COMERICA INC /NEW/
Form 10-Q
October 30, 2009

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

þ	**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
	For the quarterly period ended September 30, 2009
	or
o	**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
	For the transition period from ________ to ________

Commission file number 1-10706

Comerica Incorporated

(Exact name of registrant as specified in its charter)

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

Comerica Bank Tower

1717 Main Street, MC 6404

Dallas, Texas 75201

(Address of principal executive offices)

(Zip Code)

(214) 462-6831

(Registrant s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes 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 o 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 definition of accelerated filer, large accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act:

Large accelerated filer þ	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

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 27, 2009: 151,124,801 shares

Table of Contents

COMERICA INCORPORATED AND SUBSIDIARIES

TABLE OF CONTENTS

PART I. FINANCIAL INFORMATION

Table of Contents

Part I. FINANCIAL INFORMATION

Item 1. Financial Statements

CONSOLIDATED BALANCE SHEETS

Comerica Incorporated and Subsidiaries

(in millions, except share data)	**September 30, 2009** (unaudited)	**December 31, 2008**	**September 30, 2008** (unaudited)
ASSETS			
Cash and due from banks	$ 799	$ 913	$ 1,404
Federal funds sold and securities purchased under agreements to resell		202	3
Interest-bearing deposits with banks	2,219	2,308	25
Other short-term investments	142	158	222
Investment securities available-for-sale	8,882	9,201	8,158
Commercial loans	22,546	27,999	28,604
Real estate construction loans	3,870	4,477	4,565
Commercial mortgage loans	10,380	10,489	10,588
Residential mortgage loans	1,679	1,852	1,863
Consumer loans	2,544	2,592	2,644
Lease financing	1,197	1,343	1,360
International loans	1,355	1,753	1,931
Total loans	43,571	50,505	51,555
Less allowance for loan losses	(953)	(770)	(712)
Net loans	42,618	49,735	50,843
Premises and equipment	657	683	668
Customers liability on acceptances outstanding	12	14	21
Accrued income and other assets	4,261	4,334	3,809
Total assets	$ 59,590	$ 67,548	$ 65,153
LIABILITIES AND SHAREHOLDERS EQUITY			
Noninterest-bearing deposits	$ 13,888	$ 11,701	$ 12,094
Money market and NOW deposits	13,556	12,437	13,553
Savings deposits	1,331	1,247	1,279
Customer certificates of deposit	7,466	8,807	8,147
Other time deposits	2,801	7,293	3,670
Foreign office time deposits	572	470	802
Total interest-bearing deposits	25,726	30,254	27,451
Total deposits	39,614	41,955	39,545
Short-term borrowings	425	1,749	3,625
Acceptances outstanding	12	14	21
Accrued expenses and other liabilities	1,252	1,625	1,486

Medium- and long-term debt	11,252	15,053	15,376
Total liabilities	52,555	60,396	60,053
Fixed rate cumulative perpetual preferred stock, series F, no par value, $1,000 liquidation value per share:			
Authorized - 2,250,000 shares			
Issued - 2,250,000 shares at 9/30/09 and 12/31/08	2,145	2,129	
Common stock - $5 par value:			
Authorized - 325,000,000 shares			
Issued - 178,735,252 shares at 9/30/09, 12/31/08 and 9/30/08	894	894	894
Capital surplus	738	722	586
Accumulated other comprehensive loss	(361)	(309)	(129)
Retained earnings	5,205	5,345	5,379
Less cost of common stock in treasury - 27,620,576 shares at 9/30/09, 28,244,967 shares at 12/31/2008 and 28,249,360 shares at 9/30/08	(1,586)	(1,629)	(1,630)
Total shareholders equity	7,035	7,152	5,100
Total liabilities and shareholders equity	$ 59,590	$ 67,548	$ 65,153

See notes to consolidated financial statements.

Table of Contents

CONSOLIDATED STATEMENTS OF INCOME (unaudited)

Comerica Incorporated and Subsidiaries

(in millions, except per share data)	Three Months Ended September 30, 2009	Three Months Ended September 30, 2008	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008
INTEREST INCOME				
Interest and fees on loans	$ 444	$ 634	$ 1,343	$ 2,037
Interest on investment securities	64	99	276	288
Interest on short-term investments	3	2	7	10
Total interest income	511	735	1,626	2,335
INTEREST EXPENSE				
Interest on deposits	89	141	320	576
Interest on short-term borrowings		30	2	78
Interest on medium- and long-term debt	37	98	133	297
Total interest expense	126	269	455	951
Net interest income	385	466	1,171	1,384
Provision for loan losses	311	165	826	494
Net interest income after provision for loan losses	74	301	345	890
NONINTEREST INCOME				
Service charges on deposit accounts	60	57	173	174
Fiduciary income	39	49	122	152
Commercial lending fees	21	17	58	53
Letter of credit fees	18	19	50	52
Card fees	13	15	37	45
Brokerage fees	7	10	24	30
Foreign exchange income	10	11	30	33
Bank-owned life insurance	8	11	26	29
Net securities gains	107	27	233	63
Other noninterest income	32	24	83	88
Total noninterest income	315	240	836	719
NONINTEREST EXPENSES				
Salaries	171	192	513	594
Employee benefits	51	46	159	141
Total salaries and employee benefits	222	238	672	735
Net occupancy expense	40	40	119	114
Equipment expense	15	15	46	46
Outside processing fee expense	24	26	74	77
Software expense	21	18	61	57
FDIC insurance expense	15	5	75	9
Customer services	1	2	2	11
Litigation and operational losses	3	105	8	100
Provision for credit losses on lending-related commitments	2	9	(3)	20
Other noninterest expenses	56	56	171	171
Total noninterest expenses	399	514	1,225	1,340
Income (loss) from continuing operations before income taxes	(10)	27	(44)	269
Provision (benefit) for income taxes	(29)		(89)	76
Income from continuing operations	19	27	45	193
Income from discontinued operations, net of tax		1	1	

NET INCOME	19	28	46	193
Preferred stock dividends	34		101	
Net income (loss) applicable to common stock	$ (15)	$ 28	$ (55)	$ 193
Basic earnings per common share:				
Income (loss) from continuing operations	$ (0.10)	$ 0.18	$ (0.37)	$ 1.28
Net income (loss)	(0.10)	0.19	(0.36)	1.28
Diluted earnings per common share:				
Income (loss) from continuing operations	(0.10)	0.18	(0.37)	1.28
Net income (loss)	(0.10)	0.19	(0.36)	1.28
Cash dividends declared on common stock	7	99	22	298
Cash dividends declared per common share	0.05	0.66	0.15	1.98

See notes to consolidated financial statements.

Table of Contents

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY (unaudited)

Comerica Incorporated and Subsidiaries

(in millions, except per share data)	Nonredeemable Preferred Stock	Common Stock Shares Outstanding	Common Stock Amount	Capital Surplus	Accumulated Other Comprehensive Loss	Retained Earnings	Treasury Stock	Total Shareholders Equity
BALANCE AT JANUARY 1, 2008	$	150.0	$ 894	$ 564	$ (177)	$ 5,497	$ (1,661)	$ 5,117
Net income						193		193
Other comprehensive income, net of tax					48			48
Total comprehensive income								241
Cash dividends declared on common stock ($1.98 per share)						(298)		(298)
Purchase of common stock							(1)	(1)
Net issuance of common stock under employee stock plans		0.5		(19)		(13)	32	
Share-based compensation				41				41
BALANCE AT SEPTEMBER 30, 2008	$	150.5	$ 894	$ 586	$ (129)	$ 5,379	$ (1,630)	$ 5,100
BALANCE AT JANUARY 1, 2009	$ 2,129	150.5	$ 894	$ 722	$ (309)	$ 5,345	$ (1,629)	$ 7,152
Net income						46		46
Other comprehensive loss, net of tax					(52)			(52)
Total comprehensive loss								(6)
Cash dividends declared on preferred stock						(114)		(114)
Cash dividends declared on common stock ($0.15 per share)						(22)		(22)
Purchase of common stock		(0.1)					(1)	(1)
Accretion of discount on preferred stock	16					(16)		
Net issuance of common stock under employee stock plans		0.7		(13)		(34)	43	(4)
Share-based compensation				25				25
Other				4			1	5
BALANCE AT SEPTEMBER 30, 2009	$ 2,145	151.1	$ 894	$ 738	$ (361)	$ 5,205	$ (1,586)	$ 7,035

See notes to consolidated financial statements.

