COMERICA INC /NEW/
Form 10-Q
November 01, 2016

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

FORM 10-Q

(Mark One)
x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2016
Or
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission file number 1-10706

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

Delaware	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)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý No o
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No o
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer,” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.
$5 par value common stock:
Outstanding as of October 24, 2016: 172,262,981 shares

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Part I. FINANCIAL INFORMATION
Item 1. Financial Statements

CONSOLIDATED BALANCE SHEETS
Comerica Incorporated and Subsidiaries

(in millions, except share data)	September 30, 2016 (unaudited)	December 31, 2015
ASSETS		
Cash and due from banks	$ 1,292	$ 1,157
Interest-bearing deposits with banks	6,748	4,990
Other short-term investments	92	113
Investment securities available-for-sale	10,789	10,519
Investment securities held-to-maturity	1,695	1,981
Commercial loans	31,152	31,659
Real estate construction loans	2,743	2,001
Commercial mortgage loans	9,013	8,977
Lease financing	648	724
International loans	1,303	1,368
Residential mortgage loans	1,874	1,870
Consumer loans	2,541	2,485
Total loans	49,274	49,084
Less allowance for loan losses	(727)	(634)
Net loans	48,547	48,450
Premises and equipment	528	550
Accrued income and other assets	4,433	4,117
Total assets	$ 74,124	$ 71,877
LIABILITIES AND SHAREHOLDERS' EQUITY		
Noninterest-bearing deposits	$ 31,776	$ 30,839
Money market and interest-bearing checking deposits	22,436	23,532
Savings deposits	2,052	1,898
Customer certificates of deposit	2,967	3,552
Foreign office time deposits	30	32
Total interest-bearing deposits	27,485	29,014
Total deposits	59,261	59,853
Short-term borrowings	12	23
Accrued expenses and other liabilities	1,234	1,383
Medium- and long-term debt	5,890	3,058
Total liabilities	66,397	64,317
Common stock - $5 par value:		
Authorized - 325,000,000 shares		
Issued - 228,164,824 shares	1,141	1,141
Capital surplus	2,174	2,173

Accumulated other comprehensive loss	(292)	(429)
Retained earnings	7,262	7,084
Less cost of common stock in treasury - 56,096,416 shares at 9/30/16 and 52,457,113 shares at 12/31/15	(2,558)	(2,409)
Total shareholders’ equity	7,727	7,560
Total liabilities and shareholders’ equity	$ 74,124	$ 71,877

See notes to consolidated financial statements.

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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, 2016	2015	Nine Months Ended September 30, 2016	2015
INTEREST INCOME				
Interest and fees on loans	$411	$390	$1,223	$1,156
Interest on investment securities	61	54	185	160
Interest on short-term investments	8	4	17	11
Total interest income	480	448	1,425	1,327
INTEREST EXPENSE				
Interest on deposits	10	11	30	33
Interest on medium- and long-term debt	20	15	53	38
Total interest expense	30	26	83	71
Net interest income	450	422	1,342	1,256
Provision for credit losses	16	26	213	87
Net interest income after provision for credit losses	434	396	1,129	1,169
NONINTEREST INCOME				
Card fees	76	71	224	203
Service charges on deposit accounts	55	57	165	168
Fiduciary income	47	47	142	142
Commercial lending fees	26	22	68	69
Letter of credit fees	12	13	38	39
Bank-owned life insurance	12	10	30	29
Foreign exchange income	10	10	31	29
Brokerage fees	5	5	14	13
Net securities losses	—	—	(3)	(2)
Other noninterest income	29	25	75	79
Total noninterest income	272	260	784	769
NONINTEREST EXPENSES				
Salaries and benefits expense	247	243	742	747
Outside processing fee expense	86	83	247	239
Net occupancy expense	40	41	117	118
Equipment expense	13	13	40	39
Restructuring charges	20	—	73	—
Software expense	31	26	90	73
FDIC insurance expense	14	9	39	27
Advertising expense	5	6	15	17
Litigation-related expense	—	(3)	—	(32)
Other noninterest expenses	37	39	106	117
Total noninterest expenses	493	457	1,469	1,345
Income before income taxes	213	199	444	593
Provision for income taxes	64	63	131	188
NET INCOME	149	136	313	405
Less income allocated to participating securities	1	2	3	5

Net income attributable to common shares	$148	$134	$310	$400
Earnings per common share:				
Basic	$0.87	$0.76	$1.80	$2.27
Diluted	0.84	0.74	1.76	2.20
Comprehensive income	152	187	450	472
Cash dividends declared on common stock	40	37	115	110
Cash dividends declared per common share	0.23	0.21	0.66	0.62

See notes to consolidated financial statements.

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

(in millions, except per share data)	Common Stock Shares Outstanding	Common Stock Amount	Capital Surplus	Accumulated Other Comprehensive Loss	Retained Earnings	Treasury Stock	Total Shareholders' Equity
BALANCE AT DECEMBER 31, 2014	179.0	$1,141	$2,188	$ (412)	$6,744	$(2,259)	$ 7,402
Net income	—	—	—	—	405	—	405
Other comprehensive income, net of tax	—	—	—	67	—	—	67
Cash dividends declared on common stock ($0.62 per share)	—	—	—	—	(110)	—	(110)
Purchase of common stock	(3.8)	—	—	—	—	(175)	(175)
Purchase and retirement of warrants	—	—	(10)	—	—	—	(10)
Net issuance of common stock under employee stock plans	1.0	—	(21)	—	(10)	45	14
Net issuance of common stock for warrants	1.0	—	(21)	—	(22)	43	—
Share-based compensation	—	—	29	—	—	—	29
BALANCE AT SEPTEMBER 30, 2015	177.2	$1,141	$2,165	$ (345)	$7,007	$(2,346)	$ 7,622
BALANCE AT DECEMBER 31, 2015	175.7	$1,141	$2,173	$ (429)	$7,084	$(2,409)	$ 7,560
Net income	—	—	—	—	313	—	313
Other comprehensive income, net of tax	—	—	—	137	—	—	137
Cash dividends declared on common stock ($0.66 per share)	—	—	—	—	(115)	—	(115)
Purchase of common stock	(5.0)	—	—	—	—	(211)	(211)
Net issuance of common stock under employee stock plans	1.4	—	(29)	—	(20)	62	13
Share-based compensation	—	—	30	—	—	—	30
BALANCE AT SEPTEMBER 30, 2016	172.1	$1,141	$2,174	$ (292)	$7,262	$(2,558)	$ 7,727

See notes to consolidated financial statements.

