COMERICA INC /NEW/
Form 10-Q
October 29, 2007

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**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, 2007**

**or**

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

**For the transition period from __________ to __________**

**Commission file number 1-10706**

**Comerica Incorporated**

(Exact name of registrant as specified in its charter)

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

Comerica Bank Tower
1717 Main Street, MC 6404
Dallas, Texas
75201
(Address of principal executive offices)
(Zip Code)
(214) 969-6476
(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 þ No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act (Check one):

Large accelerated filer þ Accelerated filer o Non-accelerated filer 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 þ

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 12, 2007: 151,018,124 shares

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**Forward-Looking Statements**

This report includes forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995. In addition, the Corporation may make other written and oral communication from time to time that contain such statements. All statements regarding the Corporation s expected financial position, strategies and growth prospects and general economic conditions expected to exist in the future are forward-looking statements. The words, anticipates, believes, feels, expects, estimates, seeks, strives, plans, intends, outlook, forecast, position, t achievable, potential, strategy, goal, aspiration, outcome, continue, remain, maintain, trend, obj of such words and similar expressions, or future or conditional verbs such as will, would, should, could, might, may or similar expressions, as they relate to the Corporation or its management, are intended to identify

forward-looking statements.
The Corporation cautions that forward-looking statements are subject to numerous assumptions, risks and uncertainties, which change over time. Forward-looking statements speak only as of the date the statement is made, and the Corporation does not undertake to update forward-looking statements to reflect facts, circumstances, assumptions or events that occur after the date the forward-looking statements are made. Actual results could differ materially from those anticipated in forward-looking statements and future results could differ materially from historical performance.

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**CONSOLIDATED BALANCE SHEETS**

*Comerica Incorporated and Subsidiaries*

| *(in millions, except share data)* | **September 30, 2007** (unaudited) | **December 31, 2006** | **September 30, 2006** (unaudited) |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and due from banks | $ 1,271 | $ 1,434 | $ 1,456 |
| Federal funds sold and securities purchased under agreements to resell | 129 | 2,632 | 3,473 |
| Other short-term investments | 293 | 327 | 259 |
| Investment securities available-for-sale | 4,942 | 3,662 | 3,931 |
| Commercial loans | 27,392 | 26,265 | 25,755 |
| Real estate construction loans | 4,759 | 4,203 | 4,122 |
| Commercial mortgage loans | 9,994 | 9,659 | 9,485 |
| Residential mortgage loans | 1,892 | 1,677 | 1,622 |
| Consumer loans | 2,397 | 2,423 | 2,498 |
| Lease financing | 1,319 | 1,353 | 1,321 |
| International loans | 1,843 | 1,851 | 1,712 |
| Total loans | 49,596 | 47,431 | 46,515 |
| Less allowance for loan losses | (512) | (493) | (493) |
| Net loans | 49,084 | 46,938 | 46,022 |
| Premises and equipment | 635 | 568 | 540 |
| Customers liability on acceptances outstanding | 39 | 56 | 64 |
| Accrued income and other assets | 3,629 | 2,384 | 2,729 |
| Total assets | $ 60,022 | $ 58,001 | $ 58,474 |
| **LIABILITIES AND SHAREHOLDERS EQUITY** | | | |
| Noninterest-bearing deposits | $ 11,290 | $ 13,901 | $ 15,132 |
| Money market and NOW deposits | 14,814 | 15,250 | 14,711 |
| Savings deposits | 1,402 | 1,365 | 1,378 |
| Customer certificates of deposit | 8,010 | 7,223 | 7,057 |
| Institutional certificates of deposit | 5,049 | 5,783 | 5,783 |
| Foreign office time deposits | 1,355 | 1,405 | 869 |
| Total interest-bearing deposits | 30,630 | 31,026 | 29,798 |
| Total deposits | 41,920 | 44,927 | 44,930 |
| Short-term borrowings | 2,813 | 635 | 225 |
| Acceptances outstanding | 39 | 56 | 64 |

