UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(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, 2023

Or

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

For the transition period from ______ to ______

Commission file number 1-10706

Comerica Incorporated

(Exact name of registrant as specified in its charter)

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

Comerica Bank Tower
1717 Main Street, MC 6404
Dallas, Texas 75201
(Address of principal executive offices)
(Zip Code)

(214) 462-6831
(Registrant's telephone number, including area code)

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

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

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

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

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

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

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

Indicate by check mark whether the registrant 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 26, 2023: 131,872,812 shares

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, 2023	December 31, 2022
	(unaudited)	
ASSETS		
Cash and due from banks	$ 1,228	$ 1,758
Interest-bearing deposits with banks	6,884	4,524
Other short-term investments	403	157
Investment securities available-for-sale	16,323	19,012
Commercial loans	29,007	30,909
Real estate construction loans	4,545	3,105
Commercial mortgage loans	13,721	13,306
Lease financing	790	760
International loans	1,194	1,197
Residential mortgage loans	1,905	1,814
Consumer loans	2,236	2,311
Total loans	53,398	53,402
Allowance for loan losses	(694)	(610)
Net loans	52,704	52,792
Premises and equipment	410	400
Accrued income and other assets	7,754	6,763
Total assets	$ 85,706	$ 85,406
LIABILITIES AND SHAREHOLDERS' EQUITY		
Noninterest-bearing deposits	$ 29,922	$ 39,945
Money market and interest-bearing checking deposits	26,298	26,290
Savings deposits	2,521	3,225
Customer certificates of deposit	3,401	1,762
Other time deposits	5,011	124
Foreign office time deposits	5	51
Total interest-bearing deposits	37,236	31,452
Total deposits	67,158	71,397
Short-term borrowings	4,812	3,211
Accrued expenses and other liabilities	2,715	2,593
Medium- and long-term debt	6,049	3,024
Total liabilities	80,734	80,225
Fixed rate reset non-cumulative perpetual preferred stock, series A, no par value, $100,000 liquidation preference per share:		
Authorized - 4,000 shares		
Issued - 4,000 shares	394	394
Common stock - $5 par value:		
Authorized - 325,000,000 shares		
Issued - 228,164,824 shares	1,141	1,141
Capital surplus	2,220	2,220
Accumulated other comprehensive loss	(4,540)	(3,742)
Retained earnings	11,796	11,258
Less cost of common stock in treasury - 96,374,736 shares at 9/30/2023 and 97,197,962 shares at 12/31/2022	(6,039)	(6,090)
Total shareholders' equity	4,972	5,181
Total liabilities and shareholders' equity	$ 85,706	$ 85,406

See notes to consolidated financial statements (unaudited).

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CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (unaudited)

Comerica Incorporated and Subsidiaries

(in millions, except per share data)	Three Months Ended September 30, 2023	Three Months Ended September 30, 2022	Nine Months Ended September 30, 2023	Nine Months Ended September 30, 2022
INTEREST INCOME				
Interest and fees on loans	$ 862	$ 597	$ 2,491	$ 1,434
Interest on investment securities	105	119	326	296
Interest on short-term investments	136	34	309	66
Total interest income	1,103	750	3,126	1,796
INTEREST EXPENSE				
Interest on deposits	271	16	590	24
Interest on short-term borrowings	125	1	333	1
Interest on medium- and long-term debt	106	26	273	47
Total interest expense	502	43	1,196	72
Net interest income	601	707	1,930	1,724
Provision for credit losses	14	28	77	27
Net interest income after provision for credit losses	587	679	1,853	1,697
NONINTEREST INCOME				
Card fees	71	67	212	205
Fiduciary income	59	58	179	178
Service charges on deposit accounts	47	50	140	148
Capital markets income	35	48	113	120
Commercial lending fees	19	17	55	50
Bank-owned life insurance	12	12	36	37
Letter of credit fees	10	10	31	28
Brokerage fees	6	6	22	14
Other noninterest income	36	10	92	10
Total noninterest income	295	278	880	790
NONINTEREST EXPENSES				
Salaries and benefits expense	315	307	947	890
Outside processing fee expense	75	64	207	188
Software expense	44	40	127	120
Occupancy expense	44	44	126	122
FDIC Insurance expense	19	8	48	24
Equipment expense	12	12	36	36
Advertising expense	12	9	30	24
Other noninterest expenses	34	18	120	53
Total noninterest expenses	555	502	1,641	1,457
Income before income taxes	327	455	1,092	1,030
Provision for income taxes	76	104	244	229
NET INCOME	251	351	848	801
Less:				
Income allocated to participating securities	1	2	4	4
Preferred stock dividends	6	6	17	17
Net income attributable to common shares	$ 244	$ 343	$ 827	$ 780
Earnings per common share:				
Basic	$ 1.85	$ 2.63	$ 6.27	$ 5.96
Diluted	1.84	2.60	6.24	5.88
Comprehensive (loss) income	(533)	(1,282)	50	(2,574)
Cash dividends declared on common stock	94	89	282	267
Cash dividends declared per common share	0.71	0.68	2.13	2.04

See notes to consolidated financial statements (unaudited).

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (unaudited)

Comerica Incorporated and Subsidiaries

		Common Stock						
(in millions, except per share data)	Nonredeemable Preferred Stock	Shares Outstanding	Amount	Capital Surplus	Accumulated Other Comprehensive Loss	Retained Earnings	Treasury Stock	Total Shareholders' Equity
BALANCE AT JUNE 30, 2022	$ 394	130.8	$ 1,141	$ 2,204	$ (1,954)	$ 10,752	$ (6,102)	$ 6,435
Net income	—	—	—	—	—	351	—	351
Other comprehensive loss, net of tax	—	—	—	—	(1,633)	—	—	(1,633)
Cash dividends declared on common stock ($0.68 per share)	—	—	—	—	—	(89)	—	(89)
Cash dividends declared on preferred stock	—	—	—	—	—	(6)	—	(6)
Net issuance of common stock under employee stock plans	—	0.1	—	(4)	—	(3)	9	2
Share-based compensation	—	—	—	9	—	—	—	9
BALANCE AT SEPTEMBER 30, 2022	$ 394	130.9	$ 1,141	$ 2,209	$ (3,587)	$ 11,005	$ (6,093)	$ 5,069
BALANCE AT JUNE 30, 2023	$ 394	131.7	$ 1,141	$ 2,212	$ (3,756)	$ 11,648	$ (6,044)	$ 5,595
Net income	—	—	—	—	—	251	—	251
Other comprehensive loss, net of tax	—	—	—	—	(784)	—	—	(784)
Cash dividends declared on common stock ($0.71 per share)	—	—	—	—	—	(94)	—	(94)
Cash dividends declared on preferred stock	—	—	—	—	—	(6)	—	(6)
Net issuance of common stock under employee stock plans	—	0.1	—	(1)	—	(3)	5	1
Share-based compensation	—	—	—	9	—	—	—	9
BALANCE AT SEPTEMBER 30, 2023	$ 394	131.8	$ 1,141	$ 2,220	$ (4,540)	$ 11,796	$ (6,039)	$ 4,972
BALANCE AT DECEMBER 31, 2021	$ 394	130.7	$ 1,141	$ 2,175	$ (212)	$ 10,494	$ (6,095)	$ 7,897
Net income	—	—	—	—	—	801	—	801
Other comprehensive loss, net of tax	—	—	—	—	(3,375)	—	—	(3,375)
Cash dividends declared on common stock ($2.04 per share)	—	—	—	—	—	(267)	—	(267)
Cash dividends declared on preferred stock	—	—	—	—	—	(17)	—	(17)
Purchase of common stock	—	(0.4)	—	—	—	—	(36)	(36)
Net issuance of common stock under employee stock plans	—	0.6	—	(14)	—	(6)	38	18
Share-based compensation	—	—	—	48	—	—	—	48
BALANCE AT SEPTEMBER 30, 2022	$ 394	130.9	$ 1,141	$ 2,209	$ (3,587)	$ 11,005	$ (6,093)	$ 5,069
BALANCE AT DECEMBER 31, 2022	$ 394	131.0	$ 1,141	$ 2,220	$ (3,742)	$ 11,258	$ (6,090)	$ 5,181
Net income	—	—	—	—	—	848	—	848
Other comprehensive loss, net of tax	—	—	—	—	(798)	—	—	(798)
Cash dividends declared on common stock ($2.13 per share)	—	—	—	—	—	(282)	—	(282)
Cash dividends declared on preferred stock	—	—	—	—	—	(17)	—	(17)
Net issuance of common stock under employee stock plans	—	0.8	—	(44)	—	(11)	51	(4)
Share-based compensation	—	—	—	44	—	—	—	44
BALANCE AT SEPTEMBER 30, 2023	$ 394	131.8	$ 1,141	$ 2,220	$ (4,540)	$ 11,796	$ (6,039)	$ 4,972

See notes to consolidated financial statements (unaudited).

CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

Comerica Incorporated and Subsidiaries

(in millions)	Nine Months Ended September 30, 2023	2022
OPERATING ACTIVITIES		
Net income	$ 848	$ 801
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for credit losses	77	27
Benefit for deferred income taxes	(25)	(31)
Depreciation and amortization	64	71
Net periodic defined benefit credit	(20)	(68)
Share-based compensation expense	44	48
Net amortization of securities	15	24
Net gains on sales of foreclosed property and other bank property	(22)	(2)
Net change in:		
Accrued income receivable	(70)	(95)
Accrued expenses payable	134	18
Other, net	(916)	(752)
Net cash provided by operating activities	129	41
INVESTING ACTIVITIES		
Investment securities available-for-sale:		
Maturities and redemptions	2,061	2,003
Purchases	—	(7,470)
Net change in loans	(15)	(3,013)
Proceeds from sales of foreclosed property and other bank property	27	3
Net increase in premises and equipment	(93)	(58)
Federal Home Loan Bank stock:		
Purchases	(504)	(21)
Redemptions	274	—
Proceeds from bank-owned life insurance settlements	27	28
Other, net	2	—
Net cash provided by (used in) investing activities	1,779	(8,528)
FINANCING ACTIVITIES		
Net change in:		
Deposits	(4,529)	(8,931)
Short-term borrowings	1,601	508
Medium- and long-term debt:		
Maturities and redemptions	(850)	—
Issuances and advances	4,000	500
Cash dividends paid on preferred stock	(17)	(17)
Common stock:		
Repurchases	(16)	(43)
Cash dividends paid	(274)	(266)
Issuances under employee stock plans	9	27
Other, net	(2)	—
Net cash used in financing activities	(78)	(8,222)
Net increase (decrease) in cash and cash equivalents	1,830	(16,709)
Cash and cash equivalents at beginning of period	6,282	22,679
Cash and cash equivalents at end of period	$ 8,112	$ 5,970
Interest paid	$ 1,005	$ 55
Income taxes paid	255	182

See notes to consolidated financial statements (unaudited).

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, 2023 are not necessarily indicative of the results that may be expected for the year ending December 31, 2023. 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 on Form 10-K of Comerica Incorporated and Subsidiaries (the Corporation) for the year ended December 31, 2022 (2022 Annual Report).

Loans

Effective January 1, 2023, the Corporation adopted the provisions of Accounting Standards Update (ASU) No. 2022-02, "Financial Instruments - Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures" (ASU 2022-02), which eliminated the accounting for troubled debt restructurings (TDRs) while expanding loan modification and vintage disclosure requirements. Under ASU 2022-02, the Corporation assesses all loan modifications to determine whether one is granted to a borrower experiencing financial difficulty, regardless of whether the modified loan terms include a concession. Modifications granted to borrowers experiencing financial difficulty may be in the form of an interest rate reduction, an other-than-insignificant payment delay, a term extension, principal forgiveness or a combination thereof (collectively referred to as Financially Distressed Modifications or FDMs).

Prior to the adoption of ASU 2022-02, a TDR occurred when a loan to a borrower experiencing financial difficulty was restructured with a concession provided that a creditor would not otherwise consider. For the Corporation's accounting policy related to TDRs granted prior to the adoption of ASU 2022-02, refer to the consolidated financial statements and footnotes thereto included in the 2022 Annual Report.

The Corporation adopted ASU 2022-02 on a prospective basis. There was no financial statement impact from the adoption of this ASU. Refer to Note 4 for further information.

Recently Issued Accounting Pronouncements

In March 2023, the Financial Accounting Standards Board (FASB) issued ASU No. 2023-02 "Investments-Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Tax Credit Structures Using the Proportional Amortization Method (a consensus of the Emerging Issues Task Force)" (ASU 2023-02). ASU 2023-02 expands the permitted use of the proportional amortization method, which is currently only available to low-income housing tax credit investments, to other tax equity investments if certain conditions are met. Under the proportional amortization method, the initial cost of an investment is amortized in proportion to the income tax benefits received and both the amortization of the investment and the income tax benefits received are recognized as a component of income tax expense. This ASU is effective on January 1, 2024 and may be applied on either a modified retrospective or retrospective basis or, for certain changes, on a prospective basis. Early adoption is permitted. This ASU is not expected to have a material impact on the Corporation's financial statements.

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.

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

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

Refer to Note 1 to the consolidated financial statements in the Corporation's 2022 Annual Report 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.

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, 2023 and December 31, 2022.

(in millions)	Total	Level 1	Level 2	Level 3
September 30, 2023				
Deferred compensation plan assets	$ 97	$ 97	$ —	$ —
Equity securities	45	45	—	—
Investment securities available-for-sale:				
U.S. Treasury securities	1,681	1,681	—	—
Residential mortgage-backed securities (a)	10,174	—	10,174	—
Commercial mortgage-backed securities (a)	4,468	—	4,468	—
Total investment securities available-for-sale	16,323	1,681	14,642	—
Derivative assets:				
Interest rate contracts	303	—	303	—
Energy contracts	825	—	825	—
Foreign exchange contracts	50	—	50	—
Total derivative assets	1,178	—	1,178	—
Total assets at fair value	$ 17,643	$ 1,823	$ 15,820	$ —
Derivative liabilities:				
Interest rate contracts	$ 660	$ —	$ 660	$ —
Energy contracts	805	—	805	—
Foreign exchange contracts	43	—	43	—
Other financial derivative liabilities	13	—	—	13
Total derivative liabilities	1,521	—	1,508	13
Deferred compensation plan liabilities	97	97	—	—
Total liabilities at fair value	$ 1,618	$ 97	$ 1,508	$ 13
December 31, 2022				
Deferred compensation plan assets	$ 92	$ 92	$ —	$ —
Equity securities	44	44	—	—
Investment securities available-for-sale:				
U.S. Treasury securities	2,664	2,664	—	—
Residential mortgage-backed securities (a)	11,655	—	11,655	—
Commercial mortgage-backed securities (a)	4,693	—	4,693	—
Total investment securities available-for-sale	19,012	2,664	16,348	—
Derivative assets:				
Interest rate contracts	206	—	206	—
Energy contracts	1,020	—	1,020	—
Foreign exchange contracts	53	—	53	—
Total derivative assets	1,279	—	1,279	—
Total assets at fair value	$ 20,427	$ 2,800	$ 17,627	$ —
Derivative liabilities:				
Interest rate contracts	$ 644	$ —	$ 644	$ —
Energy contracts	1,006	—	1,006	—
Foreign exchange contracts	45	—	45	—
Other financial derivative liabilities	12	—	—	12
Total derivative liabilities	1,707	—	1,695	12
Deferred compensation plan liabilities	92	92	—	—
Total liabilities at fair value	$ 1,799	$ 92	$ 1,695	$ 12

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

There were no transfers of assets or liabilities recorded at fair value on a recurring basis into or out of Level 3 fair value measurements during each of the three- and nine-month periods ended September 30, 2023 and 2022.

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, 2023 and 2022.

		Net Realized/Unrealized Gains (Losses) (Pretax) Recorded in Earnings (a)			
(in millions)	Balance at Beginning of Period	Realized	Unrealized	Settlements	Balance at End of Period
Three Months Ended September 30, 2023					
Derivative liabilities:					
Other financial derivative liabilities	$ (14)	$ —	$ 1	$ —	$ (13)
Three Months Ended September 30, 2022					
Derivative liabilities:					
Other financial derivative liabilities	(12)	—	—	—	(12)
Nine Months Ended September 30, 2023					
Derivative liabilities:					
Other financial derivative liabilities	(12)	—	(1)	—	(13)
Nine Months Ended September 30, 2022					
Derivative assets:					
Interest rate contracts	$ 26	$ —	$ —	$ (26)	$ —
Derivative liabilities:					
Other financial derivative liabilities	(13)	—	1	—	(12)

(a) Realized and unrealized gains and losses due to changes in fair value are recorded in other noninterest income on the Consolidated Statements of Comprehensive Income.

Assets and Liabilities Recorded at Fair Value on a Nonrecurring Basis

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

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

The following table presents assets recorded at fair value on a nonrecurring basis at September 30, 2023 and December 31, 2022. No liabilities were recorded at fair value on a nonrecurring basis at September 30, 2023 and December 31, 2022.

(in millions)	Level 3
September 30, 2023	
Loans:	
Commercial	$ 27
Real estate construction	2
Commercial mortgage	3
International	2
Total loans	34
Loans held-for-sale	236
Other real estate	5
Total assets at fair value	$ 275
December 31, 2022	
Loans:	
Commercial	$ 53
Real estate construction	2
Commercial mortgage	11
Total loans	66
Other real estate	9
Total assets at fair value	$ 75

Level 3 assets recorded at fair value on a nonrecurring basis at September 30, 2023 and December 31, 2022 included loans with a specific allowance and certain bank property held for sale, both measured based on the fair value of collateral. The unobservable inputs were the additional adjustments applied by management to the appraised values to reflect such factors as non-current appraisals and revisions to estimated time to sell. These adjustments are determined based on qualitative judgments made by management on a case-by-case basis and are not observable inputs, although they are used in the determination of fair value. At September 30, 2023, loans held-for-sale classified as Level 3 represented loans held-for-sale in less liquid markets requiring significant management assumptions when determining 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 items such as 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.

Notes to Consolidated Financial Statements (unaudited)
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, 2023					
Assets					
Cash and due from banks	$ 1,228	$ 1,228	$ 1,228	$ —	$ —
Interest-bearing deposits with banks	6,884	6,884	6,884	—	—
Other short-term investments	24	24	24	—	—
Loans held-for-sale	2	2	—	2	—
Total loans, net of allowance for loan losses (a)	52,704	50,810	—	—	50,810
Customers' liability on acceptances outstanding	1	1	1	—	—
Restricted equity investments	453	453	453	—	—
Nonmarketable equity securities (b)	6	12			
Liabilities					
Demand deposits (noninterest-bearing)	29,922	29,922	—	29,922	—
Interest-bearing deposits	28,824	28,824	—	28,824	—
Customer certificates of deposit	3,401	3,372	—	3,372	—
Other time deposits	5,011	5,106	—	5,106	—
Total deposits	67,158	67,224	—	67,224	—
Short-term borrowings	4,812	4,812	4,812	—	—
Acceptances outstanding	1	1	1	—	—
Medium- and long-term debt	6,049	5,781	—	5,781	—
Credit-related financial instruments	(73)	(73)	—	—	(73)
December 31, 2022					
Assets					
Cash and due from banks	$ 1,758	$ 1,758	$ 1,758	$ —	$ —
Interest-bearing deposits with banks	4,524	4,524	4,524	—	—
Other short-term investments	19	19	19	—	—
Loans held-for-sale	2	2	—	2	—
Total loans, net of allowance for loan losses (a)	52,792	50,964	—	—	50,964
Customers' liability on acceptances outstanding	3	3	3	—	—
Restricted equity investments	223	223	223	—	—
Nonmarketable equity securities (b)	5	12			
Liabilities					
Demand deposits (noninterest-bearing)	39,945	39,945	—	39,945	—
Interest-bearing deposits	29,566	29,566	—	29,566	—
Customer certificates of deposit	1,762	1,719	—	1,719	—
Other time deposits	124	124	—	124	—
Total deposits	71,397	71,354	—	71,354	—
Short-term borrowings	3,211	3,211	3,211	—	—
Acceptances outstanding	3	3	3	—	—
Medium- and long-term debt	3,024	3,071	—	3,071	—
Credit-related financial instruments	(79)	(79)	—	—	(79)

(a) Included $34 million and $66 million of loans recorded at fair value on a nonrecurring basis at September 30, 2023 and December 31, 2022, respectively.
(b) Certain investments that are measured at fair value using the net asset value have not been classified in the fair value hierarchy. The fair value amounts presented in the table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the Consolidated Balance Sheets.