Table of Contents

CONSOLIDATED STATEMENTS OF CASH FLOWS

Comerica Incorporated and Subsidiaries

(in millions)	Nine Months Ended September 30 2009	2008
OPERATING ACTIVITIES		
Net income	$ 46	$ 193
Income from discontinued operations, net of tax	1	
Income from continuing operations, net of tax	45	193
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	826	494
Provision for credit losses on lending-related commitments	(3)	20
Provision (benefit) for deferred income taxes	(126)	(72)
Depreciation and software amortization	91	85
Auction-rate securities charge		96
Lease income charge		38
Net gain on early termination of leveraged leases	(8)	
Share-based compensation expense	25	41
Net amortization of securities	(5)	(9)
Net securities gains	(233)	(63)
Net gain on sale of business	(5)	
Gain on repurchase of medium- and long-term debt	(7)	
Contribution to qualified pension plan	(100)	
Net decrease (increase) in trading securities	12	(30)
Net decrease in loans held-for-sale	4	59
Net decrease in accrued income receivable	60	58
Net decrease in accrued expenses	(217)	(52)
Other, net	(244)	(61)
Discontinued operations, net	1	
Net cash provided by operating activities	116	797
INVESTING ACTIVITIES		
Proceeds from sales of investment securities available-for-sale	5,704	68
Proceeds from maturities of investment securities available-for-sale	1,896	1,345
Purchases of investment securities available-for-sale	(7,010)	(3,130)
Sales (purchases) of Federal Home Loan Bank stock	82	(333)
Net decrease (increase) in loans	6,164	(1,108)
Proceeds from early termination of leveraged leases	107	
Net increase in fixed assets	(54)	(126)
Net decrease in customers liability on acceptances outstanding	2	27
Proceeds from sale of business	7	
Discontinued operations, net		
Net cash provided by (used in) investing activities	6,898	(3,257)
FINANCING ACTIVITIES		
Net decrease in deposits	(2,195)	(4,668)
Net (decrease) increase in short-term borrowings	(1,324)	818
Net decrease in acceptances outstanding	(2)	(27)
Proceeds from issuance of medium- and long-term debt		7,500
Repayments of medium- and long-term debt	(3,675)	(950)
Repurchase of medium- and long-term debt	(72)	

Proceeds from issuance of common stock under employee stock plans		1
Purchase of common stock for treasury	(1)	(1)
Dividends paid on common stock	(65)	(295)
Dividends paid on preferred stock	(85)	
Discontinued operations, net		
Net cash (used in) provided by financing activities	(7,419)	2,378
Net decrease in cash and cash equivalents	(405)	(82)
Cash and cash equivalents at beginning of period	3,423	1,514
Cash and cash equivalents at end of period	$ 3,018	$ 1,432
Interest paid	$ 470	$ 1,000
Income taxes and income tax deposits paid	$ 232	$ 155
Noncash investing and financing activities:		
Loans transferred to other real estate	$ 82	$ 12
Loans transferred from held-for-sale to portfolio		84

See notes to consolidated financial statements.

Table of Contents

Note 1 - Basis of Presentation and Accounting Policies

The accompanying unaudited consolidated financial statements were prepared in accordance with 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, 2009 are not necessarily indicative of the results that may be expected for the year ending December 31, 2009. Management evaluated subsequent events through October 30, 2009, the date the consolidated financial statements were issued. 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, 2008.

Accounting Standards Codification

In the third quarter 2009, the Corporation adopted Statement of Financial Accounting Standards (SFAS) No. 168, The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles, (SFAS 168). SFAS 168 establishes the Financial Accounting Standards Board (FASB) Accounting Standards Codification (the Codification, or ASC) as the single source of authoritative, nongovernmental GAAP recognized by the FASB. Rules and interpretive releases of the Securities and Exchange Commission (SEC) are also sources of authoritative GAAP for SEC registrants. The Codification is not intended to change GAAP. Effective with the adoption of SFAS 168, all existing non-SEC accounting and reporting standards, except for grandfathered guidance and certain recently-issued standards not yet integrated into the Codification, were superseded and are considered nonauthoritative. References to GAAP in these Notes to Consolidated Financial Statements are provided under the Codification structure where applicable. Recently-issued standards not yet integrated into the Codification and still considered authoritative are referred to using the issued terminology.

Fair Value

In the first quarter 2009, the Corporation elected to early adopt new guidance impacting ASC Topic 820, Fair Value Measurements and Disclosures, related to determining fair value when the volume and level of activity for the asset or liability have significantly decreased and identifying transactions that are not orderly. This new guidance requires an assessment of whether certain factors exist to indicate that the market for an instrument is not active at the measurement date. If, after evaluating those factors, the evidence indicates the market is not active, the Corporation must determine whether recent quoted transaction prices are associated with distressed transactions. If the Corporation concludes that the quoted prices are associated with distressed transactions, an adjustment to the quoted prices may be necessary or the Corporation may conclude that a change in valuation technique or the use of multiple techniques may be appropriate to estimate an instrument s fair value. For further information about fair value measurements, refer to Notes 3 and 13.

Also in the first quarter 2009, the Corporation elected to early adopt new guidance impacting ASC Topic 825, Financial Instruments, related to interim disclosures about fair value of financial instruments. This new guidance requires that disclosures on the estimated fair value of financial instruments be included in interim financial statements. It also requires disclosure of the method(s) and significant assumptions used to estimate the fair value of financial instruments in the interim financial statements. For further information concerning the estimated fair value of financial instruments, refer to Note 13.

Investment Securities

Debt securities held-to-maturity are those securities which the Corporation has the ability and management has the positive intent to hold to maturity as of the balance sheet dates. Debt securities held-to-maturity are recorded at cost, adjusted for amortization of premium and accretion of discount.

Debt securities that are not considered held-to-maturity and marketable equity securities are accounted for as securities available-for-sale and recorded at fair value, with unrealized gains and losses, net of income taxes, reported as a separate component of other comprehensive income (loss) (OCI).

Table of Contents

Note 1 - Basis of Presentation and Accounting Policies (continued)

Investment securities are reviewed quarterly for possible other-than-temporary impairment (OTTI). In the first quarter 2009, the Corporation elected to early adopt new guidance impacting ASC Topic 320, Investments Debt and Equity Instruments, related to recognition and presentation of other-than-temporary impairments. This new guidance changed the method for determining whether OTTI exists for debt securities by requiring an assessment of the likelihood of selling the security prior to recovering its amortized cost basis. It also changed the amount of an impairment charge to be recorded in the consolidated statements of income. If the Corporation intends to sell the security or it is more-likely-than-not that the Corporation will be required to sell the security prior to recovery of its amortized cost basis, the security would be written down to fair value with the full amount of any impairment charge recorded as a loss in net securities gains (losses) in the consolidated statements of income. If the Corporation does not intend to sell the security and it is more-likely-than-not that the Corporation will not be required to sell the security prior to recovery of its amortized cost basis, only the credit component of any impairment of a debt security would be recognized as a loss in net securities gains (losses) in the consolidated statements of income, with the remaining impairment recorded in OCI. The adoption had no impact on the Corporation s financial condition at or results of operations for the three- and nine- month periods ended September 30, 2009.

The OTTI review for equity securities includes an analysis of the facts and circumstances of each individual investment and focuses on the severity of loss, the length of time the fair value has been below cost, the expectation for that security s performance, the financial condition and near-term prospects of the issuer, and management s intent and ability to hold the security to recovery. A decline in value of an equity security that is considered to be other-than-temporary is recorded as a loss in net securities gains (losses) in the consolidated statements of income.

Gains or losses on the sale of securities are computed based on the adjusted cost of the specific security sold.

For further information on investment securities, refer to Note 3.

Impairment

Goodwill is subject to impairment testing, which the Corporation conducts annually, or on an interim basis if events or changes in circumstances between annual tests indicate the assets might be impaired. Under applicable accounting standards, the goodwill impairment test is a two-step test. The first step of the goodwill impairment test compares the fair value of identified reporting units, which are a subset of the Corporation s operating segments, with their carrying amount, including goodwill. If the fair value of a reporting unit exceeds its carrying value, goodwill of the reporting unit is not impaired. If the fair value of the reporting unit is less than the carrying value, the second step must be performed to determine the implied fair value of the reporting unit s goodwill and the amount of goodwill impairment. The Corporation performs its annual impairment test for goodwill as of July 1 each year. The annual test of goodwill, performed as of July 1, 2009, did not indicate that an impairment charge was required.

Derivative Instruments and Hedging Activities

On January 1, 2009, the Corporation adopted new guidance impacting ASC Topic 815, Derivatives and Hedging, relating to disclosures about derivative instruments and hedging activities. This new guidance requires entities to provide greater transparency about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under the Derivatives and Hedging Topic, and (c) how derivative instruments and related hedged items affect an entity s financial position, results of operations and cash flows. To meet those objectives, it requires (1) qualitative disclosures about objectives for using derivatives by primary underlying risk exposure (e.g., interest rate, credit or foreign exchange rate) and by purpose or strategy (fair value hedge, cash flow hedge, net investment hedge, and non-hedges), (2) information about the volume of derivative activity in a flexible format that the preparer believes is the most relevant and practicable, (3) tabular disclosures about balance sheet location and gross fair value amounts of derivative instruments, income statement and other comprehensive income location of gain and loss amounts on derivative instruments by type of contract, and (4) disclosures about credit-risk related contingent features in derivative agreements. For further information on derivative instruments and hedging activities, refer to Note 10.

Table of Contents

Note 1 - Basis of Presentation and Accounting Policies (continued)

Earnings Per Share

On January 1, 2009, the Corporation adopted new guidance impacting ASC Topic 260, Earnings Per Share, related to determining whether instruments granted in share-based payment transactions are participating securities. The guidance clarified that unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents are considered participating securities and should be included in the calculation of basic earnings per share using the two-class method and was applied retrospectively to all prior periods presented. The adoption had no impact on third quarter 2008 basic net income or basic income from continuing operations per common share. The impact of adoption on the nine months ended September 30, 2008 was a reduction of $0.01 in basic net income and basic income from continuing operations per common share. The impact of adoption on the year ended December 31, 2008 was a reduction of $0.01 in basic net income and basic income from continuing operations per common share. For further earnings per share information, refer to Note 8.

Noncontrolling Interests

On January 1, 2009, the Corporation adopted new guidance impacting ASC Topic 810, Consolidation, which defines noncontrolling interests as the portion of equity in a subsidiary not attributable, directly or indirectly, to the parent. The adoption of the new guidance was not material to the Corporation s financial condition and results of operations.

Note 2 Pending Accounting Pronouncements

In December 2008, the FASB issued new guidance impacting ASC Topic 715, Compensation Retirement Benefits. The new guidance requires additional disclosures about assets held in an employer s defined benefit pension or other postretirement plan, including (1) disclosure of the fair value of each major category of plan assets, (2) disclosure of the level within the fair value hierarchy in which each major category of plan assets falls, and (3) a reconciliation of beginning and ending balances of plan assets with fair values measured using significant unobservable inputs. The guidance is effective for financial statements issued for fiscal years ending after December 15, 2009. Accordingly, the Corporation will adopt the guidance in its consolidated financial statements for the year ended December 31, 2009. The Corporation does not expect the adoption of the guidance to have a material effect on the Corporation s financial condition and results of operations.

