \$49,010       |
| December 31, 2017                        |                                   |               |                    |        |                     |                  |                |
| Business loans:                          |                                   |               |                    |        |                     |                  |                |
| Commercial                               | \$ 79                             | \$ 134        | \$ 12              | \$ 225 | \$ 309              | \$30,526         | \$31,060       |
| Real estate construction:                |                                   |               |                    |        |                     |                  |                |
| Commercial Real Estate business line (a) | 3                                 | —             | —                  | 3      | —                   | 2,627            | 2,630          |
| Other business lines (b)                 | 4                                 | —             | —                  | 4      | —                   | 327              | 331            |
| Total real estate construction           | 7                                 | —             | —                  | 7      | —                   | 2,954            | 2,961          |
| Commercial mortgage:                     |                                   |               |                    |        |                     |                  |                |
| Commercial Real Estate business line (a) | 14                                | —             | —                  | 14     | 9                   | 1,808            | 1,831          |
| Other business lines (b)                 | 27                                | 6             | 22                 | 55     | 22                  | 7,251            | 7,328          |
| Total commercial mortgage                | 41                                | 6             | 22                 | 69     | 31                  | 9,059            | 9,159          |
| Lease financing                          | —                                 | —             | —                  | —      | 4                   | 464              | 468            |
| International                            | 13                                | —             | —                  | 13     | 6                   | 964              | 983            |
| Total business loans                     | 140                               | 140           | 34                 | 314    | 350                 | 43,967           | 44,631         |
| Retail loans:                            |                                   |               |                    |        |                     |                  |                |
| Residential mortgage                     | 10                                | 2             | —                  | 12     | 31                  | 1,945            | 1,988          |
| Consumer:                                |                                   |               |                    |        |                     |                  |                |
| Home equity                              | 5                                 | 1             | —                  | 6      | 21                  | 1,789            | 1,816          |
| Other consumer                           | 4                                 | —             | 1                  | 5      | —                   | 733              | 738            |
| Total consumer                           | 9                                 | 1             | 1                  | 11     | 21                  | 2,522            | 2,554          |

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|                    |        |        |       |        |        |          |          |
|--------------------|--------|--------|-------|--------|--------|----------|----------|
| Total retail loans | 19     | 3      | 1     | 23     | 52     | 4,467    | 4,542    |
| Total loans        | \$ 159 | \$ 143 | \$ 35 | \$ 337 | \$ 402 | \$48,434 | \$49,173 |

(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.

| (in millions)                            | Internally Assigned Rating |                        |                 |                | Total    |
|--|----------------------------|------------------------|-----------------|----------------|----------|
|  | Pass (a)                   | Special<br>Mention (b) | Substandard (c) | Nonaccrual (d) |          |
| September 30, 2018                       |                            |                        |                 |                |          |
| Business loans:                          |                            |                        |                 |                |          |
| Commercial                               | \$29,628                   | \$ 580                 | \$ 532          | \$ 149         | \$30,889 |
| Real estate construction:                |                            |                        |                 |                |          |
| Commercial Real Estate business line (e) | 2,757                      | 23                     | —               | —              | 2,780    |
| Other business lines (f)                 | 370                        | 8                      | —               | —              | 378      |
| Total real estate construction           | 3,127                      | 31                     | —               | —              | 3,158    |
| Commercial mortgage:                     |                            |                        |                 |                |          |
| Commercial Real Estate business line (e) | 1,698                      | 15                     | 45              | 2              | 1,760    |
| Other business lines (f)                 | 7,044                      | 120                    | 75              | 20             | 7,259    |
| Total commercial mortgage                | 8,742                      | 135                    | 120             | 22             | 9,019    |
| Lease financing                          | 464                        | 3                      | 2               | 2              | 471      |
| International                            | 1,066                      | 3                      | 17              | 4              | 1,090    |
| Total business loans                     | 43,027                     | 752                    | 671             | 177            | 44,627   |
| Retail loans:                            |                            |                        |                 |                |          |
| Residential mortgage                     | 1,906                      | 7                      | —               | 34             | 1,947    |
| Consumer:                                |                            |                        |                 |                |          |
| Home equity                              | 1,698                      | —                      | 9               | 19             | 1,726    |
| Other consumer                           | 709                        | 1                      | —               | —              | 710      |
| Total consumer                           | 2,407                      | 1                      | 9               | 19             | 2,436    |
| Total retail loans                       | 4,313                      | 8                      | 9               | 53             | 4,383    |
| Total loans                              | \$47,340                   | \$ 760                 | \$ 680          | \$ 230         | \$49,010 |
| December 31, 2017                        |                            |                        |                 |                |          |
| Business loans:                          |                            |                        |                 |                |          |
| Commercial                               | \$29,263                   | \$ 591                 | \$ 897          | \$ 309         | \$31,060 |
| Real estate construction:                |                            |                        |                 |                |          |
| Commercial Real Estate business line (e) | 2,630                      | —                      | —               | —              | 2,630    |
| Other business lines (f)                 | 327                        | 4                      | —               | —              | 331      |
| Total real estate construction           | 2,957                      | 4                      | —               | —              | 2,961    |
| Commercial mortgage:                     |                            |                        |                 |                |          |
| Commercial Real Estate business line (e) | 1,759                      | 20                     | 43              | 9              | 1,831    |
| Other business lines (f)                 | 7,099                      | 115                    | 92              | 22             | 7,328    |
| Total commercial mortgage                | 8,858                      | 135                    | 135             | 31             | 9,159    |
| Lease financing                          | 440                        | 23                     | 1               | 4              | 468      |
| International                            | 946                        | 11                     | 20              | 6              | 983      |
| Total business loans                     | 42,464                     | 764                    | 1,053           | 350            | 44,631   |
| Retail loans:                            |                            |                        |                 |                |          |
| Residential mortgage                     | 1,955                      | 2                      | —               | 31             | 1,988    |
| Consumer:                                |                            |                        |                 |                |          |
| Home equity                              | 1,786                      | 1                      | 8               | 21             | 1,816    |
| Other consumer                           | 737                        | 1                      | —               | —              | 738      |

|                    |          |        |          |        |          |
|--------------------|----------|--------|----------|--------|----------|
| Total consumer     | 2,523    | 2      | 8        | 21     | 2,554    |
| Total retail loans | 4,478    | 4      | 8        | 52     | 4,542    |
| Total loans        | \$46,942 | \$ 768 | \$ 1,061 | \$ 402 | \$49,173 |

(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. This category is generally consistent with the "special mention" category as defined by regulatory authorities.

(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 pages F-51 and F-52 in the Corporation's 2017 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, December 31, |        |
|----------------------------|----------------------------|--------|
|                            | 2018                       | 2017   |
| Nonaccrual loans           | \$ 230                     | \$ 402 |
| Reduced-rate loans (a)     | 9                          | 8      |
| Total nonperforming loans  | 239                        | 410    |
| Foreclosed property (b)    | 1                          | 5      |
| Total nonperforming assets | \$ 240                     | \$ 415 |

(a) There were no reduced-rate business loans at both September 30, 2018 and December 31, 2017. Reduced-rate retail loans were \$9 million at September 30, 2018 and \$8 million at December 31, 2017.

(b) Included \$1 million and \$4 million of foreclosed residential real estate properties at September 30, 2018 and December 31, 2017, respectively.

There were no retail loans secured by residential real estate properties in process of foreclosure included in nonaccrual loans at both September 30, 2018 and December 31, 2017.

## Allowance for Credit Losses

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

| (in millions)                              | 2018           |              |        | 2017           |              |        |   |
|--|----------------|--------------|--------|----------------|--------------|--------|---|
|  | Business Loans | Retail Loans | Total  | Business Loans | Retail Loans | Total  |   |
| Three Months Ended September 30            |                |              |        |                |              |        |   |
| Allowance for loan losses:                 |                |              |        |                |              |        |   |
| Balance at beginning of period             | \$635          | \$42         | \$677  | \$661          | \$44         | \$705  |   |
| Loan charge-offs                           | (24 )          | (1 )         | (25 )  | (36 )          | (1 )         | (37 )  |   |
| Recoveries on loans previously charged-off | 9              | 1            | 10     | 10             | 2            | 12     |   |
| Net loan (charge-offs) recoveries          | (15 )          | —            | (15 )  | (26 )          | 1            | (25 )  |   |
| Provision for loan losses                  | (1 )           | 2            | 1      | 21             | 10           | 31     |   |
| Foreign currency translation adjustment    | 1              | —            | 1      | 1              | —            | 1      |   |
| Balance at end of period                   | \$620          | \$44         | \$664  | \$657          | \$55         | \$712  |   |
| Nine Months Ended September 30             |                |              |        |                |              |        |   |
| Allowance for loan losses:                 |                |              |        |                |              |        |   |
| Balance at beginning of period             | \$661          | \$51         | \$712  | \$682          | \$48         | \$730  |   |
| Loan charge-offs                           | (78 )          | (4 )         | (82 )  | (115 )         | (5 )         | (120 ) |   |
| Recoveries on loans previously charged-off | 39             | 3            | 42     | 39             | 5            | 44     |   |
| Net loan charge-offs                       | (39 )          | (1 )         | (40 )  | (76 )          | —            | (76 )  |   |
| Provision for loan losses                  | (2 )           | (6 )         | (8 )   | 50             | 7            | 57     |   |
| Foreign currency translation adjustment    | —              | —            | —      | 1              | —            | 1      |   |
| Balance at end of period                   | \$620          | \$44         | \$664  | \$657          | \$55         | \$712  |   |
| As a percentage of total loans             | 1.39           | % 1.00       | % 1.35 | % 1.47         | % 1.23       | % 1.45 | % |

## September 30

Allowance for loan losses:

|                                       |       |      |       |       |      |       |
|---------------------------------------|-------|------|-------|-------|------|-------|
| Individually evaluated for impairment | \$29  | \$—  | \$29  | \$90  | \$—  | \$90  |
| Collectively evaluated for impairment | 591   | 44   | 635   | 567   | 55   | 622   |
| Total allowance for loan losses       | \$620 | \$44 | \$664 | \$657 | \$55 | \$712 |



Loans:

|                                       |          |         |          |          |         |          |
|---------------------------------------|----------|---------|----------|----------|---------|----------|
| Individually evaluated for impairment | \$269    | \$34    | \$303    | \$501    | \$37    | \$538    |
| Collectively evaluated for impairment | 44,358   | 4,349   | 48,707   | 44,198   | 4,473   | 48,671   |
| Total loans evaluated for impairment  | \$44,627 | \$4,383 | \$49,010 | \$44,699 | \$4,510 | \$49,209 |

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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<br>Months<br>Ended<br>September<br>30,<br>2018 | Three<br>Months<br>Ended<br>September<br>30,<br>2017 | Nine<br>Months<br>Ended<br>September<br>30,<br>2018 | Nine<br>Months<br>Ended<br>September<br>30,<br>2017 |
|--|--|--|---|---|
| (in millions)  |  |  |   |   |
| Balance at beginning of period                             | \$34   | \$48   | \$42  | \$41  |
| Provision for credit losses on lending-related commitments | (1 )   | (7 )   | (9 )  | —   |
| Balance at end of period                                   | \$33   | \$41   | \$33  | \$41  |

## Individually Evaluated Impaired Loans

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

| (in millions)                               | Recorded Investment In:                                 |   |                            |                                |  |
|---|---|---|----------------------------|--------------------------------|--|
|   | Impaired<br>Loans<br>with<br>No<br>Related<br>Allowance | Impaired<br>Loans<br>with<br>Related<br>Allowance | Total<br>Impaired<br>Loans | Unpaid<br>Principal<br>Balance | Related<br>Allowance<br>for Loan<br>Losses |
| September 30, 2018                          |   |   |                            |                                |  |
| Business loans:                             |   |   |                            |                                |  |
| Commercial                                  | \$66  | \$ 137  | \$ 203                     | \$ 263                         | \$ 27                                      |
| Commercial mortgage:                        |   |   |                            |                                |  |
| Commercial Real Estate business line (a)    | 38  | 1   | 39                         | 49                             | —  |
| Other business lines (b)                    | 5   | 17  | 22                         | 27                             | 2  |
| Total commercial mortgage                   | 43  | 18  | 61                         | 76                             | 2  |
| International                               | 3   | 2   | 5                          | 10                             | —  |
| Total business loans                        | 112   | 157   | 269                        | 349                            | 29   |
| Retail loans:                               |   |   |                            |                                |  |
| Residential mortgage                        |   |   |                            |                                |  |
| Consumer:                                   |   |   |                            |                                |  |
| Home equity                                 | 12  | —   | 12                         | 14                             | —  |
| Other consumer                              | 1   | —   | 1                          | 2                              | —  |
| Total consumer                              | 13  | —   | 13                         | 16                             | —  |
| Total retail loans (c)                      | 26  | 8   | 34                         | 38                             | —  |
| Total individually evaluated impaired loans | \$138   | \$ 165  | \$ 303                     | \$ 387                         | \$ 29                                      |
| December 31, 2017                           |   |   |                            |                                |  |
| Business loans:                             |   |   |                            |                                |  |
| Commercial                                  | \$105   | \$ 267  | \$ 372                     | \$ 460                         | \$ 63                                      |
| Commercial mortgage:                        |   |   |                            |                                |  |
| Commercial Real Estate business line (a)    | 39  | 1   | 40                         | 49                             | —  |
| Other business lines (b)                    | 3   | 22  | 25                         | 29                             | 3  |
| Total commercial mortgage                   | 42  | 23  | 65                         | 78                             | 3  |
| International                               | —   | 6   | 6                          | 17                             | 1  |
| Total business loans                        | 147   | 296   | 443                        | 555                            | 67   |
| Retail loans:                               |   |   |                            |                                |  |

|   |       |        |        |        |       |
|---|-------|--------|--------|--------|-------|
| Residential mortgage                        | 14    | 8      | 22     | 22     | —     |
| Consumer:                                   |       |        |        |        |       |
| Home equity                                 | 11    | —      | 11     | 14     | —     |
| Other consumer                              | 1     | —      | 1      | 2      | —     |
| Total consumer                              | 12    | —      | 12     | 16     | —     |
| Total retail loans (c)                      | 26    | 8      | 34     | 38     | —     |
| Total individually evaluated impaired loans | \$173 | \$ 304 | \$ 477 | \$ 593 | \$ 67 |

(a) Primarily loans to real estate developers.

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

(c) Individually evaluated retail loans generally have no related allowance for loan losses, primarily due to policy which results in direct write-downs of most restructured retail loans.

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The following table presents information regarding average individually evaluated impaired loans and the related interest recognized as of September 30, 2018 and 2017. Interest income recognized for the period primarily related to performing restructured loans.

| (in millions)                               | Individually Evaluated Impaired Loans |                                    |                                |                                    |
|---|---------------------------------------|------------------------------------|--------------------------------|------------------------------------|
|   | 2018                                  |                                    | 2017                           |                                    |
|   | Average Balance for the Period        | Interest Recognized for the Period | Average Balance for the Period | Interest Recognized for the Period |
| Three Months Ended September 30             |                                       |                                    |                                |                                    |
| Business loans:                             |                                       |                                    |                                |                                    |
| Commercial                                  | \$221                                 | \$ 2                               | \$442                          | \$ 2                               |
| Commercial mortgage:                        |                                       |                                    |                                |                                    |
| Commercial Real Estate business line (a)    | 40                                    | 1                                  | 25                             | 1                                  |
| Other business lines (b)                    | 24                                    | —                                  | 32                             | —                                  |
| Total commercial mortgage                   | 64                                    | 1                                  | 57                             | 1                                  |
| International                               | 5                                     | —                                  | 6                              | —                                  |
| Total business loans                        | 290                                   | 3                                  | 505                            | 3                                  |
| Retail loans:                               |                                       |                                    |                                |                                    |
| Residential mortgage                        |                                       |                                    |                                |                                    |
| Consumer loans:                             |                                       |                                    |                                |                                    |
| Home equity                                 | 11                                    | —                                  | 12                             | —                                  |
| Other consumer                              | 1                                     | —                                  | 3                              | —                                  |
| Total consumer                              | 12                                    | —                                  | 15                             | —                                  |
| Total retail loans                          | 32                                    | —                                  | 39                             | —                                  |
| Total individually evaluated impaired loans | \$322                                 | \$ 3                               | \$544                          | \$ 3                               |
| Nine Months Ended September 30              |                                       |                                    |                                |                                    |
| Business loans:                             |                                       |                                    |                                |                                    |
| Commercial                                  | \$282                                 | \$ 4                               | \$470                          | \$ 6                               |
| Commercial mortgage:                        |                                       |                                    |                                |                                    |
| Commercial Real Estate business line (a)    | 40                                    | 3                                  | 16                             | 1                                  |
| Other business lines (b)                    | 24                                    | —                                  | 33                             | —                                  |
| Total commercial mortgage                   | 64                                    | 3                                  | 49                             | 1                                  |
| International                               | 5                                     | —                                  | 9                              | —                                  |
| Total business loans                        | 351                                   | 7                                  | 528                            | 7                                  |
| Retail loans:                               |                                       |                                    |                                |                                    |
| Residential mortgage                        |                                       |                                    |                                |                                    |
| Consumer:                                   |                                       |                                    |                                |                                    |
| Home equity                                 | 11                                    | —                                  | 13                             | —                                  |
| Other consumer                              | 1                                     | —                                  | 3                              | —                                  |
| Total consumer                              | 12                                    | —                                  | 16                             | —                                  |
| Total retail loans                          | 32                                    | —                                  | 42                             | —                                  |
| Total individually evaluated impaired loans | \$383                                 | \$ 7                               | \$570                          | \$ 7                               |

(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 table details the recorded balance at September 30, 2018 and 2017 of loans considered to be troubled debt restructurings (TDRs) that were restructured during the three- and nine-month periods ended September 30, 2018 and 2017, 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)                            | 2018                 |                          |               | 2017                 |                          |                  |               |
|--|----------------------|--------------------------|---------------|----------------------|--------------------------|------------------|---------------|
|  | Type of Modification | Principal                | Total         | Type of Modification | Principal                | AB Note          | Total         |
|  | Deferment            | Interest Rate Reductions | Modifications | Deferment            | Interest Rate Reductions | Restructures (b) | Modifications |
|  | (a)                  |                          |               | (a)                  |                          |                  |               |
| Three Months Ended September 30          |                      |                          |               |                      |                          |                  |               |
| Business loans:                          |                      |                          |               |                      |                          |                  |               |
| Commercial                               | \$ 1                 | \$ —                     | \$ 1          | \$22                 | \$ —                     | \$ —             | \$ 22         |
| Commercial mortgage:                     |                      |                          |               |                      |                          |                  |               |
| Commercial Real Estate business line (c) | —                    | —                        | —             | 36                   | —                        | —                | 36            |
| Other business lines (d)                 | 1                    | —                        | 1             | —                    | —                        | —                | —             |
| Total commercial mortgage                | 1                    | —                        | 1             | 36                   | —                        | —                | 36            |
| International                            | 1                    | —                        | 1             | 2                    | —                        | —                | 2             |
| Total business loans                     | 3                    | —                        | 3             | 60                   | —                        | —                | 60            |
| Retail loans:                            |                      |                          |               |                      |                          |                  |               |
| Consumer:                                |                      |                          |               |                      |                          |                  |               |
| Home equity (e)                          | —                    | 2                        | 2             | 1                    | —                        | —                | 1             |
| Total loans                              | \$3                  | \$ 2                     | \$ 5          | \$61                 | \$ —                     | \$ —             | \$ 61         |
| Nine Months Ended September 30           |                      |                          |               |                      |                          |                  |               |
| Business loans:                          |                      |                          |               |                      |                          |                  |               |
| Commercial                               | \$32                 | \$ —                     | \$ 32         | \$95                 | \$ —                     | \$ 31            | \$ 126        |
| Commercial mortgage:                     |                      |                          |               |                      |                          |                  |               |
| Commercial Real Estate business line (c) | —                    | —                        | —             | 36                   | —                        | —                | 36            |
| Other business lines (d)                 | 3                    | —                        | 3             | 3                    | —                        | —                | 3             |
| Total commercial mortgage                | 3                    | —                        | 3             | 39                   | —                        | —                | 39            |
| International                            | 1                    | —                        | 1             | 2                    | —                        | —                | 2             |
| Total business loans                     | 36                   | —                        | 36            | 136                  | —                        | 31               | 167           |
| Retail loans:                            |                      |                          |               |                      |                          |                  |               |
| Consumer:                                |                      |                          |               |                      |                          |                  |               |
| Home equity (e)                          | —                    | 3                        | 3             | 1                    | 2                        | —                | 3             |
| Total loans                              | \$36                 | \$ 3                     | \$ 39         | \$137                | \$ 2                     | \$ 31            | \$ 170        |

(a) Primarily represents loan balances where terms were extended 90 days or more at or above contractual interest rates.

(b) Loan restructurings whereby the original loan is restructured into two notes: an "A" note, which generally reflects the portion of the modified loan which is expected to be collected; and a "B" note, which is generally fully charged off.