NOTE 3 - INVESTMENT SECURITIES

A summary of the Corporation's investment securities follows:

(in millions)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
September 30, 2023				
Investment securities available-for-sale:				
U.S. Treasury securities	$ 1,788	$ —	$ 107	$ 1,681
Residential mortgage-backed securities (a)	12,928	—	2,754	10,174
Commercial mortgage-backed securities (a)	5,253	—	785	4,468
Total investment securities available-for-sale	$ 19,969	$ —	$ 3,646	$ 16,323
December 31, 2022				
Investment securities available-for-sale:				
U.S. Treasury securities	$ 2,810	$ —	$ 146	$ 2,664
Residential mortgage-backed securities (a)	13,983	—	2,328	11,655
Commercial mortgage-backed securities (a)	5,252	—	559	4,693
Total investment securities available-for-sale	$ 22,045	$ —	$ 3,033	$ 19,012

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

A summary of the Corporation's investment securities in an unrealized loss position as of September 30, 2023 and December 31, 2022 follows:

	Less than 12 Months		12 Months or more		Total		
(in millions, except securities count)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Count
September 30, 2023							
U.S. Treasury securities	$ —	$ —	$ 1,681	$ 107	$ 1,681	$ 107	20
Residential mortgage-backed securities (a)	15	—	10,159	2,754	10,174	2,754	994
Commercial mortgage-backed securities (a)	—	—	4,468	785	4,468	785	253
Total temporarily impaired securities	$ 15	$ —	$16,308	$ 3,646	$16,323	$ 3,646	1,267
December 31, 2022							
U.S. Treasury securities	$ 996	$ 5	$ 1,668	$ 141	$ 2,664	$ 146	27
Residential mortgage-backed securities (a)	3,500	361	8,153	1,967	11,653	2,328	1,008
Commercial mortgage-backed securities (a)	4,008	405	685	154	4,693	559	254
Total temporarily impaired securities	$ 8,504	$ 771	$10,506	$ 2,262	$19,010	$ 3,033	1,289

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

Unrealized losses on investment securities resulted from changes in market interest rates. The Corporation's portfolio is comprised of securities issued or guaranteed by the U.S. government agencies or government-sponsored enterprises. As such, it is expected that the securities would not be settled at a price less than the amortized cost of the investments. Further, the Corporation does not intend to sell the investments, and it is not more-likely-than-not that it will be required to sell the investments before recovery of amortized costs. No allowance for credit losses was recorded on securities in an unrealized loss position at September 30, 2023 or December 31, 2022.

Interest receivable on investment securities totaled $41 million at September 30, 2023 and $49 million at December 31, 2022 and was included in accrued income and other assets on the Consolidated Balance Sheets.

Sales, calls and write-downs of investment securities available-for-sale, computed based on the adjusted cost of the specific security, resulted in no gains or losses during the three- and nine-month periods ended September 30, 2023 or September 30, 2022.

The following table summarizes the amortized cost and fair values of investment securities by contractual maturity. Securities with multiple maturity dates are classified in the period of final maturity. The actual cash flows of mortgage-backed securities may differ as borrowers of the underlying loans may exercise prepayment options. 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, 2023**	**Amortized Cost**	**Fair Value**
Contractual maturity		
One year or less	$ 662	$ 641
After one year through five years	1,380	1,278
After five years through ten years	5,366	4,580
After ten years	12,561	9,824
Total investment securities	$ 19,969	$ 16,323

At September 30, 2023, investment securities with a carrying value of $15.8 billion were pledged where permitted or required by law. Pledges included $7.5 billion to the Federal Reserve Bank (FRB) for potential future borrowings, $6.4 billion to the Federal Home Loan Bank (FHLB) as collateral for current advances and potential future borrowings as well as $1.9 billion to secure $536 million of liabilities, consisting of trust deposits, deposits of public entities and state and local government agencies as well as derivative instruments. For information on FHLB borrowings, refer to Note 7.

NOTE 4 – CREDIT QUALITY AND ALLOWANCE FOR CREDIT LOSSES

The following table presents an aging analysis of the amortized cost basis of loans.

	Loans Past Due and Still Accruing						
(in millions)	30-59 Days	60-89 Days	90 Days or More	Total	Nonaccrual Loans	Current Loans	Total Loans
September 30, 2023							
Business loans:							
Commercial	$ 51	$ 18	$ 26	$ 95	$ 83	$ 28,829	$ 29,007
Real estate construction:							
Commercial Real Estate business line (a)	32	—	—	32	—	3,983	4,015
Other business lines (b)	26	—	—	26	2	502	530
Total real estate construction	58	—	—	58	2	4,485	4,545
Commercial mortgage:							
Commercial Real Estate business line (a)	—	—	—	—	—	4,832	4,832
Other business lines (b)	43	20	18	81	30	8,778	8,889
Total commercial mortgage	43	20	18	81	30	13,610	13,721
Lease financing	7	—	1	8	—	782	790
International	3	—	—	3	3	1,188	1,194
Total business loans	162	38	45	245	118	48,894	49,257
Retail loans:							
Residential mortgage	7	2	—	9	19	1,877	1,905
Consumer:							
Home equity	13	2	—	15	17	1,732	1,764
Other consumer	2	—	—	2	—	470	472
Total consumer	15	2	—	17	17	2,202	2,236
Total retail loans	22	4	—	26	36	4,079	4,141
Total loans	$ 184	$ 42	$ 45	$ 271	$ 154	$ 52,973	$ 53,398
December 31, 2022							
Business loans:							
Commercial	$ 238	$ 13	$ 20	$ 271	$ 142	$ 30,496	$ 30,909
Real estate construction:							
Commercial Real Estate business line (a)	—	—	—	—	—	2,505	2,505
Other business lines (b)	2	—	—	2	3	595	600
Total real estate construction	2	—	—	2	3	3,100	3,105
Commercial mortgage:							
Commercial Real Estate business line (a)	—	6	—	6	1	4,674	4,681
Other business lines (b)	64	5	3	72	22	8,531	8,625
Total commercial mortgage	64	11	3	78	23	13,205	13,306
Lease financing	6	—	—	6	—	754	760
International	—	9	—	9	3	1,185	1,197
Total business loans	310	33	23	366	171	48,740	49,277
Retail loans:							
Residential mortgage	22	—	—	22	53	1,739	1,814
Consumer:							
Home equity	4	3	—	7	15	1,754	1,776
Other consumer	5	1	—	6	1	528	535
Total consumer	9	4	—	13	16	2,282	2,311
Total retail loans	31	4	—	35	69	4,021	4,125
Total loans	$ 341	$ 37	$ 23	$ 401	$ 240	$ 52,761	$ 53,402

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

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

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

	September 30, 2023								
	Vintage Year								
(in millions)	2023	2022	2021	2020	2019	Prior	Revolvers	Revolvers Converted to Term	Total
Business loans:									
Commercial:									
Pass (a)	$2,538	$3,241	$2,584	$ 630	$ 715	$1,130	$ 16,668	$ 12	$ 27,518
Criticized (b)	21	142	291	53	93	77	811	1	1,489
Total commercial	2,559	3,383	2,875	683	808	1,207	17,479	13	29,007
Commercial gross charge-offs	1	3	2	1	8	11	3	—	29
Real estate construction									
Pass (a)	360	1,859	1,513	373	65	49	254	—	4,473
Criticized (b)	—	29	34	2	6	—	1	—	72
Total real estate construction	360	1,888	1,547	375	71	49	255	—	4,545
Real estate construction gross charge-offs	—	—	—	—	—	—	—	—	—
Commercial mortgage									
Pass (a)	1,403	3,251	2,287	1,810	1,014	2,518	819	—	13,102
Criticized (b)	1	92	68	11	265	182	—	—	619
Total commercial mortgage	1,404	3,343	2,355	1,821	1,279	2,700	819	—	13,721
Commercial mortgage gross charge-offs	—	—	—	—	3	—	—	—	3
Lease financing									
Pass (a)	142	301	116	52	38	111	—	—	760
Criticized (b)	5	8	3	2	7	5	—	—	30
Total lease financing	147	309	119	54	45	116	—	—	790
Lease financing gross charge-offs	—	—	—	—	—	—	—	—	—
International									
Pass (a)	280	168	101	39	80	5	491	—	1,164
Criticized (b)	7	2	—	1	—	11	9	—	30
Total international	287	170	101	40	80	16	500	—	1,194
International gross charge-offs	2	—	—	—	—	—	—	—	2
Total business loans	4,757	9,093	6,997	2,973	2,283	4,088	19,053	13	49,257
Retail loans:									
Residential mortgage									
Pass (a)	245	299	375	455	134	376	—	—	1,884
Criticized (b)	2	—	1	—	—	18	—	—	21
Total residential mortgage	247	299	376	455	134	394	—	—	1,905
Residential mortgage gross charge-offs	—	—	—	—	—	—	—	—	—
Consumer:									
Home equity									
Pass (a)	—	—	—	—	—	8	1,677	53	1,738
Criticized (b)	—	—	—	—	—	—	24	2	26
Total home equity	—	—	—	—	—	8	1,701	55	1,764
Home equity gross charge-offs	—	—	—	—	—	—	2	—	2
Other consumer									
Pass (a)	22	42	26	9	6	7	357	—	469
Criticized (b)	—	—	—	—	—	3	—	—	3
Total other consumer	22	42	26	9	6	10	357	—	472
Other consumer gross charge-offs	—	—	—	—	1	—	—	—	1
Total consumer	22	42	26	9	6	18	2,058	55	2,236
Total retail loans	269	341	402	464	140	412	2,058	55	4,141
Total loans	$5,026	$9,434	$7,399	$3,437	$2,423	$4,500	$ 21,111	$ 68	$ 53,398

Notes to Consolidated Financial Statements (unaudited)
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	December 31, 2022								
	Vintage Year								
	2022	2021	2020	2019	2018	Prior	Revolvers	Revolvers Converted to Term	Total
Business loans:									
Commercial:									
Pass (a)	$3,946	$3,509	$ 917	$1,041	$ 598	$1,030	$ 18,604	$ 9	$ 29,654
Criticized (b)	75	274	81	69	45	78	632	1	1,255
Total commercial	4,021	3,783	998	1,110	643	1,108	19,236	10	30,909
Real estate construction:									
Pass (a)	836	1,134	633	162	102	28	207	—	3,102
Criticized (b)	—	—	3	—	—	—	—	—	3
Total real estate construction	836	1,134	636	162	102	28	207	—	3,105
Commercial mortgage:									
Pass (a)	3,349	2,501	1,825	1,394	1,050	2,182	838	—	13,139
Criticized (b)	7	5	7	32	31	75	10	—	167
Total commercial mortgage	3,356	2,506	1,832	1,426	1,081	2,257	848	—	13,306
Lease financing									
Pass (a)	316	140	64	47	37	130	—	—	734
Criticized (b)	10	—	2	8	5	1	—	—	26
Total lease financing	326	140	66	55	42	131	—	—	760
International									
Pass (a)	317	161	55	88	19	14	498	—	1,152
Criticized (b)	12	—	3	—	3	10	17	—	45
Total international	329	161	58	88	22	24	515	—	1,197
Total business loans	8,868	7,724	3,590	2,841	1,890	3,548	20,806	10	49,277
Retail loans:									
Residential mortgage									
Pass (a)	327	398	480	133	68	355	—	—	1,761
Criticized (b)	4	—	—	9	1	39	—	—	53
Total residential mortgage	331	398	480	142	69	394	—	—	1,814
Consumer:									
Home equity									
Pass (a)	—	—	—	—	—	9	1,708	40	1,757
Criticized (b)	—	—	—	—	—	—	17	2	19
Total home equity	—	—	—	—	—	9	1,725	42	1,776
Other consumer									
Pass (a)	69	38	50	8	1	10	355	—	531
Criticized (b)	—	—	—	1	—	—	3	—	4
Total other consumer	69	38	50	9	1	10	358	—	535
Total consumer	69	38	50	9	1	19	2,083	42	2,311
Total retail loans	400	436	530	151	70	413	2,083	42	4,125
Total loans	$9,268	$8,160	$4,120	$2,992	$1,960	$3,961	$ 22,889	$ 52	$ 53,402

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

(b) *Includes loans with an internal rating of special mention, substandard loans for which the accrual of interest has not been discontinued and nonaccrual loans. Special mention loans have potential credit weaknesses that deserve management's close attention, such as loans to borrowers who may be experiencing financial difficulties that may result in deterioration of repayment prospects from the borrower at some future date. Accruing substandard loans have a well-defined weakness, or weaknesses, such as loans to borrowers who may be experiencing losses from operations or inadequate liquidity of a degree and duration that jeopardizes the orderly repayment of the loan. Substandard loans are also distinguished by the distinct possibility of loss in the future if these weaknesses are not corrected. Nonaccrual loans are loans for which the accrual of interest has been discontinued. For further information regarding nonaccrual loans, refer to the Nonperforming Assets subheading in Note 1 - Basis of Presentation and Accounting Policies on page F-49 in the Corporation's 2022 Annual Report. These categories are generally consistent with the "special mention" and "substandard" categories as defined by regulatory authorities. A minority of nonaccrual loans are consistent with the "doubtful" category.*

Loan interest receivable totaled $317 million and $261 million at September 30, 2023 and December 31, 2022, respectively, and was included in accrued income and other assets on the Consolidated Balance Sheets.

Allowance for Credit Losses

The following table details the changes in the allowance for credit losses.

	2023			2022		
(in millions)	Business Loans	Retail Loans	Total	Business Loans	Retail Loans	Total
Three Months Ended September 30						
Balance at beginning of period:						
Allowance for loan losses	$ 614	$ 70	$ 684	$ 502	$ 61	$ 563
Allowance for credit losses on lending-related commitments	34	10	44	34	12	46
Allowance for credit losses	648	80	728	536	73	609
Loan charge-offs	(13)	(1)	(14)	(25)	(1)	(26)
Recoveries on loans previously charged-off	7	1	8	12	1	13
Net loan (charge-offs) recoveries	(6)	—	(6)	(13)	—	(13)
Provision for credit losses:						
Provision for loan losses	18	(2)	16	24	2	26
Provision for credit losses on lending-related commitments	(1)	(1)	(2)	2	—	2
Provision for credit losses	17	(3)	14	26	2	28
Balance at end of period:						
Allowance for loan losses	626	68	694	513	63	576
Allowance for credit losses on lending-related commitments	33	9	42	36	12	48
Allowance for credit losses	$ 659	$ 77	$ 736	$ 549	$ 75	$ 624
Nine Months Ended September 30						
Balance at beginning of period						
Allowance for loan losses	$ 541	$ 69	$ 610	$ 531	$ 57	$ 588
Allowance for credit losses on lending-related commitments	40	11	51	24	6	30
Allowance for credit losses	581	80	661	555	63	618
Loan charge-offs	(34)	(3)	(37)	(55)	(2)	(57)
Recoveries on loans previously charged-off	33	2	35	33	3	36
Net loan (charge-offs) recoveries	(1)	(1)	(2)	(22)	1	(21)
Provision for credit losses:						
Provision for loan losses	86	—	86	4	5	9
Provision for credit losses on lending-related commitments	(7)	(2)	(9)	12	6	18
Provision for credit losses	79	(2)	77	16	11	27
Balance at end of period:						
Allowance for loan losses	626	68	694	513	63	576
Allowance for credit losses on lending-related commitments	33	9	42	36	12	48
Allowance for credit losses	$ 659	$ 77	$ 736	$ 549	$ 75	$ 624
Allowance for loan losses as a percentage of total loans	1.27%	1.62%	1.30%	1.07%	1.58%	1.11%
Allowance for credit losses as a percentage of total loans	1.34	1.84	1.38	1.15	1.88	1.21

Nonaccrual Loans

The following table presents additional information regarding nonaccrual loans. Interest income of $2 million and $3 million was recognized on nonaccrual loans for the three-month periods ended September 30, 2023 and 2022, respectively. For the nine months ended September 30, 2023 and 2022, the Corporation recognized interest income of $8 million and $7 million, respectively, on nonaccrual loans.

(in millions)	Nonaccrual Loans with No Related Allowance	Nonaccrual Loans with Related Allowance	Total Nonaccrual Loans
September 30, 2023			
Business loans:			
Commercial	$ 38	$ 45	$ 83
Real estate construction:			
Other business lines (a)	—	2	2
Commercial mortgage:			
Other business lines (a)	18	12	30
Total commercial mortgage	18	12	30
International	—	3	3
Total business loans	56	62	118
Retail loans:			
Residential mortgage	19	—	19
Consumer:			
Home equity	17	—	17
Total retail loans	36	—	36
Total nonaccrual loans	$ 92	$ 62	$ 154
December 31, 2022			
Business loans:			
Commercial	$ 64	$ 78	$ 142
Real estate construction:			
Other business lines (a)	—	3	3
Commercial mortgage:			
Commercial Real Estate business line (b)	—	1	1
Other business lines (a)	4	18	22
Total commercial mortgage	4	19	23
International	3	—	3
Total business loans	71	100	171
Retail loans:			
Residential mortgage	53	—	53
Consumer:			
Home equity	15	—	15
Other consumer	1	—	1
Total consumer	16	—	16
Total retail loans	69	—	69
Total nonaccrual loans	$ 140	$ 100	$ 240

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

Foreclosed Properties

Foreclosed properties were insignificant at both September 30, 2023 and December 31, 2022. Retail loans secured by residential real estate properties in process of foreclosure included in nonaccrual loans were insignificant at both September 30, 2023 and December 31, 2022.

Loan Modifications Made to Borrowers Experiencing Financial Difficulty

Effective January 1, 2023, the Corporation adopted the provisions of ASU 2022-02, which eliminated the accounting for TDRs while expanding loan modification and vintage disclosure requirements. The update specifically required additional disclosures on loan modifications to borrowers experiencing financial difficulties that involved an interest rate reduction, other-than-insignificant payment delay, a term extension, principal forgiveness or a combination thereof.

Notes to Consolidated Financial Statements (unaudited)

Comerica Incorporated and Subsidiaries

The following table displays the amortized cost basis at September 30, 2023 of loan modifications made to borrowers experiencing financial difficulty that were restructured during the three- and nine-month periods ended September 30, 2023 by type of modification.

(in millions)	Term Extension (a)	Payment Delay (a)	Interest Rate Reduction	Combinations (b)	Total	Percent of Total Class
Three Months Ended September 30, 2023						
Business loans:						
Commercial	$ 54	$ —	$ 4	$ —	$ 58	0.20 %
Real estate construction:						
Other business lines (c)	8	—	—	—	8	1.44
Total real estate construction	8	—	—	—	8	0.17
Commercial mortgage:						
Other business lines (d)	1	—	—	6	7	0.08
Total commercial mortgage	1	—	—	6	7	0.05
Total business loans	63	—	4	6	73	0.15
Retail loans:						
Consumer:						
Home equity	—	—	1	1	2	0.11
Total consumer	—	—	1	1	2	0.09
Total retail loans	—	—	1	1	2	0.05
Total loans	$ 63	$ —	$ 5	$ 7	$ 75	0.14 %
Nine Months Ended September 30, 2023						
Business loans:						
Commercial	$ 87	$ 21	$ 4	$ 1	$ 113	0.39 %
Real estate construction:						
Other business lines (c)	8	—	—	—	8	1.44
Total real estate construction	8	—	—	—	8	0.17
Commercial mortgage:						
Other business lines (d)	4	—	1	11	16	0.18
Total commercial mortgage	4	—	1	11	16	0.12
Total business loans	99	21	5	12	137	0.28
Retail loans:						
Consumer:						
Home equity	1	—	1	1	3	0.15
Total consumer	1	—	1	1	3	0.13
Total retail loans	1	—	1	1	3	0.07
Total loans	$ 100	$ 21	$ 6	$ 13	$ 140	0.26 %

(a) Represents loan balances where terms were extended or payments were delayed by a more than an insignificant time period, typically more than 180 days, at or above contractual interest rates. See Note 1 to the consolidated financial statements for further information.
(b) Relates to FDMs where more than one type of modification was made. For the three- and nine-month periods ended September 30, 2023, this primarily related to a modification where the interest rate was reduced and the term was extended.
(c) Primarily loans to real estate developers.
(d) Primarily loans secured by owner-occupied real estate.