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

(in millions)	Nine Months Ended September 30, 2016	2015
OPERATING ACTIVITIES		
Net income	$313	$405
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for credit losses	213	87
Benefit for deferred income taxes	(74)	(52)
Depreciation and amortization	91	90
Net periodic defined benefit cost	11	34
Share-based compensation expense	30	29
Net amortization of securities	7	11
Accretion of loan purchase discount	(4)	(6)
Net securities losses	3	2
Net gains on sales of foreclosed property	(3)	(2)
Excess tax benefits from share-based compensation arrangements	(1)	(3)
Net change in:		
Accrued income receivable	(8)	(9)
Accrued expenses payable	71	(70)
Other, net	(252)	147
Net cash provided by operating activities	397	663
INVESTING ACTIVITIES		
Investment securities available-for-sale:		
Maturities and redemptions	1,259	1,333
Purchases	(1,396)	(1,933)
Investment securities held-to-maturity:		
Maturities and redemptions	288	244
Purchases	—	(166)
Net change in loans	(290)	(436)
Proceeds from sales of foreclosed property	15	8
Net increase in premises and equipment	(71)	(78)
Purchases of Federal Home Loan Bank stock	(115)	—
Other, net	3	5
Net cash used in investing activities	(307)	(1,023)
FINANCING ACTIVITIES		
Net change in:		
Deposits	(686)	1,361
Short-term borrowings	(11)	(7)
Medium- and long-term debt:		
Maturities	—	(606)
Issuances	2,800	1,016
Common stock:		
Repurchases	(211)	(175)
Cash dividends paid	(112)	(109)
Issuances under employee stock plans	25	21

Purchase and retirement of warrants	—	(10)
Excess tax benefits from share-based compensation arrangements	1	3
Other, net	(3)	(5)
Net cash provided by financing activities	1,803	1,489
Net increase in cash and cash equivalents	1,893	1,129
Cash and cash equivalents at beginning of period	6,147	6,071
Cash and cash equivalents at end of period	$8,040	$7,200
Interest paid	$75	$64
Income taxes paid	66	46
Noncash investing and financing activities:		
Loans transferred to other real estate	21	9
Loans transferred from portfolio to held-for-sale	—	19
Loans transferred from held-for-sale to portfolio	17	—
Lease residual transferred to other assets	—	16

See notes to consolidated financial statements.

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

NOTE 1 - BASIS OF PRESENTATION AND ACCOUNTING POLICIES

Organization

The accompanying unaudited consolidated financial statements were prepared in accordance with United States (U.S.) generally accepted accounting principles (GAAP) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, the statements do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation were included. The results of operations for the nine months ended September 30, 2016 are not necessarily indicative of the results that may be expected for the year ending December 31, 2016. Certain items in prior periods were reclassified to conform to the current presentation. For further information, refer to the consolidated financial statements and footnotes thereto included in the Annual Report of Comerica Incorporated and Subsidiaries (the Corporation) on Form 10-K for the year ended December 31, 2015.

Recently Issued Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-02, “Leases (Topic 842),” (ASU 2016-02), to increase the transparency and comparability of lease recognition and disclosure. The update requires lessees to recognize lease contracts with a term greater than one year on the balance sheet, while recognizing expenses on the income statement in a manner similar to current guidance. For lessors, the update makes targeted changes to the classification criteria and the lessor accounting model to align the guidance with the new lessee model and revenue guidance. ASU 2016-02 is effective for the Corporation on January 1, 2019 and must be applied using the modified retrospective approach. Early adoption is permitted. The Corporation is currently evaluating the impact of adopting ASU 2016-02.

In March 2016, the FASB issued ASU No. 2016-09, “Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payments Accounting,” (ASU 2016-09), which intends to simplify accounting for share based payment transactions, including the income tax consequences and classification of awards. Among other items, the update requires excess tax benefits and deficiencies to be recognized as a component of income taxes within the income statement rather than other comprehensive income as required in current guidance. ASU 2016-09 is effective for the Corporation on January 1, 2017. The recognition of excess tax benefits and deficiencies in the income statement must be adopted prospectively. The method of transition required will differ for other items being amended. Early adoption is permitted. The impact to the Corporation upon adoption is dependent on the market value per share of the Corporation's common stock at option expiration dates and restricted stock vesting dates.

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

In August 2016, the FASB issued ASU No. 2016-15, “Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments,” (ASU 2016-15), which reduces diversity in the presentation of several categories of transactions in the cash flow statement. Among other things, the update clarifies the appropriate classification for proceeds from settlement of bank owned life insurance (BOLI) policies. Based on preliminary assessments, the Corporation expects to change the classification of proceeds from settlement of BOLI policies from operating activities to investing activities. Proceeds from settlement of BOLI policies totaled $10 million and $6 million for the nine-month periods ended September 30, 2016 and 2015, respectively, and $12 million for the year ended December

31, 2015. Other changes in classification resulting from this update are not expected to be significant. ASU 2016-15 is effective for the Corporation on January 1, 2018 and must be applied using the retrospective approach. Early adoption is permitted.

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.

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Trading securities, investment securities available-for-sale, derivatives and deferred compensation plan liabilities are recorded at fair value on a recurring basis. Additionally, from time to time, the Corporation may be required to record other assets and liabilities at fair value on a nonrecurring basis, such as impaired loans, other real estate (primarily foreclosed property), nonmarketable equity securities and certain other assets and liabilities. These nonrecurring fair value adjustments typically involve write-downs of individual assets or application of lower of cost or fair value accounting.
Refer to Note 1 to the consolidated financial statements in the Corporation's Annual Report on Form 10-K for the year ended December 31, 2015 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 LIABLILITIES RECORDED AT FAIR VALUE ON A RECURRING BASIS
The following tables present the recorded amount of assets and liabilities measured at fair value on a recurring basis as of September 30, 2016 and December 31, 2015.