(c) Primarily loans to real estate developers.

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

(e)

Includes bankruptcy loans for which the court has discharged the borrower's obligation and the borrower has not reaffirmed the debt.

At September 30, 2018 and December 31, 2017, commitments to lend additional funds to borrowers whose terms have been modified in TDRs totaled \$24 million and \$31 million, respectively.

The majority of the modifications considered to be TDRs that occurred during the nine months ended September 30, 2018 and 2017 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, 2018 and 2017 were insignificant.

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

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The following table presents information regarding the recorded balance at September 30, 2018 and 2017 of loans modified by principal deferral and interest rate reduction during the twelve-month periods ended September 30, 2018 and 2017.

| (in millions)                            | Principal Deferrals |       | Interest Rate Reductions |      |
|--|---------------------|-------|--------------------------|------|
|  | 2018                | 2017  | 2018                     | 2017 |
| Balance at September 30,                 |                     |       |                          |      |
| Business loans:                          |                     |       |                          |      |
| Commercial                               | \$59                | \$127 | \$ —                     | \$ — |
| Commercial mortgage:                     |                     |       |                          |      |
| Commercial Real Estate business line (a) | —                   | 37    | —                        | —    |
| Other business lines (b)                 | 3                   | 7     | —                        | —    |
| Total commercial mortgage                | 3                   | 44    | —                        | —    |
| International                            | 1                   | 2     | —                        | —    |
| Total business loans                     | 63                  | 173   | —                        | —    |
| Retail loans:                            |                     |       |                          |      |
| Consumer:                                |                     |       |                          |      |
| Home equity (c)                          | 1                   | 1     | 3                        | 2    |
| Total principal deferrals                | \$64                | \$174 | \$ 3                     | \$ 2 |

(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.

There were no loans restructured into two notes (AB note restructures) during the twelve-month period ended September 30, 2018, compared to loans with a carrying value of \$31 million during the twelve-month period ended September 30, 2017.

For principal deferrals, incremental deterioration in the credit quality of the loan, represented by a downgrade in the risk rating of the loan, for example, due to missed interest payments or a reduction of collateral value, is considered a subsequent default. For interest rate reductions and AB note restructures, 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 defaults of principal deferrals during the three- and nine-month periods ended September 30, 2018 and \$4 million and \$8 million during the three- and nine-month periods ended September 30, 2017, respectively. There were no subsequent defaults of interest rate reductions or AB note restructures during the three- and nine-month periods ended September 30, 2018 and 2017.

**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 positions are monitored quarterly. Market risk inherent in derivative instruments held or issued for risk management purposes is typically offset by changes in the fair value of the assets or liabilities being hedged.

Credit risk is the possible loss that may occur in the event of nonperformance by the counterparty to a financial instrument. The Corporation attempts to minimize credit risk arising from customer-initiated derivatives by evaluating the creditworthiness of each customer, adhering to the same credit approval process used for traditional lending activities and obtaining collateral as deemed necessary. Derivatives with dealer counterparties are either cleared through a clearinghouse or settled directly with a single counterparty. For derivatives settled directly with dealer counterparties, the Corporation utilizes counterparty risk limits and monitoring procedures as well as master netting arrangements and bilateral collateral agreements to facilitate the management of credit risk. Master netting arrangements effectively reduce credit 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

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either party. At September 30, 2018, counterparties with bilateral collateral agreements had pledged \$10 million of marketable investment securities and deposited \$8 million of cash with the Corporation to secure the fair value of contracts in an unrealized gain position, and the Corporation had pledged \$4 million of marketable investment securities and posted \$173 million of cash as collateral for contracts in an unrealized loss position. For those counterparties not covered under bilateral collateral agreements, collateral is obtained, if deemed necessary, based on the results of management's credit evaluation of the counterparty. Collateral varies, but may include cash, investment securities, accounts receivable, equipment or real estate. Included in the fair value of derivative instruments are credit valuation adjustments reflecting counterparty credit risk. These adjustments are determined by applying a credit spread for the counterparty or the Corporation, as appropriate, to the total expected exposure of the derivative. There were no derivative instruments with credit-risk-related contingent features that were in a liability position at September 30, 2018.

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.

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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, 2018 and December 31, 2017. The table excludes commitments and warrants accounted for as derivatives.

| (in millions)   | September 30, 2018       |                         |                              | December 31, 2017        |                         |                              |
|---|--------------------------|-------------------------|------------------------------|--------------------------|-------------------------|------------------------------|
|   | Notional/Contract Amount | Gross Derivative Assets | Gross Derivative Liabilities | Notional/Contract Amount | Gross Derivative Assets | Gross Derivative Liabilities |
| Risk management purposes  |                          |                         |                              |                          |                         |                              |
| Derivatives designated as hedging instruments   |                          |                         |                              |                          |                         |                              |
| Interest rate contracts:  |                          |                         |                              |                          |                         |                              |
| Swaps - fair value - receive fixed/pay floating                                       | \$2,625                  | \$—                     | \$ 3                         | \$1,775                  | \$—                     | \$ 2                         |
| Derivatives used as economic hedges   |                          |                         |                              |                          |                         |                              |
| Foreign exchange contracts:   |                          |                         |                              |                          |                         |                              |
| Spot, forwards and swaps  | 328                      | 1                       | —                            | 650                      | —                       | 2                            |
| Total risk management purposes  | 2,953                    | 1                       | 3                            | 2,425                    | —                       | 4                            |
| Customer-initiated and other activities   |                          |                         |                              |                          |                         |                              |
| Interest rate contracts:  |                          |                         |                              |                          |                         |                              |
| Caps and floors written   | 799                      | —                       | 2                            | 635                      | —                       | —                            |
| Caps and floors purchased   | 799                      | 2                       | —                            | 635                      | —                       | —                            |
| Swaps   | 12,770                   | 29                      | 126                          | 13,119                   | 57                      | 57                           |
| Total interest rate contracts   | 14,368                   | 31                      | 128                          | 14,389                   | 57                      | 57                           |
| Energy contracts:   |                          |                         |                              |                          |                         |                              |
| Caps and floors written   | 258                      | —                       | 21                           | 164                      | —                       | 11                           |
| Caps and floors purchased   | 258                      | 21                      | —                            | 164                      | 11                      | —                            |
| Swaps   | 2,079                    | 198                     | 198                          | 1,519                    | 82                      | 80                           |
| Total energy contracts  | 2,595                    | 219                     | 219                          | 1,847                    | 93                      | 91                           |
| Foreign exchange contracts:   |                          |                         |                              |                          |                         |                              |
| Spot, forwards, options and swaps   | 1,974                    | 16                      | 14                           | 1,884                    | 42                      | 38                           |
| Total customer-initiated and other activities   | 18,937                   | 266                     | 361                          | 18,120                   | 192                     | 186                          |
| Total gross derivatives   | \$21,890                 | \$267                   | \$ 364                       | \$20,545                 | \$192                   | \$ 190                       |
| Amounts offset in the Consolidated Balance Sheets:                                    |                          |                         |                              |                          |                         |                              |
| Netting adjustment - Offsetting derivative assets/liabilities                         |                          | (42 )                   | (42 )                        |                          | (49 )                   | (49 )                        |
| Netting adjustment - Cash collateral received/posted                                  |                          | (6 )                    | (173 )                       |                          | (1 )                    | (39 )                        |
| Net derivatives included in the Consolidated Balance Sheets                           |                          | 219                     | 149                          |                          | 142                     | 102                          |
| (b)   |                          |                         |                              |                          |                         |                              |
| Amounts not offset in the Consolidated Balance Sheets:                                |                          |                         |                              |                          |                         |                              |
| Marketable securities pledged under bilateral collateral agreements                   |                          | (10 )                   | (8 )                         |                          | (3 )                    | (24 )                        |
| Net derivatives after deducting amounts not offset in the Consolidated Balance Sheets |                          | \$209                   | \$ 141                       |                          | \$139                   | \$ 78                        |

(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 \$3 million and \$4 million at September 30, 2018 and December 31, 2017, respectively.

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## Risk Management

The Corporation's derivative instruments used for managing interest rate risk currently comprise swaps converting fixed-rate long-term debt to variable rates.

The following table details the effects of fair value hedging on the Consolidated Statements of Comprehensive Income.

|   | Interest on Medium-<br>and Long-Term Debt            |      |   |      |
|---|--|------|---|------|
|   | Three<br>Months<br>Ended<br>September<br>30,<br>2018 |      | Nine<br>Months<br>Ended<br>September<br>30,<br>2017 |      |
| (in millions)                                   | 2018   | 2017 | 2018  | 2017 |
| Total interest on medium-and long-term debt (a) | \$40   | \$19 | \$97  | \$56 |

Fair value hedging relationships:

Interest rate contracts:

Hedged items

21 19 51 64

Derivatives designated as hedging instruments (1 ) (7 ) (7 ) (27 )

(a) Includes the effects of hedging.

The following table summarizes the expected weighted average remaining maturity of the notional amount of risk management interest rate swaps, the carrying amount of the related hedged items and the weighted average interest rates associated with amounts expected to be received or paid on interest rate swap agreements as of September 30, 2018 and December 31, 2017.

| (dollar amounts in millions)   | Derivative<br>Notional<br>Amount | Carrying<br>Value of Hedged<br>Items<br>(a) | Weighted Average<br>Remaining<br>Maturity<br>(in years) | Receive Rate |     | Pay Rate |     |
|--|----------------------------------|---|---|--------------|-----|----------|-----|
|  |                                  |   |   | (b)          | (b) | (b)      | (b) |
| September 30, 2018   |                                  |   |   |              |     |          |     |
| Swaps - fair value - receive fixed/pay floating rate<br>Medium- and long-term debt | \$ 2,625                         | \$ 2,618                                    | 4.2   | 3.40         | %   | 3.20     | %   |
| December 31, 2017  |                                  |   |   |              |     |          |     |
| Swaps - fair value - receive fixed/pay floating rate<br>Medium- and long-term debt | 1,775                            | 1,822                                       | 4.6   | 3.26         |     | 2.35     |     |

Included \$5 million and \$56 million of cumulative hedging adjustments at September 30, 2018 and December 31, (a) 2017, respectively, which included \$8 million and \$9 million, respectively, of hedging adjustment on a discontinued hedging relationship.

(b) Variable rates paid on receive fixed swaps are based on one- and six-month LIBOR rates in effect at September 30, 2018 and six-month LIBOR rates in effect at December 31, 2017.

Foreign exchange rate risk arises from changes in the value of certain assets and liabilities denominated in foreign currencies. The Corporation employs spot and forward contracts in addition to swap contracts to manage exposure to these and other risks. These instruments are used as economic hedges and net gains or losses are included in other noninterest income in the Consolidated Statements of Comprehensive Income.

Customer-Initiated and Other

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

For customer-initiated foreign exchange contracts where offsetting positions have not been taken, the Corporation manages the remaining inherent market risk through individual foreign currency position limits and aggregate value-at-risk limits. These limits are established annually and reviewed quarterly. For those customer-initiated derivative contracts which were not offset or where the Corporation holds a position within the limits described above, the Corporation recognized no net gains or losses in other noninterest income in the Consolidated Statements of Comprehensive Income for both the three- and nine-month periods ended September 30, 2018 and 2017.

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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.

| (in millions)              | Location of Gain         | Three Months Ended September 30, |       | Nine Months Ended September 30, |       |
|----------------------------|--------------------------|----------------------------------|-------|---------------------------------|-------|
|                            |                          | 2018                             | 2017  | 2018                            | 2017  |
| Interest rate contracts    | Other noninterest income | \$ 9                             | \$ 5  | \$ 20                           | \$ 18 |
| Energy contracts           | Other noninterest income | 1                                | 1     | 1                               | 2     |
| Foreign exchange contracts | Foreign exchange income  | 11                               | 11    | 35                              | 33    |
| Total                      |                          | \$ 21                            | \$ 17 | \$ 56                           | \$ 53 |

**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, 2018 | December 31, 2017 |
|---|--------------------|-------------------|
| Unused commitments to extend credit:                              |                    |                   |
| Commercial and other  | \$ 23,591          | \$ 22,636         |
| Bankcard, revolving check credit and home equity loan commitments | 2,990              | 2,833             |
| Total unused commitments to extend credit                         | \$ 26,581          | \$ 25,469         |
| Standby letters of credit   | \$ 3,228           | \$ 3,228          |
| Commercial letters of credit                                      | 34                 | 39                |

The Corporation maintains an allowance to cover probable credit losses inherent in lending-related commitments, including unused commitments to extend credit, letters of credit and financial guarantees. The allowance for credit losses on lending-related commitments, included in accrued expenses and other liabilities on the Consolidated Balance Sheets, was \$33 million and \$42 million at September 30, 2018 and December 31, 2017, 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 \$25 million and \$27 million at September 30, 2018 and December 31, 2017, respectively, for probable credit losses inherent in the Corporation's unused commitments to extend credit.

**Standby and Commercial Letters of Credit**

Standby letters of credit represent conditional obligations of the Corporation which guarantee the performance of a customer to a third party. Standby letters of credit are primarily issued to support public and private borrowing arrangements, including commercial paper, bond financing and similar transactions. Commercial letters of credit are issued to finance foreign or domestic trade transactions. These contracts expire in decreasing amounts through the year 2028. The Corporation may enter into participation arrangements with third parties that effectively reduce the maximum amount of future payments which may be required under standby and commercial letters of credit. These risk participations covered \$136 million and \$127 million, respectively, of the \$3.3 billion standby and commercial

letters of credit outstanding at both September 30, 2018 and December 31, 2017.

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 \$33 million at September 30, 2018, including \$25 million in deferred fees and \$8 million in the allowance for credit losses on lending-related commitments. At December 31, 2017, the comparable amounts were \$40 million, \$25 million and \$15 million, respectively.



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The following table presents a summary of criticized standby and commercial letters of credit at September 30, 2018 and December 31, 2017. 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, 2018 | December 31, 2017 |
|---|--------------------|-------------------|
| Total criticized standby and commercial letters of credit                     | \$ 73              | \$ 88             |
| As a percentage of total outstanding standby and commercial letters of credit | 2.2 %              | 2.7 %             |

**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, 2018 and December 31, 2017, the total notional amount of the credit risk participation agreements was approximately \$631 million and \$549 million, respectively, and the fair value was insignificant for both periods. 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 \$2 million and insignificant at September 30, 2018 and December 31, 2017, 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, 2018, the weighted average remaining maturity of outstanding credit risk participation agreements was 3.3 years.

**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 (other tax credit entities). As an investor, the Corporation obtains income tax credits and deductions from the operating losses of these tax credit entities. These tax credit entities meet the definition of a VIE; however, the Corporation is not the primary beneficiary of the entities, as the general partner or the managing member has both the power to direct the activities that most significantly impact the economic performance of the entities and the obligation to absorb losses or the right to receive benefits that could be significant to the entities.

The Corporation accounts for its interests in LIHTC entities using the proportional amortization method. Exposure to loss as a result of the Corporation's involvement with LIHTC entities at September 30, 2018 was limited to \$425 million. Ownership interests in other tax credit entities are accounted for under either the cost or equity method. Exposure to loss as a result of the Corporation's involvement in other tax credit entities at September 30, 2018 was limited to \$6 million.

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 (\$164 million at September 30, 2018). 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, 2018 and 2017.

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The following table summarizes the impact of these tax credit entities on line items on the Corporation's Consolidated Statements of Comprehensive Income.

| (in millions)                                     | Three     |       | Nine      |        |
|---|-----------|-------|-----------|--------|
|   | Months    |       | Months    |        |
|   | Ended     |       | Ended     |        |
|   | September |       | September |        |
|   | 30,       | 30,   | 30,       | 30,    |
|   | 2018      | 2017  | 2018      | 2017   |
| Other noninterest income:                         |           |       |           |        |
| Amortization of other tax credit investments      | \$—       | \$—   | \$2       | \$1    |
| Provision for income taxes:                       |           |       |           |        |
| Amortization of LIHTC investments                 | 17        | 17    | 48        | 49     |
| Low income housing tax credits                    | (16)      | (16)  | (46)      | (47)   |
| Other tax benefits related to tax credit entities | (4)       | (6)   | (11)      | (18)   |
| Total provision for income taxes                  | \$(3)     | \$(5) | \$(9)     | \$(16) |

For further information on the Corporation's consolidation policy, see note 1 to the consolidated financial statements in the Corporation's 2017 Annual Report.

**NOTE 7 - MEDIUM- AND LONG-TERM DEBT**

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

| (in millions)                                     | September 30, December 31, |          |
|---|----------------------------|----------|
|   | 2018                       | 2017     |
| Parent company                                    |                            |          |
| Subordinated notes:                               |                            |          |
| 3.80% subordinated notes due 2026 (a)             | \$ 243                     | \$ 255   |
| Medium-term notes:                                |                            |          |
| 2.125% notes due 2019 (a)                         | 347                        | 347      |
| 3.70% notes due 2023 (a)                          | 842                        | —        |
| Total medium-term notes                           | 1,189                      | 347      |
| Total parent company                              | 1,432                      | 602      |
| Subsidiaries                                      |                            |          |
| Subordinated notes:                               |                            |          |
| 4.00% subordinated notes due 2025 (a)             | 332                        | 347      |
| 7.875% subordinated notes due 2026 (a)            | 195                        | 208      |
| Total subordinated notes                          | 527                        | 555      |
| Medium-term notes:                                |                            |          |
| 2.50% notes due 2020 (a)                          | 659                        | 665      |
| Federal Home Loan Bank (FHLB) advances:           |                            |          |
| Floating-rate based on FHLB auction rate due 2026 | 2,800                      | 2,800    |
| Floating-rate based on FHLB auction rate due 2028 | 1,000                      | —        |
| Total FHLB advances                               | 3,800                      | 2,800    |
| Total subsidiaries                                | 4,986                      | 4,020    |
| Total medium- and long-term debt                  | \$ 6,418                   | \$ 4,622 |

The fixed interest rates on these notes have been swapped to a variable rate and designated in a hedging (a)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.

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

Comerica Bank (the Bank), a wholly-owned subsidiary of the Corporation, is a member of the FHLB, which provides short- and long-term funding to its members through advances collateralized by real estate-related assets. In the first quarter 2018, the Bank borrowed an additional \$1.0 billion of 10-year, floating-rate FHLB advances due January 26, 2028. The interest rate on the FHLB advances resets between four and eight weeks, based on the FHLB auction rate. At September 30, 2018, the weighted-average rate on the FHLB advances was 2.24%. Each note may be prepaid in full, without penalty, at each scheduled reset date. Borrowing capacity is contingent on the amount of collateral available to be pledged to the FHLB. At September 30, 2018, \$15.9 billion of real estate-related loans were pledged to the FHLB as blanket collateral for current and potential future borrowings of approximately \$5.2 billion. On July 31, 2018, the Corporation issued \$850 million of 3.70% senior notes maturing in 2023, swapped to a floating rate at 30-day LIBOR plus 80 basis points.

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Unamortized debt issuance costs deducted from the carrying amount of medium- and long-term debt totaled \$9 million at September 30, 2018 and \$5 million at December 31, 2017.

**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, 2018 and 2017, including the amount of income tax expense (benefit) allocated to each component of other comprehensive income (loss).

|  | Nine Months<br>Ended  |         |
|--|-----------------------|---------|
| (in millions)  | September 30,<br>2018 | 2017    |
| Accumulated net unrealized losses on investment securities:  |                       |         |
| Balance at beginning of period, net of tax   | \$(101)               | \$(33 ) |
| Cumulative effect of change in accounting principle  | 1                     | —       |
| Net unrealized holding (losses) gains arising during the period  | (254 )                | 18      |
| Less: (Benefit) provision for income taxes   | (59 )                 | 7       |
| Net unrealized holding (losses) gains arising during the period, net of tax                                  | (195 )                | 11      |
| Less:  |                       |         |
| Net realized losses included in net securities losses  | (20 )                 | —       |
| Less: Benefit for income taxes   | (5 )                  | —       |
| Reclassification adjustment for net securities losses included in net income, net of tax                     | (15 )                 | —       |
| Less:  |                       |         |
| Net losses realized as a yield adjustment in interest on investment securities                               | —                     | (3 )    |
| Less: Benefit for income taxes   | —                     | (1 )    |
| Reclassification adjustment for net losses realized as a yield adjustment included in net income, net of tax | —                     | (2 )    |
| Change in net unrealized (losses) gains on investment securities, net of tax                                 | (180 )                | 13      |
| Balance at end of period, net of tax   | \$(280)               | \$(20 ) |
| Accumulated defined benefit pension and other postretirement plans adjustment:                               |                       |         |
| Balance at beginning of period, net of tax   | \$(350)               | \$(350) |
| Amortization of actuarial net loss   | 45                    | 38      |
| Amortization of prior service credit   | (20 )                 | (20 )   |
| Amounts recognized in other noninterest expense  | 25                    | 18      |
| Less: Provision for income taxes   | 6                     | 7       |
| Change in defined benefit pension and other postretirement plans adjustment, net of tax                      | 19                    | 11      |
| Balance at end of period, net of tax   | \$(331)               | \$(339) |
| Total accumulated other comprehensive loss at end of period, net of tax                                      | \$(611)               | \$(359) |

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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<br>Months<br>Ended<br>September<br>30, |        | Nine<br>Months<br>Ended<br>September<br>30, |        |
|---|--|--------|---|--------|
| (in millions, except per share data)                | 2018   | 2017   | 2018  | 2017   |
| Basic and diluted                                   |  |        |   |        |
| Net income  | \$318  | \$226  | \$925                                       | \$631  |
| Less:   |  |        |   |        |
| Income allocated to participating securities        | 2  | 2      | 6   | 5      |
| Net income attributable to common shares            | \$316  | \$224  | \$919                                       | \$626  |
| Basic average common shares                         | 167  | 174    | 170   | 175    |
| Basic net income per common share                   | \$1.89                                       | \$1.29 | \$5.41                                      | \$3.58 |
| Basic average common shares                         | 167  | 174    | 170   | 175    |
| Dilutive common stock equivalents:                  |  |        |   |        |
| Net effect of the assumed exercise of stock options | 2  | 2      | 2   | 3      |
| Net effect of the assumed exercise of warrants      | 1  | 1      | 1   | 1      |
| Diluted average common shares                       | 170  | 177    | 173   | 179    |
| Diluted net income per common share                 | \$1.86                                       | \$1.26 | \$5.32                                      | \$3.50 |

There were no anti-dilutive options for any of the three- and nine-month periods ended September 30, 2018 and 2017.