In June 2009, the FASB issued SFAS No. 166, Accounting for Transfers of Financial Assets, an amendment of FASB Statement No. 140, (SFAS 166). SFAS 166 removes the concept of a qualifying special-purpose entity from ASC Topic 860, Transfers and Servicing, and eliminates the exception for qualifying special-purpose entities from consolidation guidance. In addition, SFAS 166 establishes specific conditions for reporting a transfer of a portion of a financial asset as a sale. If the transfer does not meet established sale conditions, the transferor and transferee must account for the transfer as a secured borrowing. An enterprise that continues to transfer portions of a financial asset that do not meet the established sale conditions would be eligible to record a sale only after it has transferred all of its interest in that asset. The effective date is fiscal years beginning after November 15, 2009. Accordingly, the Corporation will adopt the provisions in the first quarter 2010. The Corporation is currently evaluating the impact of the provisions.

Also, in June 2009, the FASB issued SFAS No. 167, Amendments to FASB Interpretation No. 46(R), (SFAS 167). SFAS 167 replaces the quantitative-based risks and rewards calculation for determining which enterprise, if any, is the primary beneficiary and is required to consolidate the variable interest entity with a qualitative approach focused on identifying which enterprise has both the power to direct the activities of the variable interest entity that most significantly impact the entity s economic performance and has the obligation to absorb losses or the right to receive benefits that could be significant to the entity. In addition, SFAS 167 requires reconsideration of whether an entity is a variable interest entity when any changes in facts and circumstances occur such that the holders of the equity investment at risk, as a group, lose the power from voting rights or similar rights of those investments to direct the activities of the entity that most significantly impact the entity s economic performance. It also requires ongoing assessments of whether an enterprise is the primary beneficiary of a variable interest entity and additional disclosures about an enterprise s involvement in variable interest entities. The effective date is fiscal years beginning after November 15, 2009. Accordingly, the Corporation will adopt the provisions in the first quarter 2010. The Corporation is currently evaluating the impact of the provisions.

Table of Contents

Note 2 Pending Accounting Pronouncements (continued)

In August 2009, the FASB issued Accounting Standards Update (ASU) No. 2009-05 (ASU 2009-05), which provides amendments to ASC Topic 820, Fair Value Measurements and Disclosures, for the fair value measurement of liabilities. ASU 2009-05 provides clarification that in circumstances in which a quoted price in an active market for the identical liability is not available, a reporting entity is required to measure fair value using one or more of the following techniques: a valuation technique that uses the quoted price of the identical liability when traded as an asset or a quoted price for a similar liability when traded as an asset, or another valuation method that is consistent with the principles of ASC Topic 820, Fair Value Measurements and Disclosures. ASU 2009-05 also provides clarification that when estimating the fair value of a liability, a reporting entity is not required to include a separate input or adjustments to other inputs relating to the existence of a restriction that prevents the transfer of the liability. The effective date is the first reporting period beginning after issuance. Accordingly, the Corporation will adopt the provisions of ASU 2009-5 in the fourth quarter 2009. The Corporation does not expect the adoption of the provisions of ASU 2009-5 to have a material effect on the Corporation s financial condition and results of operations.

Note 3 - Investment Securities

A summary of the Corporation s investment securities available-for-sale follows:

(in millions)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
September 30, 2009				
U.S. Treasury and other U.S. government agency securities	$ 3,068	$ 4	$	$ 3,072
Government-sponsored enterprise residential mortgage-backed securities	4,632	96		4,728
State and municipal securities (a)	53		2	51
Corporate debt securities:				
Auction-rate debt securities	156	5		161
Other corporate debt securities	50			50
Equity and other non-debt securities:				
Auction-rate preferred securities	730	8	12	726
Money market and other mutual funds	94			94
Total investment securities available-for-sale	$ 8,783	$ 113	$ 14	$ 8,882
December 31, 2008				
U.S. Treasury and other U.S. government agency securities	$ 79	$	$	$ 79
Government-sponsored enterprise residential mortgage-backed securities	7,624	242	5	7,861
State and municipal securities (a)	69		3	66
Corporate debt securities:				
Auction-rate debt securities	158		11	147

Other corporate debt securities	42			42
Equity and other non-debt securities:				
Auction-rate preferred securities	954		18	936
Money market and other mutual funds	70			70
Total investment securities available-for-sale	$ 8,996	$ 242	$ 37	$ 9,201

(a) Primarily auction-rate securities

Table of Contents

Note 3 - Investment Securities (continued)

A summary of the Corporation s temporarily impaired investment securities available-for-sale as of September 30, 2009 and December 31, 2008 follows:

	Temporarily Impaired					
	Less than 12 months		Over 12 months		Total	
(in millions)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
September 30, 2009						
U.S. Treasury and other U.S. government agency securities	$	$	$	$	$	$
Government-sponsored enterprise residential mortgage-backed securities	1	(b)			1	(b)
State and municipal securities (a)	49	2			49	2
Corporate debt securities:						
Auction-rate debt securities						
Other corporate debt securities						
Equity and other non-debt securities:						
Auction-rate preferred securities	526	12			526	12
Money market and other mutual funds						
Total temporarily impaired securities	$ 576	$ 14	$	$	$ 576	$ 14
December 31, 2008						
U.S. Treasury and other U.S. government agency securities	$	$	$	$	$	$
Government-sponsored enterprise residential mortgage-backed securities	137	1	559	4	696	5
State and municipal securities (a)	64	3			64	3
Corporate debt securities:						
Auction-rate debt securities	147	11			147	11
Other corporate debt securities						
Equity and other non-debt securities:						
Auction-rate preferred securities	936	18			936	18
Money market and other mutual funds						
Total temporarily impaired securities	$ 1,284	$ 33	$ 559	$ 4	$ 1,843	$ 37

(a) Primarily auction-rate securities.

(b) Unrealized losses less than $0.5 million.

At September 30, 2009, the Corporation had 404 securities in an unrealized loss position, including 21 AAA-rated U.S. government-sponsored enterprise residential mortgage-backed securities (i.e., FMNA, FHLMC), 46 state and municipal auction-rate debt securities and 334 auction-rate preferred securities. The unrealized losses resulted from changes in market interest rates and liquidity, not from changes in the probability of contractual cash flows. The Corporation does not intend to sell the securities, and it is not more-likely-than-not that the Corporation will be required to sell the securities prior to recovery of amortized cost. Full collection of the amounts due according to the contractual terms of the securities is expected; therefore, the Corporation does not consider these investments to be other-than-temporarily impaired at September 30, 2009.

Table of Contents

Note 3 - Investment Securities (continued)

Sales, calls and write-downs of investment securities available-for-sale resulted in realized gains and losses as follows:

	Nine Months Ended September 30	
(in millions)	2009	2008
Securities gains	$ 235	$ 63
Securities losses	(2)	
Total net securities gains	$ 233	$ 63

The table below 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 may differ significantly from contractual maturities, as borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

(in millions) September 30, 2009	Amortized Cost	Fair Value
Contractual maturity		
Within one year	$ 3,113	$ 3,116
After one year through five years	7	7
After five years through ten years		
After ten years	207	211
Subtotal	3,327	3,334
Residential mortgage-backed securities	4,632	4,728
Equity and other nondebt securities:		
Auction-rate preferred securities	730	726
Money market and other mutual funds	94	94
Total securities available-for-sale	$ 8,783	$ 8,882

Included in the contractual maturity distribution in the table above were auction-rate debt securities and state and municipal auction-rate debt securities with an amortized cost and fair value of $207 million and $211 million, respectively. Auction-rate debt and auction-rate preferred securities are long-term, floating rate instruments for which interest rates are reset at periodic auctions. At each successful auction, the Corporation has the option to sell the security at par value. Additionally, the issuers of auction-rate securities generally have the right to redeem or refinance the debt. As a result, the expected life of auction-rate securities may differ significantly from the contractual life.

At September 30, 2009, investment securities having a carrying value of $3.3 billion were pledged where permitted or required by law to secure $3.2 billion of liabilities, including public and other deposits, Federal Home Loan Bank of Dallas (FHLB) advances and derivative instruments. This included mortgage-backed securities of $1.5 billion pledged with the FHLB to secure advances of $1.5 billion at September 30, 2009. The remaining pledged securities of $1.8 billion were primarily with state and local government agencies to secure $1.7 billion of deposits and other liabilities.

12

Table of Contents

Note 4 - Allowance for Credit Losses

The following summarizes the changes in the allowance for loan losses:

(in millions)	Nine Months Ended September 30, 2009	2008
Balance at beginning of period	$ 770	$ 557
Loan charge-offs:		
Domestic		
Commercial	262	117
Real estate construction		
Commercial Real Estate business line	201	149
Other business lines	1	1
Total real estate construction	202	150
Commercial mortgage		
Commercial Real Estate business line	63	51
Other business lines	56	20
Total commercial mortgage	119	71
Residential mortgage	15	2
Consumer	25	15
Lease financing	30	
International	10	1
Total loan charge-offs	663	356
Recoveries:		
Domestic		
Commercial	11	11
Real estate construction	1	2
Commercial mortgage	2	2
Residential mortgage		
Consumer	2	2
Lease financing	1	1
International	2	
Total recoveries	19	18
Net loan charge-offs	644	338
Provision for loan losses	826	494
Foreign currency translation adjustment	1	(1)
Balance at end of period	$ 953	$ 712

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.