There were no commitments to lend additional funds to borrowers experiencing financial difficulty whose terms had been restructured at September 30, 2023.

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The following table summarizes the financial impacts of loan modifications made to specific loans during the three- and nine-month periods ended September 30, 2023.

	Weighted-Average Term Extension (in months)	Weighted-Average Interest Rate Reduction
Three Months Ended September 30, 2023		
Business loans:		
Commercial	7.4	(0.50)%
Real estate construction:		
Other business lines (a)	6.0	—
Total real estate construction	6.0	—
Commercial mortgage:		
Other business lines (b)	8.7	(1.00)
Total commercial mortgage	8.7	(1.00)
Total business loans	7.4	(0.81)
Retail loans:		
Consumer:		
Home equity	131.1	(2.85)
Total consumer	131.1	(2.85)
Total retail loans	131.1	(2.85)
Total loans	9.2	(1.09)%
Nine Months Ended September 30, 2023		
Business loans:		
Commercial	8.0	(0.49)%
Real estate construction:		
Other business lines (a)	6.0	—
Total real estate construction	6.0	—
Commercial mortgage:		
Other business lines (b)	22.0	(0.79)
Total commercial mortgage	22.0	(0.79)
Total business loans	9.7	(0.70)
Retail loans:		
Consumer:		
Home equity	129.0	(2.64)
Total consumer	129.0	(2.64)
Total retail loans	129.0	(2.64)
Total loans	11.0	(0.89)%

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

During the three months ended September 30, 2023, there were no significant modifications to borrowers experiencing financial difficulty involving an other-than-insignificant payment delay. During the nine months ended September 30, 2023, modifications to borrowers experiencing financial difficulty included restructurings with other-than-insignificant payment delays of $5 million in the Commercial loan category.

On an ongoing basis, the Corporation monitors the performance of modified loans related to their restructured terms. Loans restructured during the nine months ended September 30, 2023 were current under modified terms at September 30, 2023. Nonperforming restructured loans are classified as nonaccrual loans and are individually evaluated in the allowance for loan losses.

For restructured loans, a subsequent payment default is defined in terms of delinquency, when a principal or interest payment is 90 days past due or classified into nonaccrual status during the reporting period. Of the loans restructured during the three- and nine-month periods ended September 30, 2023 (since adoption of ASU 2022-02), there were no subsequent defaults as of September 30, 2023.

Troubled Debt Restructurings Prior to the Adoption of ASU 2022-02

The following table details the amortized cost basis at September 30, 2022 of loans considered to be TDRs that were restructured during the three- and nine-month periods ended September 30, 2022 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.

	Type of Modification		
(in millions)	**Principal Deferrals (a)**	**Interest Rate Reductions**	**Total Modifications**
Three Months Ended September 30, 2022			
Business loans:			
Commercial	$ 27	$ —	$ 27
Commercial mortgage:			
Other business lines (b)	7	—	7
Total business loans	34	—	34
Retail loans:			
Residential mortgage	—	5	5
Total loans	$ 34	$ 5	$ 39
Nine Months Ended September 30, 2022			
Business loans:			
Commercial	$ 34	$ —	$ 34
Real estate construction:			
Other business lines (b)	3	—	3
Commercial mortgage:			
Other business lines (b)	15	—	15
Total business loans	52	—	52
Retail loans:			
Residential mortgage	—	5	5
Consumer:			
Home equity (c)	1	—	1
Total loans	$ 53	$ 5	$ 58

(a) Primarily represents loan balances where terms were extended by more than an insignificant time period, typically more than 180 days, at or above contractual interest rates. Also includes commercial loans restructured in bankruptcy.
(b) Primarily loans secured by owner-occupied real estate.
(c) Includes bankruptcy loans for which the court has discharged the borrower's obligation and the borrower has not reaffirmed the debt.

The Corporation charges interest on principal balances outstanding during deferral periods. Additionally, none of the modifications involved forgiveness of principal. Commitments to lend additional funds to borrowers whose terms had been modified in TDRs were $1 million at September 30, 2022.

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, was considered a subsequent default. For interest rate reductions, a subsequent payment default was defined in terms of delinquency, when a principal or interest payment was 90 days past due. Of the TDRs modified during the twelve-month period ended September 30, 2022, there were $6 million subsequent defaults of principal deferrals and no subsequent defaults of interest rate reductions.

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.

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. Master netting arrangements effectively reduce credit valuation adjustments by permitting settlement of positive and negative positions and offset cash collateral held with the same counterparty on a net basis. Bilateral collateral agreements require daily exchange of cash or highly rated securities issued by the U.S. Treasury or other U.S. government entities to collateralize amounts due to either party. At September 30, 2023, counterparties with bilateral collateral agreements deposited $159 million of cash with the Corporation to secure the fair value of contracts in an unrealized gain position, and the Corporation had pledged $207 million of marketable investment securities and posted $12 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.

Derivative Instruments

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

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

The following table presents the composition of the Corporation's derivative instruments held or issued for risk management purposes or in connection with customer-initiated and other activities at September 30, 2023 and December 31, 2022. The table excludes a derivative related to the Corporation's 2008 sale of its remaining ownership of Visa shares and includes accrued interest receivable and payable.

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

	September 30, 2023			December 31, 2022		
		Fair Value			Fair Value	
(in millions)	Notional/ Contract Amount (a)	Gross Derivative Assets	Gross Derivative Liabilities	Notional/ Contract Amount (a)	Gross Derivative Assets	Gross Derivative Liabilities
Risk management purposes						
Derivatives designated as hedging instruments						
Interest rate contracts:						
Fair value swaps - receive fixed/ pay floating	$ 6,300	$ —	$ —	$ 3,150	$ —	$ —
Cash flow swaps - receive fixed/ pay floating (b)	25,100	—	2	26,600	—	50
Derivatives used as economic hedges						
Foreign exchange contracts:						
Spot, forwards and swaps	562	2	1	392	1	3
Total risk management purposes	31,962	2	3	30,142	1	53
Customer-initiated and other activities						
Interest rate contracts:						
Caps and floors written	1,459	—	24	924	—	25
Caps and floors purchased	1,459	24	—	924	25	—
Swaps	19,347	279	634	18,450	181	569
Total interest rate contracts	22,265	303	658	20,298	206	594
Energy contracts:						
Caps and floors written	4,034	1	319	4,051	—	430
Caps and floors purchased	4,034	320	1	4,051	431	—
Swaps	6,805	504	485	6,419	589	576
Total energy contracts	14,873	825	805	14,521	1,020	1,006
Foreign exchange contracts:						
Spot, forwards, options and swaps	2,581	48	42	2,704	52	42
Total customer-initiated and other activities	39,719	1,176	1,505	37,523	1,278	1,642
Total gross derivatives	$ 71,681	1,178	1,508	$ 67,665	1,279	1,695
Amounts offset in the Consolidated Balance Sheets:						
Netting adjustment - Offsetting derivative assets/liabilities		(446)	(446)		(644)	(644)
Netting adjustment - Cash collateral received/posted		(155)	(12)		(180)	(4)
Net derivatives included in the Consolidated Balance Sheets (c)		577	1,050		455	1,047
Amounts not offset in the Consolidated Balance Sheets:						
Marketable securities pledged under bilateral collateral agreements		(295)	(207)		(70)	(202)
Net derivatives after deducting amounts not offset in the Consolidated Balance Sheets		$ 282	$ 843		$ 385	$ 845

(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) September 30, 2023 included $3.3 billion of forward starting swaps that will become effective on their contractual start dates in 2023 and 2024.

(c) 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 $2 million at both September 30, 2023 and December 31, 2022.

Risk Management

The Corporation's derivative instruments used for managing interest rate risk include cash flow hedging strategies that convert variable-rate loans to fixed rates and fair value hedging strategies that convert fixed-rate medium- and long-term debt to variable rates. Interest and fees on loans included $163 million and $2 million of cash flow hedge losses for the three-month periods ended September 30, 2023 and 2022, respectively, and $(432) million and $45 million of cash flow hedge (loss) income for the nine-month periods ended September 30, 2023 and 2022, respectively.

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

	Interest on Medium- and Long-Term Debt			
	Three Months Ended September 30,		Nine Months Ended September 30,	
(in millions)	2023	2022	2023	2022
Total interest on medium- and long-term debt (a)	$ 106	$ 26	$ 273	$ 47
Fair value hedging relationships:				
Interest rate contracts:				
Hedged items	74	28	194	79
Derivatives designated as hedging instruments	32	(2)	79	(32)

(a) Includes the effects of hedging.

Centrally-cleared derivative positions are settled daily based on derivative fair values and the party receiving net settlement amounts pays price alignment, based on an earning rate, to the party making settlement payments. Accordingly, the Corporation may recognize risk management hedging income consisting of price alignment income or expense depending on the fair value of its positions. Price alignment income was reported in other noninterest income on the Consolidated Statements of Comprehensive Income and totaled $17 million and $32 million for the three and nine months ended September 30, 2023, respectively, and was insignificant for the three and nine months ended September 30, 2022.

For information on accumulated net losses on cash flow hedges, refer to Note 8.

The following tables summarize the expected weighted average remaining maturity of the notional amount of risk management interest rate swaps, the weighted average interest rates associated with amounts expected to be received or paid on interest rate swap agreements, and for fair value swaps, the weighted average carrying amount of the related hedged items, as of September 30, 2023 and December 31, 2022.

Cash flow swaps - receive fixed/pay floating rate on variable-rate loans

	September 30, 2023	December 31, 2022
Weighted average:		
Time to maturity (in years)	4.1	4.6
Receive rate (a)	2.38%	2.35%
Pay rate (a), (b)	5.36	4.07

(a) Excludes forward starting swaps not effective as of the period shown. September 30, 2023 excluded $3.3 billion of forward starting swaps. December 31, 2022 excluded $4.6 billion of forward starting swaps.
(b) Variable rates paid on receive fixed swaps designated as cash flow hedges are based on BSBY or Secured Overnight Financing Rate (SOFR) rates in effect at September 30, 2023 and BSBY, SOFR or LIBOR rates in effect at December 31, 2022.

Fair value swaps - receive fixed/pay floating rate on medium- and long-term debt

(dollar amounts in millions)	September 30, 2023	December 31, 2022
Carrying value of hedged items (a)	$ 6,049	$ 3,024
Weighted average:		
Time to maturity (in years)	3.5	3.9
Receive rate (b)	3.67%	3.52%
Pay rate (b)	5.39	4.90

(a) Included $(250) million and $(124) million of cumulative hedging adjustments at September 30, 2023 and December 31, 2022, respectively, which included $3 million and $4 million, respectively, of hedging adjustment on a discontinued hedging relationship.
(b) Floating rates paid on receive fixed swaps designated as fair value hedges are based on SOFR rates in effect at September 30, 2023 and SOFR and LIBOR rates in effect at December 31, 2022.

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 did not recognize any net gains or losses in other noninterest income on the Consolidated Statements of Comprehensive Income for the three months ended September 30, 2023, compared to a net gain of $1 million for the three months ended September 30, 2022. The Corporation recognized a net loss of $1 million for the nine months ended September 30, 2023, compared to no net gains or losses for the nine months ended September 30, 2022.

Fair values of customer-initiated and other derivative instruments represent the net unrealized gains or losses on such contracts and are recorded on the Consolidated Balance Sheets. Changes in fair value are recognized on the Consolidated Statements of Comprehensive Income. The net gains recognized in income on customer-initiated derivative instruments, net of the impact of offsetting positions included in capital markets income, were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in millions)	**2023**	**2022**	**2023**	**2022**
Interest rate contracts	$ 5	$ 9	$ 17	$ 28
Energy contracts	4	14	17	22
Foreign exchange contracts	12	12	40	36
Total	$ 21	$ 35	$ 74	$ 86

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, 2023**	**December 31, 2022**
Unused commitments to extend credit:		
Commercial and other	$ 28,357	$ 30,800
Bankcard, revolving credit and home equity loan commitments	4,169	4,017
Total unused commitments to extend credit	$ 32,526	$ 34,817
Standby letters of credit	$ 3,521	$ 3,712
Commercial letters of credit	42	39

The Corporation maintains an allowance to cover current expected 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 $42 million and $51 million at September 30, 2023 and December 31, 2022, 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 $39 million at September 30, 2023 and $44 million at December 31, 2022 for expected 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 2033. 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 $89 million and $107 million at September 30, 2023 and December 31, 2022, respectively, of the $3.6 billion and $3.8 billion of standby and commercial letters of credit outstanding at September 30, 2023 and December 31, 2022, respectively.

The carrying value of the Corporation's standby and commercial letters of credit, included in accrued expenses and other liabilities on the Consolidated Balance Sheets, totaled $34 million at September 30, 2023, including $31 million in deferred fees and $3 million in the allowance for credit losses on lending-related commitments. At December 31, 2022, the comparable amounts were $35 million, $28 million and $7 million, respectively.

The following table presents a summary of criticized standby and commercial letters of credit at September 30, 2023 and December 31, 2022. The Corporation's criticized list is consistent with the Special Mention, Substandard and Doubtful categories defined by regulatory authorities. The Corporation manages credit risk through underwriting, periodically reviewing and approving its credit exposures using Board committee approved credit policies and guidelines.

(dollar amounts in millions)	**September 30, 2023**	**December 31, 2022**
Total criticized standby and commercial letters of credit	$ 52	$ 37
As a percentage of total outstanding standby and commercial letters of credit	1.5%	1.0%

Other Credit-Related Financial Instruments

The Corporation enters into credit risk participation agreements, under which the Corporation assumes credit exposure associated with a borrower's performance related to certain interest rate derivative contracts. The Corporation is not a party to the interest rate derivative contracts and only enters into these credit risk participation agreements in instances in which the Corporation is also a party to the related loan participation agreements 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 as if the Corporation had entered into the derivative instruments directly with the borrower. The notional amount of such credit risk participation agreements reflects the pro-rata share of the derivative instrument, consistent with its share of the related participated loan. The total notional amount of the credit risk participation agreements was approximately $1 billion and $951 million at September 30, 2023 and December 31, 2022, respectively, and the fair value was insignificant at both September 30, 2023 and December 31, 2022. 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 insignificant at September 30, 2023 and December 31, 2022. 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, 2023, the weighted average remaining maturity of outstanding credit risk participation agreements was 4.3 years.

In 2008, the Corporation sold its remaining ownership of Visa Class B shares and entered into a derivative contract. Under the terms of the derivative contract, the Corporation will compensate the counterparty primarily for dilutive adjustments made to the conversion factor of the Visa Class B shares to Class A shares based on the ultimate outcome of litigation involving Visa. Conversely, the Corporation will be compensated by the counterparty for any increase in the conversion factor from anti-dilutive adjustments. The notional amount of the derivative contract was equivalent to approximately 780,000 Visa Class B Shares. The fair value of the derivative liability, included in accrued expenses and other liabilities on the Consolidated Balance Sheets, was $13 million and $12 million at September 30, 2023 and December 31, 2022. respectively.

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. Ownership interests in other tax credit entities are accounted for under either the cost or equity method. Exposure to loss as a result of the Corporation's involvement in LIHTC entities and other tax credit entities at September 30, 2023 was limited to $482 million and $27 million, respectively.

Investment balances, including all legally binding commitments to fund future investments, are included in accrued income and other assets on the Consolidated Balance Sheets. A liability is recognized in accrued expenses and other liabilities on the Consolidated Balance Sheets for all legally binding unfunded commitments to fund tax credit entities ($219 million at September 30, 2023). 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, 2023 and 2022.

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

	Three Months Ended September 30,		**Nine Months Ended September 30,**	
(in millions)	**2023**	**2022**	**2023**	**2022**
Provision for income taxes:				
Amortization of LIHTC investments	$ 17	$ 19	$ 51	$ 54
Low income housing tax credits	(16)	(18)	(48)	(51)
Other tax benefits related to tax credit entities	(5)	(5)	(15)	(14)
Total provision for income taxes	$ (4)	$ (4)	$ (12)	$ (11)

For further information on the Corporation's consolidation policy, see Note 1 to the consolidated financial statements in the Corporation's 2022 Annual Report.

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

NOTE 7 - MEDIUM- AND LONG-TERM DEBT

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

(in millions)	September 30, 2023	December 31, 2022
Parent company		
Subordinated notes:		
3.80% subordinated notes due 2026 (a)	$ 235	$ 237
Medium- and long-term notes:		
3.70% notes due July 2023	—	841
4.00% notes due 2029 (a)	502	515
Total medium- and long-term notes	502	1,356
Total parent company	737	1,593
Subsidiaries		
Subordinated notes:		
4.00% subordinated notes due 2025 (a)	331	331
7.88% subordinated notes due 2026 (a)	159	165
5.33% subordinated notes due 2033 (a)	437	459
Total subordinated notes	927	955
Medium- and long-term notes:		
2.50% notes due 2024 (a)	484	476
Total medium- and long-term notes	484	476
Federal Home Loan Bank advances:		
5.07% advance due 2025 (a)	986	—
4.79% advance due 2026 (a)	978	—
4.49% advance due 2027 (a)	973	—
4.49% advance due 2028 (a)	964	—
Total Federal Home Loan Bank advances:	3,901	—
Total subsidiaries	5,312	1,431
Total medium- and long-term debt	$ 6,049	$ 3,024

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

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 first quarter 2023, the Bank borrowed $4.0 billion of fixed-rate FHLB advances due between 2025 and 2028. Interest is due monthly, with principal due at maturity. Additionally, the Bank entered into fair value fixed-to-floating rate swaps in which the Bank received a weighted-average fixed rate of 3.79% and pays a floating rate based on SOFR.

Borrowing capacity is contingent on the amount of collateral available to be pledged to the FHLB. Total FHLB borrowings were $8.8 billion at September 30, 2023, which included $4.8 billion in short-term advances. Remaining capacity for future FHLB borrowings was $8.5 billion at September 30, 2023, which was secured by available real estate-related loans and investment securities collateral.

Unamortized debt issuance costs deducted from the carrying amount of medium- and long-term debt totaled $7 million and $9 million at September 30, 2023 and December 31, 2022, respectively.

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

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 loss for the nine months ended September 30, 2023 and 2022, including the amount of income tax benefit allocated to each component of other comprehensive loss.