## NOTE 10 - EMPLOYEE BENEFIT PLANS

Net periodic defined benefit cost (credit) comprise service cost and other components of net benefit cost (credit).

Service costs are included in salaries and benefits expense and other components of net benefit cost (credit) are included in other noninterest expenses on the Consolidated Statements of Comprehensive Income. For further information on the Corporation's employee benefit plans, refer to note 17 to the consolidated financial statements in the Corporation's 2017 Annual Report.

The components of net periodic benefit cost (credit) for the Corporation's qualified pension plan, non-qualified pension plan and postretirement benefit plan are as follows.

|   | Three<br>Months<br>Ended<br>September<br>30, |       | Nine<br>Months<br>Ended<br>September<br>30, |        |
|---|--|-------|---|--------|
| (in millions)                           | 2018   | 2017  | 2018  | 2017   |
| Qualified Defined Benefit Pension Plan  |  |       |   |        |
| Service cost                            | \$7  | \$7   | \$22  | \$21   |
| Other components of net benefit credit: |  |       |   |        |
| Interest cost                           | 19   | 19    | 56  | 58     |
| Expected return on plan assets          | (41 )  | (39 ) | (123 )                                      | (118 ) |
| Amortization of prior service credit    | (5 )   | (5 )  | (14 )                                       | (14 )  |

|  |           |           |        |        |
|--|-----------|-----------|--------|--------|
| Amortization of net loss                     | 13        | 11        | 38     | 32     |
| Total other components of net benefit credit | (14 )     | (14 )     | (43 )  | (42 )  |
| Net periodic defined benefit credit          | \$(7)     | \$(7)     | \$(21) | \$(21) |
|  | Three     | Nine      |        |        |
|  | Months    | Months    |        |        |
| Non-Qualified Defined Benefit Pension Plan   | Ended     | Ended     |        |        |
|  | September | September |        |        |
|  | 30,       | 30,       |        |        |
| (in millions)                                | 2018      | 2017      | 2018   | 2017   |
| Service cost                                 | \$ —      | \$ —      | \$ 1   | \$ 1   |
| Other components of net benefit cost:        |           |           |        |        |
| Interest cost                                | 2         | 2         | 6      | 6      |
| Amortization of prior service credit         | (1 )      | (2 )      | (6 )   | (6 )   |
| Amortization of net loss                     | 2         | 2         | 7      | 6      |
| Total other components of net benefit cost   | 3         | 2         | 7      | 6      |
| Net periodic defined benefit cost            | \$ 3      | \$ 2      | \$ 8   | \$ 7   |

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|   | Three<br>Months<br>Ended<br>September<br>30,<br>2018 | Nine<br>Months<br>Ended<br>September<br>30,<br>2017 | 2018    | 2017 |
|---|--|---|---------|------|
| Postretirement Benefit Plan             |  |   |         |      |
| (in millions)                           |  |   |         |      |
| Other components of net benefit credit: |  |   |         |      |
| Interest cost                           | \$ —   | \$ 1  | \$ 1    | \$ 2 |
| Expected return on plan assets          | —  | (1 )  | (2 )    | (2 ) |
| Net periodic defined benefit credit     | \$ —   | \$ —  | \$ (1 ) | \$ — |

**NOTE 11 - INCOME TAXES AND TAX-RELATED ITEMS**

Net unrecognized tax benefits were \$10 million at both September 30, 2018 and December 31, 2017. The Corporation anticipates it is reasonably possible that final settlements with tax authorities will result in a decrease in net unrecognized tax benefits of \$1 million within the next twelve months. The liability for tax-related interest and penalties included in accrued expenses and other liabilities was \$11 million at September 30, 2018, compared to \$10 million at December 31, 2017.

Net deferred tax assets were \$153 million at September 30, 2018, compared to \$141 million at December 31, 2017. The \$12 million increase in net deferred tax assets resulted primarily from an increase in deferred tax assets related to unrealized losses on investment securities available-for-sale and deferred compensation, partially offset by the decrease in the allowance for loan losses and an increase in deferred tax liabilities related to discrete tax items and the defined benefit pension plans. Included in deferred tax assets at both September 30, 2018 and December 31, 2017 were \$4 million of state net operating loss carryforwards, which expire between 2018 and 2027. The Corporation believes it is more likely than not the benefit from certain of these state net operating loss carryforwards will not be realized and, accordingly, maintained a valuation allowance of \$3 million at both September 30, 2018 and December 31, 2017.

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 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 the 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, 2017 and Forms 10-Q for the quarters ended March 31, 2018 and June 30, 2018, 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 reversed the judgment against the Corporation and remanded the case for a new trial with instructions that Michigan contract law should apply and dismissing all other claims. The case was retried in the same district court, without a jury, in January 2017, and the Corporation awaits a ruling. Management believes 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 current reserves are adequate, and the amount of any incremental liability arising from these matters is not expected to have a material adverse effect on the Corporation's consolidated financial condition, results of operations or cash flows. Legal fees of \$4 million were included in other noninterest expenses for both the three-month periods ended September 30, 2018 and 2017 and \$11 million and \$14 million for the nine-month periods ended September 30, 2018 and 2017, 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 \$33 million at September 30, 2018. 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 an estimate can currently be made. The Corporation's estimate involves significant judgment, given the varying stages of the proceedings (including the fact many are currently in preliminary stages), the existence in certain proceedings of multiple defendants (including the Corporation) whose share of liability has yet to be determined, the numerous yet-unresolved issues in many of the proceedings (including issues regarding class certification and the scope of many of the claims) and the attendant uncertainty of the various potential outcomes of such proceedings. Accordingly, the Corporation's estimate will change from time to time, and actual losses may be more or less than the current estimate.

In the event of unexpected future developments, it is possible the ultimate resolution of these matters, if unfavorable, may be material to the Corporation's consolidated financial condition, results of operations or cash flows.

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

#### NOTE 13 - RESTRUCTURING CHARGES

The Corporation launched an initiative in 2016 designed to reduce overhead and increase revenue (the "GEAR Up" initiative). The actions in the initiative include, but are not limited to, a reduction in workforce, a new retirement program, streamlining operational processes, real estate optimization including consolidating banking centers as well as reducing office and operations space, selective outsourcing of technology functions, reduction of technology system applications, enhanced sales tools and training, expanded product offerings and improved customer analytics to drive opportunities.

Certain actions associated with the GEAR Up initiative result in restructuring charges. Generally, costs associated with or incurred to generate revenue as part of the initiative are recorded according to the nature of the cost and are not included in restructuring charges. The Corporation considers the following costs associated with the initiative to be restructuring charges:

• **Employee costs:** Primarily severance costs in accordance with the Corporation's severance plan.

• **Facilities costs:** Costs pertaining to consolidating banking centers and other facilities, such as lease termination costs and decommissioning costs. Also includes accelerated depreciation and impairment of owned property to be sold.

• **Technology costs:** Impairment and other costs associated with optimizing technology infrastructure and reducing the number of applications.

• **Other costs:** Includes primarily professional fees, as well as other contract termination fees and legal fees incurred in the execution of the initiative.



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Restructuring charges are recorded as a component of noninterest expenses on the Consolidated Statements of Comprehensive Income. The following table presents changes in restructuring reserves, cumulative charges incurred to date and total expected restructuring charges:

| (in millions)                                | Employee<br>Costs | Facilities<br>Costs | Technology<br>Costs | Other<br>Costs | Total        |
|--|-------------------|---------------------|---------------------|----------------|--------------|
| Three Months Ended September 30, 2018        |                   |                     |                     |                |              |
| Balance at beginning of period               | \$ 4              | \$ —                | \$ 11               | \$ —           | \$ 15        |
| Restructuring charges                        | 2                 | 1                   | 8                   | 1              | 12           |
| Payments                                     | (3 )              | (1 )                | (12 )               | (1 )           | (17 )        |
| Balance at end of period                     | \$ 3              | \$ —                | \$ 7                | \$ —           | \$ 10        |
| Three Months Ended September 30, 2017        |                   |                     |                     |                |              |
| Balance at beginning of period               | \$ 6              | \$ —                | \$ 3                | \$ 2           | \$ 11        |
| Restructuring charges                        | 1                 | —                   | 5                   | 1              | 7            |
| Payments                                     | (1 )              | —                   | (4 )                | (1 )           | (6 )         |
| Balance at end of period                     | \$ 6              | \$ —                | \$ 4                | \$ 2           | \$ 12        |
| Nine Months Ended September 30, 2018         |                   |                     |                     |                |              |
| Balance at beginning of period               | \$ 8              | \$ —                | \$ 6                | \$ 1           | \$ 15        |
| Restructuring charges                        | 7                 | 3                   | 28                  | 1              | 39           |
| Payments                                     | (12 )             | (3 )                | (27 )               | (2 )           | (44 )        |
| Balance at end of period                     | \$ 3              | \$ —                | \$ 7                | \$ —           | \$ 10        |
| Nine Months Ended September 30, 2017         |                   |                     |                     |                |              |
| Balance at beginning of period               | \$ 10             | \$ 4                | \$ —                | \$ 4           | \$ 18        |
| Restructuring charges                        | 5                 | 5                   | 17                  | 5              | 32           |
| Payments                                     | (9 )              | (9 )                | (8 )                | (7 )           | (33 )        |
| Adjustments for non-cash charges (a)         | —                 | —                   | (5 )                | —              | (5 )         |
| Balance at end of period                     | \$ 6              | \$ —                | \$ 4                | \$ 2           | \$ 12        |
| Total restructuring charges incurred to date | \$ 69             | \$ 20               | \$ 54               | \$ 34          | \$ 177       |
| Total expected restructuring charges (b)     | 70                | 20                  | 60 - 65             | 35             | 185 -<br>190 |

(a) Adjustments for non-cash charges primarily relate to impairments of previously capitalized software costs in Technology Costs.

(b) Restructuring activities are expected to be substantially completed by 12/31/2018.

Restructuring charges directly attributable to a business segment are assigned to that business segment. For example, facilities costs pertaining to the consolidation of banking centers primarily impacted the Retail Bank. Restructuring charges incurred by areas whose services support the overall Corporation are allocated based on the methodology described in note 22 to the consolidated financial statements in the Corporation's 2017 Annual Report. Total restructuring charges assigned to the Business Bank, Retail Bank and Wealth Management were \$6 million, \$4 million and \$2 million, respectively, for the three months ended September 30, 2018 and \$23 million, \$11 million and \$5 million, respectively, for nine months ended September 30, 2018. Total restructuring charges assigned to the Business Bank, Retail Bank and Wealth Management were \$4 million, \$2 million and \$1 million, respectively, for the three months ended September 30, 2017 and \$20 million, \$7 million and \$5 million, respectively, for the nine months ended September 30, 2017.

NOTE 14 - 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. From time to time, the Corporation may make reclassifications among the segments to more appropriately reflect management's current view of the segments, and methodologies may be modified as the management accounting system is enhanced and changes occur in the organizational structure and/or product lines. During the third quarter 2018, the Small Business component was reclassified

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from Retail Bank to Business Bank. For comparability purposes, amounts in all periods are based on business unit structure and methodologies in effect at September 30, 2018.

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

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

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

The Finance segment includes the Corporation's securities portfolio and asset and liability management activities. This segment is responsible for managing the Corporation's funding, liquidity and capital needs, performing interest sensitivity analysis and executing various strategies to manage the Corporation's exposure to liquidity, interest rate risk and foreign exchange risk.

The Other category includes the income and expense impact of equity and cash, tax benefits not assigned to specific business segments, charges of an unusual or infrequent nature that are not reflective of the normal operations of the business segments and miscellaneous other expenses of a corporate nature.

For further information on the methodologies which form the basis for these results refer to note 23 to the consolidated financial statements in the Corporation's 2017 Annual Report.

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Business segment financial results are as follows:

| (dollar amounts in millions)          | Business | Retail | Wealth     | Finance | Other | Total |
|---------------------------------------|----------|--------|------------|---------|-------|-------|
| Three Months Ended September 30, 2018 | Bank     | Bank   | Management |         |       |       |
| Earnings summary:                     |          |        |            |         |       |       |
| Net interest income (expense)         | \$413    | \$141  | \$46       | \$(16)  | \$15  | \$599 |
| Provision for credit losses           | (1)      | 1      | 2          | —       | (2)   | —     |
| Noninterest income                    | 137      | 35     | 66         | (7)     | 3     | 234   |
| Noninterest expenses                  | 210      | 153    | 72         | (1)     | 18    | 452   |
| Provision (benefit) for income taxes  | 77       | 5      | 9          | (8)     | (20)  | (a)63 |
| Net income (loss)                     | \$264    | \$17   | \$29       | \$(14)  | \$22  | \$318 |
| Net credit-related charge-offs        | \$14     | \$—    | \$1        | \$—     | \$—   | \$15  |

Selected average balances:

|          |          |         |         |          |         |          |
|----------|----------|---------|---------|----------|---------|----------|
| Assets   | \$43,165 | \$2,621 | \$5,068 | \$13,696 | \$6,660 | \$71,210 |
| Loans    | 41,591   | 2,057   | 4,936   | —        | —       | 48,584   |
| Deposits | 30,286   | 20,765  | 3,988   | 929      | 125     | 56,093   |

Statistical data:

|                              |       |   |       |   |       |   |     |     |       |   |
|------------------------------|-------|---|-------|---|-------|---|-----|-----|-------|---|
| Return on average assets (b) | 2.43  | % | 0.31  | % | 2.28  | % | N/M | N/M | 1.77  | % |
| Efficiency ratio (c)         | 38.24 |   | 86.81 |   | 63.93 |   | N/M | N/M | 52.93 |   |

| (dollar amounts in millions)          | Business | Retail | Wealth     | Finance | Other | Total |
|---------------------------------------|----------|--------|------------|---------|-------|-------|
| Three Months Ended September 30, 2017 | Bank     | Bank   | Management |         |       |       |

Earnings summary:

|   |       |       |       |        |      |        |
|---|-------|-------|-------|--------|------|--------|
| Net interest income (expense)               | \$397 | \$118 | \$45  | \$(24) | \$10 | \$546  |
| Provision for credit losses                 | 12    | 4     | 9     | —      | (1)  | 24     |
| Noninterest income                          | 158   | 39    | 62    | 13     | 3    | 275    |
| Noninterest expenses                        | 227   | 156   | 70    | (1)    | 11   | 463    |
| Provision (benefit) for income taxes        | 109   | (1)   | 10    | (8)    | (2)  | (a)108 |
| Net income (loss)                           | \$207 | \$(2) | \$18  | \$(2)  | \$5  | \$226  |
| Net credit-related charge-offs (recoveries) | \$27  | \$—   | \$(2) | \$—    | \$—  | \$25   |

Selected average balances:

|          |          |         |         |          |         |          |
|----------|----------|---------|---------|----------|---------|----------|
| Assets   | \$42,749 | \$2,623 | \$5,416 | \$13,996 | \$6,467 | \$71,251 |
| Loans    | 41,334   | 2,059   | 5,270   | —        | —       | 48,663   |
| Deposits | 31,251   | 20,782  | 4,054   | 270      | 136     | 56,493   |

Statistical data:

|                              |       |   |        |   |       |   |     |     |       |   |
|------------------------------|-------|---|--------|---|-------|---|-----|-----|-------|---|
| Return on average assets (b) | 1.92  | % | (0.03) | % | 1.30  | % | N/M | N/M | 1.25  | % |
| Efficiency ratio (c)         | 40.88 |   | 99.05  |   | 64.96 |   | N/M | N/M | 56.33 |   |

(a) Included discrete tax benefits of \$23 million and \$2 million for the three months ended September 30, 2018 and 2017, respectively.

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

(c) Noninterest expenses as a percentage of the sum of net interest income and noninterest income excluding gains (losses) from securities and a derivative contract tied to the conversion rate of Visa Class B shares.

N/M – not meaningful



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| (dollar amounts in millions)         | Business | Retail | Wealth     | Finance | Other | Total   |
|--------------------------------------|----------|--------|------------|---------|-------|---------|
| Nine Months Ended September 30, 2018 | Bank     | Bank   | Management |         |       |         |
| Earnings summary:                    |          |        |            |         |       |         |
| Net interest income (expense)        | \$1,200  | \$402  | \$ 133     | \$(37 ) | \$40  | \$1,738 |
| Provision for credit losses          | (9 )     | (2 )   | (1 )       | —       | (5 )  | (17 )   |
| Noninterest income                   | 403      | 100    | 201        | 16      | 6     | 726     |
| Noninterest expenses                 | 635      | 450    | 218        | (3 )    | 46    | 1,346   |
| Provision (benefit) for income taxes | 222      | 12     | 29         | (13 )   | (40 ) | (a)210  |
| Net income (loss)                    | \$755    | \$42   | \$ 88      | \$(5 )  | \$45  | \$925   |
| Net credit-related charge-offs       | \$40     | \$—    | \$ —       | \$—     | \$—   | \$40    |

## Selected average balances:

|          |          |         |          |          |         |          |
|----------|----------|---------|----------|----------|---------|----------|
| Assets   | \$43,205 | \$2,629 | \$ 5,233 | \$13,736 | \$5,886 | \$70,689 |
| Loans    | 41,580   | 2,062   | 5,102    | —        | —       | 48,744   |
| Deposits | 30,168   | 20,888  | 3,879    | 949      | 120     | 56,004   |

## Statistical data:

|                              |       |   |       |   |       |   |     |     |       |   |
|------------------------------|-------|---|-------|---|-------|---|-----|-----|-------|---|
| Return on average assets (b) | 2.34  | % | 0.26  | % | 2.26  | % | N/M | N/M | 1.75  | % |
| Efficiency ratio (c)         | 39.59 |   | 88.81 |   | 65.51 |   | N/M | N/M | 54.12 |   |

| (dollar amounts in millions)         | Business | Retail | Wealth     | Finance | Other | Total |
|--------------------------------------|----------|--------|------------|---------|-------|-------|
| Nine Months Ended September 30, 2017 | Bank     | Bank   | Management |         |       |       |

## Earnings summary:

|   |         |        |         |         |       |         |
|---|---------|--------|---------|---------|-------|---------|
| Net interest income (expense)               | \$1,119 | \$330  | \$ 125  | \$(85 ) | \$27  | \$1,516 |
| Provision for credit losses                 | 52      | 3      | 6       | —       | (4 )  | 57      |
| Noninterest income                          | 473     | 116    | 191     | 34      | 8     | 822     |
| Noninterest expenses                        | 679     | 456    | 211     | (3 )    | 34    | 1,377   |
| Provision (benefit) for income taxes        | 300     | (5 )   | 36      | (27 )   | (31 ) | (a)273  |
| Net income (loss)                           | \$561   | \$(8 ) | \$ 63   | \$(21 ) | \$36  | \$631   |
| Net credit-related charge-offs (recoveries) | \$79    | \$1    | \$ (4 ) | \$—     | \$—   | \$76    |

## Selected average balances:

|          |          |         |          |          |         |          |
|----------|----------|---------|----------|----------|---------|----------|
| Assets   | \$42,496 | \$2,625 | \$ 5,418 | \$13,959 | \$6,972 | \$71,470 |
| Loans    | 41,109   | 2,056   | 5,266    | —        | —       | 48,431   |
| Deposits | 31,995   | 20,720  | 4,046    | 189      | 178     | 57,128   |

## Statistical data:

|                              |       |   |         |   |       |   |     |     |       |   |
|------------------------------|-------|---|---------|---|-------|---|-----|-----|-------|---|
| Return on average assets (b) | 1.77  | % | (0.05 ) | % | 1.55  | % | N/M | N/M | 1.18  | % |
| Efficiency ratio (c)         | 42.65 |   | N/M     |   | 66.76 |   | N/M | N/M | 58.82 |   |

(a) Included discrete tax benefits of \$48 million and \$31 million for the nine months ended September 30, 2018 and 2017, respectively.