(in millions)	Nine Months Ended September 30, 2009	2008

Balance at beginning of period	$	38	$	21
Less: Charge-offs on lending-related commitments (a)				1
Add: Provision for credit losses on lending-related commitments		(3)		20
Balance at end of period	$	35	$	40

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

Table of Contents

Note 4 - Allowance for Credit Losses (continued)

A loan is impaired when it is probable that interest and principal payments will not be made in accordance with the contractual terms of the original loan agreement. Consistent with this definition, all nonaccrual and reduced-rate loans are impaired. Loans restructured in troubled debt restructurings bearing market rates of interest at the time of restructuring and performing in compliance with their modified terms (performing restructured loans) are considered impaired in the calendar year of the restructuring.

For purposes of determining the valuation allowance required for impaired loans, large business and certain large consumer and residential mortgage nonaccrual loans and all loans restructured in troubled debt restructurings are individually assessed. The level of impairment is measured based on one of several methods, including estimated collateral value, market value of similar debt, or discounted cash flows. When fair value is less than current carrying value, the difference is charged-off when appropriate, or a valuation allowance is established within the allowance for loan losses. Those impaired loans not requiring an allowance represent loans for which the fair value of expected repayments or collateral exceeded the recorded investment in such loans.

The following presents the carrying value of impaired loans and the related valuation allowance as of September 30, 2009 and December 31, 2008:

(in millions)	September 30, 2009	December 31, 2008
Total nonaccrual loans	$ 1,194	$ 917
Total reduced-rate loans	2	
Total nonperforming loans	1,196	917
Total performing restructured loans	8	
Total impaired loans	1,204	917
Impaired loans excluded from individual evaluation	(35)	(13)
Individually evaluated impaired loans	$ 1,169	$ 904
Individually evaluated impaired loans requiring a valuation allowance	$ 1,152	$ 807
Valuation allowance on individually evaluated impaired loans	$ 219	$ 175

Individually evaluated impaired loans averaged $1,156 million and $1,045 million for the three- and nine-month periods ended September 30, 2009, respectively, and $810 million and $636 million for the three- and nine-month periods ended September 30, 2008, respectively.

Table of Contents

Note 5 - Medium- and Long-Term Debt

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

(in millions)	September 30, 2009	December 31, 2008
Parent company		
Subordinated notes:		
4.80% subordinated note due 2015	$ 331	$ 342
6.576% subordinated notes due 2037	511	510
Total subordinated notes	842	852
Medium-term notes:		
Floating-rate based on LIBOR indices due 2010	150	150
Total parent company	992	1,002
Subsidiaries		
Subordinated notes:		
8.50% subordinated note due 2009		101
7.125% subordinated note due 2013	151	149
5.70% subordinated note due 2014	278	286
5.75% subordinated notes due 2016	686	701
5.20% subordinated notes due 2017	559	592
8.375% subordinated note due 2024	193	207
7.875% subordinated note due 2026	218	246
Total subordinated notes	2,085	2,282
Medium-term notes:		
Floating-rate based on LIBOR indices due 2009 to 2012	2,115	3,669
Floating-rate based on Federal Funds indices due 2009		100
Federal Home Loan Bank advances:		
Floating-rate based on LIBOR indices due 2009 to 2014	6,000	8,000
Other notes:		
6.0% - 6.4% fixed-rate notes due 2020	60	
Total subsidiaries	10,260	14,051
Total medium- and long-term debt	$ 11,252	$ 15,053

The carrying value of medium- and long-term debt was adjusted to reflect the gain or loss attributable to the risk hedged with interest rate swaps.

Comerica Bank (the Bank), a subsidiary of the Corporation, is a member of the FHLB, which provides short- and long-term funding collateralized by mortgage-related assets to its members. FHLB advances bear interest at variable rates based on LIBOR and were secured by $4.5 billion of real estate-related loans and $1.5 billion of mortgage-backed investment securities at September 30, 2009.

In the third quarter 2009, the Bank repurchased, at a discount, $79 million of floating-rate medium-term notes with a maturity in May 2012 and recognized a gain of $7 million.

The Bank participates in the voluntary Temporary Liquidity Guarantee Program (the TLG Program) announced by the Federal Deposit Insurance Corporation (FDIC) in October 2008 and amended in March 2009. Under the TLG Program, all senior unsecured debt issued between October 14, 2008 and October 31, 2009 with a maturity of more than 30 days is guaranteed by the FDIC. Debt guaranteed by the FDIC is backed by the full faith and credit of the United States. The FDIC guarantee expires on the earlier of the maturity date of the debt or December 31, 2012 (June 30, 2012 for debt issued prior to April 1, 2009). At September 30, 2009, there was approximately $7 million of senior unsecured debt outstanding in the form of bank-to-bank deposits issued under the TLG Program and $5.2 billion available to be issued.

Table of Contents

Note 6 - Income Taxes and Tax-Related Items

The provision for federal income taxes is computed by applying the statutory federal income tax rate to income (loss) before income taxes as reported in the consolidated financial statements after deducting non-taxable items, principally income on bank-owned life insurance, and deducting tax credits related to investments in low income housing partnerships. Tax interest, state and foreign taxes are then added to the federal tax provision.

In 2008 and first quarter 2009, the Corporation applied an estimated annual effective tax rate to interim period pre-tax income (loss) to calculate the income tax provision or benefit for each quarter, in accordance with the principal method prescribed by the accounting requirements established for computing income taxes in interim periods. The requirements allow for an alternative method to calculate the effective tax rate when an entity is unable to make a reliable estimate of pre-tax income (loss) for the fiscal year. Under the alternative method, interim period federal income taxes are based on each discrete quarter s pre-tax income (loss). In light of the recent volatility and uncertainty in the current economic market, the Corporation applied the alternative method to compute the income tax benefit beginning in the second quarter 2009.

Unrecognized tax benefits were $1 million and $91 million at September 30, 2009 and 2008, respectively, and accrued interest was $19 million and $81 million at September 30, 2009 and 2008, respectively. The decrease in unrecognized tax benefits of $90 million and accrued interest of $62 million for the nine months ended September 30, 2009 when compared to the same period in the prior year was the result of the settlement of open tax issues with the Internal Revenue Service (IRS) related to structured leasing transactions and disallowed foreign tax benefits in the fourth quarter 2008 and from activity in 2009 including the closing of the audit of years 2001-2004, the amending of certain state income tax returns and the recognition of certain anticipated refunds due from the IRS. The amount of interest accrued at September 30, 2009 includes interest for unrecognized tax benefits and interest payable to the IRS for tax positions that were settled, but not yet paid. The Corporation anticipates that it is reasonably possible that additional settlements related to IRS refund claims and to various state tax issues will result in an increase in the unrecognized tax benefit liability in the range of $4 to $6 million within the next twelve months.

Based on current knowledge and probability assessment of various potential outcomes, the Corporation believes that current tax reserves are adequate to cover the matters outlined above, 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 or results of operations. Probabilities and outcomes are reviewed as events unfold, and adjustments to the reserves are made when necessary.

Note 7 - Accumulated Other Comprehensive Income (Loss)

Other comprehensive income (loss) includes the change in net unrealized gains and losses on investment securities available-for-sale, the change in accumulated net gains and losses on cash flow hedges and the change in the accumulated defined benefit and other postretirement plans adjustment. The Consolidated Statements of Changes in Shareholders Equity include only combined other comprehensive income (loss), net of tax. Total comprehensive income (loss) was ($6) million and $241 million for the nine months ended September 30, 2009 and 2008, respectively. The $247 million decrease in total comprehensive income (loss) for the nine months ended September 30, 2009, when compared to the same period in the prior year, resulted primarily from a $147 million decrease in net income and a $105 million after-tax decrease in net unrealized gains on investment securities available for sale. The following table presents reconciliations of the components of the accumulated other comprehensive income (loss) for the nine months ended September 30, 2009 and 2008.

Table of Contents

Note 7 - Accumulated Other Comprehensive Income (Loss) (continued)

(in millions)	Nine Months Ended September 30, 2009	2008
Accumulated net unrealized gains (losses) on investment securities available-for-sale:		
Balance at beginning of period, net of tax	$ 131	$ (9)
Net unrealized holding gains arising during the period	126	120
Less: Reclassification adjustment for net gains included in net income	233	63
Change in net unrealized gains before income taxes	(107)	57
Less: Provision for income taxes	(39)	20
Change in net unrealized gains on investment securities available-for-sale, net of tax	(68)	37
Balance at end of period, net of tax	$ 63	$ 28
Accumulated net gains on cash flow hedges:		
Balance at beginning of period, net of tax	$ 30	$ 2
Net cash flow hedge gains arising during the period	10	21
Less: Reclassification adjustment for net gains included in net income	25	19
Change in net cash flow hedge gains before income taxes	(15)	2
Less: Provision for income taxes	(6)	1
Change in net cash flow hedge gains, net of tax	(9)	1
Balance at end of period, net of tax	$ 21	$ 3
Accumulated defined benefit pension and other postretirement plans adjustment:		
Balance at beginning of period, net of tax	$ (470)	$ (170)
Net defined benefit pension and other postretirement adjustment arising during the period		3
Less: Adjustment for amounts recognized as components of net periodic benefit cost during the period	(40)	(13)
Change in defined benefit and other postretirement plans adjustment before income taxes	40	16
Less: Provision for income taxes	15	6
Change in defined benefit and other postretirement plans adjustment, net of tax	25	10
Balance at end of period, net of tax	$ (445)	$ (160)
Total accumulated other comprehensive loss at end of period, net of tax	$ (361)	$ (129)

Table of Contents

Note 8 Net Income (Loss) per Common Share

Basic income (loss) from continuing operations and net income (loss) per common share are computed by dividing income (loss) from continuing operations applicable to common stock and net income (loss) applicable to common stock, respectively, by the weighted-average number of shares of common stock outstanding during the period, including nonvested restricted stock. Diluted income (loss) from continuing operations and net income (loss) per common share are computed by dividing income (loss) from continuing operations applicable to common stock and net income (loss) applicable to common stock, respectively, by the weighted-average number of shares of common stock, including nonvested restricted stock and dilutive common stock equivalents outstanding during the period. Common stock equivalents consist of common stock issuable under the assumed exercise of stock options granted under the Corporation s stock plans and a warrant, using the treasury stock method. Basic and diluted income (loss) from continuing operations per common share and net income (loss) per common share for the three- and nine- month periods ended September 30, 2009 and 2008 were computed as follows:

(in millions, except per share data)	Three Months Ended September 30, 2009	Three Months Ended September 30, 2008	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008
Basic and diluted				
Income from continuing operations	$ 19	$ 27	$ 45	$ 193
Less: Preferred stock dividends	34		101	
Income (loss) from continuing operations applicable to common stock	$ (15)	$ 27	$ (56)	$ 193
Net income	$ 19	$ 28	$ 46	$ 193
Less: Preferred stock dividends	34		101	
Net income (loss) applicable to common stock	$ (15)	$ 28	$ (55)	$ 193
Average common shares outstanding	151	151	151	151
Basic income (loss) from continuing operations per common share	$ (0.10)	$ 0.18	$ (0.37)	$ 1.28
Basic net income (loss) per common share	(0.10)	0.19	(0.36)	1.28
Average common shares outstanding	151	151	151	151
Common stock equivalents:				
Net effect of the assumed exercise of stock options				
Net effect of the assumed exercise of warrant				
Diluted average common shares	151	151	151	151
Diluted income (loss) from continuing operations per common share	$ (0.10)	$ 0.18	$ (0.37)	$ 1.28
Diluted net income (loss) per common share	(0.10)	0.19	(0.36)	1.28

The following average shares related to outstanding options and a warrant to purchase shares of common stock were not included in the computation of diluted net income (loss) per common share because the options and warrant s exercise prices were greater than the average market price of common shares for the period.

(options in millions)	Three Months Ended September 30, 2009	Three Months Ended September 30, 2008	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008

Average shares related to outstanding options and warrant	28.6	19.5	29.3	19.9
Range of exercise prices	\$30.77 - \$64.50	\$29.82 - \$69.00	\$21.95 - \$66.81	\$36.24 - \$71.58

Due to the net loss applicable to common stock reported for the three- and nine-month periods ended September 30, 2009, options to purchase 1.5 million shares and 1.4 million shares, respectively, with average exercise prices less than the average market price of common shares for the period were excluded from the computation of diluted net loss per share, as their inclusion would have been anti-dilutive.

Table of Contents

Note 9 Employee Benefit Plans

Net periodic benefit costs are charged to employee benefits expense on the consolidated statements of income. The components of net periodic benefit cost for the Corporation s qualified pension plan, non-qualified pension plan and postretirement benefit plan are as follows:

Qualified Defined Benefit Pension Plan	Three Months Ended September 30,		Nine Months Ended September 30,	
(in millions)	2009	2008	2009	2008
Service cost	$ 7	$ 7	$ 21	$ 21
Interest cost	18	17	52	50
Expected return on plan assets	(27)	(25)	(78)	(75)
Amortization of unrecognized prior service cost	2	2	5	5
Amortization of unrecognized net loss	9	1	28	3
Net periodic benefit cost	$ 9	$ 2	$ 28	$ 4

Non-Qualified Defined Benefit Pension Plan	Three Months Ended September 30,		Nine Months Ended September 30,	
(in millions)	2009	2008	2009	2008
Service cost	$ 1	$ 1	$ 3	$ 3
Interest cost	2	2	7	6
Amortization of unrecognized prior service cost		(1)	(1)	(1)
Amortization of unrecognized net loss	2	1	7	3
Net periodic benefit cost	$ 5	$ 3	$ 16	$ 11

Postretirement Benefit Plan	Three Months Ended September 30,		Nine Months Ended September 30,	
(in millions)	2009	2008	2009	2008
Interest cost	$ 2	$ 1	$ 4	$ 4
Expected return on plan assets	(1)	(1)	(3)	(3)
Amortization of unrecognized transition obligation	1	1	3	3
Amortization of unrecognized net loss		1	1	1
Net periodic benefit cost	$ 2	$ 2	$ 5	$ 5

For further information on the Corporation s employee benefit plans, refer to Note 16 to the consolidated financial statements in the Corporation s 2008 Annual Report.

Table of Contents

Note 10 - Derivative Instruments

In the normal course of business, the Corporation enters into various transactions involving derivative financial instruments to manage exposure to fluctuations in interest rate, foreign currency and other market risks and to meet the financing needs of customers. These financial instruments involve, to varying degrees, elements of credit and market risk.

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 financial instruments by evaluating the creditworthiness of each counterparty, adhering to the same credit approval process used for traditional lending activities. Counterparty risk limits and monitoring procedures were also established to facilitate the management of credit risk. Collateral is obtained, if deemed necessary, based on the results of management s credit evaluation. Collateral varies, but may include cash, investment securities, accounts receivable, equipment or real estate.

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. Market risk arising from derivative instruments is reflected in the consolidated financial statements. The Corporation manages this risk by establishing monetary exposure limits and monitoring compliance with those limits. Market risk inherent in derivative instruments 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. 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.

Derivative instruments are carried at fair value in either accrued income and other assets or accrued expenses and other liabilities on the consolidated balance sheets. The accounting for changes in the fair value (i.e., gains or losses) of a derivative instrument is determined by whether it has been designated and qualifies as part of a hedging relationship and further, by the type of hedging relationship. For those derivative instruments that are designated and qualify as hedging instruments, the Corporation designates the hedging instrument, based upon the exposure being hedged, as either a fair value hedge or a cash flow hedge. For derivative instruments designated and qualifying as a fair value hedge (i.e., hedging the exposure to changes in the fair value of an asset or a liability or an identified portion thereof that is attributable to a particular risk), the gain or loss on the derivative instrument, as well as the offsetting loss or gain on the hedged item attributable to the hedged risk, are recognized in current earnings during the period of the change in fair values. For derivative instruments that are designated and qualify as a cash flow hedge (i.e., hedging the exposure to variability in expected future cash flows that is attributable to a particular risk), the effective portion of the gain or loss on the derivative instrument is reported as a component of other comprehensive income and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. The remaining gain or loss on the derivative instrument in excess of the cumulative change in the present value of future cash flows of the hedged item (i.e., the ineffective portion), if any, is recognized in current earnings during the period of change. For derivative instruments not designated as hedging instruments, the gain or loss is recognized in current earnings during the period of change.

For hedging instruments designated at inception, the Corporation uses either the short-cut method or applies dollar offset or statistical regression analysis to assess effectiveness. The short-cut method is used for certain fair value hedges of medium- and long-term debt. This method allows for the assumption of zero hedge ineffectiveness and eliminates the requirement to further assess hedge effectiveness on these transactions. For hedge relationships to which the Corporation does not apply the short-cut method, either the dollar offset or statistical regression analysis is used at inception and for each reporting period thereafter to assess whether the derivative used has been and is expected to be highly effective in offsetting changes in the fair value or cash flows of the hedged item. All components of each derivative instrument s gain or loss are included in the assessment of hedge effectiveness. Net hedge ineffectiveness is recorded in other noninterest income on the consolidated statements of income.

Table of Contents

Note 10 - Derivative Instruments (continued)

The following table presents the composition of the Corporation s derivative instruments, excluding commitments, held or issued for risk management purposes or in connection with customer-initiated and other activities at September 30, 2009 and December 31, 2008.

	September 30, 2009			December 31, 2008		
		Fair Value (a)			Fair Value (a)	
(in millions)	Notional/ Contract Amount (b)	Asset Derivatives (Unrealized Gains) (c)	Liability Derivatives (Unrealized Losses)	Notional/ Contract Amount (b)	Asset Derivatives (Unrealized Gains) (c)	Liability Derivatives (Unrealized Losses)
Risk management purposes						
Derivatives designated as hedging instruments						
Interest rate contracts:						
Swaps - cash flow - receive fixed/pay floating	$ 1,700	$ 36	$	$ 1,700	$ 50	$
Swaps - fair value - receive fixed/pay floating	1,848	246		1,700	346	
Total risk management interest rate swaps designated as hedging instruments	3,548	282		3,400	396	
Derivatives used as economic hedges						
Foreign exchange contracts:						
Spot and forwards	411	2	1	531	5	9
Swaps	2			13	3	
Total risk management foreign exchange contracts used as economic hedges	413	2	1	544	8	9
Total risk management purposes	$ 3,961	$ 284	$ 1	$ 3,944	$ 404	$ 9
Customer-initiated and other activities						
Interest rate contracts:						
Caps and floors written	$ 1,261	$	$ 12	$ 1,271	$	$ 14
Caps and floors purchased	1,261	12		1,271	14	
Swaps	10,171	313	279	9,800	410	376
Total interest rate contracts	12,693	325	291	12,342	424	390
Energy derivative contracts:						
Caps and floors written	787		70	634		84
Caps and floors purchased	787	70		634	84	
Swaps	729	83	82	877	101	101
Total energy derivative contracts	2,303	153	152	2,145	185	185
Foreign exchange contracts:						
Spot, forwards, futures and options	1,785	48	45	2,695	101	86
Swaps	24	1	1	28	1	1
Total foreign exchange contracts	1,809	49	46	2,723	102	87
Total customer-initiated and other activities	$ 16,805	$ 527	$ 489	$ 17,210	$ 711	$ 662
Total derivatives	$ 20,766	$ 811	$ 490	$ 21,154	$ 1,115	$ 671

(a) Asset derivatives are included in accrued income and other assets and liability derivatives are included in accrued expenses and other liabilities in the consolidated balance sheets.

(b) Notional or contract 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.