| | | | |
|---|---|---|---|
| Accrued expenses and other liabilities | 1,267 | 1,281 | 1,292 |
| Medium- and long-term debt | 8,906 | 5,949 | 6,755 |
| Total liabilities | 54,945 | 52,848 | 53,266 |
| Common stock $5 par value: | | | |
| Authorized - 325,000,000 shares | | | |
| Issued - 178,735,252 shares at 9/30/07, 12/31/06 and 9/30/06 | 894 | 894 | 894 |
| Capital surplus | 551 | 520 | 507 |
| Accumulated other comprehensive loss | (238) | (324) | (128) |
| Retained earnings | 5,484 | 5,282 | 5,079 |
| Less cost of common stock in treasury - 27,725,572 shares at 9/30/07, 21,161,161 shares at 12/31/06 and 19,892,137 shares at 9/30/06 | (1,614) | (1,219) | (1,144) |
| Total shareholders equity | 5,077 | 5,153 | 5,208 |
| Total liabilities and shareholders equity | $ 60,022 | $ 58,001 | $ 58,474 |

See notes to consolidated financial statements.

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

| *(in millions, except per share data)* | Three Months Ended September 30, 2007 | Three Months Ended September 30, 2006 | Nine Months Ended September 30, 2007 | Nine Months Ended September 30, 2006 |
|---|---|---|---|---|
| **INTEREST INCOME** | | | | |
| Interest and fees on loans | $ 895 | $ 843 | $2,628 | $2,358 |
| Interest on investment securities | 52 | 43 | 140 | 132 |
| Interest on short-term investments | 5 | 7 | 18 | 20 |
| Total interest income | 952 | 893 | 2,786 | 2,510 |
| **INTEREST EXPENSE** | | | | |
| Interest on deposits | 294 | 272 | 864 | 707 |
| Interest on short-term borrowings | 29 | 28 | 75 | 115 |
| Interest on medium- and long-term debt | 126 | 91 | 333 | 207 |
| Total interest expense | 449 | 391 | 1,272 | 1,029 |
| Net interest income | 503 | 502 | 1,514 | 1,481 |
| Provision for loan losses | 45 | 15 | 104 | 15 |
| Net interest income after provision for loan losses | 458 | 487 | 1,410 | 1,466 |
| **NONINTEREST INCOME** | | | | |
| Service charges on deposit accounts | 55 | 56 | 164 | 164 |
| Fiduciary income | 49 | 45 | 147 | 133 |
| Commercial lending fees | 19 | 16 | 52 | 46 |
| Letter of credit fees | 16 | 17 | 47 | 48 |
| Foreign exchange income | 11 | 9 | 30 | 28 |
| Brokerage fees | 11 | 10 | 32 | 30 |
| Card fees | 14 | 11 | 40 | 34 |
| Bank-owned life insurance | 8 | 8 | 27 | 31 |
| Net income from principal investing and warrants | 11 | | 13 | 7 |
| Net securities gains (losses) | 4 | | 4 | (1) |
| Net gain (loss) on sales of businesses | | (7) | 3 | (12) |
| Other noninterest income | 32 | 30 | 99 | 85 |
| Total noninterest income | 230 | 195 | 658 | 593 |
| **NONINTEREST EXPENSES** | | | | |
| Salaries | 207 | 202 | 628 | 592 |
| Employee benefits | 49 | 48 | 145 | 142 |
| Total salaries and employee benefits | 256 | 250 | 773 | 734 |
| Net occupancy expense | 34 | 31 | 102 | 91 |
| Equipment expense | 15 | 13 | 45 | 41 |

| | | | | |
|---|---|---|---|---|
| Outside processing fee expense | 23 | 21 | 67 | 64 |
| Software expense | 16 | 13 | 46 | 41 |
| Customer services | 11 | 11 | 36 | 33 |
| Litigation and operational losses | 6 | 3 | | 7 |
| Provision for credit losses on lending-related commitments | | (5) | (4) | 9 |
| Other noninterest expenses | 62 | 62 | 176 | 197 |
| Total noninterest expenses | 423 | 399 | 1,241 | 1,217 |
| Income from continuing operations before income taxes | 265 | 283 | 827 | 842 |
| Provision for income taxes | 85 | 88 | 262 | 245 |
| Income from continuing operations | 180 | 195 | 565 | 597 |
| Income (loss) from discontinued operations, net of tax | 1 | 5 | 2 | (3) |
| **NET INCOME** | $ 181 | $ 200 | $ 567 | $ 594 |
| Basic earnings per common share: | | | | |
| Income from continuing operations | $1.18 | $1.22 | $ 3.67 | $ 3.70 |
| Net income | 1.20 | 1.25 | 3.69 | 3.69 |
| Diluted earnings per common share: | | | | |
| Income from continuing operations | 1.17 | 1.20 | 3.61 | 3.65 |
| Net income | 1.18 | 1.23 | 3.63 | 3.64 |
| Cash dividends declared on common stock | 97 | 94 | 296 | 286 |
| Dividends per common share | 0.64 | 0.59 | 1.92 | 1.77 |

See notes to consolidated financial statements.