(in millions)	Total	Level 1	Level 2	Level 3	
September 30, 2016					
Trading securities:					
Deferred compensation plan assets	$88	$88	$—	$ —	
Investment securities available-for-sale:					
U.S. Treasury and other U.S. government agency securities	2,826	2,826	—	—	
Residential mortgage-backed securities (a)	7,828	—	7,828	—	
State and municipal securities	8	—	—	8	(b)
Equity and other non-debt securities	127	81	—	46	(b)
Total investment securities available-for-sale	10,789	2,907	7,828	54	
Derivative assets:					
Interest rate contracts	389	—	362	27	
Energy derivative contracts	192	—	192	—	
Foreign exchange contracts	39	—	39	—	
Warrants	2	—	—	2	
Total derivative assets	622	—	593	29	
Total assets at fair value	$11,499	$2,995	$8,421	$ 83	
Derivative liabilities:					
Interest rate contracts	$170	$—	$170	$ —	
Energy derivative contracts	190	—	190	—	
Foreign exchange contracts	30	—	30	—	
Total derivative liabilities	390	—	390	—	
Deferred compensation plan liabilities	88	88	—	—	
Total liabilities at fair value	$478	$88	$390	$ —	

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

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

(in millions)	Total	Level 1	Level 2	Level 3	
December 31, 2015					
Trading securities:					
Deferred compensation plan assets	$89	$89	$—	$ —	
Equity and other non-debt securities	3	3	$—	$ —	
Total trading securities	92	92	—	—	
Investment securities available-for-sale:					
U.S. Treasury and other U.S. government agency securities	2,763	2,763	—	—	
Residential mortgage-backed securities (a)	7,545	—	7,545	—	
State and municipal securities	9	—	—	9	(b)
Corporate debt securities	1	—	—	1	(b)
Equity and other non-debt securities	201	134	—	67	(b)
Total investment securities available-for-sale	10,519	2,897	7,545	77	
Derivative assets:					
Interest rate contracts	286	—	277	9	
Energy derivative contracts	475	—	475	—	
Foreign exchange contracts	57	—	57	—	
Warrants	2	—	—	2	
Total derivative assets	820	—	809	11	
Total assets at fair value	$11,431	$2,989	$8,354	$ 88	
Derivative liabilities:					
Interest rate contracts	$92	$—	$92	$ —	
Energy derivative contracts	472	—	472	—	
Foreign exchange contracts	46	—	46	—	
Total derivative liabilities	610	—	610	—	
Deferred compensation plan liabilities	89	89	—	—	
Total liabilities at fair value	$699	$89	$610	$ —	

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

There were no transfers of assets or liabilities recorded at fair value on a recurring basis into or out of Level 1, Level 2 and Level 3 fair value measurements during each of the three- and nine-month periods ended September 30, 2016 and 2015.

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

The following table summarizes the changes in Level 3 assets and liabilities measured at fair value on a recurring basis for the three- and nine-month periods ended September 30, 2016 and 2015.

		Net Realized/Unrealized Gains (Losses) (Pretax)					
		Recorded in Earnings					
(in millions)	Balance at Beginning of Period	Realized	Unrealized	Recorded in Other Comprehensive Income	Redemptions	Sales	Balance at End of Period
Three Months Ended September 30, 2016							
Investment securities available-for-sale:							
State and municipal securities (a)	$ 8	$ —	$ —	$ —	$ —	$ —	$ 8
Corporate debt securities (a)	1	—	—	—	(1)	—	—
Equity and other non-debt securities (a)	48	—	—	1 (c)	(3)	—	46
Total investment securities available-for-sale	57	—	—	1 (c)	(4)	—	54
Derivative assets:							
Interest rate contracts	27	—	—	—	—	—	27
Warrants	2	3 (b)	—	—	—	(3)	2
Three Months Ended September 30, 2015							
Investment securities available-for-sale:							
State and municipal securities (a)	$ 23	$ —	$ —	$ —	$ (14)	$ —	$ 9
Corporate debt securities (a)	1	—	—	—	—	—	1
Equity and other non-debt securities (a)	71	—	—	(1) (c)	(1)	—	69
Total investment securities available-for-sale	95	—	—	(1) (c)	(15)	—	79
Derivative assets:							
Interest rate contracts	2	—	9 (b)	—	—	—	11
Warrants	3	5 (b)	—	—	—	(5)	3
Nine Months Ended September 30, 2016							
Investment securities available-for-sale:							
State and municipal securities (a)	$ 9	$ —	$ —	$ —	$ (1)	$ —	$ 8
Corporate debt securities (a)	1	—	—	—	(1)	—	—
Equity and other non-debt securities (a)	67	—	—	(3) (c)	(18)	—	46
Total investment securities available-for-sale	77	—	—	(3) (c)	(20)	—	54
Derivative assets:							
Interest rate contracts	9	—	18 (b)	—	—	—	27
Warrants	2	4 (b)	—	—	—	(4)	2
Nine Months Ended September 30, 2015							
Investment securities available-for-sale:							
State and municipal securities (a)	$ 23	$ —	$ —	$ —	$ (14)	$ —	$ 9
Corporate debt securities (a)	1	—	—	—	—	—	1
Equity and other non-debt securities (a)	112	(2) (d)	—	—	(41)	—	69
Total investment securities available-for-sale	136	(2) (d)	—	—	(55)	—	79
Derivative assets:							
Interest rate contracts	—	—	11 (b)	—	—	—	11

Warrants	4	6 (b)	(1) (b)	—	—	(6) 3

(a) Auction-rate securities.

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

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

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

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

ASSETS AND LIABILITIES RECORDED AT FAIR VALUE ON A NONRECURRING BASIS

The Corporation may be required, from time to time, to record certain assets and liabilities at fair value on a nonrecurring basis. These include assets that are recorded at the lower of cost or fair value that were recognized at fair value below cost at the end of the period. The following table presents assets recorded at fair value on a nonrecurring basis at September 30, 2016 and December 31, 2015. No liabilities were recorded at fair value on a nonrecurring basis at September 30, 2016 and December 31, 2015.

(in millions)	Total	Level 2	Level 3
September 30, 2016			
Loans:			
Commercial	313	7	306
Commercial mortgage	7	—	7
International	15	—	15
Total assets at fair value	$335	$ 7	$ 328
December 31, 2015			
Loans held-for-sale:			
Commercial	$8	$ 8	$ —
Loans:			
Commercial	134	—	134
Commercial mortgage	11	—	11
International	8	—	8
Total loans	153	—	153
Other real estate	2	—	2
Total assets at fair value excluding investments recorded at net asset value	163	8	155
Other investments recorded at net asset value:			
Nonmarketable equity securities (a)	1		
Total assets at fair value	$164		

(a) 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.

Level 3 assets recorded at fair value on a nonrecurring basis at September 30, 2016 and December 31, 2015 included loans for which a specific allowance was established based on the fair value of collateral and other real estate for which fair value of the properties was less than the cost basis. For both asset classes, the unobservable inputs were the additional adjustments applied by management to the appraised values to reflect such factors as non-current appraisals and revisions to estimated time to sell. These adjustments are determined based on qualitative judgments made by management on a case-by-case basis and are not quantifiable inputs, although they are used in the determination of fair value.