(c) Unrealized gains represent receivables from derivative counterparties, and therefore expose the Corporation to credit risk. Credit risk, which excludes the effects of any collateral or netting arrangements, is measured as the cost to replace contracts in a profitable position at current market rates.

Table of Contents

Note 10 - Derivative Instruments (continued)

By purchasing and writing derivative contracts, the Corporation is exposed to credit risk if the counterparties fail to perform. The Corporation minimizes credit risk through credit approvals, limits, monitoring procedures and collateral requirements. Nonperformance risk, including credit risk, is included in the determination of net fair value. Customer-initiated derivative instruments with a fair value of $527 million at September 30, 2009 were net of credit-related adjustments totaling $4 million.

Bilateral collateral agreements with counterparties reduce credit risk by providing for the daily exchange of cash or highly rated securities issued by the U.S. Treasury or other U.S. government agencies to collateralize amounts due to either party. At September 30, 2009, counterparties had pledged marketable investment securities to secure approximately 80 percent of the fair value of contracts in an unrealized gain position. In addition, at September 30, 2009, master netting arrangements were in place with substantially all interest rate swap counterparties and certain foreign exchange counterparties. These arrangements effectively reduce credit risk by permitting settlement, on a net basis, of contracts entered into with the same counterparty.

The aggregate fair value of all derivative instruments with credit-risk-related contingent features that were in a liability position on September 30, 2009 was $121 million, for which the Corporation had assigned collateral of $116 million in the normal course of business. The credit-risk-related contingent features require the Corporation s debt to maintain an investment grade credit rating from each of the major credit rating agencies. If the Corporation s debt were to fall below investment grade, the counterparties to the derivative instruments could require additional overnight collateral on derivative instruments in net liability positions. If the credit-risk-related contingent features underlying these agreements had been triggered on September 30, 2009, the Corporation would have been required to assign an additional $15 million of collateral to its counterparties.

The Corporation had commitments to purchase investment securities for its available-for-sale and trading account portfolios totaling $221 million and $1.3 billion at September 30, 2009 and December 31, 2008, respectively. Commitments to sell investment securities related to the trading account portfolio totaled $18 million at September 30, 2009 and $10 million at December 31, 2008. Outstanding commitments expose the Corporation to both credit and market risk.

Risk Management

As an end-user, the Corporation employs a variety of financial instruments for risk management purposes. 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.

As part of a fair value hedging strategy, the Corporation entered into interest rate swap agreements for interest rate risk management purposes. These interest rate swap agreements effectively modify the Corporation s exposure to interest rate risk by converting fixed-rate debt and deposits 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 $17 million and $43 million of net interest income for the three- and nine-month periods ended September 30, 2009, respectively, compared to net interest income of $14 million and $32 million for the three- and nine-month periods ended September 30, 2008, respectively.

Table of Contents

Note 10 - Derivative Instruments (continued)

The net gains (losses) recognized in other noninterest income (i.e., the ineffective portion) in the consolidated statements of income on risk management derivatives designated as fair value hedges of fixed-rate debt and deposits were as follows.

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in millions)	2009	2008	2009	2008
Interest rate swaps	$ (1)	$ 4	$ (3)	$ 9

As part of a cash flow hedging strategy, the Corporation entered into predominantly two-year interest rate swap agreements (weighted-average original maturity of 2.2 years) that effectively convert a portion of its existing and forecasted floating-rate loans to a fixed-rate basis, thus reducing the impact of interest rate changes on future interest income over the life of the agreements (currently over the next 18 months). Approximately four percent ($1.7 billion) of the Corporation s outstanding loans were designated as hedged items to interest rate swap agreements at September 30, 2009. If interest rates, interest yield curves and notional amounts remain at current levels, the Corporation expects to reclassify $19 million of net gains, net of tax, on derivative instruments designated as cash flow hedges from accumulated other comprehensive income (loss) to earnings during the next twelve months due to receipt of variable interest associated with existing and forecasted floating-rate loans.

The net gains (losses) recognized in income and OCI on risk management derivatives designated as cash flow hedges of loans for the three- and nine-month periods ended September 30, 2009 and 2008 are displayed in the table below.

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in millions)	2009	2008	2009	2008
Interest rate swaps				
Gain recognized in OCI (effective portion)	$ 5	$ 5	$ 10	$ 21
Gain (loss) recognized in other noninterest income (ineffective portion)				
Gain reclassified from accumulated OCI into interest and fees on loans (effective portion)	8	4	25	19

Foreign exchange rate risk arises from changes in the value of certain assets and liabilities denominated in foreign currencies. The Corporation employs spot and forward contracts in addition to swap contracts to manage exposure to these and other risks.

The net gains (losses) recognized in other noninterest income in the consolidated statements of income on risk management derivative instruments used as economic hedges were as follows.

	Three Months Ended September 30		Nine Months Ended September 30,	
(in millions)	2009	2008	2009	2008
Foreign exchange contracts	$ 1	$ (2)	$	$ (1)

23

Table of Contents

Note 10 - Derivative Instruments (continued)

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, 2009 and December 31, 2008.

		Weighted Average		
(dollar amounts in millions)	Notional Amount	Remaining Maturity (in years)	Receive Rate	Pay Rate (a)
September 30, 2009				
Swaps - cash flow - receive fixed/pay floating rate:				
Variable rate loan designation	$ 1,700	1.2	5.22%	3.25%
Swaps - fair value - receive fixed/pay floating rate:				
Medium- and long-term debt designation	1,600	8.3	5.73	1.44
Other time deposits designation	248	0.2	1.25	0.74
Total swaps - fair value	1,848			
Total risk management interest rate swaps	$ 3,548			
December 31, 2008				
Swaps - cash flow - receive fixed/pay floating rate:				
Variable rate loan designation	$ 1,700	1.9	5.22%	3.56%
Swaps - fair value - receive fixed/pay floating rate:				
Medium- and long-term debt designation	1,700	8.6	5.75	3.34
Total risk management interest rate swaps	$ 3,400			

(a) Variable rates paid on receive fixed swaps are based on prime and LIBOR (with various maturities) rates in effect at September 30, 2009.

Management believes these hedging strategies achieve the desired relationship between the rate maturities of assets and funding sources which, in turn, reduce the overall exposure of net interest income to interest rate risk, although there can be no assurance that such strategies will be successful. The Corporation employs cash instruments, such as investment securities, as well as various types of derivative instruments to manage exposure to interest rate risk and other risks.

Customer-Initiated and Other

Fee income is earned from entering into various transactions, principally foreign exchange contracts, interest rate contracts and energy derivative contracts, at the request of customers. The Corporation mitigates market risk inherent in customer-initiated interest rate and energy contracts by taking offsetting positions, except in those circumstances when the amount, tenor and/or contracted rate level results in negligible economic risk, whereby the cost of purchasing an offsetting contract is not economically justifiable. For customer-initiated foreign exchange contracts, the Corporation mitigates most of the inherent market risk 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.

For those customer-initiated derivative contracts which were not offset or where the Corporation holds a speculative position within the limits described above, the Corporation recognized in other noninterest income in the consolidated statements of income net gains of less than $0.5 million and net gains of $1 million in the three-month periods ended September 30, 2009 and 2008, respectively, and net gains of $1 million and $2 million in the nine-month periods ended September 30, 2009 and 2008, respectively.

Table of Contents

Note 10 - Derivative Instruments (continued)

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

		Three Months Ended September 30,		Nine Months Ended September 30,	
(in millions)	Location of Gain	2009	2008	2009	2008
Interest rate contracts	Other noninterest income	$ 2	$ 3	$ 8	$ 14
Energy derivative contracts	Other noninterest income		1	1	1
Foreign exchange contracts	Foreign exchange income	7	10	24	31
Total customer-initiated and other derivatives		$ 9	$ 14	$ 33	$ 46

Additional information regarding the nature, terms and associated risks of derivative instruments can be found in the Corporation s 2008 Annual Report on page 54 and in Note 1 to the consolidated financial statements.

Note 11 Credit-Related Financial Instruments

The Corporation s creditisk associated with off-balance-sheet, credit-related financial instruments as of September 30, 2009 and December 31, 2008 is represented by the contractual amounts included in the following table.

(in millions)	September 30, 2009	December 31, 2008
Unused commitments to extend credit:		
Commercial and other	$ 22,844	$ 25,901
Bankcard, revolving check credit and equity access loan commitments	1,966	2,124
Total unused commitments to extend credit	$ 24,810	$ 28,025
Standby letters of credit	$ 5,912	$ 6,204
Commercial letters of credit	67	156
Other financial guarantees	22	36

The Corporation maintains an allowance to cover probable credit losses inherent in lending-related commitments, including unused commitments to extend credit, letters of credit and financial guarantees. At September 30, 2009 and December 31, 2008, the allowance for credit losses on lending-related commitments, included in accrued expenses and other liabilities on the consolidated balance sheets, was $35 million and $38 million, respectively.

Unused Commitments to Extend Credit

Commitments to extend credit are legally binding agreements to lend to a customer, provided there is no violation of any condition established in the contract. These commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many commitments expire without being drawn upon, the total contractual amount of commitments does not necessarily represent future cash requirements of the Corporation. Commercial and other unused commitments are primarily variable rate commitments.

Standby and Commercial Letters of Credit and Financial Guarantees

Standby and commercial 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 and are short-term in nature. These contracts expire in decreasing amounts through the year 2019. The Corporation may enter into participation arrangements with third parties, which effectively reduce the maximum amount of future payments which may be required under standby and commercial letters of credit. These risk participations covered $441 million of the $6.0 billion standby and commercial letters of credit outstanding at September 30, 2009.