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**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY (unaudited)**

*Comerica Incorporated and Subsidiaries*

| *(in millions, except per share data)* | Common Stock In Shares | Common Stock Amount | Capital Surplus | Accumulated Other Comprehensive Loss | Retained Earnings | Treasury Stock | Total Shareholders Equity |
|---|---|---|---|---|---|---|---|
| **BALANCE AT JANUARY 1, 2006** | 162.9 | $ 894 | $ 461 | $ (170) | $ 4,796 | $ (913) | $ 5,068 |
| Net income | | | | | 594 | | 594 |
| Other comprehensive income, net of tax | | | | 42 | | | 42 |
| Total comprehensive income | | | | | | | 636 |
| Cash dividends declared on common stock ($1.77 per share) | | | | | (286) | | (286) |
| Purchase of common stock | (5.2) | | | | | (299) | (299) |
| Net issuance of common stock under employee stock plans | 1.4 | | (16) | | (25) | 85 | 44 |
| Recognition of share-based compensation expense | | | 45 | | | | 45 |
| Employee deferred compensation obligations | (0.3) | | 17 | | | (17) | |
| **BALANCE AT SEPTEMBER 30, 2006** | 158.8 | $ 894 | $ 507 | $ (128) | $ 5,079 | $ (1,144) | $ 5,208 |
| **BALANCE AT DECEMBER 31, 2006** | 157.6 | $ 894 | $ 520 | $ (324) | $ 5,282 | $ (1,219) | $ 5,153 |
| FSP 13-2 transition adjustment, net of tax | | | | | (46) | | (46) |
| FIN 48 transition adjustment, net of tax | | | | | 3 | | 3 |
| **BALANCE AT JANUARY 1, 2007** | 157.6 | 894 | 520 | (324) | 5,239 | (1,219) | 5,110 |
| Net income | | | | | 567 | | 567 |
| Other comprehensive income, net of tax | | | | 86 | | | 86 |
| Total comprehensive income | | | | | | | 653 |
| Cash dividends declared on common stock ($1.92 per share) | | | | | (296) | | (296) |
| Purchase of common stock | (9.0) | | | | | (533) | (533) |
| Net issuance of common stock under employee stock plans | 2.4 | | (16) | | (26) | 139 | 97 |
| Recognition of share-based compensation expense | | | 46 | | | | 46 |
| Employee deferred compensation obligations | | | 1 | | | (1) | |
| **BALANCE AT SEPTEMBER 30, 2007** | 151.0 | $ 894 | $ 551 | $ (238) | $ 5,484 | $ (1,614) | $ 5,077 |

See notes to consolidated financial statements.