The Corporation's Level 3 recurring fair value measurements primarily include auction-rate securities where fair value is determined using an income approach based on a discounted cash flow model and certain interest rate derivative contracts where credit valuation adjustments are significant to the overall fair value of the derivative. The inputs in the table below reflect management's expectation of continued illiquidity in the secondary auction-rate securities market due to a lack of market activity for the issuers remaining in the portfolio, a lack of market incentives for issuer redemptions, and the expectation for a continuing low interest rate environment. The September 30, 2016 workout periods reflect the view that short-term interest rates could rise at a slower pace in 2016 than was expected at December 31, 2015.

Discounted Cash Flow Model
Unobservable Input

	Fair Value (in millions)		Discount Rate	Workout Period (in years)
September 30, 2016				
State and municipal securities (a)	$	8	4% - 5%	1 - 3
Equity and other non-debt securities (a)	46		6% - 9%	1 - 2
December 31, 2015				
State and municipal securities (a)	$	9	3% - 8%	1 - 2
Equity and other non-debt securities (a)	67		4% - 9%	1

(a) Auction-rate securities.

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

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

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

(in millions)	Carrying Amount	Estimated Fair Value			
		Total	Level 1	Level 2	Level 3
September 30, 2016					
Assets					
Cash and due from banks	$ 1,292	$ 1,292	$ 1,292	$ —	$ —
Interest-bearing deposits with banks	6,748	6,748	6,748	—	—
Investment securities held-to-maturity	1,695	1,713	—	1,713	—
Loans held-for-sale	4	4	—	4	—
Total loans, net of allowance for loan losses (a)	48,547	48,483	—	7	48,476
Customers' liability on acceptances outstanding	2	2	2	—	—
Restricted equity investments	207	207	207	—	—
Nonmarketable equity securities (b)	9	17			
Liabilities					
Demand deposits (noninterest-bearing)	31,776	31,776	—	31,776	—
Interest-bearing deposits	24,518	24,518	—	24,518	—
Customer certificates of deposit	2,967	2,952	—	2,952	—
Total deposits	59,261	59,246	—	59,246	—
Short-term borrowings	12	12	12	—	—
Acceptances outstanding	2	2	2	—	—
Medium- and long-term debt	5,890	5,857	—	5,857	—
Credit-related financial instruments	(80)	(80)	—	—	(80)
December 31, 2015					
Assets					
Cash and due from banks	$ 1,157	$ 1,157	$ 1,157	$ —	$ —
Interest-bearing deposits with banks	4,990	4,990	4,990	—	—
Investment securities held-to-maturity	1,981	1,973	—	1,973	—
Loans held-for-sale (c)	21	21	—	21	—
Total loans, net of allowance for loan losses (a)	48,450	48,269	—	—	48,269
Customers' liability on acceptances outstanding	5	5	5	—	—
Restricted equity investments	92	92	92	—	—
Nonmarketable equity securities (b) (d)	10	18			
Liabilities					
Demand deposits (noninterest-bearing)	30,839	30,839	—	30,839	—
Interest-bearing deposits	25,462	25,462	—	25,462	—
Customer certificates of deposit	3,552	3,536	—	3,536	—
Total deposits	59,853	59,837	—	59,837	—

Short-term borrowings	23	23	23	—	—
Acceptances outstanding	5	5	5	—	—
Medium- and long-term debt	3,058	3,032	—	3,032	—
Credit-related financial instruments	(83)	(83)	—	—	(83)

(a) Included $335 million and $153 million of impaired loans recorded at fair value on a nonrecurring basis at September 30, 2016 and December 31, 2015, 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.

(c) Included $8 million impaired loans held-for-sale recorded at fair value on a nonrecurring basis at December 31, 2015.

(d) Included $1 million of nonmarketable equity securities recorded at fair value on a nonrecurring basis at December 31, 2015.

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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, 2016				
Investment securities available-for-sale:				
U.S. Treasury and other U.S. government agency securities	$ 2,771	$ 55	$ —	$ 2,826
Residential mortgage-backed securities (a)	7,714	121	7	7,828
State and municipal securities	8	—	—	8
Equity and other non-debt securities	128	1	2	127
Total investment securities available-for-sale (b)	$ 10,621	$ 177	$ 9	$ 10,789
Investment securities held-to-maturity (c):				
Residential mortgage-backed securities (a)	$ 1,695	$ 18	$ —	$ 1,713
December 31, 2015				
Investment securities available-for-sale:				
U.S. Treasury and other U.S. government agency securities	$ 2,769	$ 1	$ 7	$ 2,763
Residential mortgage-backed securities (a)	7,513	76	44	7,545
State and municipal securities	9	—	—	9
Corporate debt securities	1	—	—	1
Equity and other non-debt securities	199	2	—	201
Total investment securities available-for-sale (b)	$ 10,491	$ 79	$ 51	$ 10,519
Investment securities held-to-maturity (c):				
Residential mortgage-backed securities (a)	$ 1,981	$ 2	$ 10	$ 1,973

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

(b) Included auction-rate securities at amortized cost and fair value of $56 million and $54 million, respectively as of September 30, 2016 and $76 million and $77 million, respectively, as of December 31, 2015.

(c) The amortized cost of investment securities held-to-maturity included net unrealized losses of $13 million at September 30, 2016 and $15 million at December 31, 2015 related to securities transferred from available-for-sale, which are included in accumulated other comprehensive loss.

A summary of the Corporation's investment securities in an unrealized loss position as of September 30, 2016 and December 31, 2015 follows:

	Temporarily Impaired						
	Less than 12 Months		12 Months or more		Total		
(in millions)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	
September 30, 2016							
Residential mortgage-backed securities (a)	$573	$ 1	$ 1,244	$ 15	$1,817	$ 16	
State and municipal securities (b)	—	—	7	— (c)	7	— (c)	
Equity and other non-debt securities (b)	36	1	10	1	46	2	
Total temporarily impaired securities	$609	$ 2	$ 1,261	$ 16	$1,870	$ 18	
December 31, 2015							
U.S. Treasury and other U.S. government agency securities	$2,265	$ 7	$ —	$ —	$2,265	$ 7	
Residential mortgage-backed securities (a)	2,665	21	1,976	51	4,641	72	

State and municipal securities (b)	—	—		9	—	(c)	9	—	(c)
Corporate debt securities (b)	—	—		1	—	(c)	1	—	(c)
Equity and other non-debt securities (b)	14	—	(c)	—	—		14	—	(c)
Total temporarily impaired securities	$4,944	$ 28		$ 1,986	$ 51		$6,930	$ 79	

(a) Issued and/or guaranteed by U.S. government agencies or U.S. government-sponsored enterprises.
(b) Primarily auction-rate securities.
(c) Unrealized losses less than $0.5 million.