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

(c) Noninterest expenses as a percentage of the sum of net interest income and noninterest income excluding gains (losses) from securities and a derivative contract tied to the conversion rate of Visa Class B shares.

N/M – not meaningful

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



market segment results for the Corporation's three primary geographic markets as well as Other Markets. Other Markets includes Florida, Arizona, the International Finance division and businesses with a national perspective. The Finance & Other category includes the Finance segment and the Other category as previously described. Market segment results are provided as supplemental information to the business segment results and may not meet all operating segment criteria as set forth in GAAP. For comparability purposes, amounts in all periods are based on market segments and methodologies in effect at September 30, 2018.

A discussion of the financial results and the factors impacting performance can be found in the section entitled "Market Segments" in the financial review.

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Market segment financial results are as follows:

(dollar amounts in millions)

| Three Months Ended September 30, 2018       | Michigan | California | Texas | Other Markets | Finance & Other | Total |
|---|----------|------------|-------|---------------|-----------------|-------|
| Earnings summary:                           |          |            |       |               |                 |       |
| Net interest income (expense)               | \$185    | \$199      | \$121 | \$95          | \$(1 )          | \$599 |
| Provision for credit losses                 | 4        | 3          | (9 )  | 4             | (2 )            | —     |
| Noninterest income                          | 75       | 43         | 33    | 86            | (3 )            | 234   |
| Noninterest expenses                        | 143      | 104        | 90    | 98            | 17              | 452   |
| Provision (benefit) for income taxes        | 25       | 34         | 16    | 15            | (27 )           | (a)63 |
| Net income                                  | \$88     | \$101      | \$57  | \$64          | \$8             | \$318 |
| Net credit-related charge-offs (recoveries) | \$8      | \$5        | \$4   | \$(2 )        | \$—             | \$15  |

Selected average balances:

|          |          |          |          |         |          |          |
|----------|----------|----------|----------|---------|----------|----------|
| Assets   | \$13,055 | \$18,336 | \$10,271 | \$9,193 | \$20,355 | \$71,210 |
| Loans    | 12,424   | 18,074   | 9,702    | 8,384   | —        | 48,584   |
| Deposits | 20,721   | 16,894   | 8,904    | 8,520   | 1,054    | 56,093   |

Statistical data:

|                              |       |        |        |        |       |       |   |
|------------------------------|-------|--------|--------|--------|-------|-------|---|
| Return on average assets (b) | 1.63  | % 2.18 | % 2.18 | % 2.75 | % N/M | 1.77  | % |
| Efficiency ratio (c)         | 54.90 | 43.12  | 58.05  | 53.97  | N/M   | 52.93 |   |

(dollar amounts in millions)

| Three Months Ended September 30, 2017 | Michigan | California | Texas | Other Markets | Finance & Other | Total  |
|---------------------------------------|----------|------------|-------|---------------|-----------------|--------|
| Earnings summary:                     |          |            |       |               |                 |        |
| Net interest income (expense)         | \$170    | \$184      | \$122 | \$84          | \$(14 )         | \$546  |
| Provision for credit losses           | 8        | 25         | (22 ) | 14            | (1 )            | 24     |
| Noninterest income                    | 79       | 41         | 33    | 107           | 15              | 275    |
| Noninterest expenses                  | 144      | 103        | 92    | 114           | 10              | 463    |
| Provision (benefit) for income taxes  | 34       | 37         | 31    | 17            | (11 )           | (a)108 |
| Net income                            | \$63     | \$60       | \$54  | \$46          | \$3             | \$226  |
| Net credit-related charge-offs        | \$2      | \$10       | \$9   | \$4           | \$—             | \$25   |

Selected average balances:

|          |          |          |          |         |          |          |
|----------|----------|----------|----------|---------|----------|----------|
| Assets   | \$13,367 | \$18,161 | \$10,435 | \$8,825 | \$20,463 | \$71,251 |
| Loans    | 12,612   | 17,916   | 9,959    | 8,176   | —        | 48,663   |
| Deposits | 21,641   | 17,316   | 9,400    | 7,730   | 406      | 56,493   |

Statistical data:

|                              |       |        |        |        |       |       |   |
|------------------------------|-------|--------|--------|--------|-------|-------|---|
| Return on average assets (b) | 1.11  | % 1.31 | % 2.00 | % 2.07 | % N/M | 1.25  | % |
| Efficiency ratio (c)         | 57.78 | 45.62  | 59.46  | 59.82  | N/M   | 56.33 |   |

(a) Included discrete tax benefits of \$23 million and \$2 million for the three months ended September 30, 2018 and 2017, respectively.

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

(c) Noninterest expenses as a percentage of the sum of net interest income and noninterest income excluding gains (losses) from securities and a derivative contract tied to the conversion rate of Visa Class B shares.

N/M – not meaningful



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Notes to Consolidated Financial Statements (unaudited)

Comerica Incorporated and Subsidiaries

| (dollar amounts in millions)<br>Nine Months Ended September 30, 2018 | Michigan | California | Texas | Other<br>Markets | Finance<br>& Other | Total   |
|--|----------|------------|-------|------------------|--------------------|---------|
| Earnings summary:  |          |            |       |                  |                    |         |
| Net interest income  | \$540    | \$582      | \$353 | \$260            | \$3                | \$1,738 |
| Provision for credit losses  | 38       | (5 )       | (37 ) | (9 )             | (4 )               | (17 )   |
| Noninterest income   | 221      | 124        | 94    | 264              | 23                 | 726     |
| Noninterest expenses   | 431      | 317        | 273   | 282              | 43                 | 1,346   |
| Provision (benefit) for income taxes                                 | 67       | 101        | 48    | 47               | (53 )              | (a)210  |
| Net income   | \$225    | \$293      | \$163 | \$204            | \$40               | \$925   |
| Net credit-related charge-offs                                       | \$7      | \$18       | \$11  | \$4              | \$—                | \$40    |

## Selected average balances:

|          |          |          |          |         |          |          |
|----------|----------|----------|----------|---------|----------|----------|
| Assets   | \$13,292 | \$18,530 | \$10,361 | \$8,884 | \$19,622 | \$70,689 |
| Loans    | 12,557   | 18,284   | 9,797    | 8,106   | —        | 48,744   |
| Deposits | 20,949   | 16,875   | 9,018    | 8,093   | 1,069    | 56,004   |

## Statistical data:

|                              |       |        |        |        |       |       |   |
|------------------------------|-------|--------|--------|--------|-------|-------|---|
| Return on average assets (b) | 1.39  | % 2.12 | % 2.10 | % 3.06 | % N/M | 1.75  | % |
| Efficiency ratio (c)         | 56.42 | 44.76  | 60.90  | 53.91  | % N/M | 54.12 |   |

(dollar amounts in millions)

| Nine Months Ended September 30, 2017        | Michigan | California | Texas | Other<br>Markets | Finance<br>& Other | Total   |
|---|----------|------------|-------|------------------|--------------------|---------|
| Earnings summary:                           |          |            |       |                  |                    |         |
| Net interest income (expense)               | \$483    | \$521      | \$337 | \$234            | \$(59 )            | \$1,516 |
| Provision for credit losses                 | 3        | 71         | (45 ) | 32               | (4 )               | 57      |
| Noninterest income                          | 242      | 128        | 98    | 312              | 42                 | 822     |
| Noninterest expenses                        | 438      | 297        | 281   | 330              | 31                 | 1,377   |
| Provision (benefit) for income taxes        | 101      | 108        | 73    | 50               | (59 )              | (a)273  |
| Net income                                  | \$183    | \$173      | \$126 | \$134            | \$15               | \$631   |
| Net credit-related charge-offs (recoveries) | \$(2 )   | \$28       | \$36  | \$14             | \$—                | \$76    |

## Selected average balances:

|          |          |          |          |         |          |          |
|----------|----------|----------|----------|---------|----------|----------|
| Assets   | \$13,331 | \$18,198 | \$10,490 | \$8,520 | \$20,931 | \$71,470 |
| Loans    | 12,637   | 17,930   | 10,028   | 7,836   | —        | 48,431   |
| Deposits | 21,827   | 17,301   | 9,712    | 7,920   | 368      | 57,128   |

## Statistical data:

|                              |       |        |        |        |       |       |   |
|------------------------------|-------|--------|--------|--------|-------|-------|---|
| Return on average assets (b) | 1.08  | % 1.26 | % 1.53 | % 2.07 | % N/M | 1.18  | % |
| Efficiency ratio (c)         | 60.29 | 45.78  | 64.44  | 60.49  | % N/M | 58.82 |   |

(a) Included discrete tax benefits of \$48 million and \$31 million for the nine months ended September 30, 2018 and 2017, respectively.

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

(c) Noninterest expenses as a percentage of the sum of net interest income and noninterest income excluding gains (losses) from securities and a derivative contract tied to the conversion rate of Visa Class B shares.

N/M – not meaningful



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## NOTE 15 - REVENUE FROM CONTRACTS WITH CUSTOMERS

Revenue from contracts with customers comprises the noninterest income earned by the Corporation in exchange for services provided to customers. The following table presents the composition of revenue from contracts with customers, segregated from other sources of noninterest income, by business segment.

| (in millions)                               | Business Bank | Retail Bank | Wealth Management | Finance & Other | Total |
|---|---------------|-------------|-------------------|-----------------|-------|
| Three Months Ended September 30, 2018       |               |             |                   |                 |       |
| Revenue from contracts with customers:      |               |             |                   |                 |       |
| Card fees (a)                               | \$ 50         | \$ 10       | \$ 1              | \$ —            | \$61  |
| Service charges on deposit accounts (a)     | 34            | 18          | 1                 | —               | 53    |
| Fiduciary income                            | —             | —           | 51                | —               | 51    |
| Commercial loan servicing fees (b)          | 5             | —           | —                 | —               | 5     |
| Brokerage fees                              | —             | —           | 7                 | —               | 7     |
| Other noninterest income (c)                | 3             | 6           | 4                 | —               | 13    |
| Total revenue from contracts with customers | 92            | 34          | 64                | —               | 190   |
| Other sources of noninterest income         | 45            | 1           | 2                 | (4 )            | 44    |
| Total noninterest income                    | \$ 137        | \$ 35       | \$ 66             | \$ (4 )         | \$234 |

## Three Months Ended September 30, 2017

|                                     |        |       |       |       |       |
|-------------------------------------|--------|-------|-------|-------|-------|
| Card fees                           | \$ 73  | \$ 11 | \$ 1  | \$ —  | \$85  |
| Service charges on deposit accounts | 36     | 20    | 1     | —     | 57    |
| Fiduciary income                    | —      | —     | 48    | —     | 48    |
| Commercial lending fees             | 21     | —     | —     | —     | 21    |
| Letter of credit fees               | 10     | —     | 1     | —     | 11    |
| Bank-owned life insurance           | —      | —     | —     | 12    | 12    |
| Foreign exchange income             | 11     | —     | —     | —     | 11    |
| Brokerage fees                      | —      | —     | 6     | —     | 6     |
| Other noninterest income            | 7      | 8     | 5     | 4     | 24    |
| Total noninterest income            | \$ 158 | \$ 39 | \$ 62 | \$ 16 | \$275 |

(a) Adoption of Topic 606 resulted in a change in presentation which records certain costs in the same category as the associated revenues.

The effect of this change was to reduce card fees by \$34 million and service charges on deposit accounts by \$2 million for the three months ended September 30, 2018. Refer to note 1 for further information.

(b) Included in commercial lending fees on the Consolidated Statements of Comprehensive Income.

(c) Excludes derivative, warrant and other miscellaneous income.

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Notes to Consolidated Financial Statements (unaudited)

Comerica Incorporated and Subsidiaries

| (in millions)                               | Business<br>Bank | Retail<br>Bank | Wealth<br>Management | Finance<br>&<br>Other | Total  |
|---|------------------|----------------|----------------------|-----------------------|--------|
| Nine Months Ended September 30, 2018        |                  |                |                      |                       |        |
| Revenue from contracts with customers:      |                  |                |                      |                       |        |
| Card fees (a)                               | \$ 149           | \$ 28          | \$ 3                 | \$ —                  | \$ 180 |
| Service charges on deposit accounts (a)     | 102              | 54             | 4                    | —                     | 160    |
| Fiduciary income                            | —                | —              | 155                  | —                     | 155    |
| Commercial loan servicing fees (b)          | 14               | —              | —                    | —                     | 14     |
| Brokerage fees                              | —                | —              | 20                   | —                     | 20     |
| Other noninterest income (c)                | 9                | 13             | 12                   | —                     | 34     |
| Total revenue from contracts with customers | 274              | 95             | 194                  | —                     | 563    |
| Other sources of noninterest income         | 129              | 5              | 7                    | 22                    | 163    |
| Total noninterest income                    | \$ 403           | \$ 100         | \$ 201               | \$ 22                 | \$ 726 |
| Nine Months Ended September 30, 2017        |                  |                |                      |                       |        |
| Card fees                                   | \$ 206           | \$ 32          | \$ 4                 | \$ —                  | \$ 242 |
| Service charges on deposit accounts         | 108              | 60             | 4                    | —                     | 172    |
| Fiduciary income                            | —                | —              | 148                  | —                     | 148    |
| Commercial lending fees                     | 63               | —              | —                    | —                     | 63     |
| Letter of credit fees                       | 33               | —              | 1                    | —                     | 34     |
| Bank-owned life insurance                   | —                | —              | —                    | 31                    | 31     |
| Foreign exchange income                     | 32               | —              | 1                    | —                     | 33     |
| Brokerage fees                              | —                | —              | 17                   | —                     | 17     |
| Other noninterest income                    | 31               | 24             | 16                   | 11                    | 82     |
| Total noninterest income                    | \$ 473           | \$ 116         | \$ 191               | \$ 42                 | \$ 822 |

(a) Adoption of Topic 606 resulted in a change in presentation which records certain costs in the same category as the associated revenues.

The effect of this change was to reduce card fees by \$105 million and service charges on deposit accounts by \$4 million for the nine months ended September 30, 2018. Refer to note 1 for further information.

(b) Included in commercial lending fees on the Consolidated Statements of Comprehensive Income.

(c) Excludes derivative, warrant and other miscellaneous income.

Adjustments to revenue during the three- and nine-month periods ended September 30, 2018 for refunds or credits relating to prior periods were not significant.

Revenue from contracts with customers did not generate significant contract assets and liabilities.

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## ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

## FORWARD-LOOKING STATEMENTS

This report includes forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995. In addition, the Corporation may make other written and oral communications from time to time that contain such statements. All statements regarding the Corporation's expected financial position, strategies and growth prospects and general economic conditions expected to exist in the future are forward-looking statements. The words, "anticipates," "believes," "contemplates," "feels," "expects," "estimates," "seeks," "strives," "plans," "intends," "outlook," "forecast," "position," "target," "mission," "assume," "achievable," "potential," "strategy," "goal," "aspiration," "opportunity," "initiative," "outcome," "continue," "remain," "maintain," "on track," "trend," "objective," "looks forward," "projects," "models," and variations of such words and similar expressions, or future or conditional verbs such as "will," "would," "should," "could," "might," "can," "may" or similar expressions, as they relate to the Corporation or its management, are intended to identify forward-looking statements. These forward-looking statements are predicated on the beliefs and assumptions of the Corporation's management based on information known to the Corporation's management as of the date of this report and do not purport to speak as of any other date. Forward-looking statements may include descriptions of plans and objectives of the Corporation's management for future or past operations, products or services, including the GEAR Up initiative, and forecasts of the Corporation's revenue, earnings or other measures of economic performance, including statements of profitability, business segments and subsidiaries as well as estimates of the economic benefits of the GEAR Up initiative, estimates of credit trends and global stability. Such statements reflect the view of the Corporation's management as of this date with respect to future events and are subject to risks and uncertainties. Should one or more of these risks materialize or should underlying beliefs or assumptions prove incorrect, the Corporation's actual results could differ materially from those discussed. Factors that could cause or contribute to such differences are changes in general economic, political or industry conditions; changes in monetary and fiscal policies; whether the Corporation may achieve opportunities for revenue enhancements and efficiency improvements under the GEAR Up initiative, or changes in the scope or assumptions underlying the GEAR Up initiative; operational difficulties, failure of technology infrastructure or information security incidents; reliance on other companies to provide certain key components of business infrastructure; the Corporation's ability to maintain adequate sources of funding and liquidity; the effects of more stringent capital or liquidity requirements; declines or other changes in the businesses or industries of the Corporation's customers; unfavorable developments concerning credit quality; changes in regulation or oversight; changes in the financial markets, including fluctuations in interest rates and their impact on deposit pricing; transitions away from LIBOR towards new interest rate benchmarks; reductions in the Corporation's credit rating; damage to the Corporation's reputation; the Corporation's ability to utilize technology to efficiently and effectively develop, market and deliver new products and services; competitive product and pricing pressures among financial institutions within the Corporation's markets; the interdependence of financial service companies; the implementation of the Corporation's strategies and business initiatives; changes in customer behavior; management's ability to maintain and expand customer relationships; the effectiveness of methods of reducing risk exposures; the effects of catastrophic events including, but not limited to, hurricanes, tornadoes, earthquakes, fires, droughts and floods; the effects of recent tax reform and potential legislative, administrative or judicial changes or interpretations related to these and other tax regulations; any future strategic acquisitions or divestitures; management's ability to retain key officers and employees; the impact of legal and regulatory proceedings or determinations; the effects of terrorist activities and other hostilities; changes in accounting standards; the critical nature of the Corporation's accounting policies and the volatility of the Corporation's stock price. The Corporation cautions that the foregoing list of factors is not all-inclusive. For discussion of factors that may cause actual results to differ from expectations, please refer to our filings with the Securities and Exchange Commission. In particular, please refer to "Item 1A. Risk Factors" beginning on page 11 of the Corporation's Annual Report on Form 10-K for the year ended December 31, 2017 and "Item 1A. Risk Factors" beginning on page 59 of the Corporation's Quarterly Report on Form 10-Q for the quarter ended June 30, 2018. Forward-looking statements speak only as of the date they are made. The Corporation does not undertake to update forward-looking statements to reflect facts, circumstances, assumptions or events that occur after the date the forward-looking statements are made. For any forward-looking statements made in this report or in any documents, the Corporation claims the protection of the safe harbor for forward-looking



statements contained in the Private Securities Litigation Reform Act of 1995.

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## RESULTS OF OPERATIONS

Net income for the three months ended September 30, 2018 was \$318 million, an increase of \$92 million from \$226 million reported for the three months ended September 30, 2017. Net income per diluted common share for the same respective periods was \$1.86 compared to \$1.26. Net income for the nine months ended September 30, 2018 was \$925 million, an increase of \$294 million from \$631 million reported for the nine months ended September 30, 2017. Net income per diluted common share for the same respective periods was \$5.32 compared to \$3.50. Management of loan and deposit pricing in a rising rate environment, improved credit quality, successful execution of GEAR Up initiatives and a decrease in the federal statutory tax rate in 2018 resulting from the Tax Cuts and Jobs Act contributed to the increase in net income.

The following table lists certain items impacting net income and earnings per share for the three- and nine-month periods ended September 30, 2018 and 2017.

|   | Three Months Ended |                    | Nine Months Ended  |                    |
|---|--------------------|--------------------|--------------------|--------------------|
|   | September 30, 2018 | September 30, 2017 | September 30, 2018 | September 30, 2017 |
| (in millions, except per share data)          | Amount             | Per Share          | Amount             | Per Share          |
| Securities repositioning loss, net of tax (a) | \$(15)             | \$(0.09)           | \$ —               | \$ —               |
| Restructuring charges, net of tax             | (9)                | (0.05)             | (4)                | (0.02)             |
| Discrete tax benefits (b)                     | 23                 | 0.14               | 48                 | 0.28               |

(a) Losses incurred on the sale of \$1.3 billion of treasury securities that were replaced by higher-yielding securities.

(b) Primarily tax benefits from the review of tax capitalization and recovery positions on fixed assets and software on the 2017 tax return and from employee stock transactions.

## Growth in Efficiency and Revenue Initiative

Since the GEAR Up initiative was launched in 2016, the Corporation has consolidated 38 banking centers, implemented a new retirement program resulting in a significant reduction in retirement plan expense and reduced the number of full-time equivalent employees by over 900, including a reduction of approximately 100 in the first nine months of 2018, among other initiatives. The impact of increases in short-term rates and the execution of certain GEAR Up initiatives helped lower the efficiency ratio to 52.9 percent and 54.1 percent for the three- and nine-month periods ended September 30, 2018, respectively, and increase return on equity to 16.2 percent and 15.6 percent for the same periods, respectively. The Corporation anticipates cumulative benefits to pre-tax income from GEAR Up initiatives of approximately \$270 million and \$305 million for full-year 2018 and 2019, respectively, relative to when the initiative was announced.