	Nine Months Ended September 30,	
(in millions)	2023	2022
Accumulated net unrealized losses on investment securities:		
Balance at beginning of period, net of tax	$ (2,319)	$ (99)
Net unrealized losses arising during the period	(613)	(2,977)
Less: Benefit for income taxes	(144)	(701)
Change in net unrealized losses on investment securities, net of tax	(469)	(2,276)
Balance at end of period, net of tax	$ (2,788)	$ (2,375)
Accumulated net losses on cash flow hedges:		
Balance at beginning of period, net of tax	$ (942)	$ 55
Net cash flow hedge losses arising during the period	(871)	(1,397)
Less: Benefit for income taxes	(204)	(329)
Change in net cash flow hedge losses arising during the period, net of tax	(667)	(1,068)
Less:		
Net cash flow (losses) gains included in interest and fees on loans	(432)	45
Less: (Benefit) provision for income taxes	(101)	11
Reclassification adjustment for net cash flow hedge (losses) gains included in net income, net of tax	(331)	34
Change in net cash flow hedge losses, net of tax	(336)	(1,102)
Balance at end of period, net of tax (a)	$ (1,278)	$ (1,047)
Accumulated defined benefit pension and other postretirement plans adjustment:		
Balance at beginning of period, net of tax	$ (481)	$ (168)
Amounts recognized in other noninterest expenses:		
Amortization of actuarial net loss	27	21
Amortization of prior service credit	(17)	(18)
Total amounts recognized in other noninterest expenses	10	3
Less: Provision for income taxes	3	—
Adjustment for amounts recognized as components of net periodic benefit credit during the period, net of tax	7	3
Change in defined benefit pension and other postretirement plans adjustment, net of tax	7	3
Balance at end of period, net of tax	$ (474)	$ (165)
Total accumulated other comprehensive loss at end of period, net of tax	$ (4,540)	$ (3,587)

(a) The Corporation expects to reclassify $507 million of losses, net of tax, from accumulated other comprehensive loss to earnings over the next twelve months if interest yield curves and notional amounts remain at September 30, 2023 levels.

NOTE 9 - NET INCOME PER COMMON SHARE

Basic and diluted net income per common share are presented in the following table.

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in millions, except per share data)	2023	2022	2023	2022
Basic and diluted				
Net income	$ 251	$ 351	$ 848	$ 801
Less:				
Income allocated to participating securities	1	2	4	4
Preferred stock dividends	6	6	17	17
Net income attributable to common shares	$ 244	$ 343	$ 827	$ 780
Basic average common shares	132	131	132	131
Basic net income per common share	$ 1.85	$ 2.63	$ 6.27	$ 5.96
Basic average common shares	132	131	132	131
Dilutive common stock equivalents:				
Net effect of the assumed exercise of stock awards	1	1	1	2
Diluted average common shares	133	132	133	133
Diluted net income per common share	$ 1.84	$ 2.60	$ 6.24	$ 5.88

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(average outstanding options in thousands)	2023	2022	2023	2022
Average outstanding options	1,633	373	1,540	337
Range of exercise prices	$49.20 - $95.25	$79.01 - $95.25	$49.20 - $95.25	$70.18 - $95.25

NOTE 10 - EMPLOYEE BENEFIT PLANS

Net periodic defined benefit cost (credit) is comprised of service cost and other components of net benefit cost (credit). Service cost is 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 2022 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.

Qualified Defined Benefit Pension Plan	**Three Months Ended September 30,**		**Nine Months Ended September 30,**	
(in millions)	**2023**	**2022**	**2023**	**2022**
Service cost	$ 8	$ 9	$ 23	$ 28
Other components of net benefit credit:				
Interest cost	21	16	64	47
Expected return on plan assets	(41)	(51)	(124)	(151)
Amortization of prior service credit	(3)	(4)	(10)	(11)
Amortization of net loss	8	4	24	14
Total other components of net benefit credit	(15)	(35)	(46)	(101)
Net periodic defined benefit credit	$ (7)	$ (26)	$ (23)	$ (73)

Non-Qualified Defined Benefit Pension Plan	**Three Months Ended September 30,**		**Nine Months Ended September 30,**	
(in millions)	**2023**	**2022**	**2023**	**2022**
Service cost	$ 1	$ 1	$ 2	$ 2
Other components of net benefit cost:				
Interest cost	2	1	6	4
Amortization of prior service credit	(3)	(2)	(7)	(7)
Amortization of net loss	1	3	3	7
Total other components of net benefit cost	—	2	2	4
Net periodic defined benefit cost	$ 1	$ 3	$ 4	$ 6

Postretirement Benefit Plan	**Three Months Ended September 30,**		**Nine Months Ended September 30,**	
(in millions)	**2023**	**2022**	**2023**	**2022**
Other components of net benefit credit:				
Interest cost	$ 1	$ 1	$ 1	$ 1
Expected return on plan assets	(1)	(1)	(2)	(2)
Net periodic defined benefit credit	$ —	$ —	$ (1)	$ (1)

NOTE 11 - INCOME TAXES AND TAX-RELATED ITEMS

Net unrecognized tax benefits were $13 million and $16 million at September 30, 2023 and December 31, 2022, respectively. The Corporation anticipates that a final settlement of state tax issues will result in a change of $6 million to net unrecognized tax benefits within the next twelve months. Included in accrued expenses and other liabilities on the Consolidated Balance Sheets was a liability for tax-related interest and penalties of $1 million and $5 million at September 30, 2023 and December 31, 2022, respectively. These changes were primarily driven by a state settlement received in the first quarter of 2023.

Net deferred tax assets were $1.4 billion at September 30, 2023, compared to $1.1 billion at December 31, 2022. The increase of $269 million in net deferred tax assets resulted primarily from an increase to deferred tax assets related to hedging losses and an increase in the allowance for loan losses, partially offset by a decrease in deferred compensation. Included in deferred tax assets at September 30, 2023 were $2 million of state net operating loss (NOL) carryforwards and $5 million of federal foreign tax carryforwards, compared to $2 million and $4 million, respectively, at December 31, 2022. State NOL carryforwards expire between 2023 and 2041 and federal foreign tax credit carryforwards expire between 2028 and 2032. The Corporation believes that it is more likely than not that the benefit from federal foreign tax credits and certain state NOL carryforwards will not be realized and, accordingly, increased its federal valuation allowance from $4 million at December 31, 2022 to $5 million at September 30, 2023. The Corporation maintained a state valuation allowance of $1 million at both September 30, 2023 and December 31, 2022. The determination regarding valuation allowance was based on evidence of loss carryback capacity, projected future reversals of existing taxable temporary differences to absorb the deferred tax assets and assumptions made regarding future events.

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

NOTE 12 - CONTINGENT LIABILITIES

Legal Proceedings and Regulatory Matters

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.

Further, from time to time, the Corporation is also subject to examinations, inquiries and investigations by regulatory authorities in areas including, but not limited to, compliance, risk management and consumer protection, which could lead to administrative or legal proceedings or settlements. For example, the Consumer Financial Protection Bureau (CFPB) is investigating certain of the Corporation's practices, and the Corporation has responded and continues to respond to the CFPB. We are unable to predict the outcome of these discussions at this time. Remedies in these proceedings or settlements may include fines, penalties, restitution or alterations in the Corporation's business practices and may result in increased operating expenses or decreased revenues.

On at least a quarterly basis, the Corporation assesses its potential liabilities and contingencies in connection with outstanding legal proceedings and regulatory matters utilizing the latest information available. On a case-by-case basis, accruals are established for those legal claims and regulatory matters for which it is probable that a loss will be incurred and the amount of such loss can be reasonably estimated. The actual costs of resolving these claims and regulatory matters may be substantially higher or lower than the amounts accrued. Based on current knowledge, and after consultation with legal counsel, management believes current accruals 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.

For matters where a loss is not probable, the Corporation has not established an accrual. The Corporation believes the estimate of the aggregate range of reasonably possible losses, in excess of established accruals, for all legal proceedings and regulatory matters in which it is involved is from zero to approximately $201 million at September 30, 2023. This estimated aggregate range of reasonably possible losses is based upon currently available information for those legal proceedings and regulatory matters in which the Corporation is involved, taking into account the Corporation's best estimate of such losses for those legal proceedings and regulatory matters for which such estimate can be made. For certain legal proceedings and regulatory matters, the Corporation does not believe that an estimate can currently be made. The Corporation's estimate involves significant judgment, given the varying stages of the legal proceedings and regulatory matters (including the fact that many are currently in preliminary stages), the existence in certain legal 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 legal proceedings and regulatory matters (including issues regarding class certification and the scope of many of the claims) and the attendant uncertainty of the various potential outcomes of such legal proceedings and regulatory matters. 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 - STRATEGIC LINES OF BUSINESS

The Corporation has strategically aligned its operations into three major business segments: the Commercial Bank, the Retail Bank and Wealth Management. These business segments are differentiated based on the type of customer and the related products and services provided. In addition to the three major business segments, the Finance Division is also reported as a segment. Business segment results are produced by the Corporation's internal management accounting system. This system measures financial results based on the internal business unit structure of the Corporation. The performance of the business segments is not comparable with the Corporation's consolidated results and is not necessarily comparable with similar information for any other financial institution. Additionally, because of the interrelationships of the various segments, the information presented is not indicative of how the segments would perform if they operated as independent entities. The management accounting system assigns balance sheet and income statement items to each business segment using certain methodologies, which are regularly reviewed and refined. From time to time, the Corporation may make reclassifications among the segments to more appropriately reflect management's current view of the segments, and methodologies may be modified as the management accounting system is enhanced and changes occur in the organizational structure and/or product lines. For comparability purposes, amounts in all periods are based on business unit structure and methodologies in effect at September 30, 2023.

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 "Business Segments" in the "Strategic Lines of Business" section of the financial review.

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

The Retail Bank includes a full range of personal financial services, consisting of consumer lending, consumer deposit gathering and mortgage loan origination. This business segment offers a variety of consumer products including deposit accounts, installment loans, credit cards, student loans, home equity lines of credit and residential mortgage loans. In addition, this business segment offers a subset of commercial products and services to micro-businesses whose primary contact is through the branch network.

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

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

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

For further information on the methodologies which form the basis for these results refer to Note 22 to the consolidated financial statements in the Corporation's 2022 Annual Report.

Business segment financial results were as follows:

(dollar amounts in millions)	Commercial Bank	Retail Bank	Wealth Management	Finance	Other	Total
Three Months Ended September 30, 2023						
Earnings summary:						
Net interest income (expense)	$ 505	$ 208	$ 49	$ (187)	$ 26	$ 601
Provision for credit losses	22	—	(9)	—	1	14
Noninterest income	150	31	78	40	(4)	295
Noninterest expenses	257	175	102	1	20	555
Provision (benefit) for income taxes	89	16	9	(37)	(1)	76
Net income (loss)	$ 287	$ 48	$ 25	$ (111)	$ 2	$ 251
Net charge-offs	$ 6	$ —	$ —	$ —	$ —	$ 6
Selected average balances:						
Assets	$ 49,459	$ 2,985	$ 5,557	$ 19,832	$ 11,317	$89,150
Loans	46,477	2,250	5,227	—	33	53,987
Deposits	31,868	24,034	3,950	5,711	320	65,883
Statistical data:						
Return on average assets (a)	2.30%	0.78%	1.81%	n/m	n/m	1.12%
Efficiency ratio (b)	39.34	72.70	80.01	n/m	n/m	61.86
Three Months Ended September 30, 2022						
Earnings summary:						
Net interest income (expense)	$ 478	$ 188	$ 55	$ (22)	$ 8	$ 707
Provision for credit losses	16	2	5	—	5	28
Noninterest income	169	29	77	6	(3)	278
Noninterest expenses	242	170	87	—	3	502
Provision (benefit) for income taxes	94	11	10	(6)	(5)	104
Net income (loss)	$ 295	$ 34	$ 30	$ (10)	$ 2	$ 351
Net charge-offs	$ 13	$ —	$ —	$ —	$ —	$ 13
Selected average balances:						
Assets	$ 48,323	$ 2,799	$ 5,097	$ 22,140	$ 7,063	$85,422
Loans	44,043	2,066	4,973	—	31	51,113
Deposits	41,471	26,665	5,293	144	403	73,976
Statistical data:						
Return on average assets (a)	2.42%	0.51 %	2.08%	n/m	n/m	1.63%
Efficiency ratio (b)	37.54	77.00	65.86	n/m	n/m	50.75

(a) Return on average assets is calculated based on the greater of average assets or average liabilities and attributed equity.
(b) Noninterest expenses as a percentage of the sum of net interest income and noninterest income excluding net gains (losses) from securities, a derivative contract tied to the conversion rate of Visa Class B shares and changes in the value of shares obtained through monetization of warrants.
n/m – not meaningful

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

(dollar amounts in millions) **Nine Months Ended September 30, 2023**	**Commercial Bank**	**Retail Bank**	**Wealth Management**	**Finance**	**Other**	**Total**
Earnings summary:						
Net interest income (expense)	$ 1,550	$ 644	$ 158	$ (493)	$ 71	$ 1,930
Provision for credit losses	80	2	(9)	—	4	77
Noninterest income	460	89	233	93	5	880
Noninterest expenses	757	511	297	4	72	1,641
Provision (benefit) for income taxes	270	53	25	(101)	(3)	244
Net income (loss)	$ 903	$ 167	$ 78	$ (303)	$ 3	$ 848
Net charge-offs	$ 1	$ —	$ 1	$ —	$ —	$ 2
Selected average balances:						
Assets	$ 49,906	$ 2,944	$ 5,510	$ 20,469	$ 9,400	$88,229
Loans	46,797	2,223	5,256	—	—	54,276
Deposits	33,204	24,394	4,200	3,858	353	66,009
Statistical data:						
Return on average assets (a)	2.42%	0.89%	1.92%	n/m	n/m	1.29%
Efficiency ratio (b)	37.64	69.23	75.70	n/m	n/m	58.26
Nine Months Ended September 30, 2022						
Earnings summary:						
Net interest income (expense)	$ 1,232	$ 464	$ 138	$ (118)	$ 8	$ 1,724
Provision for credit losses	1	7	11	—	8	27
Noninterest income	461	89	226	36	(22)	790
Noninterest expenses	712	508	259	—	(22)	1,457
Provision (benefit) for income taxes	229	9	23	(25)	(7)	229
Net income (loss)	$ 751	$ 29	$ 71	$ (57)	$ 7	$ 801
Net charge-offs (recoveries)	$ 24	$ (1)	$ (2)	$ —	$ —	$ 21
Selected average balances:						
Assets	$ 46,992	$ 2,791	$ 4,974	$ 20,831	$ 12,852	$88,440
Loans	42,928	2,031	4,841	—	15	49,815
Deposits	43,733	26,890	5,520	300	428	76,871
Statistical data:						
Return on average assets (a)	2.07%	0.15%	1.61%	n/m	n/m	1.21%
Efficiency ratio (b)	41.95	90.82	71.08	n/m	n/m	57.67

(a) *Return on average assets is calculated based on the greater of average assets or average liabilities and attributed equity.*
(b) *Noninterest expenses as a percentage of the sum of net interest income and noninterest income excluding net gains (losses) from securities, a derivative contract tied to the conversion rate of Visa Class B shares and changes in the value of shares obtained through monetization of warrants.*
n/m – not meaningful

NOTE 14 - REVENUE FROM CONTRACTS WITH CUSTOMERS

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

(in millions)	Commercial Bank	Retail Bank	Wealth Management	Finance & Other	Total
Three Months Ended September 30, 2023					
Revenue from contracts with customers:					
Card fees	$ 58	$ 12	$ 1	$ —	$ 71
Fiduciary income	1	—	58	—	59
Service charges on deposit accounts	32	14	1	—	47
Commercial loan servicing fees (a)	3	—	—	—	3
Capital markets income (b)	4	—	—	—	4
Brokerage fees	—	—	8	(2)	6
Other noninterest income (b)	—	4	7	—	11
Total revenue from contracts with customers	98	30	75	(2)	201
Other sources of noninterest income	52	1	3	38	94
Total noninterest income	$ 150	$ 31	$ 78	$ 36	$ 295
Three Months Ended September 30, 2022					
Revenue from contracts with customers:					
Card fees	$ 56	$ 10	$ 1	$ —	$ 67
Fiduciary income	—	—	58	—	58
Service charges on deposit accounts	34	15	1	—	50
Commercial loan servicing fees (a) (c)	3	—	—	—	3
Capital markets income (b) (c)	3	—	—	—	3
Brokerage fees	—	—	6	—	6
Other noninterest income (b) (c)	1	3	7	—	11
Total revenue from contracts with customers	97	28	73	—	198
Other sources of noninterest income	72	1	4	3	80
Total noninterest income	$ 169	$ 29	$ 77	$ 3	$ 278
Nine Months Ended September 30, 2023					
Revenue from contracts with customers:					
Card fees	$ 175	$ 34	$ 3	$ —	$ 212
Fiduciary income	1	—	178	—	179
Service charges on deposit accounts	95	41	4	—	140
Commercial loan servicing fees (a)	9	—	—	—	9
Capital markets income (b)	12	—	—	—	12
Brokerage fees	—	—	24	(2)	22
Other noninterest income (b)	1	10	20	1	32
Total revenue from contracts with customers	293	85	229	(1)	606
Other sources of noninterest income	167	4	4	99	274
Total noninterest income	$ 460	$ 89	$ 233	$ 98	$ 880
Nine Months Ended September 30, 2022					
Revenue from contracts with customers:					
Card fees	$ 171	$ 31	$ 3	$ —	$ 205
Fiduciary income	—	—	178	—	178
Service charges on deposit accounts	101	43	4	—	148
Commercial loan servicing fees (a) (c)	9	—	—	—	9
Capital markets income (b) (c)	8	—	—	—	8
Brokerage fees	—	—	14	—	14
Other noninterest income (b) (c)	3	13	18	—	34
Total revenue from contracts with customers	292	87	217	—	596
Other sources of noninterest income	169	2	9	14	194
Total noninterest income	$ 461	$ 89	$ 226	$ 14	$ 790

(a) Included in commercial lending fees on the Consolidated Statements of Comprehensive Income.
(b) Excludes derivative, warrant and other miscellaneous income.
(c) Effective January 1, 2023, the Corporation reported derivative income, syndication agent fees (previously a component of commercial lending fees) and investment banking fees (previously a component of other noninterest income) as a combined item captioned by capital markets income on the Consolidated Statements of Comprehensive Income. Prior periods have been adjusted to conform to this presentation, and the changes in presentation do not impact total noninterest income.

Revenue from contracts with customers did not generate significant contract assets and liabilities for the periods presented.

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 and forecasts of the Corporation's revenue, earnings or other measures of economic performance, including statements of profitability, business segments and subsidiaries as well as estimates of credit trends and global stability. Such statements reflect the view of the Corporation's management as of this date with respect to future events and are subject to risks and uncertainties. Should one or more of these risks materialize or should underlying beliefs or assumptions prove incorrect, the Corporation's actual results could differ materially from those discussed. Factors that could cause or contribute to such differences include credit risks (changes in customer behavior; unfavorable developments concerning credit quality; and declines or other changes in the businesses or industries of the Corporation's customers); market risks (changes in monetary and fiscal policies; fluctuations in interest rates and their impact on deposit pricing; and transitions away from LIBOR towards new interest rate benchmarks); liquidity risks (the Corporation's ability to maintain adequate sources of funding and liquidity; reductions in the Corporation's credit rating; and the interdependence of financial service companies); technology risks (cybersecurity risks and heightened legislative and regulatory focus on cybersecurity and data privacy); operational risks (operational, systems or infrastructure failures; reliance on other companies to provide certain key components of business infrastructure; the impact of legal and regulatory proceedings or determinations; losses due to fraud; and controls and procedures failures); compliance risks (changes in regulation or oversight, or changes in the Corporation’s status with respect to existing regulations or oversight; the effects of stringent capital requirements; and the impacts of future legislative, administrative or judicial changes to tax regulations); strategic risks (damage to the Corporation's reputation; the Corporation's ability to utilize technology to efficiently and effectively develop, market and deliver new products and services; competitive product and pricing pressures among financial institutions within the Corporation's markets; the implementation of the Corporation's strategies and business initiatives; management's ability to maintain and expand customer relationships; management's ability to retain key officers and employees; and any future strategic acquisitions or divestitures); and other general risks (changes in general economic, political or industry conditions; negative effects from inflation; the effectiveness of methods of reducing risk exposures; the effects of catastrophic events, including pandemics; physical or transition risks related to climate change; 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 13 of the Corporation's 2022 Annual Report and "Item 1A. Risk Factors" beginning on page 64 of this Quarterly Report on Form 10-Q for the quarter ended September 30, 2023. 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.