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

| | Nine Months Ended September 30, | |
|---|---|---|
| *(in millions)* | **2007** | **2006** |
| **OPERATING ACTIVITIES** | | |
| Net income | $ 567 | $ 594 |
| Income (loss) from discontinued operations, net of tax | 2 | (3) |
| Income from continuing operations | 565 | 597 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Provision for loan losses | 104 | 15 |
| Provision for credit losses on lending-related commitments | (4) | 9 |
| Depreciation and software amortization | 69 | 61 |
| Share-based compensation expense | 46 | 45 |
| Excess tax benefits from share-based compensation arrangements | (9) | (8) |
| Net amortization of securities | (2) | (1) |
| Net (gain) loss on sale/settlement of investment securities available-for-sale | (4) | 1 |
| Net (gain) loss on sales of businesses | (3) | 12 |
| Net decrease in trading securities | 1 | 25 |
| Net decrease in loans held-for-sale | 48 | 57 |
| Net increase in accrued income receivable | (10) | (49) |
| Net (decrease) increase in accrued expenses | (41) | 85 |
| Other, net | (45) | (31) |
| Discontinued operations, net | 1 | 26 |
| Total adjustments | 151 | 247 |
| Net cash provided by operating activities | 716 | 844 |
| **INVESTING ACTIVITIES** | | |
| Net decrease (increase) in federal funds sold and other short-term investments | 2,488 | (2,629) |
| Proceeds from sales of investment securities available-for-sale | 4 | 1 |
| Proceeds from maturities of investment securities available-for-sale | 658 | 973 |
| Purchases of investment securities available-for-sale | (1,912) | (671) |
| Net increase in loans | (2,261) | (3,319) |
| Net increase in fixed assets | (126) | (106) |
| Net decrease (increase) in customers liability on acceptances outstanding | 17 | (5) |
| Proceeds from sales of businesses | 3 | 43 |
| Discontinued operations, net | 1 | |
| Net cash used in investing activities | (1,128) | (5,713) |
| **FINANCING ACTIVITIES** | | |
| Net (decrease) increase in deposits | (4,140) | 2,499 |
| Net increase (decrease) in short-term borrowings | 2,178 | (77) |
| Net (decrease) increase in acceptances outstanding | (17) | 5 |

| | | |
|---|---|---|
| Proceeds from issuance of medium- and long-term debt | 3,835 | 2,930 |
| Repayments of medium- and long-term debt | (879) | (104) |
| Proceeds from issuance of common stock under employee stock plans | 89 | 36 |
| Excess tax benefits from share-based compensation arrangements | 9 | 8 |
| Purchase of common stock for treasury | (533) | (299) |
| Dividends paid | (293) | (282) |
| Discontinued operations, net | | |
| Net cash provided by financing activities | 249 | 4,716 |
| Net decrease in cash and due from banks | (163) | (153) |
| Cash and due from banks at beginning of period | 1,434 | 1,609 |
| Cash and due from banks at end of period | $ 1,271 | $ 1,456 |
| Interest paid | $ 1,249 | $ 1,025 |
| Income taxes paid | $ 313 | $ 202 |
| Noncash investing and financing activities: | | |
| Loans transferred to other real estate | $ 13 | $ 15 |

See notes to consolidated financial statements.

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**Notes to Consolidated Financial Statements (unaudited)**

*Comerica Incorporated and Subsidiaries*

**Note 1 Basis of Presentation and Accounting Policies**

The accompanying unaudited consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles 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 U.S. generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. The results of operations for the nine months ended September 30, 2007 are not necessarily indicative of the results that may be expected for the year ending December 31, 2007. Certain items in prior periods have been 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, 2006.

Income Taxes

On January 1, 2007, the Corporation adopted the provisions of FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes- an interpretation of FASB Statement No. 109, (FIN 48). FIN 48 permits the Corporation to elect to change its accounting policy as to where interest and penalties on tax liabilities is classified in the consolidated statements of income. Effective January 1, 2007, the Corporation prospectively changed its accounting policy to classify interest and penalties on tax liabilities in the provision for income taxes on the consolidated statements of income. The provision for income taxes included interest on tax liabilities of $4 million and $8 million for the three and nine month periods ended September 30, 2007, respectively. For all prior periods presented, interest and penalties on tax liabilities remained classified in other noninterest expenses on the consolidated statements of income. Additional information regarding FIN 48 can be found in Note 6.

Impairment

Goodwill and identified intangible assets that have an indefinite useful life are 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. The Corporation performs its annual impairment test for goodwill and identified intangible assets that have an indefinite useful life as of July 1 of each year. The impairment test involves assigning tangible assets and liabilities, identified intangible assets and goodwill to reporting units, which are a subset of the Corporation s operating segments, and comparing the fair value of each reporting unit to its carrying value. If the fair value is less than the carrying value, a further test is required to measure the amount of impairment. The annual test of goodwill and intangible assets that have an indefinite life, performed as of July 1, 2007, did not indicate that an impairment charge was required.