Total pre-tax restructuring charges for 2018 are expected to range from \$47 million to \$52 million including \$39 million recognized in the nine months ended September 30, 2018. No restructuring charges are anticipated beyond 2018. Cumulative restructuring charges from inception of GEAR Up through 2018 are expected to range from \$185 million to \$190 million.

## Fourth Quarter 2018 Outlook

For the fourth quarter 2018 compared to the third quarter 2018, management expects the following, assuming a continuation of the current economic and rate environment as well as the benefits from the GEAR Up initiative:

• Average loans stable with a positive trend, reflecting increases in most lines of business and a seasonal increase in National Dealer Services, mostly offset by a seasonal decrease in Mortgage Banker Finance.

• Continued growth in net interest income from the net benefit due to rising short-term interest rates and repositioning the securities portfolio, partially offset by higher average debt as well as lower interest recoveries and loan fees.

• Provision for credit losses of \$10 million to \$20 million and net charge-offs to remain low.

• Relatively stable noninterest income, excluding securities losses, bank-owned life insurance and deferred compensation asset returns.

Levels of customer derivative and investment banking income may not repeat.

GEAR Up initiatives continue to help drive growth in card fees and fiduciary income.

• Noninterest expenses modestly higher, excluding approximately \$10 million of restructuring charges.

GEAR Up savings remain on track.

Continued higher outside processing and technology expenditures.

Seasonal and typical inflationary pressures.

Income tax expense to be approximately 23 percent of pre-tax income, excluding any tax impact from employee stock transactions.

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## Net Interest Income

## Quarterly Analysis of Net Interest Income &amp; Rate/Volume

| (dollar amounts in millions)                                    | Three Months Ended |          |                 |                    |          |                 |
|---|--------------------|----------|-----------------|--------------------|----------|-----------------|
|   | September 30, 2018 |          |                 | September 30, 2017 |          |                 |
|   | Average<br>Balance | Interest | Average<br>Rate | Average<br>Balance | Interest | Average<br>Rate |
| Commercial loans  | \$30,371           | \$ 365   | 4.74 %          | \$30,603           | \$ 312   | 4.05 %          |
| Real estate construction loans                                  | 3,198              | 43       | 5.38            | 2,933              | 33       | 4.36            |
| Commercial mortgage loans                                       | 9,084              | 110      | 4.84            | 8,977              | 95       | 4.20            |
| Lease financing   | 464                | 4        | 3.69            | 470                | 3        | 3.34            |
| International loans   | 1,072              | 13       | 4.99            | 1,156              | 12       | 4.13            |
| Residential mortgage loans                                      | 1,962              | 18       | 3.71            | 2,005              | 20       | 3.95            |
| Consumer loans  | 2,433              | 28       | 4.49            | 2,519              | 25       | 3.84            |
| Total loans   | 48,584             | 581      | 4.74            | 48,663             | 500      | 4.08            |
| Mortgage-backed securities                                      | 9,063              | 54       | 2.30            | 9,361              | 51       | 2.17            |
| Other investment securities                                     | 2,698              | 12       | 1.72            | 2,883              | 12       | 1.67            |
| Total investment securities                                     | 11,761             | 66       | 2.17            | 12,244             | 63       | 2.05            |
| Interest-bearing deposits with banks                            | 5,362              | 28       | 2.03            | 5,086              | 16       | 1.26            |
| Other short-term investments                                    | 135                | —        | 1.04            | 91                 | —        | 0.72            |
| Total earning assets  | 65,842             | 675      | 4.05            | 66,084             | 579      | 3.48            |
| Cash and due from banks   | 1,107              |          |                 | 1,234              |          |                 |
| Allowance for loan losses                                       | (681 )             |          |                 | (718 )             |          |                 |
| Accrued income and other assets                                 | 4,942              |          |                 | 4,651              |          |                 |
| Total assets  | \$71,210           |          |                 | \$71,251           |          |                 |
| Money market and interest-bearing checking deposits             | \$22,573           | 32       | 0.56            | \$20,819           | 9        | 0.15            |
| Savings deposits  | 2,208              | 1        | 0.05            | 2,152              | —        | 0.02            |
| Customer certificates of deposit                                | 2,094              | 2        | 0.48            | 2,390              | 2        | 0.36            |
| Foreign office time deposits                                    | 25                 | —        | 1.25            | 75                 | —        | 0.66            |
| Total interest-bearing deposits                                 | 26,900             | 35       | 0.51            | 25,436             | 11       | 0.16            |
| Short-term borrowings   | 85                 | 1        | 1.95            | 815                | 3        | 1.15            |
| Medium- and long-term debt                                      | 6,153              | 40       | 2.55            | 4,936              | 19       | 1.60            |
| Total interest-bearing sources                                  | 33,138             | 76       | 0.90            | 31,187             | 33       | 0.42            |
| Noninterest-bearing deposits                                    | 29,193             |          |                 | 31,057             |          |                 |
| Accrued expenses and other liabilities                          | 1,062              |          |                 | 999                |          |                 |
| Total shareholders' equity                                      | 7,817              |          |                 | 8,008              |          |                 |
| Total liabilities and shareholders' equity                      | \$71,210           |          |                 | \$71,251           |          |                 |
| Net interest income/rate spread                                 |                    | \$ 599   | 3.15            |                    | \$ 546   | 3.06            |
| Impact of net noninterest-bearing sources of funds              |                    |          | 0.45            |                    |          | 0.22            |
| Net interest margin (as a percentage of average earning assets) |                    |          | 3.60 %          |                    |          | 3.28 %          |



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## Quarterly Analysis of Net Interest Income &amp; Rate/Volume (continued)

| (in millions)                        | Three Months Ended      |         |                        |
|--------------------------------------|-------------------------|---------|------------------------|
|                                      | September 30,           |         |                        |
|                                      | 2018/September 30, 2017 |         |                        |
|                                      | Increase<br>(Decrease)  |         | Net                    |
|                                      | Due to                  | Rate    | Increase<br>(Decrease) |
|                                      | Volume (a)              |         |                        |
| <b>Interest Income:</b>              |                         |         |                        |
| Loans                                | \$81                    | \$ —    | \$ 81                  |
| Investment securities                | 3                       | —       | 3                      |
| Interest-bearing deposits with banks | 11                      | 1       | 12                     |
| Total interest income                | 95                      | 1       | 96                     |
| <b>Interest Expense:</b>             |                         |         |                        |
| Interest-bearing deposits            | 22                      | 2       | 24                     |
| Short-term borrowings                | 2                       | (4 )    | (2 )                   |
| Medium- and long-term debt           | 14                      | 7       | 21                     |
| Total interest expense               | 38                      | 5       | 43                     |
| Net interest income                  | \$57                    | \$ (4 ) | \$ 53                  |

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

Net interest income was \$599 million for the three months ended September 30, 2018, an increase of \$53 million compared to \$546 million for the three months ended September 30, 2017. The increase in net interest income primarily reflected the net benefit from higher rates and a \$730 million decrease in short-term borrowings, partially offset by a \$13 million decrease in interest recoveries from elevated third quarter 2017 levels and the impact of a \$1.2 billion increase in average debt. The net interest margin for the three months ended September 30, 2018 increased 32 basis points to 3.60 percent, from 3.28 percent for the comparable period in 2017, reflecting the net benefit from higher rates, partially offset by the decrease in interest recoveries, higher average debt and the increase in lower-yielding average balances deposited with the Federal Reserve Bank (FRB).

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## Year-to-Date Analysis of Net Interest Income &amp; Rate/Volume

| (dollar amounts in millions)                                    | Nine Months Ended  |          |              |                    |          |              |
|---|--------------------|----------|--------------|--------------------|----------|--------------|
|   | September 30, 2018 |          |              | September 30, 2017 |          |              |
|   | Average Balance    | Interest | Average Rate | Average Balance    | Interest | Average Rate |
| Commercial loans  | \$30,494           | \$1,037  | 4.54 %       | \$30,313           | \$851    | 3.76 %       |
| Real estate construction loans                                  | 3,152              | 120      | 5.08         | 2,934              | 90       | 4.09         |
| Commercial mortgage loans                                       | 9,158              | 315      | 4.61         | 8,988              | 265      | 3.94         |
| Lease financing   | 462                | 13       | 3.85         | 522                | 9        | 2.40         |
| International loans   | 1,017              | 37       | 4.88         | 1,168              | 35       | 3.96         |
| Residential mortgage loans                                      | 1,988              | 56       | 3.76         | 1,981              | 55       | 3.71         |
| Consumer loans  | 2,473              | 80       | 4.32         | 2,525              | 69       | 3.63         |
| Total loans   | 48,744             | 1,658    | 4.55         | 48,431             | 1,374    | 3.79         |
| Mortgage-backed securities                                      | 9,109              | 158      | 2.25         | 9,335              | 150      | 2.16         |
| Other investment securities                                     | 2,714              | 36       | 1.72         | 2,890              | 36       | 1.66         |
| Total investment securities                                     | 11,823             | 194      | 2.13         | 12,225             | 186      | 2.04         |
| Interest-bearing deposits with banks                            | 4,625              | 63       | 1.82         | 5,598              | 44       | 1.03         |
| Other short-term investments                                    | 134                | —        | 0.90         | 92                 | —        | 0.66         |
| Total earning assets  | 65,326             | 1,915    | 3.90         | 66,346             | 1,604    | 3.23         |
| Cash and due from banks   | 1,200              |          |              | 1,187              |          |              |
| Allowance for loan losses                                       | (702 )             |          |              | (728 )             |          |              |
| Accrued income and other assets                                 | 4,865              |          |              | 4,665              |          |              |
| Total assets  | \$70,689           |          |              | \$71,470           |          |              |
| Money market and interest-bearing checking deposits             | \$22,219           | 72       | 0.43         | \$21,645           | 23       | 0.14         |
| Savings deposits  | 2,205              | 1        | 0.04         | 2,127              | —        | 0.02         |
| Customer certificates of deposit                                | 2,093              | 6        | 0.40         | 2,543              | 6        | 0.37         |
| Foreign office time deposits                                    | 30                 | —        | 1.17         | 59                 | —        | 0.60         |
| Total interest-bearing deposits                                 | 26,547             | 79       | 0.40         | 26,374             | 29       | 0.15         |
| Short-term borrowings   | 59                 | 1        | 1.79         | 331                | 3        | 1.14         |
| Medium- and long-term debt                                      | 5,647              | 97       | 2.27         | 5,084              | 56       | 1.46         |
| Total interest-bearing sources                                  | 32,253             | 177      | 0.73         | 31,789             | 88       | 0.37         |
| Noninterest-bearing deposits                                    | 29,457             |          |              | 30,754             |          |              |
| Accrued expenses and other liabilities                          | 1,072              |          |              | 988                |          |              |
| Total shareholders' equity                                      | 7,907              |          |              | 7,939              |          |              |
| Total liabilities and shareholders' equity                      | \$70,689           |          |              | \$71,470           |          |              |
| Net interest income/rate spread                                 |                    | \$1,738  | 3.17         |                    | \$1,516  | 2.86         |
| Impact of net noninterest-bearing sources of funds              |                    |          | 0.37         |                    |          | 0.19         |
| Net interest margin (as a percentage of average earning assets) |                    |          | 3.54 %       |                    |          | 3.05 %       |





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## Year-to-Date Analysis of Net Interest Income &amp; Rate/Volume (continued)

| (in millions)                        | Nine Months Ended            |                    |                               |
|--------------------------------------|------------------------------|--------------------|-------------------------------|
|                                      | September 30, 2018/September |                    |                               |
|                                      | 30, 2017                     |                    |                               |
|                                      | Increase<br>(Decrease)       | Due to             | Net<br>Increase<br>(Decrease) |
|                                      |                              | Rate<br>Volume (a) |                               |
| <b>Interest Income:</b>              |                              |                    |                               |
| Loans                                | \$ 273                       | \$ 11              | \$ 284                        |
| Investment securities                | 9                            | (1 )               | 8                             |
| Interest-bearing deposits with banks | 32                           | (13 )              | 19                            |
| Total interest income                | 314                          | (3 )               | 311                           |
| <b>Interest Expense:</b>             |                              |                    |                               |
| Interest-bearing deposits            | 49                           | 1                  | 50                            |
| Short-term borrowings                | 2                            | (4 )               | (2 )                          |
| Medium- and long-term debt           | 35                           | 6                  | 41                            |
| Total interest expense               | 86                           | 3                  | 89                            |
| Net interest income                  | \$ 228                       | \$ (6 )            | \$ 222                        |

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

Net interest income was \$1.7 billion for the nine months ended September 30, 2018, an increase of \$222 million, compared to \$1.5 billion for the nine months ended September 30, 2017. The increase in net interest income primarily reflected the net benefit from higher rates. The impact of a \$973 million decrease in interest-bearing deposits with banks, primarily FRB deposits, and a \$563 million increase in medium- and long-term debt were partially offset by the benefit from a \$313 million increase in average loans and a \$272 million decrease in short-term borrowings. The net interest margin for the nine months ended September 30, 2018 increased 49 basis points to 3.54 percent, from 3.05 percent for the comparable period in 2017, reflecting the net benefit from higher rates and the decrease in lower-yielding average balances deposited with the FRB.

For further discussion of the effects of market rates on net interest income, refer to the "Market and Liquidity Risk" section of this financial review.

**Provision for Credit Losses**

There was no provision for credit losses for the three months ended September 30, 2018, compared to a provision of \$24 million for the three months ended September 30, 2017. The provision for credit losses was a \$17 million benefit for the nine months ended September 30, 2018, compared to a provision expense of \$57 million for the nine months ended September 30, 2017. The provision for credit losses includes both the provision for loan losses and the provision for credit losses on lending-related commitments. The provision for loan losses is recorded to maintain the allowance for loan losses at the level deemed appropriate by the Corporation to cover probable credit losses inherent in the portfolio and includes qualitative adjustments for factors that have not been fully accounted for in the quantitative reserve calculations. For example, a qualitative reserve has been established for risks associated with recently imposed tariffs and ongoing trade negotiations.

The provision for loan losses decreased \$30 million to \$1 million for the three months ended September 30, 2018, compared to \$31 million for the three months ended September 30, 2017. The decrease in the provision primarily reflected improved credit quality in most lines of business driven by lower net charge-offs and criticized loans. Net loan charge-offs decreased \$10 million to \$15 million for the three months ended September 30, 2018, compared to net loan charge-offs of \$25 million for the three months ended September 30, 2017. The decrease in net charge-offs was primarily driven by Energy. The provision for loan losses decreased \$65 million from a provision expense of \$57 million for the nine months ended September 30, 2017 to a benefit of \$8 million for the nine months ended September 30, 2018. The decrease in the provision was driven by the same reasons discussed above. Net loan charge-offs decreased \$36 million to \$40 million for the nine months ended September 30, 2018, compared to net loan charge-offs

of \$76 million for the nine months ended September 30, 2017. The decrease in net charge-offs was driven by decreases in Energy and Technology and Life Sciences.

The provision for credit losses on lending-related commitments is recorded to maintain the allowance for credit losses on lending-related commitments at the level deemed appropriate by the Corporation to cover probable credit losses inherent in lending-related commitments. The provision for credit losses on lending-related commitments increased \$6 million, from a benefit of \$7 million for the three months ended September 30, 2017 to a benefit of \$1 million for the three months ended September 30, 2018. The decrease in benefit primarily reflected credit quality improvements in the letter of credit and commercial commitments portfolio recognized in the three months ended September 30, 2017. The provision for credit losses on lending-related commitments was a benefit of \$9 million for the nine months ended September 30, 2018, compared to no provision for the nine months ended September 30, 2017. The increase in the provision benefit primarily reflected a decrease in commercial commitments, primarily

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in Energy. There were no lending-related commitment charge-offs for the three- and nine-month periods ended September 30, 2018 and 2017.

An analysis of the allowance for credit losses and nonperforming assets is presented under the "Credit Risk" subheading in the "Risk Management" section of this financial review.

Presentation Changes

Noninterest income and noninterest expenses for the three- and nine-month periods ended September 30, 2018 reflect certain presentation changes resulting from the adoption of Accounting Standards Codification Topic 606, "Revenue from Contracts with Customers," (Topic 606), effective January 1, 2018. These changes primarily impacted card fees and service charges on deposit accounts in noninterest income, fully offset by the impact to outside processing fee expense in noninterest expenses. See note 1 to the consolidated financial statements for further details on the adoption of Topic 606. The table below summarizes the proforma effects to the three- and nine-month periods ended September 30, 2017.

| (in millions)                                | Reported<br>Amounts | Proforma<br>Effects | Proforma<br>Amounts<br>(a) |
|--|---------------------|---------------------|----------------------------|
| <b>Three Months Ended September 30, 2017</b> |                     |                     |                            |
| Card fees                                    | \$ 85               | \$ (29 )            | \$ 56                      |
| Service charges on deposit accounts          | 57                  | (1 )                | 56                         |
| Total noninterest income                     | 275                 | (30 )               | 245                        |
| Outside processing fee expense               | 92                  | (30 )               | 62                         |
| Total noninterest expenses                   | 463                 | (30 )               | 433                        |
| <b>Nine Months Ended September 30, 2017</b>  |                     |                     |                            |
| Card fees                                    | \$ 242              | \$ (80 )            | \$ 162                     |
| Service charges on deposit accounts          | 172                 | (4 )                | 168                        |
| Total noninterest income                     | 822                 | (84 )               | 738                        |
| Outside processing fee expense               | 267                 | (84 )               | 183                        |
| Total noninterest expenses                   | 1,377               | (84 )               | 1,293                      |

(a) The Corporation believes proforma noninterest income and noninterest expenses (each a non-GAAP measure) provides a greater understanding of ongoing operations and enhances comparability of results with prior periods.

Noninterest Income

| (in millions)                       | Three<br>Months<br>Ended<br>September<br>30, |      | Nine<br>Months<br>Ended<br>September<br>30, |       |
|-------------------------------------|--|------|---|-------|
|                                     | 2018   | 2017 | 2018  | 2017  |
| Card fees                           | \$61   | \$85 | \$180                                       | \$242 |
| Service charges on deposit accounts | 53   | 57   | 160   | 172   |
| Fiduciary income                    | 51   | 48   | 155   | 148   |
| Commercial lending fees             | 21   | 21   | 62  | 63    |
| Letter of credit fees               | 9  | 11   | 30  | 34    |
| Bank-owned life insurance           | 11   | 12   | 29  | 31    |
| Foreign exchange income             | 12   | 11   | 36  | 33    |
| Brokerage fees                      | 7  | 6    | 20  | 17    |
| Net securities losses               | (20 )  | —    | (19 )                                       | —     |
| Other noninterest income            | 29   | 24   | 73  | 82    |

Total noninterest income                      \$234   \$275   \$726   \$822

Noninterest income decreased \$41 million to \$234 million for the three months ended September 30, 2018, compared to \$275 million for the same period in 2017. The decrease included a \$20 million loss on sale of securities from repositioning \$1.3 billion of treasury securities by purchasing securities yielding approximately \$4 million additional interest per quarter. Excluding the net losses due to repositioning the securities portfolio in the three months ended September 30, 2018 and \$30 million proforma effect of Topic 606 for the same period in 2017, noninterest income increased \$9 million. Increases of \$5 million in card fees (proforma), \$3 million in fiduciary income and smaller increases in other categories of noninterest income were partially offset by a \$3 million decrease in service charges on deposit accounts (proforma). Noninterest income decreased \$96 million to \$726 million for the nine months ended September 30, 2018, compared to \$822 million for the same period in the prior year. Excluding \$20 million of net losses due to repositioning the securities portfolio in the nine months ended September 30, 2018 and the \$84 million proforma effect of Topic 606 for the same period in 2017, noninterest income increased \$8 million, primarily reflecting increases of \$18 million in card fees (proforma) and \$7 million in fiduciary income, partially offset by decreases of \$8 million in

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service charges on deposit accounts (proforma), \$4 million in letter of credit fees and \$5 million in other noninterest income due to the wind down of a retirement savings program .

The following table illustrates certain categories included in other noninterest income on the Consolidated Statements of Comprehensive Income.

|  | Three<br>Months<br>Ended<br>September<br>30,<br>2018 |       | Nine<br>Months<br>Ended<br>September<br>30,<br>2017 |       |
|--|--|-------|---|-------|
| (in millions)                                | 2018   | 2017  | 2018  | 2017  |
| Customer derivative income                   | \$ 8   | \$ 6  | \$ 18   | \$ 20 |
| Investment banking fees                      | 3  | 2     | 7   | 7     |
| Deferred compensation asset returns (a)      | 3  | 1     | 5   | 6     |
| Insurance commissions                        | 2  | 2     | 7   | 6     |
| Securities trading income                    | 2  | 2     | 6   | 6     |
| Income from principal investing and warrants | 2  | 1     | 3   | 5     |
| All other noninterest income                 | 9  | 10    | 27  | 32    |
| Other noninterest income                     | \$ 29  | \$ 24 | \$ 73   | \$ 82 |

Compensation deferred by the Corporation's officers and directors is invested based on investment selections of the officers and directors. Income earned on these assets is reported in noninterest income and the resulting change in (a) deferred compensation plan liabilities is reported in salaries and benefits expense. Changes in income earned on deferred compensation assets are substantially offset by changes in deferred compensation plan expense.