RESULTS OF OPERATIONS

In accordance with Item 303(c) of Regulation S-K, the Corporation is providing a comparison of the quarter ended September 30, 2023 against the preceding sequential quarter. The Corporation believes providing a sequential discussion of its results of operations provides more relevant information for investors and stakeholders to understand and analyze the business. Balance sheet items are discussed in terms of average balances unless otherwise noted.

Three Months Ended September 30, 2023 Compared to Three Months Ended June 30, 2023

	Three Months Ended	
(dollar amounts in millions, except per share data)	**September 30, 2023**	**June 30, 2023**
Net interest income	$ 601	$ 621
Provision for credit losses	14	33
Noninterest income	295	303
Noninterest expenses	555	535
Income before income taxes	327	356
Provision for income taxes	76	83
Net income	$ 251	$ 273
Diluted earnings per common share	$ 1.84	$ 2.01

Net income for the three months ended September 30, 2023 was $251 million, a decrease of $22 million compared to $273 million for the three months ended June 30, 2023, driven by a decrease of $20 million in net interest income and a $20 million increase in noninterest expenses, partially offset by a $19 million decline in provision for credit losses. Net income per diluted common share was $1.84 and $2.01 for the three months ended September 30, 2023 and June 30, 2023, respectively, a decrease of $0.17 per diluted common share.

To enhance the Corporation's core business focus, management is taking strategic actions to prioritize relationships that are most aligned with its strategy by considering price and return profiles, deposit contributions, the nature of relationships and geography. As part of this focus, the Corporation is organically exiting the Mortgage Banker Finance business, which is expected to be largely complete by year-end 2023. Additionally, the Corporation is increasing selectivity in other lines of business while accelerating certain initiatives related to Payments, Small Business, Wealth Management and Capital Markets, which is intended to help elevate products and services tailored to meet customers' needs as well as enhance the Corporation's funding profile, revenue mix and return on capital.

Analysis of Net Interest Income

	Three Months Ended					
	September 30, 2023			June 30, 2023		
(dollar amounts in millions)	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate
Commercial loans (a)	$ 29,721	$ 416	5.55%	$ 31,663	$ 437	5.54%
Real estate construction loans	4,294	90	8.29	3,708	75	8.11
Commercial mortgage loans	13,814	257	7.38	13,801	245	7.12
Lease financing	770	11	5.56	776	10	5.21
International loans	1,241	25	7.97	1,268	24	7.80
Residential mortgage loans	1,915	18	3.72	1,858	16	3.40
Consumer loans	2,232	45	8.10	2,294	45	7.78
Total loans (b)	53,987	862	6.34	55,368	852	6.18
Mortgage-backed securities (c)	15,205	104	2.28	16,004	106	2.28
U.S. Treasury securities (d)	1,676	1	0.26	1,861	2	0.44
Total investment securities	16,881	105	2.10	17,865	108	2.10
Interest-bearing deposits with banks (e)	9,737	132	5.40	8,701	110	5.11
Other short-term investments	391	4	4.00	377	4	3.75
Total earning assets	80,996	1,103	5.21	82,311	1,074	5.07
Cash and due from banks	1,130			1,163		
Allowance for loan losses	(684)			(642)		
Accrued income and other assets	7,708			7,523		
Total assets	$ 89,150			$ 90,355		
Money market and interest-bearing checking deposits (f)	$ 26,043	178	2.70	$ 24,177	132	2.17
Savings deposits	2,640	2	0.23	2,877	2	0.21
Customer certificates of deposit	3,049	24	3.08	2,306	12	2.20
Other time deposits	5,121	67	5.21	4,395	54	4.98
Foreign office time deposits	14	—	4.34	18	1	4.03
Total interest-bearing deposits	36,867	271	2.90	33,773	201	2.37
Federal funds purchased	11	—	5.31	9	—	5.00
Other short-term borrowings	8,836	125	5.60	10,559	142	5.39
Medium- and long-term debt	6,383	106	6.64	7,073	110	6.24
Total interest-bearing sources	52,097	502	3.81	51,414	453	3.52
Noninterest-bearing deposits	29,016			30,559		
Accrued expenses and other liabilities	2,659			2,444		
Shareholders' equity	5,378			5,938		
Total liabilities and shareholders' equity	$ 89,150			$ 90,355		
Net interest income/rate spread		$ 601	1.40		$ 621	1.55
Impact of net noninterest-bearing sources of funds			1.44			1.38
Net interest margin (as a percentage of average earning assets)			2.84%			2.93%

(a) Interest income on commercial loans included $163 million and $150 million of business loan swap expense for the three months ended September 30, 2023 and June 30, 2023, respectively.

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

(c) Average balances included $3.1 billion and $2.7 billion of unrealized losses for the three months ended September 30, 2023 and June 30, 2023, respectively; yields calculated gross of these unrealized losses.

(d) Average balances included $115 million and $117 million of unrealized losses for the three months ended September 30, 2023 and June 30, 2023, respectively; yields calculated gross of these unrealized losses.

(e) Average balances included $59 million and $46 million of collateral posted and netted against derivative liability positions for the three months ended September 30, 2023 and June 30, 2023, respectively; yields calculated gross of derivative netting amounts.

(f) Average balances excluded $161 million and $231 million of collateral received and netted against derivative asset positions for the three months ended September 30, 2023 and June 30, 2023, respectively; rates calculated gross of derivative netting amounts.

Rate/Volume Analysis

(in millions)	Three Months Ended September 30, 2023/June 30, 2023		
	Increase (Decrease) Due to Rate (a)	(Decrease) Increase Due to Volume (a)	Net Increase (Decrease)
Interest Income:			
Loans	$ 36	$ (26)	$ 10
Investment securities	(1)	(2)	(3)
Interest-bearing deposits with banks	8	14	22
Total interest income	43	(14)	29
Interest Expense:			
Interest-bearing deposits	34	36	70
Short-term borrowings	7	(24)	(17)
Medium- and long-term debt	1	(5)	(4)
Total interest expense	42	7	49
Net interest income	$ 1	$ (21)	$ (20)

(a) Impact of additional days, other portfolio dynamics and interest rate swaps reflected as part of rate impact, rate/volume variances are allocated to variances due to volume.

Net interest income decreased $20 million to $601 million for the three months ended September 30, 2023, compared to $621 million for the three months ended June 30, 2023. The decrease in net interest income reflected an increase of $3.1 billion in interest-bearing deposits and a $1.4 billion decline in loan balances, partially offset by a reduction of $2.4 billion in borrowings (primarily FHLB advances and senior debt) as well as a $1.0 billion increase in deposits held with the Federal Reserve Bank. Net interest margin was 2.84 percent for the three months ended September 30, 2023, a decrease of 9 basis points from 2.93 percent for the three months ended June 30, 2023, mostly reflecting higher-cost funding sources.

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

The provision for credit losses, which includes the provision for loan losses and the provision for credit losses on lending-related commitments, decreased $19 million to $14 million for the three months ended September 30, 2023, compared to $33 million for the three months ended June 30, 2023. While the economic forecast improved slightly from the prior quarter, the economic outlook as of September 30, 2023 remained uncertain, which, along with lower loan volumes, changes in portfolio composition and credit migration, resulted in an increase in the allowance for credit losses to 1.38% of total loans, or $736 million, at September 30, 2023. Net loan charge-offs were $6 million for the three months ended September 30, 2023, compared to net recoveries of $2 million for the three months ended June 30, 2023, as increases in general Middle Market and Business Banking net charge-offs were partially offset by an increase in Corporate Banking net recoveries. The provision for credit losses on lending-related commitments was a benefit of $2 million for the three months ended September 30, 2023, compared to a benefit of $8 million for the three months ended June 30, 2023.

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

Noninterest Income

(in millions)	Three Months Ended September 30, 2023	June 30, 2023
Card fees	$ 71	$ 72
Fiduciary income	59	62
Service charges on deposit accounts	47	47
Capital markets income	35	39
Commercial lending fees	19	18
Bank-owned life insurance	12	14
Letter of credit fees	10	11
Brokerage fees	6	8
Other noninterest income (a)	36	32
Total noninterest income	$ 295	$ 303

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

Noninterest income decreased $8 million to $295 million for the three months ended September 30, 2023, reflecting decreases in deferred compensation asset returns (offset in noninterest expenses), capital markets income (related to reduced derivative income), fiduciary income and smaller decreases in other categories, partially offset by an increase in risk management hedging income.

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

(in millions)	Three Months Ended September 30, 2023	June 30, 2023
Risk management hedging income	$ 17	$ 7
FHLB and FRB stock dividends	10	10
Securities trading income	4	4
Insurance commissions	3	3
Deferred compensation asset returns (a)	(3)	4
All other noninterest income	5	4
Other noninterest income	$ 36	$ 32

(a) 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 other noninterest income and the offsetting change in deferred compensation plan liabilities is reported in salaries and benefits expense.

Noninterest Expenses

(in millions)	Three Months Ended September 30, 2023	June 30, 2023
Salaries and benefits expense	$ 315	$ 306
Outside processing fee expense	75	68
Software expense	44	43
Occupancy expense	44	41
FDIC insurance expense	19	16
Equipment expense	12	12
Advertising expense	12	10
Other noninterest expenses	34	39
Total noninterest expenses	$ 555	$ 535

Noninterest expenses increased $20 million to $555 million, primarily driven by increases in salaries and benefits expense, outside processing fee expense, occupancy expense and FDIC insurance expense, partially offset by a decrease in other noninterest expenses. Salaries and benefits expense included increases of $8 million in temporary labor, $4 million in incentive compensation and $3 million in stock-based compensation, partially offset by decreases of $7 million in deferred compensation expense (offset in other noninterest income) and $3 million in severance costs. The decrease in other noninterest expenses was primarily due to $21 million in gains on the sale of bank-owned real estate and a $5 million decrease in legal fees, partially offset by increases of $10 million in litigation and regulatory-related expenses, $9 million in consulting expenses and $5 million in operational losses.

Expenses included a net gain of $14 million for certain modernization initiatives, which was comprised of the above-referenced $21 million in gains on the sale of bank-owned real estate (reported in other noninterest expenses), partially offset by $2 million in Technology-related contract labor (reported in salaries and benefits expense), $2 million in corporate facilities costs (reported in occupancy expense) and $3 million related to the transition for Ameriprise Financial to become the Corporation's investment program provider (reported in other noninterest expenses).

Nine Months Ended September 30, 2023 Compared to Nine Months Ended September 30, 2022

	Nine Months Ended September 30,	
(dollar amounts in millions, except per share data)	**2023**	**2022**
Net interest income	$ 1,930	$ 1,724
Provision for credit losses	77	27
Noninterest income	880	790
Noninterest expenses	1,641	1,457
Income before income taxes	1,092	1,030
Provision for income taxes	244	229
Net income	$ 848	$ 801
Diluted earnings per common share	$ 6.24	$ 5.88

Net income increased $47 million to $848 million for the nine months ended September 30, 2023, compared to $801 million for the nine months ended September 30, 2022, primarily driven by increases in net interest income and noninterest income, partially offset by higher noninterest expenses and an increase in provision for credit losses. Net income per diluted common share increased $0.36 to $6.24 for the nine months ended September 30, 2023, compared to $5.88 for the nine months ended September 30, 2022.

Analysis of Net Interest Income

	Nine Months Ended					
	September 30, 2023			September 30, 2022		
(dollar amounts in millions)	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate
Commercial loans (a)	$ 30,631	$ 1,263	5.52%	$ 29,597	$ 876	3.96%
Real estate construction loans	3,786	228	8.05	2,482	81	4.36
Commercial mortgage loans	13,694	723	7.06	11,927	324	3.63
Lease financing	770	25	4.24	656	13	2.65
International loans	1,245	73	7.89	1,252	36	3.88
Residential mortgage loans	1,869	49	3.47	1,773	41	3.05
Consumer loans	2,281	130	7.65	2,128	63	3.98
Total loans (b)	54,276	2,491	6.14	49,815	1,434	3.85
Mortgage-backed securities (c)	15,865	318	2.28	16,140	274	2.08
U.S. Treasury securities (d)	1,966	8	0.53	2,837	22	0.98
Total investment securities	17,831	326	2.10	18,977	296	1.93
Interest-bearing deposits with banks (e)	7,815	300	5.14	11,232	65	0.72
Other short-term investments	319	9	3.57	177	1	0.59
Total earning assets	80,241	3,126	5.03	80,201	1,796	2.90
Cash and due from banks	1,251			1,466		
Allowance for loan losses	(646)			(566)		
Accrued income and other assets	7,383			7,339		
Total assets	$ 88,229			$ 88,440		
Money market and interest-bearing checking deposits (f)	$ 25,519	419	2.18	$ 29,036	21	0.10
Savings deposits	2,886	5	0.20	3,303	1	0.03
Customer certificates of deposit	2,414	42	2.35	1,775	2	0.19
Other time deposits	3,247	123	5.08	—	—	—
Foreign office time deposits	27	1	3.90	44	—	0.63
Total interest-bearing deposits	34,093	590	2.30	34,158	24	0.10
Federal funds purchased	34	1	4.68	28	1	2.37
Other short-term borrowings	8,268	332	5.37	22	—	3.04
Medium- and long-term debt	5,772	273	6.31	2,750	47	2.26
Total interest-bearing sources	48,167	1,196	3.30	36,958	72	0.26
Noninterest-bearing deposits	31,916			42,713		
Accrued expenses and other liabilities	2,466			1,923		
Shareholders' equity	5,680			6,846		
Total liabilities and shareholders' equity	$ 88,229			$ 88,440		
Net interest income/rate spread		$ 1,930	1.73		$ 1,724	2.64
Impact of net noninterest-bearing sources of funds			1.38			0.14
Net interest margin (as a percentage of average earning assets)			3.11%			2.78%

(a) Interest income on commercial loans included $(432) million and $45 million of business loan swap (expense) income for the nine months ended September 30, 2023 and 2022, respectively.

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

(c) Average balances included $2.8 billion and $1.4 billion of unrealized losses for the nine months ended September 30, 2023 and 2022, respectively; yields calculated gross of these unrealized losses.

(d) Average balances included $122 million and $103 million of unrealized losses for the nine months ended September 30, 2023 and 2022, respectively; yields calculated gross of these unrealized gains and losses.

(e) Average balances included $2 million and excluded $996 million of collateral posted and netted against derivative liability positions for the nine months ended September 30, 2023 and 2022, yields calculated gross of derivative netting amounts.

(f) Average balances excluded $213 million and $110 million of collateral received and netted against derivative asset positions for the nine months ended September 30, 2023 and 2022, rates calculated gross of derivative netting amounts.

Rate/Volume Analysis

(in millions)	Nine Months Ended September 30, 2023/September 30, 2022 Increase Due to Rate (a)	Increase (Decrease) Due to Volume (a)	Net Increase
Interest Income:			
Loans	$ 819	$ 238	$ 1,057
Investment securities	2	28	30
Interest-bearing deposits with banks	399	(164)	235
Other short-term investments	4	4	8
Total interest income	1,224	106	1,330
Interest Expense:			
Interest-bearing deposits	403	163	566
Short-term borrowings	1	331	332
Medium- and long-term debt	112	114	226
Total interest expense	516	608	1,124
Net interest income	$ 708	$ (502)	$ 206

(a) Impact of additional days, other portfolio dynamics and interest rate swaps reflected as part of rate impact, rate/volume variances are allocated to variances due to volume.

Net interest income was $1.9 billion for the nine months ended September 30, 2023, an increase of $206 million compared to the nine months ended September 30, 2022. The increase in net interest income reflected higher short-term rates and $4.5 billion in loan growth, partially offset by an $11.3 billion increase in borrowings (mostly FHLB advances), a $3.3 billion decline in deposits with the Federal Reserve Bank and a shift to higher-cost deposits. Net interest margin was 3.11 percent for the nine months ended September 30, 2023, an increase of 33 basis points compared to 2.78 percent for the comparable period in 2022, mostly due to the impact of higher short-term rates, partially offset by higher-cost funding sources.

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

The provision for credit losses was $77 million for the nine months ended September 30, 2023, compared to $27 million for the nine months ended September 30, 2022, reflecting loan growth, a moderate weakening in the economic outlook and credit migration. Net loan charge-offs were $2 million for the nine months ended September 30, 2023, compared to $21 million for the nine months ended September 30, 2022. General Middle Market net recoveries totaled $11 million for the nine months ended September 30, 2023, compared to net charge-offs of $15 million for the nine months ended September 30, 2022, which was partially offset by an increase in Business Banking net charge-offs. Provision for credit losses on lending-related commitments was a benefit of $9 million for the nine months ended September 30, 2023, compared to an expense of $18 million for the nine months ended September 30, 2022.

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.

Noninterest Income

(in millions)	Nine Months Ended September 30, 2023	2022
Card fees	$ 212	$ 205
Fiduciary income	179	178
Service charges on deposit accounts	140	148
Capital markets income (a)	113	120
Commercial lending fees (a)	55	50
Bank-owned life insurance	36	37
Letter of credit fees	31	28
Brokerage fees	22	14
Other noninterest income (a), (b)	92	10
Total noninterest income	$ 880	$ 790

(a) Effective January 1, 2023, the Corporation reported derivative income, syndication agent fees (previously a component of commercial lending fees) and investment banking fees (previously a component of other noninterest income) as a combined item captioned by capital markets income on the Consolidated Statements of Comprehensive Income. Prior periods have been adjusted to conform to this presentation, and the changes in presentation do not impact total noninterest income.

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

Noninterest income increased $90 million to $880 million, which included increases in other noninterest income, brokerage fees (higher money market funds revenue), card fees (higher processing volumes) and loan commitment fees (a component of commercial lending fees), partially offset by decreases in service charges on deposit accounts and capital markets income (customer derivative income). Other noninterest income included increases in risk management hedging income, FHLB and FRB stock dividends and deferred compensation asset returns (offset in noninterest expenses).

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

(in millions)	Nine Months Ended September 30, 2023	2022
Risk management hedging income	$ 32	$ —
FHLB and FRB stock dividends	24	2
Securities trading income	12	9
Insurance commissions	10	10
Deferred compensation asset returns (a)	5	(24)
All other noninterest income	9	13
Other noninterest income	$ 92	$ 10

(a) 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 other noninterest income and the offsetting change in deferred compensation plan liabilities is reported in salaries and benefits expense.

Noninterest Expenses

(in millions)	Nine Months Ended September 30, 2023	2022
Salaries and benefits expense	$ 947	$ 890
Outside processing fee expense	207	188
Software expense	127	120
Occupancy expense	126	122
FDIC insurance expense	48	24
Equipment expense	36	36
Advertising expense	30	24
Other noninterest expenses	120	53
Total noninterest expenses	$ 1,641	$ 1,457

Noninterest expenses increased $184 million to $1.6 billion primarily due to increases in other noninterest expenses, salaries and benefits expense, FDIC insurance expense and outside processing fee expense. The increase in salaries and benefits expense was driven by higher deferred compensation expense (offset in other noninterest income), the impact of annual merit-based salary increases and staff additions related to strategic revenue-building and technology initiatives as well as a return to a more normalized staff vacancy rate, partially offset by a decrease in incentive compensation. Other noninterest expenses included increases in non-salary pension expense, legal fees, and litigation and regulatory-related expenses, partially offset by gains on sale of real estate.

STRATEGIC LINES OF BUSINESS

The Corporation has strategically aligned its operations into three major business segments: the Commercial Bank, the Retail Bank and Wealth Management. These business segments are differentiated based on the type of customer and the related products and services provided. In addition to the three major business segments, the Finance Division is also reported as a segment. The Other category includes items not directly associated with the business segments or the Finance segment. The performance of the business segments is not comparable with the Corporation's consolidated results and is not necessarily comparable with similar information for any other financial institution. Additionally, because of the interrelationships of the various segments, the information presented is not indicative of how the segments would perform if they operated as independent entities. Note 13 to the consolidated financial statements describes the business activities of each business segment and presents financial results of the business segments for the three- and nine-month periods ended September 30, 2023 and 2022.