At September 30, 2016, the Corporation had 95 securities in an unrealized loss position with no credit impairment, including 52 residential mortgage-backed securities, 28 auction-rate preferred securities and 15 state and municipal auction-rate securities. As of September 30, 2016, approximately 96 percent of the aggregate par value of auction-rate securities have been redeemed or sold since acquisition, of which approximately 90 percent were redeemed at or above cost. The unrealized losses for these securities resulted from changes in market interest rates and liquidity. The Corporation ultimately expects full collection of the carrying amount of these securities, does not intend to sell the securities in an unrealized loss position, and it is not more-likely-than-not that the Corporation will be required to sell the securities in an unrealized loss position prior to recovery of amortized cost. The Corporation does not consider these securities to be other-than-temporarily impaired at September 30, 2016.

Sales, calls and write-downs of investment securities available-for-sale are recorded in “net securities losses” on the consolidated statements of comprehensive income, computed based on the adjusted cost of the specific security. The Corporation recognized no gains or losses for both the three-month periods ended September 30, 2016 and 2015 and no gains and $3 million and $2 million of losses for the nine-month periods ended September 30, 2016 and 2015, respectively.

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

(in millions)	Available-for-sale		Held-to-maturity	
September 30, 2016	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Contractual maturity				
Within one year	$ 10	$ 10	$ —	$ —
After one year through five years	3,000	3,056	—	—
After five years through ten years	1,401	1,450	25	25
After ten years	6,082	6,146	1,670	1,688
Subtotal	10,493	10,662	1,695	1,713
Equity and other non-debt securities	128	127		
Total investment securities	$ 10,621	$ 10,789	$ 1,695	$ 1,713

Included in the contractual maturity distribution in the table above were residential mortgage-backed securities available-for-sale with total amortized cost and fair value of $7.7 billion and $7.8 billion, respectively, and residential mortgage-backed securities held-to-maturity with a total amortized cost and fair value of $1.7 billion. The actual cash flows of mortgage-backed securities may differ from contractual maturity as the borrowers of the underlying loans may exercise prepayment options.

At September 30, 2016, investment securities with a carrying value of $1.5 billion were pledged where permitted or required by law to secure $990 million of liabilities, primarily public and other deposits of state and local government agencies and derivative instruments.

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

(in millions)	Loans Past Due and Still Accruing 30-59 Days	60-89 Days	90 Days or More	Total	Nonaccrual Loans	Current Loans	Total Loans
September 30, 2016							
Business loans:							
Commercial	$ 68	$ 17	$ 21	$ 106	$ 508	$30,538	$31,152
Real estate construction:							
Commercial Real Estate business line (a)	12	—	—	12	—	2,370	2,382
Other business lines (b)	11	—	—	11	—	350	361
Total real estate construction	23	—	—	23	—	2,720	2,743
Commercial mortgage:							
Commercial Real Estate business line (a)	5	1	—	6	8	2,171	2,185
Other business lines (b)	15	8	6	29	36	6,763	6,828
Total commercial mortgage	20	9	6	35	44	8,934	9,013
Lease financing	—	—	—	—	6	642	648
International	1	—	—	1	19	1,283	1,303
Total business loans	112	26	27	165	577	44,117	44,859
Retail loans:							
Residential mortgage	13	1	9	23	23	1,828	1,874
Consumer:							
Home equity	6	2	—	8	27	1,757	1,792
Other consumer	1	—	12	13	4	732	749
Total consumer	7	2	12	21	31	2,489	2,541
Total retail loans	20	3	21	44	54	4,317	4,415
Total loans	$ 132	$ 29	$ 48	$ 209	$ 631	$48,434	$49,274
December 31, 2015							
Business loans:							
Commercial	$ 46	$ 12	$ 13	$ 71	$ 238	$31,350	$31,659
Real estate construction:							
Commercial Real Estate business line (a)	5	—	—	5	—	1,676	1,681
Other business lines (b)	3	—	—	3	1	316	320
Total real estate construction	8	—	—	8	1	1,992	2,001
Commercial mortgage:							
Commercial Real Estate business line (a)	7	—	1	8	16	2,080	2,104
Other business lines (b)	7	5	3	15	44	6,814	6,873
Total commercial mortgage	14	5	4	23	60	8,894	8,977
Lease financing	—	—	—	—	6	718	724
International	2	—	—	2	8	1,358	1,368
Total business loans	70	17	17	104	313	44,312	44,729
Retail loans:							
Residential mortgage	26	1	—	27	27	1,816	1,870
Consumer:							
Home equity	5	3	—	8	27	1,685	1,720
Other consumer	7	—	—	7	—	758	765
Total consumer	12	3	—	15	27	2,443	2,485

Total retail loans	38	4	—	42	54	4,259	4,355
Total loans	$ 108	$ 21	$ 17	$ 146	$ 367	$48,571	$49,084

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

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

	Internally Assigned Rating				
(in millions)	Pass (a)	Special Mention (b)	Substandard (c)	Nonaccrual (d)	Total
September 30, 2016					
Business loans:					
Commercial	$28,406	$ 965	$ 1,273	$ 508	$31,152
Real estate construction:					
Commercial Real Estate business line (e)	2,382	—	—	—	2,382
Other business lines (f)	358	3	—	—	361
Total real estate construction	2,740	3	—	—	2,743
Commercial mortgage:					
Commercial Real Estate business line (e)	2,141	16	20	8	2,185
Other business lines (f)	6,529	136	127	36	6,828
Total commercial mortgage	8,670	152	147	44	9,013
Lease financing	625	11	6	6	648
International	1,230	20	34	19	1,303
Total business loans	41,671	1,151	1,460	577	44,859
Retail loans:					
Residential mortgage	1,838	3	10	23	1,874
Consumer:					
Home equity	1,760	2	3	27	1,792
Other consumer	744	1	—	4	749
Total consumer	2,504	3	3	31	2,541
Total retail loans	4,342	6	13	54	4,415
Total loans	$46,013	$ 1,157	$ 1,473	$ 631	$49,274
December 31, 2015					
Business loans:					
Commercial	$29,117	$ 1,293	$ 1,011	$ 238	$31,659
Real estate construction:					
Commercial Real Estate business line (e)	1,681	—	—	—	1,681
Other business lines (f)	318	1	—	1	320
Total real estate construction	1,999	1	—	1	2,001
Commercial mortgage:					
Commercial Real Estate business line (e)	2,031	31	26	16	2,104
Other business lines (f)	6,536	172	121	44	6,873
Total commercial mortgage	8,567	203	147	60	8,977
Lease financing	693	17	8	6	724
International	1,245	59	56	8	1,368
Total business loans	41,621	1,573	1,222	313	44,729
Retail loans:					
Residential mortgage	1,828	2	13	27	1,870
Consumer:					
Home equity	1,687	1	5	27	1,720
Other consumer	755	3	7	—	765