## Noninterest Expenses

|                                | Three<br>Months<br>Ended<br>September<br>30,<br>2018 |       | Nine Months<br>Ended<br>September 30,<br>2017 |         |
|--------------------------------|--|-------|---|---------|
| (in millions)                  | 2018   | 2017  | 2018  | 2017    |
| Salaries and benefits expense  | \$254  | \$237 | \$759   | \$713   |
| Outside processing fee expense | 65   | 92    | 190   | 267     |
| Net occupancy expense          | 38   | 38    | 113   | 114     |
| Equipment expense              | 12   | 12    | 34  | 34      |
| Restructuring charges          | 12   | 7     | 39  | 32      |
| Software expense               | 32   | 35    | 95  | 95      |
| FDIC insurance expense         | 11   | 13    | 36  | 38      |
| Advertising expense            | 8  | 8     | 22  | 19      |
| Litigation-related expense     | —  | —     | —   | (2 )    |
| Other noninterest expenses     | 20   | 21    | 58  | 67      |
| Total noninterest expenses     | \$452  | \$463 | \$1,346                                       | \$1,377 |

Noninterest expenses decreased \$11 million to \$452 million for the three months ended September 30, 2018, compared to \$463 million for the same period in 2017. Excluding the \$30 million proforma effect of Topic 606 to the three months ended September 30, 2017, noninterest expenses increased \$19 million, primarily reflecting increases of \$17 million in salaries and benefits expense, \$5 million in restructuring charges and \$3 million in outside processing fee expense (proforma), partially offset by decreases of \$3 million in software expense and \$2 million in FDIC insurance expense. The increase in salaries and benefits expense primarily reflected higher share-based and incentive compensation tied to financial performance as well as merit increases, partially offset by a decrease in workforce. Noninterest expenses decreased \$31 million to \$1.3 billion for the nine months ended September 30, 2018, compared to \$1.4 billion for the same period in 2017. Excluding the \$84 million proforma effect of Topic 606 to the nine months

ended September 30, 2017, noninterest expenses increased \$53 million, reflecting increases of \$46 million in salaries and benefits expense and \$7 million each in outside processing fee expense (proforma) and restructuring charges, partially offset by a \$5 million business tax refund included in other noninterest expenses in the nine months ended September 30, 2018. The increase in salaries and benefits expense was primarily due to the same reasons as discussed above.

For further information about restructuring charges associated with the GEAR Up initiative, see note 13 to the consolidated financial statements.

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## Provision for Income Taxes

The provision for income taxes decreased \$45 million to \$63 million for the three months ended September 30, 2018, compared to \$108 million for the same period in 2017, and decreased \$63 million to \$210 million for the nine months ended September 30, 2018, compared to \$273 million for the same period in 2017. The decreases were primarily due to decreases in the statutory tax rate in 2018 resulting from the Tax Cuts and Jobs Act as well as discrete tax benefits resulting from a review of certain tax capitalization and recovery positions related to software and fixed assets included in the 2017 tax return, partially offset by lower tax benefits from employee stock transactions and higher pre-tax income. These discrete tax benefits were \$23 million and \$48 million for the three- and nine-month periods ended September 30, 2018, respectively, compared to \$2 million and \$31 million for the same periods in 2017.

## STRATEGIC LINES OF BUSINESS

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. The Other category includes items not directly associated with these business segments or the Finance segment. The performance of the business segments is not comparable with the Corporation's consolidated results and is not necessarily comparable with similar information for any other financial institution. Additionally, because of the interrelationships of the various segments, the information presented is not indicative of how the segments would perform if they operated as independent entities. Market segment results are also provided for the Corporation's three primary geographic markets: Michigan, California and Texas. In addition to the three primary geographic markets, Other Markets is also reported as a market segment. Note 14 to the consolidated financial statements describes the business activities of each business segment and presents financial results of these business and market segments for the three- and nine-month periods ended September 30, 2018 and 2017.

The Corporation's management accounting system assigns balance sheet and income statement items to each segment using certain methodologies, which are regularly reviewed and refined. These methodologies may be modified as the management accounting system is enhanced and changes occur in the organizational structure and/or product lines. During the third quarter 2018, the Small Business component was reclassified from Retail Bank to Business Bank. Results in all periods presented have been adjusted to reflect the change in organizational structure. Note 23 to the consolidated financial statements in the Corporation's 2017 Annual Report describes the Corporation's segment reporting methodology.

Net interest income for each segment reflects the interest income generated by earning assets less interest expense on interest-bearing liabilities plus the net impact from associated internal funds transfer pricing (FTP). The FTP methodology allocates each business segment credits for deposits and other funds provided and charges each business segment for loans and other assets being funded. FTP crediting rates for deposits and other funds provided reflect the long-term value of deposits and other funding sources, based on their implied maturities. FTP charge rates for funding loans and other assets reflect a matched cost of funds based on the pricing and duration characteristics of the assets. Therefore, net interest income for each segment primarily reflects the volume and associated FTP impacts of loan and deposit levels. FTP crediting rates on deposits were higher in the nine months ended September 30, 2018 than in the same period in the prior year, and as a result, net interest income for deposit-providing business segments has been positively impacted during the current year. As overall market rates increased, FTP charges for funding loans increased for asset-generating business segments in the nine months ended September 30, 2018, compared to the same period in the prior year.

The following sections present a summary of the performance of each of the Corporation's business and market segments for the nine months ended September 30, 2018 compared to the same period in the prior year. The proforma effect of Topic 606 to the nine months ended September 30, 2017, reducing both noninterest income and noninterest expenses by \$84 million, primarily impacted the Business Bank and Other Markets segments.

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## Business Segments

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

| (dollar amounts in millions) | Nine Months Ended |      |               |       |
|------------------------------|-------------------|------|---------------|-------|
|                              | September 30,     |      | September 30, |       |
|                              | 2018              | 2017 | 2018          | 2017  |
| Business Bank                | \$755             | 85 % | \$561         | 91 %  |
| Retail Bank                  | 42                | 5    | (8 )          | (1 )  |
| Wealth Management            | 88                | 10   | 63            | 10    |
|                              | 885               | 100% | 616           | 100 % |
| Finance                      | (5 )              |      | (21 )         |       |
| Other (a)                    | 45                |      | 36            |       |
| Total                        | \$925             |      | \$631         |       |

Included discrete tax benefits of \$48 million and \$31 million for the nine months ended September 30, 2018 and (a) 2017, respectively, and items not directly associated with the three major business segments or the Finance Division.

The Business Bank's net income increased \$194 million to \$755 million. Average loans increased \$471 million and average deposits decreased \$1.8 billion. Net interest income increased \$81 million to \$1.2 billion. An increase in loan income of \$260 million was mostly offset by a \$25 million increase in deposit costs and a \$156 million increase in allocated net FTP charges. The FTP allocation reflected an increase in funding charges as well as increases in crediting rates on deposits as a result of higher short-term rates. The provision for credit losses decreased \$61 million to a benefit of \$9 million, primarily reflecting decreases in Technology and Life Sciences as well as Corporate Banking. Net credit-related charge-offs decreased \$39 million to \$40 million, primarily reflected decreases in Energy, Technology and Life Sciences and Small Business. Excluding the \$74 million proforma effect to the prior year of Topic 606, noninterest income increased \$4 million, and noninterest expenses increased \$30 million. Noninterest income was primarily impacted by a \$17 million increase in card fees (proforma), partially offset by decreases of \$6 million in service charges on deposit accounts (proforma) and \$4 million each in customer derivative income and letter of credit fees. The increase in noninterest expenses primarily reflected increases of \$9 million in outside processing fee expense (proforma), \$6 million in salaries and benefits expense, \$5 million in disposals of fixed assets, \$3 million in restructuring charges and smaller increases in other categories of noninterest expenses.

The Retail Bank's net income increased \$50 million to \$42 million. Average loans were stable and average deposits increased \$168 million. Net interest income increased \$72 million to \$402 million. A \$72 million increase in allocated net FTP credits and an increase in loan income of \$10 million were partially offset by a \$9 million increase in deposit costs. The FTP allocation reflected an increase in funding charges as well as increases in crediting rates on deposits as a result of higher short-term rates. The provision for credit losses decreased \$5 million to a benefit of \$2 million. There were no net credit-related charge-offs compared to \$1 million for the same period in the prior year. Excluding the \$9 million proforma effect to the prior year of Topic 606, noninterest income decreased \$7 million and noninterest expenses increased \$3 million. Noninterest income was primarily impacted by decreases of \$5 million in revenue related to a retirement savings program being wound down and \$2 million in service charges on deposit accounts (proforma), partially offset by a \$2 million increase in card fees (proforma). Noninterest expenses were primarily impacted by an \$8 million increase in salaries and benefits expense, partially offset by a \$3 million decrease in outside processing fee expense (proforma) and smaller decreases in other categories of noninterest expenses.

Wealth Management's net income increased \$25 million to \$88 million. Net interest income increased \$8 million to \$133 million. The provision for credit losses decreased \$7 million to a benefit of \$1 million. There were no net credit-related charge-offs compared to net credit-related recoveries of \$4 million for the same period in the prior year. Noninterest income increased \$10 million to \$201 million, primarily reflecting a \$7 million increase in fiduciary income and a \$2 million increase in investment banking income. Noninterest expenses increased \$7 million to \$218 million, primarily reflecting increases of \$5 million in salaries and benefits expense and \$2 million in corporate overhead as well as smaller increases in other categories of noninterest expense.



The net loss in the Finance segment of \$5 million decreased \$16 million from \$21 million, primarily reflecting an increase in net FTP revenue as a result of higher rates charged to the business segments under the Corporation's internal FTP methodology, partially offset by \$15 million of net losses due to repositioning the securities portfolio.

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## Market Segments

The following table presents net income by market segment.

| (dollar amounts in millions) | Nine Months Ended |       |               |       |
|------------------------------|-------------------|-------|---------------|-------|
|                              | September 30,     |       | September 30, |       |
|                              | 2018              | 2017  | 2018          | 2017  |
| Michigan                     | \$225             | 25 %  | \$183         | 30 %  |
| California                   | 293               | 34    | 173           | 28    |
| Texas                        | 163               | 18    | 126           | 20    |
| Other Markets                | 204               | 23    | 134           | 22    |
|                              | 885               | 100 % | 616           | 100 % |
| Finance & Other (a)          | 40                |       | 15            |       |
| Total                        | \$925             |       | \$631         |       |

Included discrete tax benefits of \$48 million and \$31 million for the nine months ended September 30, 2018 and (a) 2017, respectively, and items not directly associated with the three major business segments or the Finance Division.

The Michigan market's net income increased \$42 million to \$225 million. Average loans were stable and average deposits decreased \$878 million. Net interest income increased \$57 million to \$540 million. An increase in loan income of \$73 million was partially offset by a \$14 million increase in deposit costs and a \$1 million increase in allocated net FTP charges. The FTP allocation reflected an increase in funding charges as well as increases in crediting rates on deposits as a result of higher short-term rates. The provision for credit losses increased \$35 million to \$38 million, primarily reflecting an increase in general Middle Market, National Dealer Services and Small Business. The increases were also driven by qualitative reserve adjustments. Net credit-related charge-offs increased \$9 million to \$7 million from net credit-related recoveries of \$2 million, primarily reflecting an increase in general Middle Market. Excluding the \$10 million proforma effect to the prior year of Topic 606, noninterest income decreased \$11 million and noninterest expense increased \$3 million. The decrease in noninterest income primarily reflected decreases of \$7 million in fiduciary income and \$5 million in service charges on deposit accounts (proforma), partially offset by a \$2 million increase in card fees (proforma). Noninterest expenses were primarily impacted by an increase of \$6 million in salaries and benefits expense as well as a \$6 million decrease in net gains recognized on sales of assets, partially offset by smaller decreases in other categories of noninterest expenses. The California market's net income increased \$120 million to \$293 million. Average loans increased \$354 million and average deposits decreased \$426 million. Net interest income increased \$61 million to \$582 million. An increase in loan income of \$116 million was partially offset by a \$14 million increase in deposit costs and a \$41 million increase in allocated net FTP charges. The FTP allocation reflected an increase in funding charges as well as an increase in crediting rates on deposits as a result of higher short-term rates. The provision for credit losses decreased \$76 million to a benefit of \$5 million, primarily due to decreases in Technology and Life Sciences, general Middle Market and Corporate Banking. Net credit-related charge-offs decreased \$10 million to \$18 million, primarily reflecting decreases in Technology and Life Sciences and Corporate Banking, partially offset by an increase in general Middle Market. Excluding the \$5 million proforma effect to the prior year of Topic 606, noninterest income increased \$1 million and noninterest expense increased \$25 million. Noninterest income was primarily impacted by a \$3 million increase in card fees (proforma) and smaller increases in other categories of noninterest income, partially offset by decreases of \$2 million each in service charges on deposit accounts (proforma), letter of credit fees and warrant income. The increase in noninterest expenses primarily reflected increases of \$4 million each in salaries and benefits expense and restructuring charges, \$3 million in outside processing fee expense (proforma), a \$3 million increase due to a favorable litigation-related settlement in the first quarter 2017 and smaller increases in other categories of noninterest expenses.

The Texas market's net income increased \$37 million to \$163 million. Average loans decreased \$231 million and average deposits decreased \$694 million. Net interest income increased \$16 million to \$353 million. An increase in loan income of \$47 million was mostly offset by a \$28 million increase in allocated net FTP charges. The FTP allocation reflected an increase in funding charges as well as increases in crediting rates on deposits as a result of

higher short-term rates. The provision for credit losses was impacted by an \$8 million decrease in provision benefit to \$37 million, primarily due to improved credit quality and a large decrease in Energy loans during 2017. Net credit-related charge-offs decreased \$25 million to \$11 million, primarily reflecting decreases in general Middle Market and Energy. Excluding the \$4 million proforma effect to the prior year of Topic 606, noninterest income was unchanged and noninterest expenses decreased \$4 million.

Other Markets' net income increased \$70 million to \$204 million. Average loans increased \$270 million and average deposits increased \$173 million. Net interest income increased \$26 million to \$260 million. An increase in loan income of \$49 million was offset by an \$8 million increase in deposit costs and a \$16 million increase in allocated net FTP charges. The FTP allocation reflected an increase in funding charges as well as increases in crediting rates on deposits as a result of higher short-term rates. The provision for credit losses decreased \$41 million to a benefit of \$9 million, primarily reflecting decreases in Small Business, Corporate Banking and Technology and Life Sciences. Net credit-related charge-offs decreased \$10 million to \$4 million, primarily reflecting decreases in Small Business and Technology and Life Sciences. Excluding the \$65 million proforma effect to the prior year of Topic 606, both noninterest income and noninterest expenses increased \$17 million. Noninterest income was

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primarily impacted by increases of \$12 million each in fiduciary income and card fees (proforma), partially offset by a \$5 million decrease in customer derivative income. The increase in noninterest expenses primarily reflected a \$7 million increase in salaries and benefits expense and smaller increases in other categories of noninterest expenses. Net income in the Finance & Other category increased \$25 million to \$40 million, primarily reflecting an increase in FTP revenue as a result of higher rates charged to the market segments under the Corporation's internal FTP methodology and a \$17 million increase in discrete tax benefits, partially offset by \$15 million of net losses due to repositioning the securities portfolio.

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

|                | September 30, |      |
|----------------|---------------|------|
|                | 2018          | 2017 |
| Michigan       | 193           | 195  |
| Texas          | 121           | 122  |
| California     | 96            | 97   |
| Other Markets: |               |      |
| Arizona        | 17            | 17   |
| Florida        | 7             | 7    |
| Canada         | 1             | 1    |
| Total          | 435           | 439  |

**FINANCIAL CONDITION**

Total assets decreased \$119 million to \$71.4 billion at September 30, 2018, compared to \$71.6 billion at December 31, 2017, driven by decreases of \$493 million in cash and due from banks and \$342 million in investment securities, mostly offset by increases of \$487 million in interest-bearing deposits with banks and \$298 million in accrued income and other assets. On an average basis, total assets decreased \$188 million to \$71.2 billion in the third quarter 2018, compared to \$71.4 billion in the fourth quarter 2017, driven by decreases of \$394 million in average investment securities and \$349 million in average loans, partially offset by an increase of \$375 million in interest-bearing deposits with banks.

The following tables provide information about the change in the Corporation's average loan portfolio in the third quarter 2018, compared to the fourth quarter 2017, by loan type and geographic market.

| (dollar amounts in millions)               | Three Months Ended |                   | Percent Change | Percent Change |
|--|--------------------|-------------------|----------------|----------------|
|  | September 30, 2018 | December 31, 2017 |                |                |
| <b>Average Loans:</b>                      |                    |                   |                |                |
| Commercial loans                           | \$30,371           | \$ 30,719         | \$(348 )       | (1 )%          |
| Real estate construction loans             | 3,198              | 3,031             | 167            | 5              |
| Commercial mortgage loans                  | 9,084              | 9,054             | 30             | —              |
| Lease financing                            | 464                | 470               | (6 )           | (1 )           |
| International loans                        | 1,072              | 1,122             | (50 )          | (5 )           |
| Residential mortgage loans                 | 1,962              | 2,014             | (52 )          | (3 )           |
| Consumer loans                             | 2,433              | 2,523             | (90 )          | (4 )           |
| Total loans                                | \$48,584           | \$ 48,933         | \$(349 )       | (1 )%          |
| <b>Average Loans By Geographic Market:</b> |                    |                   |                |                |
| Michigan                                   | \$12,424           | \$ 12,798         | \$(374 )       | (3 )%          |
| California                                 | 18,074             | 18,236            | (162 )         | (1 )           |
| Texas                                      | 9,702              | 9,795             | (93 )          | (1 )           |
| Other Markets                              | 8,384              | 8,104             | 280            | 3              |
| Total loans                                | \$48,584           | \$ 48,933         | \$(349 )       | (1 )%          |

The decrease in average loans was largely attributed to decreases in Corporate Banking and Private Banking, partially offset by an increase in Technology and Life Sciences.

Total liabilities increased \$58 million to \$63.7 billion at September 30, 2018, compared to \$63.6 billion at December 31, 2017, primarily reflecting increases of \$1.8 billion in medium- and long-term debt and \$873 million in interest-bearing deposits, mostly offset by a \$2.8 billion decrease in noninterest-bearing deposits. The decrease in noninterest-bearing deposits included a \$1.2 billion decrease due to the timing of government card program funding by the U.S. Treasury. The increase in medium- and long-term debt reflected a \$1.0 billion increase in FHLB advances during the first quarter 2018 and an issuance of \$850 million in medium-term notes during the third quarter 2018. On an average basis, total liabilities decreased \$18 million in the third quarter

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2018, compared to the fourth quarter 2017, due to a \$1.5 billion decrease in total deposits, offset by a \$1.5 billion increase in medium- and long-term debt. The decrease in average total deposits primarily reflected a decrease in general Middle Market, driven by Municipalities.

**Capital**

Total shareholders' equity decreased \$177 million to \$7.8 billion at September 30, 2018, compared to \$8.0 billion at December 31, 2017. The following table presents a summary of changes in total shareholders' equity in the nine months ended September 30, 2018.

(in millions)

|  |         |
|--|---------|
| Balance at January 1, 2018                           | \$7,963 |
| Cumulative effect of change in accounting principles | 15      |
| Net income   | 925     |
| Cash dividends declared on common stock              | (210 )  |
| Purchase of common stock                             | (828 )  |
| Other comprehensive loss:                            |         |
| Investment securities                                | \$(180) |
| Defined benefit and other postretirement plans       | 19      |
| Total other comprehensive loss                       | (161 )  |
| Issuance of common stock under employee stock plans  | 41      |
| Share-based compensation                             | 41      |
| Balance at September 30, 2018                        | \$7,786 |

On July 6, 2018, the Board of Governors of the Federal Reserve System issued a statement announcing that, consistent with the recently enacted Economic Growth, Regulatory Relief and Consumer Protection Act (EGRRCPA), bank holding companies with less than \$100 billion in total assets are no longer subject to certain regulations and reporting requirements, such as Dodd-Frank Act stress testing, Comprehensive Capital Analysis and Review and the Liquidity Coverage Ratio, effective immediately. EGRRCPA also revised the definition of High Volatility Commercial Real Estate (HVCRE) exposure for regulatory capital calculations. The Corporation adopted the revised HVCRE definition effective September 30, 2018. The resulting change in regulatory capital ratios was not significant.