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. Note 22 to the consolidated financial statements in the Corporation's 2022 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) funding credits and charges. The FTP methodology allocates credits to each business segment for deposits and other funds provided as well as charges for loans and other assets being funded. FTP crediting rates on deposits and other funds provided reflect the long-term value of deposits and other funding sources based on their implied maturities. Due to the longer-term nature of implied maturities, FTP crediting rates are generally less volatile than changes in interest rates observed in the market. FTP charge rates for funding loans and other assets reflect a matched cost of funds based on the pricing and duration characteristics of the assets. As a result of applying matched funding, interest revenue for each segment resulting from loans and other assets is generally not impacted by changes in interest rates. Therefore, net interest income for each segment primarily reflects the volume of loans and other earning assets at the spread over the matched cost of funds, as well as the volume of deposits at the associated FTP crediting rates. Generally, in periods of rising interest rates, FTP charge rates for funding loans and FTP crediting rates on deposits will increase, with FTP crediting rates for deposits typically repricing at a slower pace than FTP charge rates for funding loans.

Business Segments

The following sections present a summary of the performance of each of the Corporation's business segments for the nine months ended September 30, 2023 compared to the same period in the prior year.

Commercial Bank

(dollar amounts in millions)	Nine Months Ended September 30, 2023	2022	Change	Percent Change
Earnings summary:				
Net interest income	$ 1,550	$ 1,232	$ 318	26 %
Provision for credit losses	80	1	79	n/m
Noninterest income	460	461	(1)	—
Noninterest expenses	757	712	45	6
Provision for income taxes	270	229	41	18
Net income	$ 903	$ 751	$ 152	20 %
Net charge-offs	$ 1	$ 24	$ (23)	(95)
Selected average balances:				
Loans (a)	$ 46,797	$ 42,928	$ 3,869	9 %
Deposits	33,204	43,733	(10,529)	(24)

(a) *Included PPP loans with average balances of $17 million and $126 million for the nine months ended September 30, 2023 and 2022, respectively.*

n/m - not meaningful

Average loans increased $4 billion, with increases in Commercial Real Estate, National Dealer Services and Corporate Banking. These increases were partially offset by a decrease in Mortgage Banker Finance, as the Corporation is organically exiting the Mortgage Banker Finance business, which is expected to be largely complete by year-end 2023. Average deposits decreased $11 billion, with declines in all deposit categories with the exception of savings deposits. This decline was primarily driven by decreases in noninterest-bearing and money market deposits, with the largest declines in general Middle Market (primarily Financial Institutions and California-based Middle Market lending), Technology and Life Sciences, Business Banking, Corporate Banking, National Dealer Services and Commercial Real Estate.

The Commercial Bank's net income increased $152 million. Net interest income increased $318 million due to higher FTP crediting rates on deposits related to the increase in short-term interest rates, as well as an increase in loan income, partially offset by higher allocated net FTP charges. The provision for credit losses increased to $80 million from $1 million, reflecting increases in Commercial Real Estate, general Middle Market and Business Banking, partially offset by a decrease in Technology and Life Sciences. Net charge-offs decreased $23 million to $1 million, primarily due to net recoveries in general Middle Market, partially offset by net charge-offs in Business Banking. Noninterest income was relatively stable, while noninterest expenses increased $45 million, primarily reflecting increases in salaries and benefits expense, FDIC insurance expense, outside processing fee expense, legal fees and litigation and regulatory-related expenses.

Retail Bank

(dollar amounts in millions)	Nine Months Ended September 30, 2023	2022	Change	Percent Change
Earnings summary:				
Net interest income	$ 644	$ 464	$ 180	39 %
Provision for credit losses	2	7	(5)	(73)
Noninterest income	89	89	—	—
Noninterest expenses	511	508	3	1
Provision for income taxes	53	9	44	n/m
Net income	$ 167	$ 29	$ 138	n/m
Net charge-offs (recoveries)	$ —	$ (1)	$ 1	n/m
Selected average balances:				
Loans (a)	$ 2,223	$ 2,031	$ 192	9%
Deposits	24,394	26,890	(2,496)	(9)

(a) Included PPP loans with average balances of $4 million and $38 million for the nine months ended September 30, 2023 and 2022, respectively.

n/m - not meaningful

Average loans increased $192 million, while average deposits decreased $2.5 billion, reflecting decreases in all deposit categories with the exception of time deposits. The Retail Bank's net income increased $138 million to $167 million. Net interest income increased $180 million, primarily due to higher FTP crediting rates on deposits. Noninterest income was stable, while noninterest expenses increased by $3 million, primarily due to an increase in FDIC insurance expense, partially offset by a decrease in consulting expenses.

Wealth Management

(dollar amounts in millions)	Nine Months Ended September 30, 2023	2022	Change	Percent Change
Earnings summary:				
Net interest income	$ 158	$ 138	$ 20	15 %
Provision for credit losses	(9)	11	(20)	n/m
Noninterest income	233	226	7	4
Noninterest expenses	297	259	38	15
Provision for income taxes	25	23	2	10
Net income	$ 78	$ 71	$ 7	12 %
Net charge-offs (recoveries)	$ 1	$ (2)	$ 3	n/m
Selected average balances:				
Loans (a)	$ 5,256	$ 4,841	$ 415	9 %
Deposits	4,200	5,520	(1,320)	(24)

(a) Included PPP loans with average balances of $10 million and $19 million for the nine months ended September 30, 2023 and 2022, respectively.

n/m - not meaningful

Average loans increased $415 million, while average deposits decreased $1.3 billion, reflecting decreases in all deposit categories with the exception of time deposits. The decrease in deposits was primarily driven by decreases in noninterest-bearing and money market deposits, most significantly in the California market. Wealth Management's net income increased $7 million to $78 million. Net interest income increased $20 million primarily due to higher FTP crediting rates on deposits.

Provision for credit losses decreased from $11 million to a benefit of $9 million. Noninterest income increased $7 million, primarily driven by investment fees, while noninterest expenses increased $38 million, reflecting increases in salaries and benefits expense, outside processing fees and consulting expenses.

Finance & Other

(dollar amounts in millions)	Nine Months Ended September 30, 2023	2022	Change	Percent Change
Earnings summary:				
Net interest expense	$ (422)	$ (110)	$ (312)	n/m
Provision for credit losses	4	8	(4)	(53)
Noninterest income	98	14	84	n/m
Noninterest expenses	76	(22)	98	n/m
Benefit for income taxes	(104)	(32)	(72)	n/m
Net loss	$ (300)	$ (50)	$ (250)	n/m
Selected average balances:				
Loans	$ —	$ 15	$ (15)	n/m
Deposits	4,211	728	3,483	n/m

n/m - not meaningful

Average deposits, which primarily consist of centrally-managed brokered time deposits fully insured by the FDIC, increased $3.5 billion. Net loss for the Finance and Other category increased $250 million to $300 million. Net interest expense increased by $312 million, reflecting increased balances from higher-cost funding sources and the impact of interest rate swaps, both centrally managed, partly offset by favorable impacts to the Finance segment from other balance sheet dynamics. Noninterest income increased $84 million to $98 million, driven by an increase in risk management hedging income, FHLB stock dividends and a decrease in securities trading losses. Noninterest expenses increased $98 million, primarily reflecting an increase in salaries and benefits expense, non-salary pension expense, software expense and advertising expense, partially offset by gains on the sale of real estate.

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

	September 30, 2023	2022
Michigan	176	177
Texas	115	115
California	92	92
Other Markets	25	26
Total	408	410

FINANCIAL CONDITION

Third Quarter 2023 Compared to Fourth Quarter 2022

Period-End Balances

Total assets increased $300 million to $85.7 billion, reflecting a $2.4 billion increase in interest-bearing deposits with banks (primarily deposits with the Federal Reserve Bank) and a $991 million increase in accrued income and other assets, which included increases in deferred tax assets related to the tax impact of unrealized losses on securities and derivatives, FHLB stock and receivables related to customer investment sweep activity. These increases were partially offset by a decrease of $2.7 billion in investment securities driven by Treasury maturities, paydowns on mortgage-backed securities and an increase in unrealized losses. Loans were relatively stable, with growth of $1.5 billion in Commercial Real Estate, $460 million in National Dealer Services and $237 million in Corporate Banking, offset by decreases of $1.0 billion in Mortgage Banker Finance, $629 million in general Middle Market and $509 million in Equity Fund Services. These declines reflected strategic actions, including the planned exit from the Mortgage Banker Finance business, which is expected to be mostly complete by year-end 2023, as well as increased selectivity in other lines of business.

Total liabilities increased $509 million to $80.7 billion, reflecting increases of $5.8 billion in interest-bearing deposits, $3.0 billion in medium- and long-term debt and $1.6 billion in short-term borrowings, partially offset by a decrease of $10.0 billion in noninterest-bearing deposits. The increases in short-term borrowings and medium- and long-term debt were primarily driven by FHLB advances, partially offset by $850 million in senior notes that matured in the third quarter. The increase in interest-bearing deposits was primarily due to increases in brokered time deposits and customer certificates of deposit, while the decline in noninterest-bearing deposits reflected customer diversification efforts related to banking industry disruption in the first quarter of 2023 as well as a shift in deposit mix from noninterest-bearing to interest-bearing. For additional information regarding deposits, refer to "Deposit Concentrations and Uninsured Deposits" under the "Market Risk" subheading in the "Risk Management" section of this financial review. Total shareholders' equity decreased $209 million, primarily due to the net impact of unrealized losses on investment securities available-for-sale and, to a lesser extent, its cash flow hedge portfolio, partially offset by net income.

Average Balances

Total assets increased $5.3 billion to $89.2 billion, driven by increases of $5.9 billion in interest-bearing deposits with banks and $1.6 billion in loans, partially offset by a decrease of $2.2 billion in investment securities. The following table provides information about the change in the Corporation's average loan portfolio by loan type.

	Three Months Ended			
(dollar amounts in millions)	**September 30, 2023**	**December 31, 2022**	**Change**	**Percent Change**
Commercial loans	$ 29,721	$ 30,585	$ (864)	(3%)
Real estate construction loans	4,294	2,978	1,316	44
Commercial mortgage loans	13,814	12,752	1,062	8
Lease financing	770	753	17	2
International loans	1,241	1,227	14	1
Residential mortgage loans	1,915	1,786	129	7
Consumer loans	2,232	2,294	(62)	(3)
Total loans	$ 53,987	$ 52,375	$ 1,612	3%

The $1.6 billion increase in loans was primarily driven by increases of $1.7 billion in Commercial Real Estate, $667 million in National Dealer Services and $425 million in Corporate Banking, partially offset by decreases of $502 million in Equity Fund Services and $478 million in Mortgage Banker Finance.

Total liabilities increased $5.2 billion to $83.8 billion, primarily reflecting increases of $7.3 billion in short-term borrowings, $3.4 billion in medium- and long-term debt and $5.5 billion in interest-bearing deposits, partially offset by a decrease of $10.9 billion in noninterest-bearing deposits, reflecting the impacts described above in "Period-End Balances." The decrease in deposits included decreases of $2.1 billion in general Middle Market (largest impact in the California market), $2.0 billion in both the Retail Bank and Technology and Life Sciences, $1.2 billion in Wealth Management, $992 million in Energy, $820 million in Commercial Real Estate and $544 million in Business Banking.

Capital

The following table presents a summary of changes in total shareholders' equity for the nine months ended September 30, 2023.

(in millions)		
Balance at January 1, 2023		$ 5,181
Net income		848
Cash dividends declared on common stock		(282)
Cash dividends declared on preferred stock		(17)
Other comprehensive (loss) income, net of tax:		
Investment securities	$ (469)	
Cash flow hedges	(336)	
Defined benefit and other postretirement plans	7	
Total other comprehensive loss, net of tax		(798)
Net issuance of common stock under employee stock plans		(4)
Share-based compensation		44
Balance at September 30, 2023		$ 4,972

The following table summarizes the Corporation's repurchase activity during the nine months ended September 30, 2023.

(shares in thousands)	**Total Number of Shares Purchased as Part of Publicly Announced Repurchase Plans or Programs**	**Remaining Share Repurchase Authorization (a)**	**Total Number of Shares Purchased (b)**	**Average Price Paid Per Share**
Total first quarter 2023	—	4,997	31	$ 72.78
Total second quarter 2023	—	4,997	3	42.36
July 2023	—	4,997	3	43.37
August 2023	—	4,997	—	—
September 2023	—	4,997	—	—
Total third quarter 2023	—	4,997	3	43.37

(a) Maximum number of shares that may be repurchased under the publicly announced plans or programs.
(b) Includes approximately 37,000 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, 2023. These transactions are not considered part of the Corporation's repurchase program.

The Corporation continues to target a Common Equity Tier 1 (CET1) capital ratio of approximately 10 percent with active capital management. At September 30, 2023, the Corporation's estimated CET1 capital ratio was 10.79 percent, up from 10.00 percent at December 31, 2022. Since the inception of the Corporation's share repurchase program in 2010, a total of 97.2 million shares have been authorized for repurchase. There is no expiration date for the share repurchase program. Due to disruption in the banking industry in the first quarter, management is not currently engaged in repurchasing shares and will continue to monitor various factors, including the Corporation's earnings generation, capital needs to fund future loan growth, regulatory changes and market conditions, before resuming the share repurchase program.

The following table presents the minimum ratios required.

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

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

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

	September 30, 2023		**December 31, 2022**	
(dollar amounts in millions)	**Capital/Assets**	**Ratio**	**Capital/Assets**	**Ratio**
Common equity tier 1 (a), (b)	$ 8,472	10.79%	$ 7,884	10.00%
Tier 1 risk-based (a), (b)	8,866	11.29	8,278	10.50
Total risk-based (a)	10,329	13.16	9,817	12.45
Leverage (a)	8,866	9.60	8,278	9.55
Common shareholders' equity	4,578	5.34	4,787	5.60
Tangible common equity (b)	3,935	4.62	4,143	4.89
Risk-weighted assets (a)	78,499		78,871	

(a) September 30, 2023 capital, risk-weighted assets and ratios are estimated.
(b) See Supplemental Financial Data section for reconciliations of non-GAAP financial measures and regulatory ratios.

The common shareholders' equity ratio decreased 26 basis points to 5.34 percent at September 30, 2023, primarily due to the net impact of unrealized losses on investment securities available-for-sale and, to a lesser extent, the Corporation's cash flow hedge portfolio. The unrealized losses in the Corporation's available-for-sale investment security portfolio, which are due to market valuations since the time of initial acquisition, are not expected to be realized. The tangible common equity ratio, which excludes goodwill and other intangible assets, decreased 27 basis points to 4.62 percent for the same reasons discussed above. Common shareholders' equity included $4.5 billion in accumulated other comprehensive losses, with approximately $2.9 billion of those losses relating to balances recorded in total assets, comprised of valuation adjustments to available-for-sale securities and pension assets, as well as related deferred tax assets. These amounts impacted the common shareholders' equity ratio by 495 basis points; the impact on the tangible common equity ratio using the same calculation method was 502 basis points.

Average common shareholders' equity and return on average common shareholders' equity for the three months ended September 30, 2023 was $5.0 billion and 19.50%, respectively, compared to $4.9 billion and 27.92%, respectively, for the three months ended December 31, 2022.

Basel III Endgame Framework

On July 27, 2023, the federal banking agencies issued a notice of proposed rulemaking, commonly referred to as Basel III Endgame (the Capital Proposal) that would significantly increase the capital requirements applicable to large banking organizations with total assets of $100 billion or more. The Capital Proposal would align the regulatory capital calculation and the calculation of risk-weighted assets across large banking organizations subject to the Capital Proposal and require Category III and IV banking organizations to include most components of AOCI, including net unrealized gains and losses on available-for-sale securities, in their regulatory capital ratios. The Capital Proposal is subject to a public comment period ending November 30, 2023, and, if adopted, would include a three-year transition period beginning July 1, 2025. As of September 30, 2023, the Corporation had total assets of $85.7 billion. While the Capital Proposal would not apply to the Corporation as it is currently proposed, if the Corporation becomes subject to the requirements of the Capital Proposal in the future or becomes subject to any other new laws or regulations related to capital and liquidity, such requirements could limit the Corporation’s ability to pay dividends or make share repurchases or require Comerica to reduce business levels or to raise capital, which would have a material adverse effect on the Corporation’s financial condition and results of operations.

FDIC Special Assessment

In May 2023, the FDIC issued a Notice of Proposed Rulemaking which would implement a special assessment on banks with total assets greater than $5.0 billion to recover the cost associated with protecting uninsured depositors following the closures of Silicon Valley Bank and Signature Bank. The FDIC is proposing to collect the special assessment for an estimated eight consecutive quarters beginning with the first quarter 2024. A final rule is not expected until later in 2023 after the FDIC's final deliberations have concluded. As proposed, the estimated impact of the special assessment is approximately $100 million, which is expected to be recognized upon the rule's final issuance. The ultimate impact and timing of recognition will depend on the final outcome of the ongoing FDIC deliberations.

RISK MANAGEMENT

The following updated information should be read in conjunction with the "Risk Management" section on pages F-15 through F-30 in the Corporation's 2022 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 credit losses increased $75 million from $661 million at December 31, 2022 to $736 million at September 30, 2023.

The following table presents metrics of the allowance for credit losses and nonperforming loans.

	September 30, 2023	December 31, 2022
Allowance for credit losses as a percentage of total loans	1.38%	1.24%
Allowance for credit losses as a multiple of total nonaccrual loans	4.8x	2.8x
Allowance for credit losses as a multiple of total nonperforming loans	4.8x	2.7x

The economic forecasts informing the current expected credit loss (CECL) model project slower economic activity in the fourth quarter of 2023 and in 2024 as the cumulative effects of the Federal Reserve Bank's tightened monetary policy continue to flow through to the real economy and inflation moderates. Consumer spending is projected to soften as the support from pandemic-era savings dissipates, high inflation curbs discretionary spending and student loan payments restart, causing employers to slow the pace of hiring. Energy prices are projected to level off amid crosswinds from the Russia-Ukraine conflict, rising U.S. crude production and China's housing downturn. Residential and commercial real estate property prices are projected to decline modestly as the long and variable lags of the Federal Reserve Bank's tighter monetary policy slow credit intermediation, a headwind to real asset prices.

Downside risks to growth from strikes, a potential government shutdown, geopolitical risks and the restart of student loan payments are projected to collectively contribute to slower growth in 2024. Price pressures are forecasted to gradually dissipate as a modest margin of slack opens in the economy's productive capacity. The Federal Reserve Bank's aggressive tightening of monetary policy, including rapid increases in interest rates and reductions in the size of their balance sheet, contribute to elevated risk of a policy error and recession.

These factors shaped the 2-year reasonable and supportable forecasts used by the Corporation in its CECL estimate at September 30, 2023. The U.S. economy is projected to contract slightly in fourth quarter 2023, before returning to growth in 2024 at a pace somewhat below expectations for its longer-run average. Similarly, inflation is forecasted to converge toward the Federal Reserve Bank's target over the 2-year period. Interest rates are projected to increase in fourth quarter 2023, followed by a gradual decline as inflation slows and the Federal Reserve Bank gradually shifts to a less restrictive monetary stance. The following table summarizes select variables representative of the economic forecasts used to develop the CECL estimate at September 30, 2023.

Economic Variable	Base Forecast
Real Gross Domestic Product (GDP) growth	Slight contraction in the fourth quarter 2023 before recovering to a growth rate between 2.0 percent and 2.5 percent by the end of the forecast period.
Unemployment rate	Expected to increase to 4.6 percent by third quarter 2024 followed by a slight decline throughout 2025.
Spread of Corporate BBB bond to 10-year Treasury bond	Spread widens to 2.3 percent by second quarter 2024 before normalizing to approximately 2 percent by 2025.
Oil Prices	Prices average between $78 and $80 per barrel throughout the forecast period.