Total consumer	2,442	4	12	27	2,485
Total retail loans	4,270	6	25	54	4,355
Total loans	$45,891	$ 1,579	$ 1,247	$ 367	$49,084

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

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

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

(d) Nonaccrual loans are loans for which the accrual of interest has been discontinued. For further information regarding nonaccrual loans, refer to the Nonperforming Assets subheading in Note 1 - Basis of Presentation and Accounting Policies - on page F-58 in the Corporation's 2015 Annual Report. A significant majority of nonaccrual loans are generally consistent with the "substandard" category and the remainder are generally consistent with the "doubtful" category as defined by regulatory authorities.

(e) Primarily loans to real estate developers.

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

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The following table summarizes nonperforming assets.

(in millions)	September 30, 2016	December 31, 2015
Nonaccrual loans	$ 631	$ 367
Reduced-rate loans (a)	8	12
Total nonperforming loans	639	379
Foreclosed property (b)	21	12
Total nonperforming assets	$ 660	$ 391

(a) There were no reduced-rate business loans at both September 30, 2016 and December 31, 2015. Reduced-rate retail loans were $8 million and $12 million at September 30, 2016 and December 31, 2015, respectively.
(b) Included $5 million and $9 million of foreclosed residential real estate properties at September 30, 2016 and December 31, 2015, respectively.

There were no retail loans secured by residential real estate properties in process of foreclosure included in nonaccrual loans at September 30, 2016 compared to $1 million at December 31, 2015.

Allowance for Credit Losses

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

(in millions)	2016 Business Loans	2016 Retail Loans	2016 Total	2015 Business Loans	2015 Retail Loans	2015 Total
Three Months Ended September 30						
Allowance for loan losses:						
Balance at beginning of period	$682	$47	$729	$563	$55	$618
Loan charge-offs	(34)	(1)	(35)	(31)	(3)	(34)
Recoveries on loans previously charged-off	18	1	19	10	1	11
Net loan charge-offs	(16)	—	(16)	(21)	(2)	(23)
Provision for loan losses	12	2	14	25	3	28
Foreign currency translation adjustment	—	—	—	(1)	—	(1)
Balance at end of period	$678	$49	$727	$566	$56	$622
Nine Months Ended September 30						
Allowance for loan losses:						
Balance at beginning of period	$579	$55	$634	$534	$60	$594
Loan charge-offs	(161)	(5)	(166)	(83)	(9)	(92)
Recoveries on loans previously charged-off	53	3	56	38	5	43
Net loan charge-offs	(108)	(2)	(110)	(45)	(4)	(49)
Provision for loan losses	206	(4)	202	79	—	79
Foreign currency translation adjustment	1	—	1	(2)	—	(2)
Balance at end of period	$678	$49	$727	$566	$56	$622
As a percentage of total loans	1.51 %	1.10 %	1.48 %	1.27 %	1.29 %	1.27 %
September 30						
Allowance for loan losses:						
Individually evaluated for impairment	$115	$1	$116	$47	$—	$47
Collectively evaluated for impairment	563	48	611	519	56	575
Total allowance for loan losses	$678	$49	$727	$566	$56	$622

Loans:						
Individually evaluated for impairment	$677	$29	$706	$338	$51	$389
Collectively evaluated for impairment	44,182	4,386	48,568	44,233	4,318	48,551
Purchased credit impaired (PCI) loans (a)	—	—	—	—	2	2
Total loans evaluated for impairment	$44,859	$4,415	$49,274	$44,571	$4,371	$48,942

(a) No allowance for loan losses was required for PCI loans at September 30, 2015.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in millions)	2016	2015	2016	2015
Balance at beginning of period	$ 43	$ 50	$ 45	$ 41
Charge-offs on lending related commitments (a)	—	—	(11)	(1)
Provision for credit losses on lending-related commitments	2	(2)	11	8
Balance at end of period	$ 45	$ 48	$ 45	$ 48

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

Individually Evaluated Impaired Loans

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

	Recorded Investment In:				
(in millions)	Impaired Loans with No Related Allowance	Impaired Loans with Related Allowance	Total Impaired Loans	Unpaid Principal Balance	Related Allowance for Loan Losses
September 30, 2016					
Business loans:					
Commercial	$ 141	$ 482	$ 623	$ 704	$ 106
Commercial mortgage:					
Commercial Real Estate business line (a)	—	6	6	15	1
Other business lines (b)	4	25	29	43	3
Total commercial mortgage	4	31	35	58	4
International	3	16	19	26	5
Total business loans	148	529	677	788	115
Retail loans:					
Residential mortgage	12	—	12	13	—
Consumer:					
Home equity	12	—	12	16	—
Other consumer	2	3	5	6	1
Total consumer	14	3	17	22	1
Total retail loans (c)	26	3	29	35	1
Total individually evaluated impaired loans	$ 174	$ 532	$ 706	$ 823	$ 116
December 31, 2015					
Business loans:					
Commercial	$ 82	$ 252	$ 334	$ 398	$ 45
Commercial mortgage:					
Commercial Real Estate business line (a)	7	8	15	38	1
Other business lines (b)	2	32	34	55	5
Total commercial mortgage	9	40	49	93	6
International	—	10	10	17	2

Total business loans	91	302	393	508	53
Retail loans:					
Residential mortgage	13	—	13	13	—
Consumer:					
Home equity	12	—	12	16	—
Other consumer	6	—	6	10	—
Total consumer	18	—	18	26	—
Total retail loans (c)	31	—	31	39	—
Total individually evaluated impaired loans	$122	$ 302	$ 424	$ 547	$ 53

(a) Primarily loans to real estate developers.