Table of Contents

Note 11 Credit-Related Financial Instruments (continued)

Financial guarantees at September 30, 2009 included credit risk participation agreements, where the Corporation, primarily as part of a syndicated lending arrangement, guarantees a portion of the credit risk on an interest rate swap agreement between the lead bank in the syndicate and a customer. In the event of default by a customer, the Corporation would be required to pay the portion of the unpaid amount guaranteed by the Corporation to the lead bank. At September 30, 2009, the estimated fair value of the Corporation s credit risk participation agreements where the Corporation was the guarantor was $22 million, and the estimated credit exposure was $31 million. The estimated credit exposure includes the estimated credit risk as of September 30, 2009, in addition to an estimate for potential future risk for changes in interest rates in each remaining year of the contract until maturity. In addition, the estimated credit exposure assumes the lead bank would be unable to liquidate assets of the customers. In the event of default, the lead bank has the ability to liquidate the assets of the customer, in which case the lead bank would be required to return a percentage of recouped assets to the participating banks. These credit risk participation agreements expire in decreasing amounts through the year 2016, with a weighted average remaining maturity for outstanding agreements of 1.5 years.

At September 30, 2009, the carrying value of the Corporation s standby and commercial letters of credit and financial guarantees, included in accrued expenses and other liabilities on the consolidated balance sheet, totaled $73 million.

The following table presents a summary of total internally classified watch list standby and commercial letters of credit and financial guarantees (generally consistent with regulatory defined special mention, substandard and doubtful) at September 30, 2009 and December 31, 2008. 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, 2009	December 31, 2008
Total watch list standby and commercial letters of credit	$ 431	$ 277
As a percentage of total outstanding standby and commercial letters of credit	7.2%	4.3%
Total watch list financial guarantees	$	$
As a percentage of total outstanding financial guarantees	%	%

Note 12 Contingent Liabilities

The Corporation and certain of its subsidiaries are subject to various pending or threatened legal proceedings arising out of the normal course of business or operations. In view of the inherent difficulty of predicting the outcome of such matters, the Corporation cannot state what the eventual outcome of these matters will be. However, based on current knowledge and after consultation with legal counsel, management believes that current reserves are adequate, and the amount of any incremental liability arising from these matters is not expected to have a material adverse effect on the Corporation s consolidated financial condition. For information regarding income tax contingencies, refer to Note 6.

Table of Contents

Note 13 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. Investment securities available-for-sale, trading securities, derivatives and certain 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, foreclosed assets, private equity investments 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.

The Corporation categorizes assets and liabilities recorded at fair value into a three-level hierarchy, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. These levels are:

Level 1 Valuation is based upon quoted prices for identical instruments traded in active markets.

Level 2 Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.

Level 3 Valuation is generated from model-based techniques that use at least one significant assumption not observable in the market. These unobservable assumptions reflect estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include use of option pricing models, discounted cash flow models and similar techniques.

Following is a description 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. For financial assets and liabilities recorded at fair value, the description includes an indication of the level of the fair value hierarchy in which the assets or liabilities are classified.

Cash and due from banks, federal funds sold and securities purchased under agreements to resell, and interest-bearing deposits with banks

The carrying amount approximates the estimated fair value of these instruments.

Trading securities and associated liabilities

Securities held for trading purposes are recorded at fair value and included in other short-term investments on the consolidated balance sheets. Level 1 securities held for trading purposes include assets related to employee deferred compensation plans, which are invested in mutual funds and other securities traded on an active exchange. Deferred compensation liabilities, also classified as Level 1, are carried at the fair value of the obligation to the employee, which corresponds to the fair value of the invested assets. Level 2 trading securities include municipal bonds and mortgage-backed securities issued by U.S. government-sponsored entities and corporate debt securities. Securities classified as Level 3 include securities in less liquid markets and securities not rated by a credit agency. The methods used to value trading securities are the same as the methods used to value investment securities available-for-sale, discussed below.

Loans held-for-sale

Loans held-for-sale, included in other short-term investments on the consolidated balance sheets, are recorded at the lower of cost or fair value. The fair value of loans held-for-sale is based on what secondary markets are currently offering for portfolios with similar characteristics. As such, the Corporation classifies loans held-for-sale subjected to nonrecurring fair value adjustments as Level 2.

Table of Contents

Note 13 Fair Value Measurements (continued)

Investment securities available-for-sale

Investment securities available-for-sale are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted prices, if available. If quoted prices are not available or the market is deemed to be inactive at the measurement date and quoted prices are determined to be associated with distressed transactions, an adjustment to the quoted prices may be necessary or the Corporation may conclude that a change in valuation technique or the use of multiple valuation techniques may be appropriate to estimate an instrument s fair value. Level 1 securities include those traded on an active exchange, such as the New York Stock Exchange, U.S. Treasury securities that are traded by dealers or brokers in active over-the-counter markets and money market funds. Level 2 securities primarily include residential mortgage-backed securities issued by U.S. government-sponsored enterprises. Securities classified as Level 3, the substantial majority of which are auction-rate securities (ARS), represent securities in less liquid markets requiring significant management assumptions when determining the fair value. The fair value of auction-rate securities was determined using an income approach based on a discounted cash flow model utilizing two significant assumptions in the model: discount rate (including a liquidity risk premium for certain securities) and workout period. The interest rate used to discount cash flows included a reasonable market premium a willing buyer would require in an orderly transaction. The rate of redemption of the various types of ARS held by the Corporation during the nine months ended September 30, 2009, which ranged from nominal to approximately 25 percent, was a significant consideration in the determination of a reasonable market premium a buyer would require.

Loans

The Corporation does not record loans at fair value on a recurring basis. However, periodically, the Corporation records nonrecurring adjustments to the carrying value of loans based on fair value measurements. Loans for which it is probable that payment of interest and principal will not be made in accordance with the contractual terms of the original loan agreement are considered impaired. Once loans are identified as impaired, management measures impairment based one of several methods, including estimated collateral value, market value of similar debt, or discounted cash flows. When fair value is less than current carrying value, the difference is charged-off when appropriate, or a valuation allowance is established within the allowance for loan losses. Those impaired loans not requiring an allowance represent loans for which the fair value of expected repayments or collateral exceeded the recorded investments in such loans. At September 30, 2009 and 2008, substantially all impaired loans were evaluated based on the fair value of the collateral. Impaired loans where an allowance is established based on the fair value of collateral require classification in the fair value hierarchy. When the fair value of the collateral is based on an observable market price or a current appraised value, the Corporation classifies the impaired loan as nonrecurring Level 2. When a current appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, the Corporation classifies the impaired loan as nonrecurring Level 3.

Business loans consist of commercial, real estate construction, commercial mortgage, equipment lease financing and international loans. Retail loans consist of residential mortgage, home equity and other consumer loans. The estimated fair value for variable rate business loans that reprice frequently is based on carrying values adjusted for estimated credit losses and other adjustments that would be expected to be made by a market participant in an active market. The fair value for other business and retail loans is estimated using a discounted cash flow model that employs interest rates currently offered on the loans, adjusted by an amount for estimated credit losses and other adjustments that would be expected to be made by a market participant in an active market. The rates take into account the expected yield curve, as well as an adjustment for prepayment risk, when applicable.

Customers liability on acceptances outstanding and acceptances outstanding

The carrying amount approximates the estimated fair value.

Table of Contents

Note 13 Fair Value Measurements (continued)

Derivative assets and liabilities

Substantially all of the derivative instruments held or issued by the Corporation for risk management or customer-initiated activities are traded in over-the-counter markets where quoted market prices are not readily available. For those derivative instruments, the Corporation measures fair value using internally developed models that use primarily market observable inputs, such as yield curves and option volatilities, and include the value associated with counterparty credit risk. As such, the Corporation classifies those derivative instruments as recurring Level 2. Examples of Level 2 derivative instruments are interest rate swaps, energy and foreign exchange derivative contracts.

The Corporation also holds a portfolio of warrants for generally nonmarketable equity securities. These warrants are primarily from high technology, non-public companies obtained as part of the loan origination process. Warrants which contain a net exercise provision or a non-contingent put right embedded in the warrant agreement are required to be accounted for as derivatives and recorded at fair value. Fair value is determined using a Black-Scholes valuation model, which has five inputs: risk-free rate, expected life, volatility, exercise price, and the per share market value of the underlying company. Where sufficient financial data exists, a market approach method is utilized to estimate the current value of the underlying company. When quoted market values are not available, an index method is utilized. The estimated fair value of the underlying securities for warrants requiring valuation at fair value are adjusted for discounts related to lack of liquidity. The Corporation classifies warrants accounted for as derivatives as recurring Level 3.

Foreclosed assets

Upon transfer from the loan portfolio, foreclosed assets are adjusted to and subsequently carried at the lower of carrying value or fair value. Fair value is based upon independent market prices, appraised value or management s estimation of the value. When the fair value of the collateral is based on an observable market price or a current appraised value, the Corporation classifies the foreclosed asset as nonrecurring Level 2. When a current appraised value is not available or management determines the fair value of the foreclosed asset is further impaired below the appraised value and there is no observable market price, the Corporation classifies the foreclosed asset as nonrecurring Level 3.

Nonmarketable equity securities

The Corporation has a portfolio of indirect (through funds) private equity and venture capital investments. The majority of these investments are not readily marketable. The investments are individually reviewed for impairment on a quarterly basis by comparing the carrying value to the estimated fair value. Where there is not a readily determinable fair value, the Corporation estimates fair value for indirect private equity and venture capital investments based on the percentage ownership in the net asset value of the entire fund, as reported by the fund s management. For those funds where fair value is not reported by the fund s management, the Corporation derives the fair value of the fund by estimating the fair value of each underlying investment in the fund. In addition to using qualitative information about each underlying investment, as provided by the fund s management, the Corporation gives consideration to information pertinent to the specific nature of the debt or equity investment, such as relevant market conditions, offering prices, operating results, financial conditions, exit strategy and other qualitative information, as available. The lack of an independent source to validate fair value estimates, including the impact of future capital calls and transfer restrictions, is an inherent limitation in the valuation process. The Corporation classifies nonmarketable equity securities subjected to nonrecurring fair value adjustments where there is not a readily determinable fair value as Level 3.