**Note 2 Pending Accounting Pronouncements**

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements, (SFAS 157), which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS 157 applies whenever other standards require (or permit) assets or liabilities to be measured at fair value, and therefore, does not expand the use of fair value in any new circumstances. Fair value refers to the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the market in which the Corporation transacts. SFAS 157 clarifies that fair value should be based on the assumptions market participants would use when pricing an asset or liability and establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. The fair value hierarchy gives the highest priority to quoted prices in active markets and the lowest priority to unobservable data, for example, the Corporation s own data. SFAS 157 requires fair value measurements to be separately disclosed by level within the fair value hierarchy. While not expanding the use of fair value, SFAS 157 may change the measurement of fair value. Any change in the measurement of fair value would be considered a change in estimate and included in the results of operations in the period of adoption. SFAS 157 is effective for fiscal years beginning after November 15, 2007. Accordingly, the Corporation will adopt the provisions of SFAS 157 in the first quarter of 2008. The Corporation is currently evaluating the guidance contained in SFAS 157 to determine the effect adoption of the guidance will have on the Corporation s financial condition and results of operations.

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

**Note 2 Pending Accounting Pronouncements (continued)**

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115, (SFAS 159). SFAS 159 provides entities with the irrevocable option to account for selected financial assets and liabilities at fair value on a contract-by-contract basis. The Corporation can elect to apply the standard prospectively and measure certain financial instruments at fair value beginning January 1, 2008. The Corporation is currently evaluating the guidance contained in SFAS 159, and has yet to determine which assets or liabilities (if any) will be selected. At adoption, the difference between the carrying amount and the fair value of existing eligible assets and liabilities selected (if any) would be recognized via a cumulative adjustment to beginning retained earnings on January 1, 2008. After adoption, all changes in fair value would be included in the results of operations.

**Note 3 Investment Securities**

A summary of the Corporation s temporarily impaired investment securities available-for-sale as of September 30, 2007 follows:

| | Impaired | | | | | |
|---|---|---|---|---|---|---|
| | Less than 12 months | | Over 12 months | | Total | |
| *(in millions)* | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| U.S. Treasury and other Government agency securities | $ 1 | $ * | $ 4 | $ * | $ 5 | $ * |
| Government-sponsored enterprise securities | 844 | 3 | 2,336 | 57 | 3,180 | 60 |
| State and municipal securities | | | | | | |
| Other securities | | | | | | |
| Total temporarily impaired securities | $845 | $ 3 | $2,340 | $ 57 | $3,185 | $ 60 |

* Unrealized losses less than $0.5 million.

At September 30, 2007, the Corporation had 137 securities in an unrealized loss position, including 135 government-sponsored enterprise securities (i.e., FMNA, FHLMC). The unrealized losses resulted from changes in market interest rates, not credit quality. The Corporation has the ability and intent to hold these available-for-sale investment securities until maturity or market price recovery, and full collection of the amounts due according to the contractual terms of the debt is expected; therefore, the Corporation does not consider these investments to be other-than-temporarily impaired at September 30, 2007.

At September 30, 2007, investment securities having a carrying value of $1.8 billion were pledged where permitted or required by law to secure $1.2 billion of liabilities, including public and other deposits, and derivative instruments. This included securities of $962 million pledged with the Federal Reserve Bank to secure actual treasury tax and loan borrowings of $451 million at September 30, 2007, and potential borrowings of up to an additional $399 million. The remaining pledged securities of $831 million are primarily with state and local government agencies to secure $794 million of deposits and other liabilities, including deposits of the State of Michigan of $205 million at September 30, 2007.

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**Notes to Consolidated Financial Statements (unaudited)**
*Comerica Incorporated and Subsidiaries*
**Note 4 Allowance for Credit Losses**

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

| | Nine Months Ended September 30, | |
|---|---|---|
| *(in millions)* | 2007 | 2006 |
| Balance at beginning of period | $493 | $516 |
| Loan charge-offs: | | |
| Domestic | | |
| Commercial | 62 | 37 |
| Real estate construction | | |
| Commercial Real Estate business line | 13 | |
| Other business lines | 4 | |
| Total real estate construction | 17 | |
| Commercial mortgage | | |
| Commercial Real Estate business line | 8 | 1 |
| Other business lines | 28 | 9 |
| Total commercial mortgage | 36 | 10 |
| Residential mortgage | | |
| Consumer | 9 | 10 |
| Lease financing | | 7 |
| International | | 3 |
| Total loan charge-offs | 124 | 67 |
| Recoveries: | | |
| Domestic | | |
| Commercial | 20 | 22 |
| Real estate construction | | |
| Commercial mortgage | 3 | 3 |
| Residential mortgage | | |
| Consumer | 3 | 2 |
| Lease financing | 4 | |
| International | 8 | 2 |
| Total recoveries | 38 | 29 |
| Net loan charge-offs | 86 | 38 |
| Provision for loan losses | 104 | 15 |
| Foreign currency translation adjustment | 1 | |
| Balance at end of period | $512 | $493 |