Due to the high level of uncertainty regarding conditioning assumptions used as inputs to the forecast, the Corporation evaluated a range of economic scenarios, including more benign and more severe economic forecasts. In a more severe scenario, real GDP is projected to contract through second quarter 2024, subsequently improving to a growth rate of 2.6 percent by the end of the forecast period. Other key economic variables follow a similar pattern of short-term deterioration followed by a recovery, except for unemployment levels, which remained elevated through the end of the forecast period. Selecting the more severe forecast would result in an increase in the quantitative calculation of allowance for credit losses of approximately $315 million as of September 30, 2023. However, factoring in model overlays and qualitative adjustments could result in a materially different estimate under a more severe scenario. The Corporation monitors evolving economic conditions for impacts to the allowance for credit losses.

Allowance for Loan Losses

The allowance for loan losses represents management's estimates of current expected credit losses in the Corporation's loan portfolio. The allowance for loan losses increased $84 million to $694 million at September 30, 2023, compared to $610 million at December 31, 2022.

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

Allowance for Credit Losses on Lending-Related Commitments

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

For additional information regarding the allowance for credit losses, refer to the "Critical Accounting Estimates" section and pages F-48 through F-49 in Note 1 to the consolidated financial statements of the Corporation's 2022 Annual Report.

Nonperforming Assets

Nonperforming assets include loans on nonaccrual status and foreclosed assets. Effective January 1, 2023, the Corporation prospectively adopted the provisions of ASU No. 2022-02, which eliminated the accounting for TDRs. Refer to

Note 1 to the consolidated financial statements for further information. At December 31, 2022, reduced-rate loans represented TDRs which had been renegotiated to less than their original contractual rates.

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

(dollar amounts in millions)	September 30, 2023	December 31, 2022
Nonaccrual loans	$ 154	$ 240
Reduced-rate loans	n/a	4
Total nonperforming loans/Total nonperforming assets	$ 154	$ 244
Nonaccrual loans as a percentage of total loans	0.29%	0.45%
Nonperforming loans as a percentage of total loans	0.29	0.46
Nonperforming assets as a percentage of total loans and foreclosed property	0.29	0.46
Loans past due 90 days or more and still accruing	$ 45	$ 23

Nonperforming assets decreased $90 million to $154 million at September 30, 2023, from $244 million at December 31, 2022. The decrease in nonperforming assets was primarily comprised of decreases of $53 million in nonaccrual business loans and $33 million in nonaccrual retail loans. Nonperforming loans were 0.29 percent of total loans at September 30, 2023, compared to 0.46 percent at December 31, 2022. For further information regarding the composition of nonaccrual loans, refer to Note 4 to the consolidated financial statements.

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

	Three Months Ended		
(in millions)	September 30, 2023	June 30, 2023	March 31, 2023
Balance at beginning of period	$ 186	$ 221	$ 240
Loans transferred to nonaccrual (a)	14	17	9
Nonaccrual loan gross charge-offs	(14)	(11)	(12)
Loans transferred to accrual status (a)	(7)	—	(7)
Nonaccrual loans sold	—	(3)	(1)
Payments/other (b)	(25)	(38)	(8)
Balance at end of period	$ 154	$ 186	$ 221

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

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

There were three borrowers with a balance greater than $2 million, totaling $14 million, transferred to nonaccrual status in third quarter 2023, compared to four borrowers totaling $17 million in second quarter 2023 and three borrowers totaling $9 million in first quarter 2023. For further information about the composition of loans transferred to nonaccrual during third quarter 2023, refer to the nonaccrual information by industry category table below.

The following table presents the composition of nonaccrual loans by balance and the related number of borrowers at September 30, 2023 and December 31, 2022.

	September 30, 2023		December 31, 2022	
(dollar amounts in millions)	Number of Borrowers	Balance	Number of Borrowers	Balance
Under $2 million	446	$ 50	475	$ 60
$2 million - $5 million	10	33	14	46
$5 million - $10 million	6	42	8	58
$10 million - $25 million	2	29	5	76
Total	464	$ 154	502	$ 240

The following table presents a summary of nonaccrual loans at September 30, 2023 as well as loans transferred to nonaccrual and net loan charge-offs (recoveries) for the three months ended September 30, 2023, based on North American Industry Classification System (NAICS) categories.

(dollar amounts in millions)	September 30, 2023		Three Months Ended September 30, 2023		
Industry Category	**Nonaccrual Loans**		**Loans Transferred to Nonaccrual (a)**		**Net Loan Charge-Offs (Recoveries)**
Manufacturing	$ 30	20%	$ —	—%	$ 4
Real Estate & Home Builders	20	13	—	—	—
Residential Mortgage	19	12	—	—	—
Transportation & Warehousing	17	11	—	—	—
Information & Communication	14	9	7	51	—
Services	9	6	—	—	2
Management of Companies and Enterprises	8	5	4	26	—
Arts, Entertainment & Recreation	6	4	—	—	—
Mining, Quarrying and Oil & Gas Extraction	6	4	—	—	(1)
Wholesale Trade	3	2	—	—	—
Health Care & Social Assistance	2	1	—	—	—
Other (b)	20	13	3	23	1
Total	$ 154	100%	$ 14	100%	$ 6

(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 increased $22 million to $45 million at September 30, 2023, compared to $23 million at December 31, 2022. Loans past due 30-89 days decreased $152 million to $226 million at September 30, 2023, compared to $378 million at December 31, 2022. Loans past due 30 days or more and still accruing interest as a percentage of total loans were 0.51 percent and 0.75 percent at September 30, 2023 and December 31, 2022, respectively. 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 on nonaccrual status 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, 2023	June 30, 2023	December 31, 2022
Total criticized loans	$ 2,290	$ 2,048	$ 1,572
As a percentage of total loans	4.3%	3.7%	2.9%

The $718 million increase in criticized loans during the nine months ended September 30, 2023 was primarily driven by Commercial Real Estate and general Middle Market.

Concentrations of Credit Risk

Concentrations of credit risk may exist when a number of borrowers are engaged in similar activities, or activities in the same geographic region, and have similar economic characteristics that would cause them to be similarly impacted by changes in economic or other conditions. The Corporation has concentrations of credit risk with the commercial real estate and automotive industries. All other industry concentrations, as defined by management, individually represented less than 10 percent of total loans at September 30, 2023.

Commercial Real Estate Lending

At September 30, 2023, the Corporation's commercial real estate portfolio represented 34 percent of total loans. The following table summarizes the Corporation's commercial real estate loan portfolio by loan category.

	September 30, 2023			December 31, 2022		
(in millions)	Commercial Real Estate business line (a)	Other (b)	Total	Commercial Real Estate business line (a)	Other (b)	Total
Real estate construction loans	$ 4,015	$ 530	$ 4,545	$ 2,505	$ 600	$ 3,105
Commercial mortgage loans	4,832	8,889	13,721	4,681	8,625	13,306
Total commercial real estate	$ 8,847	$ 9,419	$ 18,266	$ 7,186	$ 9,225	$ 16,411

(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 $18.3 billion at September 30, 2023. Commercial real estate loans made to borrowers in the Commercial Real Estate business line, which includes loans to real estate developers, totaled $8.8 billion, or 48 percent of total commercial real estate loans, an increase of $1.7 billion compared to December 31, 2022. The Commercial Real Estate business line at September 30, 2023 was predominantly secured by multi-family and industrial properties, comprising 45% and 34% of the portfolio, respectively, with only 6% secured by office properties. Commercial real estate loans in other business lines totaled $9.4 billion, or 52 percent of total commercial real estate loans, at September 30, 2023, an increase of $194 million compared to December 31, 2022. These loans consisted primarily of owner-occupied commercial mortgages, which bear credit characteristics similar to non-commercial real estate business loans. Generally, loans previously reported as real estate construction are classified as commercial mortgage loans upon receipt of a certificate of occupancy.

The real estate construction loan portfolio primarily contains loans made to long-tenured customers with satisfactory completion experience. Criticized real estate construction loans in the Commercial Real Estate business line were $61 million at September 30, 2023, compared to none at December 31, 2022. In other business lines, criticized real estate construction loans totaled $11 million at September 30, 2023, compared to $3 million at December 31, 2022.

For the three month periods ended September 30, 2023 and June 30, 2023, as well as the nine months ended September 30, 2023, there were no net charge-offs of real estate construction loans, while net charge-offs totaled $1 million for the nine months ended September 30, 2022.

Commercial mortgage loans are loans where the primary collateral is a lien on any real property and are primarily loans secured by owner-occupied real estate. Real property is generally considered primary collateral if the value of that collateral represents more than 50 percent of the commitment at loan approval. Loans in the commercial mortgage portfolio generally mature within three to five years. Criticized commercial mortgage loans in the Commercial Real Estate business line totaled $374 million and $16 million at September 30, 2023 and December 31, 2022, respectively, with the increase primarily in multi-family properties. In other business lines, $245 million and $151 million of commercial mortgage loans were criticized at September 30, 2023 and December 31, 2022, respectively.

Commercial mortgage net charge-offs were $1 million for the three months ended September 30, 2023 compared to net recoveries of $1 million for the three months ended June 30, 2023, and none for the nine months ended September 30, 2023 and 2022.

Automotive Lending - Dealer

The following table presents a summary of dealer loans.

	September 30, 2023		December 31, 2022	
(in millions)	Loans Outstanding	Percent of Total Loans	Loans Outstanding	Percent of Total Loans
Dealer:				
Floor plan	$ 1,860		$ 1,379	
Other	3,967		3,988	
Total dealer	$ 5,827	10.9%	$ 5,367	10.1%

Substantially all dealer loans are in the National Dealer Services business line and primarily include floor plan financing and other loans to automotive dealerships. Floor plan loans, included in commercial loans in the Consolidated

Balance Sheets, totaled $1.9 billion at September 30, 2023, an increase of $481 million compared to $1.4 billion at December 31, 2022, as a result of new relationships. Other loans to automotive dealers in the National Dealer Services business line totaled $4.0 billion, including $2.3 billion of owner-occupied commercial real estate mortgage loans, at both September 30, 2023 and December 31, 2022.

There were no nonaccrual dealer loans at both September 30, 2023 and December 31, 2022. Additionally, there were no net charge-offs of dealer loans during the three months ended September 30, 2023 and June 30, 2023, or in the nine months ended September 30, 2023 and 2022.

Automotive Lending - Production

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

	September 30, 2023		December 31, 2022	
(in millions)	**Loans Outstanding**	**Percent of Total Loans**	**Loans Outstanding**	**Percent of Total Loans**
Production:				
Domestic	$ 815		$ 797	
Foreign	322		271	
Total production	$ 1,137	2.1%	$ 1,068	2.0%

Loans to borrowers involved with automotive production, primarily Tier 1 and Tier 2 suppliers, totaled $1.1 billion at both September 30, 2023 and December 31, 2022. These borrowers have faced, and could face in the future, financial difficulties due to disruptions in auto production, issues with supply chains and logistics operations and impacts resulting from labor union strikes. As such, management continues to monitor this portfolio.

Nonaccrual loans to borrowers involved with automotive production totaled $3 million and $5 million at September 30, 2023 and December 31, 2022, respectively. There were no automotive production loan net charge-offs during the three months ended September 30, 2023 and June 30, 2023, while net charge-offs for the three months ended September 30, 2022 totaled $2 million. There were also no loan net charge-offs during the nine months ended September 30, 2023, compared to $2 million for the nine months ended September 30, 2022.

Residential Real Estate Lending

At September 30, 2023, residential real estate loans represented 7 percent of total loans. The following table summarizes the Corporation's residential mortgage and home equity loan portfolios by geographic market.

	September 30, 2023				December 31, 2022			
(dollar amounts in millions)	**Residential Mortgage Loans**	**% of Total**	**Home Equity Loans**	**% of Total**	**Residential Mortgage Loans**	**% of Total**	**Home Equity Loans**	**% of Total**
Geographic market:								
Michigan	$ 560	29%	$ 454	26%	$ 497	27%	$ 487	27%
California	874	46	886	50	866	48	852	48
Texas	271	14	341	19	258	14	354	20
Other Markets	200	11	83	5	193	11	83	5
Total	$ 1,905	100%	$ 1,764	100%	$ 1,814	100%	$ 1,776	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, 2023. 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, 2023, 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, $19 million were on nonaccrual status at September 30, 2023, a decrease of $34 million compared to December 31, 2022. The home equity portfolio totaled $1.8 billion at September 30, 2023, of which 96 percent was outstanding under primarily variable-rate, interest-only home equity lines of credit, 3 percent were in amortizing status and 1 percent were closed-end home equity loans. Of the $1.8 billion of home equity loans outstanding, $17 million were on nonaccrual status at September 30, 2023. A majority of the home equity portfolio was secured by junior liens at September 30, 2023.

Energy Lending

The Corporation has a portfolio of Energy loans that are included entirely in commercial loans in the Consolidated Balance Sheets. Customers in the Corporation's Energy business line are engaged in exploration and production (E&P) and midstream. E&P generally includes such activities as searching for potential oil and gas fields, drilling exploratory wells and operating active wells. Commitments to E&P borrowers are generally subject to semi-annual borrowing base re-determinations based on a variety of factors including updated prices (reflecting market and competitive conditions), energy reserve levels and the impact of hedging. The midstream sector is generally involved in the transportation, storage and marketing of crude and/or refined oil and gas products. Approximately 95% of loans in the Energy business line are Shared National Credits (SNC), which are facilities greater than or equal to $100 million shared by three or more federally supervised institutions, reflecting the Corporation's focus on larger middle market companies that have financing needs that generally exceed internal individual borrower credit risk limits. The Corporation seeks to develop full relationships with SNC borrowers.

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

	September 30, 2023				December 31, 2022			
(dollar amounts in millions)	Outstandings		Nonaccrual	Criticized (a)	Outstandings		Nonaccrual	Criticized (a)
Exploration and production (E&P)	$ 1,127	78%	$ 6	$ 6	$ 1,162	82%	$ 7	$ 12
Midstream	310	22	—	—	253	18	—	—
Total Energy business line	$ 1,437	100%	$ 6	$ 6	$ 1,415	100%	$ 7	$ 12

(a) Includes nonaccrual loans.

Loans in the Energy business line totaled $1.4 billion, or less than 3 percent of total loans, at September 30, 2023, an increase of $22 million compared to December 31, 2022. Total exposure, including unused commitments to extend credit and letters of credit, was $3.4 billion at September 30, 2023 (a utilization rate of 42 percent) and $3.4 billion at December 31, 2022 (a utilization rate of 43 percent). Nonaccrual Energy loans were $6 million and $7 million at September 30, 2023 and December 31, 2022, respectively. Criticized Energy loans at September 30, 2023 decreased $6 million from December 31, 2022 to $6 million. E&P included $27 million and $13 million at September 30, 2023 and December 31, 2022, respectively, related to the Corporation's legacy energy services customers that provide products and services primarily to the E&P sector.

Energy net recoveries were $1 million for the three months ended September 30, 2023 compared to none for the three months ended June 30, 2023, while Energy net recoveries were $1 million for the nine months ended September 30, 2023 compared to net charge-offs of $3 million for the nine months ended September 30, 2022.

Leveraged Loans

Certain loans in the Corporation's commercial portfolio are considered leveraged transactions. These loans are typically used for mergers, acquisitions, business recapitalizations, refinancing and equity buyouts. To help mitigate the risk associated with these loans, the Corporation focuses on middle market companies with highly capable management teams, strong sponsors and solid track records of financial performance. Industries prone to cyclical downturns and acquisitions with a high degree of integration risk are generally avoided. Other considerations include the sufficiency of collateral, the level of balance sheet leverage and the adequacy of financial covenants. During the underwriting process, cash flows are stress-tested to evaluate the borrowers' abilities to handle economic downturns and an increase in interest rates.

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

The following tables summarize information about HR C&I loans, which represented 6 percent of total loans at both September 30, 2023 and December 31, 2022.

(in millions)	September 30, 2023	December 31, 2022
Outstandings	$ 3,091	$ 3,120
Criticized	386	393

There were no net charge-offs of leveraged loans during the three months ended September 30, 2023 and June 30, 2023, and $1 million for the nine months ended September 30, 2023 compared to $21 million for the nine months ended September 30, 2022.

Market and Liquidity Risk

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

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

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 scenarios, including both idiosyncratic and market-wide in nature, which vary in terms of duration and severity. Recent events have created greater uncertainty with respect to normal deposit patterns. Following the March 2023 banking industry disruption, the Corporation activated its contingency funding plan by increasing its cash position through wholesale funding channels and brokered deposits. The Corporation's evaluation as of September 30, 2023 projected that sufficient sources of liquidity were available under each series of events.

In addition to assessing liquidity risk on a consolidated basis, Corporate Treasury also monitors the parent company's liquidity and has established liquidity coverage requirements for meeting expected obligations without the support of additional dividends from subsidiaries. ALCO's policy on liquidity risk management requires the parent company to maintain sufficient liquidity to meet expected cash obligations, such as debt service, dividend payments and normal operating expenses, over a period of no less than 12 months. The Corporation had liquid assets of $1.5 billion on an unconsolidated basis at September 30, 2023.

Corporate Treasury and the Enterprise Risk Division support ALCO in measuring, monitoring and managing interest rate risk as well as all other market risks. Key activities encompass: (i) providing information and analyses of the Corporation's balance sheet structure and measurement of interest rate and all other market risks; (ii) monitoring and reporting 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 industry trends and analytical tools to be used in the management of interest rate and all other market and liquidity risks.

Interest Rate Risk

Net interest income is the primary source of revenue for the Corporation. Interest rate risk arises in the normal course of business due to differences in the repricing and cash flow characteristics of assets and liabilities, primarily through the Corporation's core business activities of extending loans and acquiring deposits. The Corporation's balance sheet is predominantly characterized by floating-rate loans funded by core deposits. Including the impact of interest rate swaps converting floating-rate loans to fixed, the Corporation's loan composition at September 30, 2023 was 50 percent fixed-rate, 41 percent overnight to 30-day rate (primarily BSBY and SOFR), 6 percent 90-day and greater rates and 3 percent prime. The composition of the loan portfolio creates sensitivity to interest rate movements due to the imbalance between the faster repricing of the floating-rate loan portfolio versus deposit products. In addition, the growth and/or contraction in the Corporation's loans and deposits may lead to changes in sensitivity to interest rate movements in the absence of mitigating actions. Examples of such actions are purchasing fixed-rate investment securities, which provide liquidity to the balance sheet and act to mitigate the inherent interest rate sensitivity, as well as hedging with interest rate swaps and options. Other mitigating factors include interest rate floors on a portion of the loan portfolio.

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. Currently, from an interest rate risk management perspective, the Corporation is approximately neutral to 100 basis point gradual interest rate changes.

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 using a static balance sheet and generates sensitivity scenarios by changing certain model assumptions. Each scenario includes assumptions such as loan growth, investment security prepayment levels, depositor behavior and overall balance sheet mix and growth which are in line with historical patterns. 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. Model assumptions in the sensitivity scenarios at September 30, 2023 included for the rising rate scenario, a modest increase in loan balances and a moderate decrease in deposit balances, and for the declining rate scenario, a modest decrease in loan balances and a moderate increase in deposit balances. In addition, both scenarios assumed loan spreads held at current levels, an incremental interest-bearing deposit beta of approximately 38%, no reinvestment of securities portfolio cash flows and no additions to interest rate swaps.

The average balance of the securities portfolio included in the analysis was $16.9 billion for the three months ended September 30, 2023 with an average yield of 2.10% and effective duration of 5.7 years.

The table below details components of the cash flow hedge portfolio at September 30, 2023.