The Corporation expects to continue to return excess capital to shareholders with a target of reaching a common equity Tier 1 capital ratio of 9.5 percent to 10 percent by the end of 2019. The timing and ultimate amount of future distributions will be subject to various factors including financial performance, capital position and market conditions.

On July 24, 2018, the Board approved a plan to repurchase up to \$500 million in common shares in the third quarter as well as a 26-cent increase in the quarterly dividend to \$0.60 per share, effective for the dividend paid on October 1, 2018. During the third quarter 2018, the Corporation completed the repurchase of 5.1 million common shares for \$500 million through an Accelerated Share Repurchase transaction (ASR).

The Corporation announced plans to repurchase up to \$500 million of common shares in the fourth quarter of 2018, under the Corporation's equity repurchase program and entered into an ASR to facilitate the repurchase. Under the terms of the ASR agreement, the Corporation received an initial delivery of common shares representing approximately 80% of the expected total to be repurchased. Subject to certain adjustments pursuant to the ASR agreement, the final number of shares repurchased and delivered under the ASR agreement will be based on the volume-weighted average share price of the Corporation's common stock during the term of the repurchase agreement, which is expected to be completed in the fourth quarter of 2018.

Authorization to repurchase up to an additional 10 million shares of Comerica Incorporated outstanding common stock was announced by the Board on July 24, 2018. This is in addition to the 6.2 million shares and 800 thousand warrants remaining at June 30, 2018 under the Board's prior authorizations for the equity repurchase program initially approved in November 2010. Including the July 24, 2018 authorization, a total of 65.2 million shares and 14.1 million warrants (12.1 million share-equivalents) have been authorized for repurchase under the equity repurchase program since its inception in 2010. There is no expiration date for the Corporation's equity repurchase program.



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The following table summarizes the Corporation's repurchase activity during the nine months ended September 30, 2018.

| (shares in thousands)     | Total Number of Shares and Warrants Purchased as Part of Publicly Announced Repurchase Plans or Programs (a) | Remaining Repurchase Authorization (b) | Total Number of Shares and Warrants Purchased (c) | Average Price Paid Per Share |
|---------------------------|--|--|---|------------------------------|
| Total first quarter 2018  | 1,565  | 8,714                                  | 1,674   | \$ 95.16                     |
| Total second quarter 2018 | 1,755  | 6,952                                  | 1,759   | 96.32                        |
| July 2018                 | 4,140  | 12,791                                 | (d)4,142  | 97.32                        |
| August 2018               | —  | 12,744                                 | —   | —                            |
| September 2018            | 997  | 11,706                                 | 1,001   | 97.31                        |
| Total third quarter 2018  | 5,137  | 11,706                                 | 5,143   | 97.32                        |
| Total 2018 year-to-date   | 8,457  | 11,706                                 | 8,576   | 96.69                        |

The Corporation made no repurchases of warrants under the repurchase program during the nine months ended September 30, 2018. Upon exercise of a warrant, the number of shares with a value equal to the aggregate exercise price is withheld from an exercising warrant holder as payment (known as a "net exercise provision"). During the (a) nine months ended September 30, 2018, Comerica withheld the equivalent of approximately 67,000 shares to cover an aggregate \$2 million in exercise price and issued approximately 157,000 shares to the exercising warrant holders. Shares withheld in connection with the net exercise provision are not included in the total number of shares or warrants purchased in the above table.

(b) Maximum number of shares and warrants that may yet be purchased under the publicly announced plans or programs.

(c) Includes approximately 119,000 shares purchased pursuant to deferred compensation plans and shares purchased from employees to pay for taxes related to restricted stock vesting under the terms of an employee share-based compensation plan during the nine months ended September 30, 2018. These transactions are not considered part of the Corporation's repurchase program.

(d) Includes July 24, 2018 equity repurchase authorization for an additional 10 million shares.

In November 2017, U.S. banking regulators issued a final rule that suspended the full transition for certain deductions and adjustments to regulatory capital calculations effective January 1, 2018 to remain at current levels and issued a NPR intended to simplify certain aspects of the Basel III regulatory capital framework. The Corporation does not expect the proposed rule to have a significant impact on its capital ratios.

The following table presents the minimum ratios required to be considered "adequately capitalized".

|  |        |
|--|--------|
| Common equity tier 1 capital to risk-weighted assets       | 4.500% |
| Tier 1 capital to risk-weighted assets                     | 6.000  |
| Total capital to risk-weighted assets                      | 8.000  |
| Capital conservation buffer (a)                            | 1.875  |
| Tier 1 capital to adjusted average assets (leverage ratio) | 4.000  |

In addition to the minimum risk-based capital requirements, the Corporation is required to maintain a minimum capital conservation buffer, in the form of common equity, in order to avoid restrictions on capital distributions and (a) discretionary bonuses. The required amount of the capital conservation buffer is being phased in and ultimately increases to 2.5% on January 1, 2019. The capital conservation buffer indicated above is as of September 30, 2018.

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

| (dollar amounts in millions)                   | September 30, 2018 |        | December 31, 2017 |        |
|--|--------------------|--------|-------------------|--------|
|  | Capital/Ratios     | Ratios | Capital/Ratios    | Ratios |
| Common equity tier 1 and tier 1 risk based (a) | \$7,750            | 11.66% | \$7,773           | 11.68% |
| Total risk-based (a)                           | 9,132              | 13.74  | 9,211             | 13.84  |
| Leverage (a)                                   | 7,750              | 10.85  | 7,773             | 10.89  |



|                            |        |       |        |       |
|----------------------------|--------|-------|--------|-------|
| Common equity              | 7,786  | 10.90 | 7,963  | 11.13 |
| Tangible common equity (b) | 7,145  | 10.09 | 7,320  | 10.32 |
| Risk-weighted assets (a)   | 66,476 |       | 66,575 |       |

(a) September 30, 2018 capital, risk-weighted assets and ratios are estimated.

(b) See Supplemental Financial Data section for reconcilements of non-GAAP financial measures.

#### RISK MANAGEMENT

The following updated information should be read in conjunction with the "Risk Management" section on pages F-20 through F-33 in the Corporation's 2017 Annual Report.

##### Credit Risk

##### Allowance for Credit Losses

The allowance for credit losses includes both the allowance for loan losses and the allowance for credit losses on lending-related commitments. The allowance for loan losses represents management's assessment of probable, estimable losses inherent

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in the Corporation's loan portfolio. The allowance for credit losses on lending-related commitments, included in accrued expenses and other liabilities on the Consolidated Balance Sheets, provides for probable losses inherent in lending-related commitments, including unused commitments to extend credit and standby letters of credit.

The allowance for loan losses was \$664 million at September 30, 2018, compared to \$712 million at December 31, 2017, a decrease of \$48 million, or 7 percent. As a percentage of total loans, the allowance for loan losses was 1.35 percent at September 30, 2018, compared to 1.45 percent at December 31, 2017. The decrease in the allowance for loan losses reflected continued improvement in credit quality of the portfolio, including a \$561 million decline in criticized loans and lower levels of net loan charge-offs.

The allowance for credit losses on lending-related commitments includes specific allowances, based on individual evaluations of certain letters of credit in a manner consistent with business loans, and allowances based on the pool of the remaining letters of credit and all unused commitments to extend credit within each internal risk rating. The allowance for credit losses on lending-related commitments was \$33 million and \$42 million at September 30, 2018 and December 31, 2017, respectively. The decrease in the allowance reflected decreases in commercial commitments, primarily related to Energy.

For additional information regarding the allowance for credit losses, refer to page F-34 in the "Critical Accounting Policies" section and pages F-50 and F-52 in note 1 to the consolidated financial statements of the Corporation's 2017 Annual Report.

#### Nonperforming Assets

Nonperforming assets include loans on nonaccrual status, troubled debt restructured loans (TDRs) which have been renegotiated to less than the original contractual rates (reduced-rate loans) and foreclosed property. TDRs include performing and nonperforming loans. Nonperforming TDRs are either on nonaccrual or reduced-rate status.

The following table presents a summary of nonperforming assets and past due loans.

| (dollar amounts in millions)   | September 30,<br>2018 | December 31,<br>2017 |       |   |
|--|-----------------------|----------------------|-------|---|
| Nonaccrual loans:  |                       |                      |       |   |
| Business loans:  |                       |                      |       |   |
| Commercial   | \$ 149                | \$ 309               |       |   |
| Commercial mortgage  | 22                    | 31                   |       |   |
| Lease financing  | 2                     | 4                    |       |   |
| International  | 4                     | 6                    |       |   |
| Total nonaccrual business loans  | 177                   | 350                  |       |   |
| Retail loans:  |                       |                      |       |   |
| Residential mortgage   | 34                    | 31                   |       |   |
| Consumer:  |                       |                      |       |   |
| Home equity  | 19                    | 21                   |       |   |
| Total nonaccrual retail loans  | 53                    | 52                   |       |   |
| Total nonaccrual loans   | 230                   | 402                  |       |   |
| Reduced-rate loans   | 9                     | 8                    |       |   |
| Total nonperforming loans  | 239                   | 410                  |       |   |
| Foreclosed property  | 1                     | 5                    |       |   |
| Total nonperforming assets   | \$ 240                | \$ 415               |       |   |
| Nonperforming loans as a percentage of total loans                               | 0.49                  | %                    | 0.83  | % |
| Nonperforming assets as a percentage of total loans and foreclosed property      | 0.49                  |                      | 0.84  |   |
| Allowance for loan losses as a multiple of total nonperforming loans             | 2.8x                  |                      | 1.7x  |   |
| Loans past due 90 days or more and still accruing                                | \$ 28                 |                      | \$ 35 |   |
| Loans past due 90 days or more and still accruing as a percentage of total loans | 0.06                  | %                    | 0.07  | % |

Nonperforming assets decreased \$175 million, or 42 percent, to \$240 million at September 30, 2018 from \$415 million at December 31, 2017. The decrease in nonperforming assets primarily reflected a decrease of \$160 million in nonaccrual commercial loans, with the largest decreases in Energy, Corporate Banking and Commercial Real Estate.



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The following table presents a summary of TDRs at September 30, 2018 and December 31, 2017.

| (in millions)            | September 30, December 31, |        |
|--------------------------|----------------------------|--------|
|                          | 2018                       | 2017   |
| Nonperforming TDRs:      |                            |        |
| Nonaccrual TDRs          | \$ 97                      | \$ 182 |
| Reduced-rate TDRs        | 9                          | 8      |
| Total nonperforming TDRs | 106                        | 190    |
| Performing TDRs (a)      | 120                        | 123    |
| Total TDRs               | \$ 226                     | \$ 313 |

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

At September 30, 2018, nonaccrual TDRs and performing TDRs included \$40 million and \$59 million of Energy loans, respectively, compared to \$82 million and \$43 million, respectively, at December 31, 2017.

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

| (in millions)                           | Three Months Ended |             |           |
|---|--------------------|-------------|-----------|
|   | September 30,      | October 31, | March 31, |
|   | 2018               | 2018        | 2018      |
| Balance at beginning of period          | \$254              | \$ 326      | \$ 402    |
| Loans transferred to nonaccrual (a)     | 35                 | 49          | 71        |
| Nonaccrual loan gross charge-offs       | (25 )              | (20 )       | (37 )     |
| Loans transferred to accrual status (a) | —                  | —           | (3 )      |
| Nonaccrual loans sold                   | (9 )               | (15 )       | (10 )     |
| Payments/other (b)                      | (25 )              | (86 )       | (97 )     |
| Balance at end of period                | \$230              | \$ 254      | \$ 326    |

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

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

There were seven borrowers with balances greater than \$2 million, totaling \$35 million, transferred to nonaccrual status in the third quarter 2018, compared to ten borrowers, totaling \$49 million, in the second quarter 2018.

The following table presents the composition of nonaccrual loans by balance and the related number of borrowers at September 30, 2018 and December 31, 2017.

| (dollar amounts in millions) | September 30,       |         | December 31,        |         |
|------------------------------|---------------------|---------|---------------------|---------|
|                              | 2018                | 2017    | 2018                | 2017    |
|                              | Number of Borrowers | Balance | Number of Borrowers | Balance |
| Under \$2 million            | 843                 | \$ 86   | 939                 | \$ 85   |
| \$2 million - \$5 million    | 12                  | 35      | 16                  | 47      |
| \$5 million - \$10 million   | 10                  | 57      | 12                  | 93      |
| \$10 million - \$25 million  | 4                   | 52      | 8                   | 130     |
| Greater than \$25 million    | —                   | —       | 1                   | 47      |
| Total                        | 869                 | \$ 230  | 976                 | \$ 402  |

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The following table presents a summary of nonaccrual loans at September 30, 2018 and loans transferred to nonaccrual and net loan charge-offs for the three months ended September 30, 2018, based primarily on North American Industry Classification System (NAICS) categories.

| (dollar amounts in millions)<br>Industry Category | September 30,<br>2018 |     |   | Three Months Ended<br>September 30, 2018  |     |         |
|---|-----------------------|-----|---|---|-----|---------|
|   | Nonaccrual Loans      |     |   | Loans Transferred to<br>Nonaccrual (a)<br>Net Loan<br>Charge-Offs<br>(Recoveries) |     |         |
| Mining, Quarrying and Oil & Gas Extraction        | \$ 53                 | 23  | % | \$ 12   | 34  | % \$ 3  |
| Manufacturing                                     | 43                    | 19  |   | 5   | 14  | 5       |
| Residential Mortgage                              | 34                    | 15  |   | 3   | 9   | —       |
| Services  | 19                    | 8   |   | 12  | 34  | 4       |
| Contractors                                       | 15                    | 7   |   | —   | —   | (1 )    |
| Real Estate & Home Builders                       | 12                    | 5   |   | 3   | 9   | 2       |
| Wholesale Trade                                   | 10                    | 4   |   | —   | —   | 4       |
| Information & Communication                       | 6                     | 3   |   | —   | —   | (1 )    |
| Health Care & Social Assistance                   | 5                     | 2   |   | —   | —   | —       |
| Other (b)   | 33                    | 14  |   | —   | —   | (1 )    |
| Total   | \$ 230                | 100 | % | \$ 35   | 100 | % \$ 15 |

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

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

Loans past due 90 days or more and still accruing interest generally represent loans that are well collateralized and in the process of collection. Loans past due 90 days or more were \$28 million at September 30, 2018 compared to \$35 million at December 31, 2017. Loans past due 30-89 days decreased \$76 million to \$226 million at September 30, 2018, compared to \$302 million at December 31, 2017. An aging analysis of loans included in note 4 to the consolidated financial statements provides further information about the balances comprising past due loans.

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

| (dollar amounts in millions)   | September 30,<br>2018 | June 30,<br>2018 | December 31,<br>2017 |
|--------------------------------|-----------------------|------------------|----------------------|
| Total criticized loans         | \$ 1,670              | \$ 1,765         | \$ 2,231             |
| As a percentage of total loans | 3.4                   | % 3.5            | % 4.5                |

The \$561 million decrease in criticized loans in the nine months ended September 30, 2018 included decreases of \$239 million in Energy and \$158 million in general Middle Market.

The following table presents a summary of changes in foreclosed property.

| (in millions)                            | Three Months Ended<br>September 30, December 31,<br>2018 2018 2017 |      |      |
|--|--|------|------|
| Balance at beginning of period           | \$ 2   | \$ 5 | \$ 6 |
| Acquired in foreclosure                  | —  | 1    | 2    |
| Foreclosed property sold (a)             | (1 )   | (4 ) | (3 ) |
| Balance at end of period                 | \$ 1   | \$ 2 | \$ 5 |
| (a) Net gain on foreclosed property sold | \$ —   | \$ 1 | \$ 1 |



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## Commercial Real Estate Lending

The following table summarizes the Corporation's commercial real estate loan portfolio by loan category.

| (in millions)                            | September 30, December 31, |          |
|--|----------------------------|----------|
|  | 2018                       | 2017     |
| Real estate construction loans:          |                            |          |
| Commercial Real Estate business line (a) | \$ 2,780                   | \$ 2,630 |
| Other business lines (b)                 | 378                        | 331      |
| Total real estate construction loans     | \$ 3,158                   | \$ 2,961 |
| Commercial mortgage loans:               |                            |          |
| Commercial Real Estate business line (a) | \$ 1,760                   | \$ 1,831 |
| Other business lines (b)                 | 7,259                      | 7,328    |
| Total commercial mortgage loans          | \$ 9,019                   | \$ 9,159 |

(a) Primarily loans to real estate developers.

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

The Corporation limits risk inherent in its commercial real estate lending activities by monitoring borrowers directly involved in the commercial real estate markets and adhering to conservative policies on loan-to-value ratios for such loans. Commercial real estate loans, consisting of real estate construction and commercial mortgage loans, totaled \$12.2 billion at September 30, 2018, of which \$4.5 billion, or 37 percent, were to borrowers in the Commercial Real Estate business line, which includes loans to real estate developers, an increase of \$79 million compared to December 31, 2017. The remaining \$7.7 billion, or 63 percent, of commercial real estate loans in other business lines consisted primarily of owner-occupied commercial mortgages, which bear credit characteristics similar to non-commercial real estate business loans.

The real estate construction loan portfolio primarily contains loans made to long-tenured customers with satisfactory completion experience. Credit quality in the real estate construction loan portfolio was strong, with criticized loans of \$31 million and \$4 million at September 30, 2018 and December 31, 2017, respectively, and no real estate construction loan charge-offs in either of the nine-month periods ended September 30, 2018 and 2017.

Loans in the commercial mortgage portfolio generally mature within three to five years. Criticized commercial mortgage loans in the Commercial Real Estate business line totaled \$62 million and \$72 million at September 30, 2018 and December 31, 2017, respectively. In other business lines, \$215 million and \$229 million of commercial mortgage loans were criticized at September 30, 2018 and December 31, 2017, respectively. Commercial mortgage loan net recoveries were \$1 million and \$5 million for the nine months ended September 30, 2018 and 2017, respectively.

## Residential Real Estate Lending

The following table summarizes the Corporation's residential mortgage and home equity loan portfolios by geographic market.

| (dollar amounts in millions) | September 30, 2018               |               |                         |               | December 31, 2017                |               |                         |               |
|------------------------------|----------------------------------|---------------|-------------------------|---------------|----------------------------------|---------------|-------------------------|---------------|
|                              | Residential<br>Mortgage<br>Loans | % of<br>Total | Home<br>Equity<br>Loans | % of<br>Total | Residential<br>Mortgage<br>Loans | % of<br>Total | Home<br>Equity<br>Loans | % of<br>Total |
| Geographic market:           |                                  |               |                         |               |                                  |               |                         |               |
| Michigan                     | \$397                            | 21 %          | \$644                   | 37 %          | \$387                            | 19 %          | \$705                   | 39 %          |
| California                   | 978                              | 50            | 684                     | 40            | 1,023                            | 52            | 718                     | 40            |
| Texas                        | 312                              | 16            | 338                     | 20            | 297                              | 15            | 335                     | 18            |
| Other Markets                | 260                              | 13            | 60                      | 3             | 281                              | 14            | 58                      | 3             |
| Total                        | \$1,947                          | 100%          | \$1,726                 | 100%          | \$1,988                          | 100%          | \$1,816                 | 100%          |

Residential real estate loans, which consist of traditional residential mortgages and home equity loans and lines of credit, totaled \$3.7 billion at September 30, 2018. The residential real estate portfolio is principally located within the Corporation's primary geographic markets. Substantially all residential real estate loans past due 90 days or more are placed on nonaccrual status, and substantially all junior lien home equity loans that are current or less than 90 days

past due are placed on nonaccrual status if full collection of the senior position is in doubt. At no later than 180 days past due, such loans are charged off to current appraised values less costs to sell.

Residential mortgages totaled \$1.9 billion at September 30, 2018 and were primarily larger, variable-rate mortgages originated and retained for certain private banking relationship customers. Of the \$1.9 billion of residential mortgage loans outstanding, \$34 million were on nonaccrual status at September 30, 2018. The home equity portfolio totaled \$1.7 billion at September 30, 2018, of which \$1.6 billion was outstanding under primarily variable-rate, interest-only home equity lines of credit, \$130 million were on amortizing status and \$37 million were closed-end home equity loans. Of the \$1.7 billion of home equity



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loans outstanding, \$19 million were on nonaccrual status at September 30, 2018. A majority of the home equity portfolio was secured by junior liens at September 30, 2018.

**Energy Lending**

The Corporation has a portfolio of Energy loans that is included primarily in commercial loans in the Consolidated Balance Sheets. Customers in the Corporation's Energy line of business (approximately 160 relationships) are engaged in three segments of the oil and gas business: exploration and production (E&P), midstream and energy services. E&P generally includes such activities as searching for potential oil and gas fields, drilling exploratory wells and operating active wells. Commitments to E&P borrowers are generally subject to semi-annual borrowing base re-determinations based on a variety of factors including updated pricing (reflecting market and competitive conditions), energy reserve levels and the impact of hedging. The midstream sector is generally involved in the transportation, storage and marketing of crude and/or refined oil and gas products. The Corporation's energy services customers provide products and services primarily to the E&P segment.