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**Notes to Consolidated Financial Statements (unaudited)**
*Comerica Incorporated and Subsidiaries*
**Note 4 Allowance for Credit Losses (continued)**

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.

| | Nine Months Ended September 30, | |
|---|---|---|
| *(in millions)* | 2007 | 2006 |
| Balance at beginning of period | $26 | $33 |
| Less: Charge-offs on lending-related commitments* | 3 | 11 |
| Add: Provision for credit losses on lending-related commitments | (4) | 9 |
| Balance at end of period | $19 | $31 |

* Charge-offs result from the sale of unfunded lending-related commitments.

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 loan agreement. Consistent with this definition, all nonaccrual and reduced-rate loans (with the exception of residential mortgage and consumer loans) are impaired. Impaired loans that are restructured and meet the requirements to be on accrual status are included with total impaired loans for the remainder of the calendar year of the restructuring. There were two loans totaling $9 million included in the $276 million of impaired loans at September 30, 2007 that were restructured and met the requirements to be on accrual status. Impaired loans averaged $269 million and $236 million for the three and nine month periods ended September 30, 2007, respectively, and $152 million and $139 million for the three and nine month periods ended September 30, 2006, respectively. The following presents information regarding the period-end balances of impaired loans:

| *(in millions)* | Nine Months Ended September 30, 2007 | Year Ended December 31, 2006 |
|---|---|---|
| Total period-end nonaccrual business loans | $ 267 | $ 209 |
| Plus: Impaired loans restructured during the period on accrual status at period-end | 9 | |
| Total period-end impaired loans | $ 276 | $ 209 |
| Period-end impaired loans requiring an allowance | $ 254 | $ 195 |
| Allowance allocated to impaired loans | $ 58 | $ 34 |

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.

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**Notes to Consolidated Financial Statements (unaudited)**
*Comerica Incorporated and Subsidiaries*
**Note 5 Medium- and Long-term Debt**

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

| *(in millions)* | September 30, 2007 | December 31, 2006 |
|---|---|---|
| Parent company | | |
| Subordinated notes: | | |
| 7.25% subordinated note due 2007 | $ | $ 151 |
| 4.80% subordinated note due 2015 | 296 | 294 |
| 6.576% subordinated notes due 2037 | 510 | |
| 7.60% subordinated note due 2050 | | 361 |
| Total subordinated notes | 806 | 806 |
| Medium-term notes: | | |
| Floating rate based on LIBOR indices due 2010 | 150 | |
| Total parent company | 956 | 806 |
| Subsidiaries | | |
| Subordinated notes: | | |
| 7.25% subordinated note due 2007 | | 201 |
| 9.98% subordinated note due 2007 | | 58 |
| 6.00% subordinated note due 2008 | 253 | 253 |
| 6.875% subordinated note due 2008 | 100 | 102 |
| 8.50% subordinated note due 2009 | 101 | 101 |
| 7.125% subordinated note due 2013 | 156 | 157 |
| 5.70% subordinated note due 2014 | 253 | 251 |
| 5.75% subordinated notes due 2016 | 657 | 397 |
| 5.20% subordinated notes due 2017 | 492 | 489 |
| 8.375% subordinated note due 2024 | 181 | 182 |
| 7.875% subordinated note due 2026 | 189 | 192 |
| Total subordinated notes | 2,382 | 2,383 |
| Medium-term notes: | | |
| Floating rate based on LIBOR indices due 2007 to 2012 | 4,618 | 2,299 |
| Floating rate based on PRIME indices due 2007 to 2008 | 850 | 350 |
| 2.85% fixed rate note due 2007 | | 100 |
| Floating rate based on Federal Funds indices due 2009 | 100 | |
| Variable rate note payable due 2009 | | 11 |
| Total subsidiaries | 7,950 | 5,143 |
| Total medium- and long-term debt | $ 8,906 | $ 5,949 |