Loan servicing rights

Loan servicing rights are subject to impairment testing. A valuation model is used for impairment testing, which utilizes a discounted cash flow analysis using interest rates and prepayment speed assumptions currently quoted for comparable instruments and a discount rate determined by management. If the valuation model reflects a value less than the carrying value, loan servicing rights are adjusted to fair value through a valuation allowance as determined by the model. As such, the Corporation classifies loan servicing rights subjected to nonrecurring fair value adjustments as Level 3.

Table of Contents

Note 13 Fair Value Measurements (continued)

Goodwill

Goodwill is subject to an impairment test that requires an estimate of the fair value of the Corporation s reporting units. Estimating the fair value of reporting units is a subjective process involving the use of estimates and judgments, particularly related to future cash flows, discount rates (including market risk premiums) and market multiples. The fair values of the reporting units were determined using a blend of two commonly used valuation techniques, the market approach and the income approach. The Corporation gives consideration to two valuation techniques, as either technique can be an indicator of value. For the market approach, valuations of reporting units were based on an analysis of relevant price multiples in market trades in industries similar to the reporting unit. Market trades do not consider a control premium associated with an acquisition or a sale transaction. For the income approach, estimated future cash flows and terminal value (value at the end of the cash flow period, based on price multiples) were discounted. The discount rate was based on the imputed cost of equity capital. Material assumptions used in the valuation models included the comparable public company price multiples used in the terminal value, future cash flows and the market risk premium component of the discount rate. Due to the general uncertainty and depressed earning capacity in the financial services industry as of the measurement date, the Corporation concluded that the valuation under the income approach more clearly reflected the long-term future earning capacity of the reporting unit than the valuation under the market approach, and thus gave greater weight to the income approach.

In the first quarter of 2009, the Corporation conducted an impairment test when the general economic conditions deteriorated significantly and the Corporation experienced a substantial decline in market capitalization. As discussed in Note 1, the Corporation also conducted its annual goodwill impairment test as of July 1, 2009. The annual and first quarter 2009 test did not indicate that an impairment charge was required. The impairment tests performed in 2009 utilized assumptions that incorporate the Corporation s view that the current market conditions reflected only a short-term, distressed view of recent and near-term results rather than future long-term earning capacity.

If the impairment testing discussed above resulted in impairment, the Corporation would classify goodwill subjected to nonrecurring fair value adjustments as Level 3. Additional information regarding goodwill impairment testing can be found in Note 1.

Deposit liabilities

The estimated fair value of demand deposits, consisting of checking, savings and certain money market deposit accounts, is represented by the amounts payable on demand. The carrying amount of deposits in foreign offices approximates their estimated fair value, while the estimated fair value of term deposits is calculated by discounting the scheduled cash flows using the September 30, 2009 rates offered on these instruments.

Short-term borrowings

The carrying amount of federal funds purchased, securities sold under agreements to repurchase and other short-term borrowings approximates estimated fair value.

Medium- and long-term debt

The estimated fair value of the Corporation s variable rate medium- and long-term debt is represented by its carrying value. The estimated fair value of the fixed rate medium- and long-term debt is based on quoted market values. If quoted market values are not available, the estimated fair value is based on the market values of debt with similar characteristics.

Credit-related financial instruments

The estimated fair value of unused commitments to extend credit and standby and commercial letters of credit is represented by the estimated cost to terminate or otherwise settle the obligations with the counterparties. This amount is approximated by the fees currently charged to enter into similar arrangements, considering the remaining terms of the agreements and any changes in the credit quality of counterparties since the agreements were executed. This estimate of fair value does not take into account the significant value of the customer relationships and the future earnings potential involved in such arrangements as the Corporation does not believe that it would be practicable to estimate a representational fair value for these items.

Table of Contents

Note 13 Fair Value Measurements (continued)

Assets and Liabilities Recorded at Fair Value on a Recurring Basis

The table below presents the recorded amount of assets and liabilities measured at fair value on a recurring basis.

(in millions)	Total	Level 1	Level 2	Level 3
September 30, 2009				
Trading securities	$ 112	$ 84	$ 28	$
Investment securities available-for-sale:				
U.S. Treasury and other U.S. government agency securities	3,072	3,072		
Government-sponsored enterprise residential mortgage-backed securities	4,728		4,728	
State and municipal securities (a)	51		1	50
Corporate debt securities:				
Auction-rate debt securities	161			161
Other corporate debt securities	50		43	7
Equity and other non-debt securities:				
Auction-rate preferred securities	726			726
Money market and other mutual funds	94	94		
Total investment securities available-for-sale	8,882	3,166	4,772	944
Derivative assets	819		811	8
Total assets at fair value	$ 9,813	$ 3,250	$ 5,611	$ 952
Derivative liabilities	$ 490	$	$ 490	$
Other liabilities (b)	84	84		
Total liabilities at fair value	$ 574	$ 84	$ 490	$
December 31, 2008				
Trading securities	$ 124	$ 80	$ 10	$ 34
Investment securities available-for-sale:				
U.S. Treasury and other U.S. government agency securities	79	79		
Government-sponsored enterprise residential mortgage-backed securities	7,861		7,861	
State and municipal securities (a)	66		1	65
Corporate debt securities:				
Auction-rate debt securities	147			147
Other corporate debt securities	42		37	5
Equity and other non-debt securities:				
Auction-rate preferred securities	936			936
Money market and other mutual funds	70	70		
Total investment securities available-for-sale	9,201	149	7,899	1,153
Derivative assets	1,123		1,115	8
Total assets at fair value	$ 10,448	$ 229	$ 9,024	$ 1,195
Derivative liabilities	$ 671	$	$ 671	$
Other liabilities (b)	85	80		5

Total liabilities at fair value	$	756	$	80	$	671	$	5

(a) Primarily auction-rate securities.

(b) Includes liabilities associated with deferred compensation plans and financial guarantees.

Table of Contents

Note 13 Fair Value Measurements (continued)

The table below 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, 2009 and 2008.

		Net Realized/Unrealized Gains (Losses)					
	Balance at Beginning	Recorded in Earnings		Recorded in Other Comprehensive Income	Purchases, Sales, Issuances and Settlements,	Transfers In and/or Out	Balance at End of
(in millions)	of Period	Realized	Unrealized	(Pre-tax)	Net	of Level 3	Period
Three Months Ended September 30, 2009							
Investment securities available-for-sale:							
State and municipal securities (a)	$ 54	$	$	$ (2)	$ (2)	$	$ 50
Auction-rate debt securities	146			16	(1)		161
Other corporate debt securities	7						7
Auction-rate preferred securities	820	5		(12)	(87)		726
Total investment securities available-for-sale	1,027	5		2	(90)		944
Derivative assets (warrants)	8		1		(1)		8
Other assets	1		(1)				
Other liabilities	3				(3)		
Three months ended September 30, 2008							
Trading securities	$	$	$	$	$ 17	$ 3	$ 20
Investment securities available-for-sale:							
State and municipal securities	1						1
Other corporate debt securities	2						2
Total investment securities available-for-sale	3						3
Derivative assets (warrants)	10	1	1		(2)		10
Other liabilities			(98)				98
Nine Months Ended September 30, 2009							
Trading securities	$ 34	$	$	$	$ (34)	$	$
Investment securities available-for-sale:							
State and municipal securities (a)	65				(15)		50
Auction-rate debt securities	147			16	(2)		161
Other corporate debt securities	5	2					7
Auction-rate preferred securities	936	13		14	(237)		726
Total investment securities available-for-sale	1,153	15		30	(254)		944
Derivative assets (warrants)	8		2		(2)		8
Other liabilities	5	(2)			(7)		
Nine Months Ended September 30, 2008							
Trading securities	$	$	$	$	$ 17	$ 3	$ 20
Investment securities available-for-sale:							
State and municipal securities	1						1

Other corporate debt securities	2				2
Total investment securities available-for-sale	3				3
Derivative assets (warrants)	23	2	(7)	(8)	10
Other liabilities			(98)		98

(a) Primarily auction-rate securities

Table of Contents

Note 13 Fair Value Measurements (continued)

The table below presents the income statement classification of realized and unrealized gains and losses due to changes in fair value recorded in earnings for the three- and nine-month periods ended September 30, 2009 and 2008 for recurring Level 3 assets and liabilities, as shown in the previous table.

	Net Securities Gains (Losses)		Other Noninterest Income		Litigation and Operational Losses		Total	
(in millions)	Realized	Unrealized	Realized	Unrealized	Realized	Unrealized	Realized	Unrealized
Three months ended September 30, 2009								
Investment securities available-for-sale:								
Auction-rate preferred securities	$ 5	$	$	$	$	$	$ 5	$
Total investment securities available-for-sale	5						5	
Derivative assets (warrants)				1				1
Other assets				(1)				(1)
Three months ended September 30, 2008								
Derivative assets (warrants)	$	$	$ 1	$ 1	$	$	$ 1	$ 1
Other liabilities		(4)				94		(98)
Nine months ended September 30, 2009								
Investment securities available-for-sale:								
Other corporate debt securities	$ 2	$	$	$	$	$	$ 2	$
Auction-rate preferred securities	13						13	
Total investment securities available-for-sale	15						15	
Derivative assets (warrants)				2				2
Other liabilities	(2)						(2)	
Nine months ended September 30, 2008								
Derivative assets (warrants)	$	$	$ 2	$ (7)	$	$	$ 2	$ (7)
Other liabilities		(4)				94		(98)

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 in accordance with GAAP. 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. Assets and liabilities recorded at fair value on a nonrecurring basis are included in the table below.

(in millions)	Total	Level 1	Level 2	Level 3
September 30, 2009				