The following table summarizes information about the Corporation's portfolio of Energy loans.

| (dollar amounts in millions)          | September 30, 2018 |            |                   | December 31, 2017 |            |                   |        |        |   |
|---------------------------------------|--------------------|------------|-------------------|-------------------|------------|-------------------|--------|--------|---|
|                                       | Outstandings       | Nonaccrual | Criticized<br>(a) | Outstandings      | Nonaccrual | Criticized<br>(a) |        |        |   |
| Exploration and production (E&P)      | \$1,499            | 82 %       | 51 \$ 184         | \$1,346           | 73 %       | 94 \$ 376         |        |        |   |
| Midstream                             | 233                | 13         | —                 | 55                | 295        | 16                | —      | 37     |   |
| Services                              | 100                | 5          | 2                 | 30                | 195        | 11                | 14     | 95     |   |
| Total Energy business line            | \$1,832            | 100 %      | \$ 53             | \$ 269            | \$1,836    | 100 %             | \$ 108 | \$ 508 |   |
| As a percentage of total Energy loans |                    | 3          | %                 | 15                | %          | 6                 | %      | 28     | % |

(a) Includes nonaccrual loans.

Loans in the Energy business line totaled \$1.8 billion, or approximately 4 percent of total loans, at both September 30, 2018 and December 31, 2017. Total exposure, including unused commitments to extend credit and letters of credit, was approximately \$4 billion at both September 30, 2018 and December 31, 2017.

The Corporation's allowance methodology considers the various risk elements within the loan portfolio. The Corporation continued to incorporate a qualitative reserve component for Energy loans at September 30, 2018. There were \$3 million and \$7 million in net credit-related charge-offs for the three- and nine-month periods ended September 30, 2018, respectively compared to \$9 million and \$24 million for the same periods in 2017.

**Automotive Lending**

Substantially all dealer loans are in the National Dealer Services business line. Loans in the National Dealer Services business line primarily include floor plan financing and other loans to automotive dealerships. Floor plan loans, included in commercial loans, totaled \$3.7 billion at September 30, 2018, a decrease of \$615 million compared to \$4.4 billion at December 31, 2017. At September 30, 2018 and December 31, 2017, other loans to automotive dealers in the National Dealer Services business line totaled \$3.2 billion and \$3.1 billion, respectively, including \$2.0 billion and \$1.9 billion of owner-occupied commercial real estate mortgage loans at September 30, 2018 and December 31, 2017, respectively. Automotive lending also includes loans to borrowers involved with automotive production, primarily Tier 1 and Tier 2 suppliers. Loans to borrowers involved with automotive production totaled \$1.4 billion at September 30, 2018, compared to \$1.3 billion at December 31, 2017.

For further discussion of credit risk, see the "Credit Risk" section of pages F-20 through F-28 in the Corporation's 2017 Annual Report.

**Market and Liquidity Risk**

Market risk represents the risk of loss due to adverse movements in market rates or prices, including interest rates, foreign exchange rates, commodity prices and equity prices. Liquidity risk represents the failure to meet financial obligations coming due, resulting from an inability to liquidate assets or obtain adequate funding, and the inability to easily unwind or offset specific exposures without significant changes in pricing, due to inadequate market depth or market disruptions.

The Asset and Liability Policy Committee (ALCO) of the Corporation establishes and monitors compliance with the policies and risk limits pertaining to market and liquidity risk management activities. ALCO meets regularly to

discuss and review market and liquidity risk management strategies, and consists of executive and senior management from various areas of the Corporation, including treasury, finance, economics, lending, deposit gathering and risk management. The Treasury department mitigates market and liquidity risk under the direction of ALCO through the actions it takes to manage the Corporation's market, liquidity and capital positions.

In addition to assessing liquidity risk on a consolidated basis, Corporate Treasury also monitors the parent company's liquidity and has established limits for the minimum number of months into the future in which the parent company can meet

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existing and forecasted obligations without the support of additional dividends from subsidiaries. ALCO's liquidity policy requires the parent company to maintain sufficient liquidity to meet expected capital and debt obligations with a target of 24 months but no less than 18 months.

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

**Interest Rate Risk**

Net interest income is the primary source of revenue for the Corporation. Interest rate risk arises in the normal course of business due to differences in the repricing and cash flow characteristics of assets and liabilities, primarily through the Corporation's core business activities of extending loans and acquiring deposits. The Corporation's balance sheet is predominantly characterized by floating-rate loans funded by core deposits. The Corporation's loan composition at September 30, 2018 was 62 percent 30-day LIBOR, 12 percent other LIBOR (primarily 60-day), 17 percent prime and 9 percent fixed rate. This creates sensitivity to interest rate movements due to the imbalance between the floating-rate loan portfolio and more slowly repricing deposit products. In addition, the growth and/or contraction in the Corporation's loans and deposits may lead to changes in sensitivity to interest rate movements in the absence of mitigating actions. Examples of such actions are purchasing fixed-rate investment securities, which provide liquidity to the balance sheet and act to mitigate the inherent interest sensitivity, as well as hedging with interest rate swaps. The Corporation actively manages its exposure to interest rate risk with the principal objective of optimizing net interest income and the economic value of equity while operating within acceptable limits established for interest rate risk and maintaining adequate levels of funding and liquidity.

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

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

The analysis of the impact of changes in interest rates on net interest income under various interest rate scenarios is management's principal risk management technique. Management models a base case net interest income under an unchanged interest rate environment. Existing derivative instruments entered into for risk management purposes are included in the analysis, but no additional hedging is currently forecasted. These derivative instruments currently comprise interest rate swaps that convert fixed-rate long-term debt to variable rates. This base case net interest income is then compared against interest rate scenarios in which rates rise or decline in a linear, non-parallel fashion from the base case over 12 months. One scenario presented increases short-term interest rates 200 basis points, resulting in an average increase in short-term interest rates of 100 basis points over the period (+200 scenario). The other scenario decreases short-term interest rates 200 basis points (but not to less than zero), resulting in an average decrease in short-term rates of 100 basis points over the period (-200 scenario).

Each scenario includes assumptions such as loan growth, investment security prepayment levels, depositor behavior, yield curve changes, loan and deposit pricing, and overall balance sheet mix and growth. In this low rate environment, depositors have maintained a higher level of liquidity and their historical behavior may be less indicative of future trends. As a result, the +200 scenario reflects a greater decrease in deposits than we have experienced historically as rates begin to rise. Changes in actual economic activity may result in a materially different interest rate environment as well as a balance sheet structure that is different from the changes management included in its simulation analysis.

The table below, as of September 30, 2018 and December 31, 2017, displays the estimated impact on net interest income during the next 12 months by relating the base case scenario results to those from the rising and declining rate scenarios described above.

| (in millions)              | Estimated Annual Change |      |                   |      |
|----------------------------|-------------------------|------|-------------------|------|
|                            | September 30, 2018      |      | December 31, 2017 |      |
|                            | Amount                  | %    | Amount            | %    |
| Change in Interest Rates:  |                         |      |                   |      |
| Rising 200 basis points    | \$181                   | 8 %  | \$197             | 9 %  |
| Declining 200 basis points | (321 )                  | (13) | (283 )            | (13) |

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Sensitivity to rising rates changed modestly from December 31, 2017 to September 30, 2018, primarily due to balance sheet changes. The December 31, 2017 risk to declining interest rates is impacted by an assumed floor on interest rates of zero percent, and therefore simulates a decline of 150 basis points while the September 30, 2018 sensitivity reflects a decline of 200 basis points due to higher short-term rates.

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

In addition to the simulation analysis on net interest income, an economic value of equity analysis provides an alternative view of the interest rate risk position. The economic value of equity is the difference between the estimate of the economic value of the Corporation's financial assets, liabilities and off-balance sheet instruments, derived through discounting cash flows based on actual rates at the end of the period and the estimated economic value after applying the estimated impact of rate movements. The Corporation primarily monitors the percentage change on the base case economic value of equity. The economic value of equity analysis is based on an immediate parallel 200 basis point increase. The declining interest rate scenarios are based on decreases of 200 basis points and 150 basis points in interest rates at September 30, 2018 and December 31, 2017, respectively.

The table below, as of September 30, 2018 and December 31, 2017, displays the estimated impact on the economic value of equity from the interest rate scenario described above.

|                            | September 30, 2018 |      | December 31, 2017 |      |
|----------------------------|--------------------|------|-------------------|------|
| (in millions)              | Amount             | %    | Amount            | %    |
| Change in Interest Rates:  |                    |      |                   |      |
| Rising 200 basis points    | \$856              | 6 %  | \$1,188           | 9 %  |
| Declining 200 basis points | (2,761)            | (20) | (2,635)           | (20) |

The sensitivity of the economic value of equity to a 200 basis point parallel increase in rates declined between December 31, 2017 and September 30, 2018 due to an increase in the modeled base case economic value of equity, which was driven by balance sheet changes. The percentage change in sensitivity of the economic value of equity to a parallel decrease in rates to zero during the same period was stable.

## Wholesale Funding

The Corporation may access the purchased funds market when necessary, which includes a variety of funding sources. Capacity for incremental purchased funds at September 30, 2018 included short-term FHLB advances, the ability to purchase federal funds, sell securities under agreements to repurchase, as well as issue deposits through brokers. Purchased funds increased to \$97 million at September 30, 2018, compared to \$25 million at December 31, 2017. At September 30, 2018, the Bank had pledged loans totaling \$21.9 billion which provided for up to \$18.1 billion of available collateralized borrowing with the FRB.

The Bank is a member of the FHLB of Dallas, Texas, which provides short- and long-term funding to its members through advances collateralized by real estate-related assets. Actual borrowing capacity is contingent on the amount of collateral available to be pledged to the FHLB. At September 30, 2018, \$15.9 billion of real estate-related loans were pledged to the FHLB as blanket collateral for current and potential future borrowings. The Corporation had \$3.8 billion of outstanding borrowings maturing between 2026 and 2028 and capacity for potential future borrowings of approximately \$5.2 billion.

On July 31, 2018, the Corporation issued \$850 million of 3.70% senior notes maturing in 2023, swapped to floating rate at 30-day LIBOR plus 80 basis points. Proceeds will be used for general corporate purposes, which may include working capital, investments in or advances to existing or future subsidiaries, and repurchases, maturities and redemptions of other outstanding securities. Pending such use, the net proceeds will be invested for the short term. Additionally, as of September 30, 2018 the Bank had the ability to issue up to \$14 billion of debt under an existing \$15 billion note program which allows the issuance of debt with maturities between three months and 30 years. The Corporation also maintains a shelf registration statement with the Securities and Exchange Commission from which it may issue debt and/or equity securities.

The ability of the Corporation and the Bank to raise funds at competitive rates is impacted by rating agencies' views of the credit quality, liquidity, capital and earnings of the Corporation and the Bank. As of September 30, 2018, the three major rating agencies had assigned the following ratings to long-term senior unsecured obligations of the Corporation

and the Bank. A security rating is not a recommendation to buy, sell, or hold securities and may be subject to revision or withdrawal at any time by the assigning rating agency. Each rating should be evaluated independently of any other rating.

| September 30, 2018        | Comerica Incorporated |         | Comerica Bank |         |
|---------------------------|-----------------------|---------|---------------|---------|
|                           | Rating                | Outlook | Rating        | Outlook |
| Standard and Poor's       | BBB+                  | Stable  | A-            | Stable  |
| Moody's Investors Service | A3                    | Stable  | A3            | Stable  |
| Fitch Ratings             | A                     | Stable  | A             | Stable  |

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The Corporation satisfies liquidity needs with either liquid assets or various funding sources. Liquid assets totaled \$17.5 billion at September 30, 2018, compared to \$17.4 billion at December 31, 2017. Liquid assets include cash and due from banks, federal funds sold, interest-bearing deposits with banks, other short-term investments and unencumbered investment securities.

The Corporation performs monthly liquidity stress testing to evaluate its ability to meet funding needs in hypothetical stressed environments. Such environments cover a series of broad events, distinguished in terms of duration and severity. The evaluation as of September 30, 2018 projected sufficient sources of liquidity were available under each series of events.

Table of Contents**CRITICAL ACCOUNTING POLICIES**

The Corporation's consolidated financial statements are prepared based on the application of accounting policies, the most significant of which are described in note 1 to the consolidated financial statements included in the Corporation's 2017 Annual Report. These policies require numerous estimates and strategic or economic assumptions, which may prove inaccurate or subject to variations. Changes in underlying factors, assumptions or estimates could have a material impact on the Corporation's future financial condition and results of operations. At December 31, 2017, the most critical of these significant accounting policies were the policies related to the allowance for credit losses, fair value measurement, goodwill, pension plan accounting and income taxes. These policies were reviewed with the Audit Committee of the Corporation's Board of Directors and are discussed more fully on pages F-34 through F-37 in the Corporation's 2017 Annual Report. As of the date of this report, there have been no significant changes to the Corporation's critical accounting policies or estimates, except as discussed below.

**Goodwill**

Goodwill is initially recorded as the excess of the purchase price over the fair value of net assets acquired in a business combination and is subsequently evaluated at least annually for impairment. Goodwill impairment testing is performed at the reporting unit level, equivalent to a business segment or one level below. The Corporation has three reporting units: the Business Bank, the Retail Bank and Wealth Management. At December 31, 2017, goodwill totaled \$635 million, including \$380 million allocated to the Business Bank, \$194 million allocated to the Retail Bank and \$61 million allocated to Wealth Management.

The annual test of goodwill impairment was performed as of the beginning of the third quarter of 2018. The Corporation first assessed qualitative factors to determine whether it was more likely than not that the fair value of any reporting unit was less than its carrying amount, including goodwill. Qualitative factors included economic conditions, industry and market considerations, cost factors, overall financial performance, regulatory developments and performance of the Corporation's stock, among other events and circumstances. At the conclusion of the qualitative assessment in the third quarter 2018, the Corporation determined that it was more likely than not that the fair value of each reporting unit exceeded its carrying value.

Subsequent to the date of the annual impairment test, the Corporation reorganized certain reporting structures. As a result, Small Business Banking, formerly a component of the Retail Bank, became a component of the Business Bank. Accordingly, the Corporation reallocated \$93 million of goodwill from the Retail Bank to the Business Bank. At September 30, 2018, goodwill totaled \$635 million, including \$473 million allocated to the Business Bank, \$101 million allocated to the Retail Bank and \$61 million allocated to Wealth Management. The Corporation subsequently performed an additional qualitative impairment analysis and again determined that it was more likely than not that the fair value of each reporting unit exceeded its carrying value and that performing a quantitative impairment test was not necessary.

Qualitative factors considered in the analysis of each reporting unit incorporated current economic and market conditions, including the recent Federal Reserve announcements and the impact of legislative and regulatory changes, to the extent known. However, further weakening in the economic environment, such as adverse changes in interest rates, a decline in the performance of the reporting units or other factors could cause the fair value of one or more of the reporting units to fall below their carrying value, resulting in a goodwill impairment charge. Additionally, new legislative or regulatory changes not anticipated in management's expectations may cause the fair value of one or more of the reporting units to fall below the carrying value, resulting in a goodwill impairment charge. Any impairment charge would not affect the Corporation's regulatory capital ratios, tangible common equity ratio or liquidity position.



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## SUPPLEMENTAL FINANCIAL DATA

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

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

| (dollar amounts in millions)                          | September 30, December 31, |           |
|---|----------------------------|-----------|
|   | 2018                       | 2017      |
| Tangible Common Equity Ratio:                         |                            |           |
| Common shareholders' equity                           | \$ 7,786                   | \$ 7,963  |
| Less:   |                            |           |
| Goodwill  | 635                        | 635       |
| Other intangible assets                               | 6                          | 8         |
| Tangible common equity                                | \$ 7,145                   | \$ 7,320  |
| Total assets  | \$ 71,448                  | \$ 71,567 |
| Less:   |                            |           |
| Goodwill  | 635                        | 635       |
| Other intangible assets                               | 6                          | 8         |
| Tangible assets                                       | \$ 70,807                  | \$ 70,924 |
| Common equity ratio                                   | 10.90                      | % 11.13 % |
| Tangible common equity ratio                          | 10.09                      | 10.32     |
| Tangible Common Equity per Share of Common Stock:     |                            |           |
| Common shareholders' equity                           | \$ 7,786                   | \$ 7,963  |
| Tangible common equity                                | 7,145                      | 7,320     |
| Shares of common stock outstanding (in millions)      | 166                        | 173       |
| Common shareholders' equity per share of common stock | \$ 46.92                   | \$ 46.07  |
| Tangible common equity per share of common stock      | 43.05                      | 42.34     |

The tangible common equity ratio removes the effect of intangible assets from capital and total assets. Tangible common equity per share of common stock removes the effect of intangible assets from common shareholders' equity per share of common stock.

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ITEM 3. Quantitative and Qualitative Disclosures about Market Risk

Quantitative and qualitative disclosures for the current period can be found in the "Market and Liquidity Risk" section of "Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations."

ITEM 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures. The Corporation maintains a set of disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) that are designed to ensure that information required to be disclosed by the Corporation in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to the Corporation's management, including the Corporation's Chief Executive

(a) Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. Management has evaluated, with the participation of the Corporation's Chief Executive Officer and Chief Financial Officer, the effectiveness of the Corporation's disclosure controls and procedures as of the end of the period covered by this quarterly report (the "Evaluation Date"). Based on the evaluation, the Corporation's Chief Executive Officer and Chief Financial Officer have concluded that, as of the Evaluation Date, the Corporation's disclosure controls and procedures are effective.

(b) Changes in Internal Control Over Financial Reporting. During the period to which this report relates, there have not been any changes in the Corporation's internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that have materially affected, or that are reasonably likely to materially affect, such controls.

PART II. OTHER INFORMATION

ITEM 1. Legal Proceedings

For information regarding the Corporation's legal proceedings, see "Part I. Item 1. Note 12 – Contingent Liabilities," which is incorporated herein by reference.

ITEM 1A. Risk Factors

There has been no material change in the Corporation's risk factors as previously disclosed in our Form 10-K for the fiscal year ended December 31, 2017 in response to Part I, Item 1A. of such Form 10-K, other than as amended in our Form 10-Q for the quarter ended June 30, 2018 in response to Part II, Item 1A. of such Form 10-Q. Such risk factors are incorporated herein by reference.

ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds

For information regarding the Corporation's purchase of equity securities, see "Part I. Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations – Capital," which is incorporated herein by reference.

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ITEM 6. Exhibits

| Exhibit No. | Description  |
|-------------|--|
| 3.1         | <u>Restated Certificate of Incorporation of Comerica Incorporated (filed as Exhibit 3.2 to Registrant's Current Report on Form 8-K dated August 4, 2010, and incorporated herein by reference).</u>  |
| 3.2         | <u>Certificate of Amendment to Restated Certificate of Incorporation of Comerica Incorporated (filed as Exhibit 3.2 to Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2011, and incorporated herein by reference).</u>   |
| 3.3         | <u>Amended and Restated Bylaws of Comerica Incorporated (filed as Exhibit 3.3 to Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2011, and incorporated herein by reference).</u>   |
| 4           | [In accordance with Regulation S-K Item No. 601(b)(4)(iii), the Registrant is not filing copies of instruments defining the rights of holders of long-term debt because none of those instruments authorizes debt in excess of 10% of the total assets of the registrant and its subsidiaries on a consolidated basis. The Registrant hereby agrees to furnish a copy of any such instrument to the SEC upon request.]   |
| 31.1        | <u>Chairman and CEO Rule 13a-14(a)/15d-14(a) Certification of Periodic Report (pursuant to Section 302 of the Sarbanes-Oxley Act of 2002).</u>   |
| 31.2        | <u>Executive Vice President and CFO Rule 13a-14(a)/15d-14(a) Certification of Periodic Report (pursuant to Section 302 of the Sarbanes-Oxley Act of 2002).</u>   |
| 32          | <u>Section 1350 Certification of Periodic Report (pursuant to Section 906 of the Sarbanes-Oxley Act of 2002).</u>  |
| 101         | Financial statements from Quarterly Report on Form 10-Q of the Registrant for the quarter ended September 30, 2018, formatted in Extensible Business Reporting Language: (i) the Consolidated Balance Sheets (unaudited), (ii) the Consolidated Statements of Comprehensive Income (unaudited), (iii) the Consolidated Statements of Changes in Shareholders' Equity (unaudited), (iv) the Consolidated Statements of Cash Flows (unaudited) and (v) the Notes to Consolidated Financial Statements (unaudited). |
| †           | Management contract or compensatory plan or arrangement.   |

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SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

COMERICA INCORPORATED

(Registrant)

/s/ Mauricio A. Ortiz

Mauricio A. Ortiz

Senior Vice President and

Chief Accounting Officer and

Duly Authorized Officer

Date: October 31, 2018