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

In February 2007, the Corporation issued $515 million of 6.576% subordinated notes that relate to trust preferred securities issued by an unconsolidated subsidiary. The notes pay interest on February 20 and August 20 of each year, beginning August 20, 2007 through February 20, 2032. Beginning February 20, 2032, the notes will bear interest at an annual rate based on LIBOR, payable monthly on the 20th day of each calendar month until the scheduled maturity date of February 20, 2037. The subordinated notes qualify as Tier 1 capital. The Corporation used the proceeds for the March 2007 redemption of a $350 million, 7.60% subordinated note due 2050 and to repurchase additional shares.

In March 2007, Comerica Bank (the Bank), a subsidiary of the Corporation, issued an additional $250 million of 5.75% subordinated notes under a series initiated in November 2006. The notes pay interest on May 21 and November 21 of each year, beginning with May 21, 2007, and mature November 21, 2016. The Bank used the net proceeds for general corporate purposes.

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

**Note 5 Medium- and Long-term Debt (continued)**

In July 2007, the Corporation issued $150 million of floating rate senior notes due July 27, 2010. The notes pay interest on January 27, April 27, July 27 and October 27 of each year, beginning October 27, 2007. The notes bear interest at a variable rate reset each interest period based on three-month LIBOR plus 0.17%. The Corporation used the proceeds to repay the $150 million 7.25% subordinated note due 2007.

The Bank issued a total of $2.9 billion of floating rate notes during the nine months ended September 30, 2007 under an existing $15 billion medium-term senior note program. The Bank used the proceeds for general corporate purposes.

**Note 6 Income Taxes and Tax-Related Items**

The provision for income taxes is computed by applying statutory federal income tax rates to income 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. State and foreign taxes are then added to the federal tax provision. In addition, beginning January 1, 2007, interest on tax liabilities is classified in the provision for income taxes.

The Corporation adopted the provisions of FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes- an interpretation of FASB Statement No. 109, (FIN 48) on January 1, 2007. As a result, the Corporation recognized an increase in the liability for unrecognized tax benefits of approximately $5 million at January 1, 2007, accounted for as a change in accounting principle via a decrease to the opening balance of retained earnings. At January 1, 2007, the Corporation had unrecognized tax benefits of approximately $72 million. After consideration of the effect of the federal tax benefit available on unrecognized state tax benefits, the total amount of unrecognized tax benefits that, if recognized, would affect the Corporation s effective tax rate was approximately $66 million at January 1, 2007.

The Corporation recognized approximately $4 million and $8 million in interest on tax liabilities included in the provision for income taxes on the consolidated statements of income for the three and nine month periods ended September 30, 2007, respectively, compared to $2 million and $23 million for the three and nine months ended September 30, 2006, respectively, included in other noninterest expenses on the consolidated statements of income. For further information regarding the change in classification of interest and penalties on tax liabilities as a result of applying the provisions of FIN 48, refer to Note 1 to these consolidated financial statements. The Corporation had approximately $78 million and $70 million accrued for the payment of interest at September 30, 2007 and January 1, 2007, respectively. Upon adoption of FIN 48, the Corporation recorded an $8 million decrease to interest on tax liabilities as an increase to the opening balance of retained earnings.

In the ordinary course of business, the Corporation enters into certain transactions that have tax consequences. From time to time, the Internal Revenue Service (IRS) questions and/or challenges the tax position taken by the Corporation with respect to those transactions. The Corporation engaged in certain types of structured leasing transactions that the IRS disallowed in its examination of the Corporation s federal tax returns for the years 1996 through 2000. The IRS also disallowed foreign tax credits associated with the interest on a series of loans to foreign borrowers. The Corporation has had ongoing discussions with the IRS Appeals Office related to the disallowance of the foreign tax credits associated with the loans and adjusted tax and related interest reserves based on settlements discussed. The Corporation believes it is reasonably possible that a final settlement amount with the IRS will be agreed upon within the next twelve months. The FIN 48 unrecognized tax benefit related to the foreign tax credits was approximately $38 million at September 30, 2007, and reflects the Corporation s current settlement expectations.