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

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

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

(in millions)	Individually Evaluated Impaired Loans 2016 Average Balance for the Period	2016 Interest Income Recognized for the Period	2015 Average Balance for the Period	2015 Interest Income Recognized for the Period
Three Months Ended September 30				
Business loans:				
Commercial	$606	$ 2	$236	$ 1
Commercial mortgage:				
Commercial Real Estate business line (a)	7	—	15	—
Other business lines (b)	30	—	37	1
Total commercial mortgage	37	—	52	1
International	19	—	10	—
Total business loans	662	2	298	2
Retail loans:				
Residential mortgage	11	—	23	—
Consumer loans:				
Home equity	12	—	12	—
Other consumer	4	—	7	—
Total consumer	16	—	19	—
Total retail loans	27	—	42	—
Total individually evaluated impaired loans	$689	$ 2	$340	$ 2
Nine Months Ended September 30				
Business loans:				
Commercial	$559	$ 8	$172	$ 3
Commercial mortgage:				
Commercial Real Estate business line (a)	9	—	17	—
Other business lines (b)	31	—	41	1
Total commercial mortgage	40	—	58	1
International	19	—	5	—
Total business loans	618	8	235	4
Retail loans:				
Residential mortgage	12	—	23	—
Consumer:				
Home equity	12	—	12	—
Other consumer	4	—	6	—
Total consumer	16	—	18	—
Total retail loans	28	—	41	—
Total individually evaluated impaired loans	$646	$ 8	$276	$ 4

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

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Troubled Debt Restructurings
The following tables detail the recorded balance at September 30, 2016 and 2015 of loans considered to be troubled debt restructurings (TDRs) that were restructured during the three- and nine-month periods ended September 30, 2016 and 2015, 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.

	2016				2015		
	Type of Modification				Type of Modification		
(in millions)	Principal Deferrals (a)	Interest Rate Reductions	AB Note Restructures (b)	Total Modifications	Principal Deferrals (a)	Interest Rate Reductions	Total Modifications
Three Months Ended September 30							
Business loans:							
Commercial	$70	$ —	$ 40	$ 110	$100	$ —	$ 100
Commercial mortgage:							
Commercial Real Estate business line (c)	—	—	—	—	7	—	7
Other business lines (d)	—	—	—	—	3	—	3
Total commercial mortgage	—	—	—	—	10	—	10
International	—	—	—	—	2	—	2
Total business loans	70	—	40	110	112	—	112
Retail loans:							
Residential mortgage	—	—	—	—	18	—	18
Consumer:							
Home equity	—	—	—	—	1	1	2
Total retail loans	—	—	—	—	19	1	20
Total loans	$70	$ —	$ 40	$ 110	$131	$ 1	$ 132
Nine Months Ended September 30							
Business loans:							
Commercial	$150	$ —	$ 49	$ 199	$102	$ —	$ 102
Commercial mortgage:							
Commercial Real Estate business line (c)	—	—	—	—	9	—	9
Other business lines (d)	2	—	—	2	7	—	7
Total commercial mortgage	2	—	—	2	16	—	16
International	—	—	3	3	2	—	2
Total business loans	152	—	52	204	120	—	120
Retail loans:							
Residential mortgage	—	—	—	—	18	—	18
Consumer:							
Home equity	1	1	—	2	1	1	2
Total retail loans	1	1	—	2	19	1	20
Total loans	$153	$ 1	$ 52	$ 206	$139	$ 1	$ 140

(a) Primarily represents loan balances where terms were extended 90 days or more at or above contractual interest rates.
(b) Loan restructurings whereby the original loan is restructured into two notes: an "A" note, which generally reflects the portion of the modified loan which is expected to be collected; and a "B" note, which is generally fully charged

off.

(c) Primarily loans to real estate developers.

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

Commitments to lend additional funds to borrowers whose terms have been modified in TDRs were $37 million at September 30, 2016 and $6 million at December 31, 2015.

The majority of the modifications considered to be TDRs that occurred during the nine months ended September 30, 2016 and 2015 were principal deferrals. The Corporation charges interest on principal balances outstanding during deferral periods. Additionally, none of the modifications involved forgiveness of principal. As a result, the current and future financial effects of the recorded balance of loans considered to be TDRs that were restructured during the nine months ended September 30, 2016 and 2015 were insignificant.

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

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The following table presents information regarding the recorded balance at September 30, 2016 and 2015 of loans modified by principal deferral during the twelve-month periods ended September 30, 2016 and 2015, and those principal deferrals which experienced a subsequent default during the three- and nine-month periods ended September 30, 2016 and 2015. For principal deferrals, incremental deterioration in the credit quality of the loan, represented by a downgrade in the risk rating of the loan, for example, due to missed interest payments or a reduction of collateral value, is considered a subsequent default.

	2016			2015		
(in millions)	Balance at September 30	Subsequent Default in the Three Months Ended September 30	Subsequent Default in the Nine Months Ended September 30	Balance at September 30	Subsequent Default in the Three Months Ended September 30	Subsequent Default in the Nine Months Ended September 30
Principal deferrals:						
Business loans:						
Commercial	$229	$ —	$ 13	$108	$ 1	$ 3
Commercial mortgage:						
Commercial Real Estate business line (a)	—	—	—	9	—	—
Other business lines (b)	4	—	1	7	—	1
Total commercial mortgage	4	—	1	16	—	1
International	—	—	—	2	—	—
Total business loans	233	—	14	126	1	4
Retail loans:						
Residential mortgage	—	—	—	18 (c)	—	—
Consumer:						
Home equity	1 (c)	—	—	1 (c)	—	—
Total retail loans	1	—	—	19	—	—
Total principal deferrals	$234	$ —	$ 14	$145	$ 1	$ 4

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

During the twelve-month periods ended September 30, 2016 and 2015, loans with a carrying value of $4 million and $2 million, respectively, were modified by interest rate reduction. During the twelve-month period ended September 30, 2016, loans with a carrying value of $52 million were restructured into two notes (AB note restructures). For reduced-rate loans and AB Note restructures, a subsequent payment default is defined in terms of delinquency, when a principal or interest payment is 90 days past due. There were no subsequent payment defaults of reduced-rate loans or AB note restructures during the three- and nine-month periods ended September 30, 2016 and 2015.