	Cash Flow Hedges		
(dollar amounts in millions)	Notional Amount	Weighted Average Yield	Years to Maturity (a)
Swaps under contract at September 30, 2023 (b)	$ 25,100	2.48%	4.1
Weighted average notional active per period:			
Full year 2023	22,372	2.38	3.7
Full year 2024	23,575	2.50	4.2
Full year 2025	22,973	2.57	4.4

(a) Years to maturity calculated from a starting date of September 30, 2023.

(b) Includes forward starting swaps of $1.3 billion starting in 2023 and $2.0 billion starting in 2024. Excluding forward starting swaps, the weighted average yield was 2.38%.

The analysis also includes interest rate swaps that convert $6.3 billion of fixed-rate medium- and long-term debt and FHLB advances to variable rates through fair value hedges. Additionally, included in this analysis are $16.3 billion of loans that were subject to an average interest rate floor of 50 basis points at September 30, 2023. This base-case net interest income is then compared against interest rate scenarios in which short-term rates rise or decline 100 basis points (with a floor of zero percent) in a linear, parallel fashion from the base case over 12 months, resulting in an average change of 50 basis points over the period.

The table below, as of September 30, 2023 and December 31, 2022, 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.

	Estimated Annual Change				
	September 30, 2023			December 31, 2022	
(dollar amounts in millions)	Amount	%		Amount	%
Change in Interest Rates:			Change in Interest Rates:		
Rising 100 basis points	$ 9	—%	Rising 100 basis points	$ 10	—%
(50 basis points on average)			(50 basis points on average)		
Declining 100 basis points	(17)	(1)	Declining 100 basis points	(72)	(2)
(50 basis points on average)			(50 basis points on average)		

Sensitivity to declining interest rates decreased from December 31, 2022 to September 30, 2023 resulting from a decline in non-maturity deposits, partially offset by an increase in time deposits. Sensitivity to rising interest rates at September 30, 2023 remained relatively stable compared to December 31, 2022, resulting from refinements to modeled deposit runoff following the change in balance sheet mix that occurred during the year.

At September 30, 2023, additional sensitivity scenarios applied the rising and declining 100 basis point scenario assumptions with a 55% incremental deposit beta relative to the base case scenario to assess the impact of the Corporation's deposit beta assumptions. In these rising and declining scenarios, net interest income decreased by $25 million and increased by $3 million, respectively, due to a more rapid repricing pace compared to the standard model assumptions. All scenarios presented for September 30, 2023 reflected a change in balance sheet composition following the March 2023 banking industry disruption, as the balance sheet maintained a higher concentration of cash as well as increased wholesale funding and brokered deposits, which contributed to the decrease in net interest income in all scenarios presented.

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 100 basis point shock with a floor of zero percent.

The table below, as of September 30, 2023 and December 31, 2022, displays the estimated impact on the economic value of equity from the interest rate scenario described above.

	September 30, 2023				December 31, 2022	
(dollar amounts in millions)	Amount	%			Amount	%
Change in Interest Rates:			Change in Interest Rates:			
Rising 100 basis points	$ (522)	(4%)	Rising 100 basis points		$ (417)	(3%)
Declining 100 basis points	720	6	Declining 100 basis points		627	4

The negative sensitivity of the economic value of equity to rising rates increased from December 31, 2022 to September 30, 2023 due to deposit runoff, partially offset by a declining notional amount of cash flow swaps and a smaller securities portfolio. Sensitivity to declining rates increased the economic value of equity due to the same factors.

LIBOR Transition

On July 27, 2017, the United Kingdom's Financial Conduct Authority (FCA), which regulates LIBOR, publicly announced that it intends to stop persuading or compelling banks to submit LIBOR rates after 2021. Effective March 2021, the FCA confirmed that certain LIBOR tenors would no longer be supported after December 31, 2021 and that the remaining tenors, including those most commonly used by the Corporation, would no longer be supported after June 30, 2023. The Corporation had substantial exposure to LIBOR-based products, ceased originating LIBOR-based products in the fourth quarter 2021 and has worked to remediate its outstanding LIBOR contracts.

As of September 30, 2023, substantially all of the Corporation's LIBOR exposure was remediated and remaining LIBOR-based contracts are expected to transition to other reference rates at their next repricing dates.

For a discussion of the various risks facing the Corporation in relation to the transition away from LIBOR, see the market risk discussion within "Item 1A. Risk Factors" beginning on page 15 of the Corporation's 2022 Annual Report.

Sources of Liquidity

The Corporation maintains a liquidity position that it believes will adequately satisfy its financial obligations while taking into account potential commitment draws and deposit run-off that may occur in the normal course of business. The majority of the Corporation's balance sheet is funded by customer deposits. Cash flows from loan repayments, increases in deposit accounts (including brokered deposits), activity in the securities portfolio and wholesale funding channels serve as the Corporation's primary liquidity sources.

The Corporation satisfies incremental liquidity needs with either liquid assets or external funding sources. Available liquidity includes cash, FHLB advances and Federal Reserve Bank (FRB) borrowing, comprised of borrowing through the discount window and the newly established Bank Term Funding Program (BTFP). The Corporation has pledged its investment securities portfolio to access wholesale funding as needed and does not intend to sell or restructure securities at this time.

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 loans, certain government agency-backed securities and other eligible assets. Actual borrowing capacity is contingent on the amount of collateral pledged to the FHLB and the fair value of pledged assets, as well as applicable FHLB haircuts.

At September 30, 2023, the Bank had pledged real estate-related loans totaling $21.6 billion and investment securities totaling $6.4 billion to the FHLB, which provided for up to $17.3 billion of collateralized borrowing with the FHLB.

The FRB provides liquidity through its discount window, where banks may borrow funds based on the discounted fair value of pledged assets. Additionally, in March 2023, the FRB established the BTFP in response to the recent industry disruption, offering loans with up to one year in maturity to eligible depository institutions in exchange for pledged collateral in the form of U.S Treasuries, agency debt and mortgage-backed securities and other qualifying assets. Unlike other funding sources, borrowing capacity under the BTFP is based on the par value, not fair value, of collateral.

At September 30, 2023, the Bank had pledged loans totaling $24.6 billion and investment securities totaling $7.5 billion to the FRB, which provided for up to $20.3 billion and $9.6 billion of collateralized borrowing through the discount window and BTFP program, respectively. Total available collateralized borrowings with the FRB totaled $29.9 billion at September 30, 2023.

The table below details the Corporation's sources of available liquidity at September 30, 2023.

(dollar amounts in millions)	**Total Capacity**	**Borrowings Outstanding**	**Available Liquidity**
Cash on deposit with FRB (a)			$ 6,674
FHLB	$ 17,310	$ 8,800	8,510
FRB:			
BTFP	9,579	—	9,579
Discount Window	20,307	—	20,307
Total available liquidity			$ 45,070

(a) Included in interest-bearing deposits with banks on the Consolidated Balance Sheet.

The Corporation may also use brokered deposits and external debt as additional sources of funding, and maintains a shelf registration statement with the Securities and Exchange Commission through which it may issue securities.The ability of the Corporation and the Bank to raise unsecured funding at competitive rates is impacted by rating agencies' views of the credit quality, liquidity, capital, earnings and other relevant factors related to the Corporation and the Bank. As of September 30, 2023, the three major rating agencies had assigned the following ratings to long-term senior unsecured obligations of the Corporation and the Bank, as well as long-term deposits at 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.

	Debt Ratings			Deposit Ratings
	Comerica Incorporated	Comerica Bank		Comerica Bank
September 30, 2023	Rating	Rating	Outlook	Rating
Moody's Investors Service	Baa1	Baa1	Negative	A1
Fitch Ratings (a)	A-	A-	Stable	A
Standard and Poor's	BBB	BBB+	Stable	not rated

(a) In October 2023, Fitch Ratings Inc. affirmed the Corporation and Bank's debt ratings as A- and changed the outlook to Negative, noting relatively higher usage of brokered deposits and wholesale funding. For additional information, see the rating discussion within "Item 1A. Risk Factors".

Deposit Concentrations and Uninsured Deposits

The Corporation's focus is commercial customers, and accordingly, it has a larger percentage of uninsured deposits relative to financial institutions with a higher consumer focus. These deposits are well-diversified between geographies, industries and customers. At September 30, 2023, the Retail Banking and general Middle Market segments, both highly diversified and granular, accounted for 36% and 27% of the total deposit base, respectively. Corporate Banking and Technology and Life Sciences comprised 6% and 5% each of total deposits, respectively, which were the largest deposit concentrations of the more specialized business lines.

Uninsured deposits are defined as the portion of deposit accounts in U.S. offices that exceed the FDIC insurance limit and amounts in any other uninsured investment or deposit account that are classified as deposits and are not subject to any federal or state deposit insurance regimes.

	September 30, 2023		December 31, 2022	
(Dollar amount in millions)	Amount	Percentage of total deposits	Amount	Percentage of total deposits
Total uninsured deposits, as calculated per regulatory guidelines	$ 31,476	47 %	$ 45,492	64 %
Less: affiliate deposits	(4,088)		(4,458)	
Total uninsured deposits, excluding affiliate deposits	$ 27,388	41 %	$ 41,034	57 %

Time deposits otherwise uninsured, which consist of foreign office time deposits, totaled $5 million at September 30, 2023 and all mature in three months or less. Collateralized deposits, consisting of trust deposits as well as deposits of public entities and state and local government agencies, totaled $317 million at September 30, 2023, compared to $843 million at December 31, 2022.

CRITICAL ACCOUNTING ESTIMATES

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 2022 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, 2022, the most critical of these estimates related to the allowance for credit losses, fair value measurement, pension plan accounting and income taxes. These estimates were reviewed with the Audit Committee of the Corporation’s Board of Directors and are discussed more fully on pages F-31 through F-34 in the Corporation's 2022 Annual Report. Below is an addition to the critical accounting estimates disclosed in the Corporation's 2022 Annual Report.

GOODWILL

Goodwill is initially recorded as the excess of the purchase price over the fair value of net assets acquired in a business combination and is subsequently evaluated at least annually for impairment. Goodwill impairment testing is performed at the reporting unit level, equivalent to a business segment or one level below. The Corporation has three reporting units: the Commercial Bank, the Retail Bank and Wealth Management. At September 30, 2023 and December 31, 2022, goodwill totaled $635 million, including $473 million allocated to the Commercial Bank, $101 million allocated to the Retail Bank and $61 million allocated to Wealth Management.

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

During the third quarter of 2023, the Corporation elected to perform a quantitative impairment analysis. The estimated fair values of the reporting units were determined using a blend of two commonly used valuation techniques: the market approach and the income approach. For the market approach, valuations of reporting units considered a combination of earnings and equity multiples from companies with characteristics similar to the reporting unit. Since the fair values determined under the market approach are representative of noncontrolling interests, the valuations incorporated a control premium. For the income approach, estimated future cash flows were derived from internal forecasts and economic expectations for each reporting unit. In the short- and mid-term, forecasts incorporated current economic conditions and impacts of expected monetary policy decisions by the Federal Reserve Bank. Long-term projections reflected normalized rate and credit environments, as well as a long-term rate of return for each reporting unit. Projections were discounted using an applicable discount rate to calculate the fair value. The discount rate was based on the imputed cost of equity capital for each reporting unit, which incorporates the risk-free rate of return, a market equity risk premium, potential stock volatility and a size risk premium. The discount rate further reflected the uncertainty of current economic conditions and potential impacts to the forecasted financial information.

The combined fair value of all units was compared to the Corporation's market capitalization for reasonableness. At the conclusion of the quantitative impairment test in the third quarter 2023, the estimated fair values of all reporting units substantially exceeded their carrying amounts, including goodwill. The Corporation performed a hypothetical sensitivity analysis to evaluate the impact to the estimated fair value of each reporting unit from an adverse change in the discount rate. A 100 basis point increase in the discount rate would result in the fair value of each reporting unit to continue to substantially exceed its carrying value.

The Corporation continues to monitor economic conditions that could significantly impact the impairment analysis and result in future goodwill impairment charges that, if incurred, could have a material adverse effect on the Corporation's results of operations in the period such charges are recognized. Additionally, any 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.

SUPPLEMENTAL FINANCIAL DATA

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

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

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

(dollar amounts in millions, except per share data)	September 30, 2023	December 31, 2022
Common Equity Tier 1 Capital (a):		
Tier 1 capital	$ 8,866	$ 8,278
Less:		
Fixed-rate reset non-cumulative perpetual preferred stock	394	394
Common equity tier 1 capital	$ 8,472	$ 7,884
Risk-weighted assets	$ 78,499	$ 78,871
Tier 1 capital ratio	11.29%	10.50%
Common equity tier 1 capital ratio	10.79	10.00
Tangible Common Equity Ratio:		
Total shareholders' equity	$ 4,972	$ 5,181
Less:		
Fixed-rate reset non-cumulative perpetual preferred stock	394	394
Common shareholders' equity	$ 4,578	$ 4,787
Less:		
Goodwill	635	635
Other intangible assets	8	9
Tangible common equity	$ 3,935	$ 4,143
Total assets	$ 85,706	$ 85,406
Less:		
Goodwill	635	635
Other intangible assets	8	9
Tangible assets	$ 85,063	$ 84,762
Common equity ratio	5.34%	5.60%
Tangible common equity ratio	4.62	4.89
Tangible Common Equity per Share of Common Stock:		
Common shareholders' equity	$ 4,578	$ 4,787
Tangible common equity	3,935	4,143
Shares of common stock outstanding (in millions)	132	131
Common shareholders' equity per share of common stock	$ 34.73	$ 36.55
Tangible common equity per share of common stock	29.85	31.62

(a) September 30, 2023 ratios are estimated.

Total uninsured deposits as calculated per regulatory guidance and reported on schedule RC-O of the Bank's Call Report include affiliate deposits, which by definition have a different risk profile than other uninsured deposits. The amounts presented below remove affiliate deposits from the total uninsured deposits number. The Corporation believes that the presentation of uninsured deposits adjusted for the impact of affiliate deposits provides enhanced clarity of uninsured deposits at risk.

(dollar amounts in millions)	September 30, 2023	December 31, 2022
Uninsured Deposits:		
Total uninsured deposits, as calculated per regulatory guidelines	$ 31,476	$ 45,492
Less:		
Affiliate deposits	(4,088)	(4,458)
Total uninsured deposits, excluding affiliate deposits	$ 27,388	$ 41,034

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

(a) 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 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

Other than as set forth below, there has been no material change in the Corporation's risk factors as previously disclosed in the Corporation's 2022 Annual Report in response to Part I, Item 1A. of such report. Such risk factors are incorporated herein by reference.

Below we amend the following risk factors discussed in Part I, "Item 1A. Risk Factors - Liquidity Risk" in the Corporation's 2022 Annual Report:

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

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

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

  As Comerica experienced following the collapse of Silicon Valley Bank, Signature Bank and First Republic Bank, the failure of other financial institutions may cause deposit outflows as customers spread deposits among several different banks so as to maximize their amount of FDIC insurance, move deposits to banks deemed "too big to fail" or remove deposits from the U.S. financial system entirely. Comerica has a high percentage of uninsured deposits and relies on its deposit base for liquidity. If Comerica is unable to continue to fund assets through customer bank deposits or access funding sources on favorable terms, or if Comerica suffers an increase in borrowing costs or otherwise fails to manage liquidity effectively, Comerica’s liquidity, operating margins, financial condition and results of operations may be materially adversely affected.

Further, Comerica's customers may be adversely impacted by such conditions, which could have a negative impact on Comerica's business, financial condition and results of operations.

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

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

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

  Rating agencies regularly evaluate Comerica, and their ratings are based on a number of factors, including Comerica's financial strength as well as factors not entirely within its control, such as conditions affecting the financial services industry generally. Since the recent banking industry disruption, Moody's has lowered the macro profile of the U.S. banking system to "Strong +" from "Very Strong -", reflecting general concern around the banking industry as a whole. In April 2023, Moody's downgraded the Corporation and Bank's credit ratings by one notch to Baa1 from A3 and changed the Corporation and Bank's outlooks to Negative related to uncertainty in the banking industry following the collapse of Silicon Valley Bank, Signature Bank and First Republic Bank and the subsequent impacts. In August 2023, Standard & Poor's downgraded the Corporation and Bank's credit ratings by one notch to BBB from BBB+ for the Corporation and to BBB+ from A- for the Bank, reaffirming their outlooks at Stable. In addition, in October 2023, Fitch changed the Corporation's and the Bank's outlooks to Negative, noting relatively higher usage of brokered deposits and wholesale funding.

  There can be no assurance that Comerica will maintain its current ratings or that Comerica's credit ratings will not be downgraded again in the future. The impact of the recent downgrade to Comerica's or its subsidiaries' credit ratings could adversely affect Comerica's profitability, borrowing costs, or ability to access the capital markets or otherwise have a negative effect on Comerica's results of operations or financial condition. If future reductions placed Comerica's or its subsidiaries' credit ratings below investment grade, it could also create obligations or liabilities under the terms of existing arrangements that could increase Comerica's costs under such arrangements. Additionally, a downgrade of the credit rating of any particular security issued by Comerica or its subsidiaries could negatively affect the ability of the holders of that security to sell the securities and the prices at which any such securities may be sold.

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.

ITEM 5. Other Information

No director or officer (as defined in Rule 16a-1(f) of the Exchange Act) of the Corporation adopted, modified, or terminated any Rule 10b5-1 trading arrangement or any non-Rule 10b5-1 trading arrangement (as such terms are defined in Item 408 of Regulation S-K) during the quarter ended September 30, 2023, except as may be noted below.

ITEM 6. Exhibits

Exhibit No.	Description
3.1	Restated Certificate of Incorporation of Comerica Incorporated (filed as Exhibit 3.2 to Corporation's Current Report on Form 8-K dated August 4, 2010, and incorporated herein by reference).
3.2	Certificate of Amendment to Restated Certificate of Incorporation of Comerica Incorporated (filed as Exhibit 3.2 to Corporation's Quarterly Report on Form 10-Q for the quarter ended March 31, 2011, and incorporated herein by reference).
3.3	Amended and Restated Bylaws of Comerica Incorporated (filed as Exhibit 3.3 to Corporation's Current Report on Form 8-K dated November 3, 2020, and incorporated herein by reference).
3.4	Certificate of Designations of 5.625% Fixed-Rate Reset Non-Cumulative Perpetual Preferred Stock, Series A, dated May 26, 2020, of Comerica Incorporated (including the form of 5.625% Fixed-Rate Reset Non-Cumulative Perpetual Preferred Stock, Series A Certificate of Comerica Incorporated attached as Exhibit A thereto) (filed as Exhibit 3.1 to Corporation's Current Report on Form 8-K dated May 26, 2020, and incorporated herein by reference).
4	[In accordance with Regulation S-K Item No. 601(b)(4)(iii), the Corporation 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 Corporation hereby agrees to furnish a copy of any such instrument to the SEC upon request.]
31.1	Chairman, President and CEO Rule 13a-14(a)/15d-14(a) Certification of Periodic Report (pursuant to Section 302 of the Sarbanes-Oxley Act of 2002).
31.2	Senior Executive Vice President and CFO Rule 13a-14(a)/15d-14(a) Certification of Periodic Report (pursuant to Section 302 of the Sarbanes-Oxley Act of 2002).
32*	Section 1350 Certification of Periodic Report (pursuant to Section 906 of the Sarbanes-Oxley Act of 2002).
101	Financial statements from Quarterly Report on Form 10-Q of the Corporation for the quarter ended September 30, 2023, formatted in Inline XBRL: (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).
104	The cover page from the Corporation's Quarterly Report on Form 10-Q for the quarter ended September 30, 2023, formatted in Inline XBRL (included in Exhibit 101).

* The certification attached as Exhibit 32 is not deemed “filed” with the SEC and is not to be incorporated by reference into any filing of the Corporation under the Securities Act of 1933, as amended, or the Exchange Act, whether made before or after the date of this Quarterly Report on Form 10-Q, irrespective of any general incorporation language contained in such filing.

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
Executive Vice President,
Chief Accounting Officer,
Controller and
Duly Authorized Officer

Date: October 30, 2023