NOTE 5 - DERIVATIVE AND CREDIT-RELATED FINANCIAL INSTRUMENTS

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

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

Credit risk is the possible loss that may occur in the event of nonperformance by the counterparty to a financial instrument. The Corporation attempts to minimize credit risk arising from customer-initiated derivatives by evaluating the creditworthiness of each customer, adhering to the same credit approval process used for traditional lending activities and obtaining collateral as deemed necessary. Derivatives with dealer counterparties are either cleared through a clearinghouse or settled directly with a single counterparty. For derivatives settled directly with dealer counterparties, the Corporation utilizes counterparty risk limits and monitoring procedures as well as master netting arrangements and bilateral collateral agreements to facilitate the management of credit risk. Master netting arrangements effectively reduce credit risk by permitting settlement of positive and negative positions and offset cash collateral held with the same counterparty on a net basis. Bilateral collateral agreements require daily exchange of cash or highly rated securities issued by the U.S. Treasury or other U.S. government entities to collateralize amounts due to either party beyond certain risk limits. At September 30, 2016, counterparties with bilateral collateral agreements had pledged $34 million of marketable investment securities and deposited $147 million of cash with the Corporation to secure the fair value of contracts in an unrealized gain position, and the Corporation had pledged $44 million of marketable investment securities and posted $10 million of cash as collateral for contracts in an unrealized loss position. For those counterparties not covered under bilateral collateral agreements, collateral is obtained, if deemed necessary, based on the results of management’s credit evaluation of the counterparty. Collateral varies, but may include cash, investment securities, accounts receivable, equipment or real estate. Included in the fair value of derivative instruments are credit valuation adjustments reflecting counterparty credit risk. These adjustments are determined by applying a credit spread for the counterparty or the Corporation, as appropriate, to the total expected exposure of the derivative. There were no derivative instruments with credit-risk-related contingent features that were in a liability position at September 30, 2016.

Derivative Instruments

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

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

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The following table presents the composition of the Corporation's derivative instruments held or issued for risk management purposes or in connection with customer-initiated and other activities at September 30, 2016 and December 31, 2015. The table excludes commitments and warrants accounted for as derivatives.

	September 30, 2016			December 31, 2015		
		Fair Value			Fair Value	
(in millions)	Notional/Contract Amount (a)	Gross Derivative Assets	Gross Derivative Liabilities	Notional/Contract Amount (a)	Gross Derivative Assets	Gross Derivative Liabilities
Risk management purposes						
Derivatives designated as hedging instruments						
Interest rate contracts:						
Swaps - fair value - receive fixed/pay floating	$2,525	$172	$ —	$2,525	$147	$ —
Derivatives used as economic hedges						
Foreign exchange contracts:						
Spot, forwards and swaps	720	—	1	593	3	—
Total risk management purposes	3,245	172	1	3,118	150	—
Customer-initiated and other activities						
Interest rate contracts:						
Caps and floors written	386	—	—	253	—	—
Caps and floors purchased	386	—	—	253	—	—
Swaps	12,481	217	170	11,722	139	92
Total interest rate contracts	13,253	217	170	12,228	139	92
Energy contracts:						
Caps and floors written	471	1	41	536	—	85
Caps and floors purchased	471	41	—	536	85	—
Swaps	1,236	150	149	2,055	390	387
Total energy contracts	2,178	192	190	3,127	475	472
Foreign exchange contracts:						
Spot, forwards, options and swaps	1,760	39	29	2,291	54	46
Total customer-initiated and other activities	17,191	448	389	17,646	668	610
Total gross derivatives	$20,436	620	390	$20,764	818	610
Amounts offset in the consolidated balance sheets:						
Netting adjustment - Offsetting derivative assets/liabilities		(108)	(108)		(127)	(127)
Netting adjustment - Cash collateral received/posted		(85)	(8)		(291)	(3)
Net derivatives included in the consolidated balance sheets (b)		427	274		400	480
Amounts not offset in the consolidated balance sheets:						
Marketable securities pledged under bilateral collateral agreements		(32)	(41)		(137)	(3)
Net derivatives after deducting amounts not offset in the consolidated balance sheets		$395	$ 233		$263	$ 477

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

(b) Net derivative assets are included in "accrued income and other assets" and net derivative liabilities are included in "accrued expenses and other liabilities" on the consolidated balance sheets. Included in the fair value of net derivative assets and net derivative liabilities are credit valuation adjustments reflecting counterparty credit risk and credit risk of the Corporation. The fair value of net derivative assets included credit valuation adjustments for counterparty credit risk of $11 million and $5 million at September 30, 2016 and December 31, 2015, respectively.

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Risk Management
As an end-user, the Corporation employs a variety of financial instruments for risk management purposes, including cash instruments, such as investment securities, as well as derivative instruments. Activity related to these instruments is centered predominantly in the interest rate markets and mainly involves interest rate swaps. Various other types of instruments also may be used to manage exposures to market risks, including interest rate caps and floors, total return swaps, foreign exchange forward contracts and foreign exchange swap agreements.
The Corporation has entered into interest rate swap agreements for interest rate risk management purposes. These interest rate swap agreements effectively modify the Corporation's exposure to interest rate risk by converting fixed-rate debt to a floating rate. These agreements involve the receipt of fixed-rate interest amounts in exchange for floating-rate interest payments over the life of the agreement, without an exchange of the underlying principal amount. Risk management fair value interest rate swaps generated net interest income of $15 million and $18 million for the three months ended September 30, 2016 and 2015, respectively, and $48 million and $52 million for the nine months ended September 30, 2016 and 2015, respectively. The Corporation recognized $1 million and $3 million of net gains for the three months ended September 30, 2016 and 2015, respectively, and $4 million and $2 million of net gains for the nine months ended September 30, 2016 and 2015, respectively, for the ineffective portion of risk management derivative instruments designated as fair value hedges of fixed-rate debt, included in "other noninterest income" in the consolidated statements of comprehensive income.
Foreign exchange rate risk arises from changes in the value of certain assets and liabilities denominated in foreign currencies. The Corporation employs spot and forward contracts in addition to swap contracts to manage exposure to these and other risks. There were no significant net gains or losses on risk management derivative instruments used as economic hedges in any period presented in the consolidated statements of comprehensive income. Net gains or losses on these instruments are included in "other noninterest income".
The following table summarizes the expected weighted average remaining maturity of the notional amount of risk management interest rate swaps and the weighted average interest rates associated with amounts expected to be received or paid on interest rate swap agreements as of September 30, 2016 and December 31, 2015.

	Weighted Average
(dollar amounts in millions)	