Based on current knowledge and probability assessment of various potential outcomes, the Corporation believes that current tax reserves, determined in accordance with FIN 48, 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.

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**Notes to Consolidated Financial Statements (unaudited)**

*Comerica Incorporated and Subsidiaries*

**Note 6 Income Taxes and Tax-Related Items (continued)**

The Corporation believes that its tax returns were filed based upon applicable statutes, regulations and case law in effect at the time of the transactions. The Corporation intends to vigorously defend its positions taken in those returns in accordance with its view of the law controlling these activities. However, as noted above, the IRS examination team, an administrative authority or a court, if presented with the transactions, could disagree with the Corporation s interpretation of the tax law. After evaluating the risks and opportunities, the best outcome may result in a settlement. The ultimate outcome for each position is not known.

The following tax years for significant jurisdictions remain subject to examination as of September 30, 2007:

| Jurisdiction | Tax Years |
|---|---|
| Federal | 2001-2006 |
| California | 2002-2006 |

On January 1, 2007, the Corporation adopted the provisions of FASB Staff Position No. FAS 13-2, Accounting for a Change or Projected Change in the Timing of Cash Flows Relating to Income Taxes Generated by a Leveraged Lease Transaction, (FSP 13-2). FSP 13-2 requires a recalculation of the lease income from the inception of a leveraged lease if, during the lease term, the expected timing of the income tax cash flows generated from a leveraged lease is revised. The Corporation recorded a one-time non-cash after-tax charge to beginning retained earnings of $46 million to reflect changes in expected timing of the income tax cash flows generated from affected leveraged leases, which is expected to be recognized as income over periods ranging from 4 years to 20 years.

**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, the change in the accumulated foreign currency translation adjustment and the change in the accumulated defined benefit and other postretirement plans adjustment. The Consolidated Statements of Changes in Shareholders Equity on page 5 include only combined other comprehensive income (loss), net of tax. The following table presents reconciliations of the components of the accumulated other comprehensive income (loss) for the nine months ended September 30, 2007 and 2006. Total comprehensive income totaled $653 million and $636 million for the nine months ended September 30, 2007 and 2006, respectively. The $17 million increase in total comprehensive income in the nine months ended September 30, 2007, when compared to the same period in the prior year, resulted principally from a decrease in net unrealized losses on investment securities available-for-sale ($26 million) due to changes in the interest rate environment, a decrease in net losses on cash flow hedges ($11 million) and a change in the defined benefit and other postretirement benefit plans adjustment ($14 million), partially offset by a decrease in net income ($27 million).

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**Notes to Consolidated Financial Statements (unaudited)**
*Comerica Incorporated and Subsidiaries*
**Note 7 Accumulated Other Comprehensive Income (Loss) (continued)**

| *(in millions)* | Nine Months Ended September 30, 2007 | 2006 |
|---|---|---|
| **Accumulated net unrealized gains (losses) on investment securities available-for-sale:** | | |
| Balance at beginning of period, net of tax | $ (61) | $ (69) |
| Net unrealized holding gains (losses) arising during the period | 50 | 4 |
| Less: Reclassification adjustment for gains (losses) included in net income | 4 | (1) |
| Change in net unrealized gains (losses) before income taxes | 46 | 5 |
| Less: Provision for income taxes | 16 | 1 |
| Change in net unrealized gains (losses) on investment securities available-for-sale, net of tax | 30 | 4 |
| Balance at end of period, net of tax | $ (31) | $ (65) |
| **Accumulated net gains (losses) on cash flow hedges:** | | |
| Balance at beginning of period, net of tax | $ (48) | $ (91) |
| Net cash flow hedges gains (losses) arising during the period | 5 | (47) |
| Less: Reclassification adjustment for gains (losses) included in net income | (61) | (94) |
| Change in cash flow hedges before income taxes | 66 | 47 |
| Less: Provision for income taxes | 24 | 16 |
| Change in cash flow hedges, net of tax | 42 | 31 |
| Balance at end of period, net of tax | $ (6) | $ (60) |
| **Accumulated foreign currency translation adjustment:** | | |
| Balance at beginning of period | $ | $ (7) |
| Net translation gains (losses) arising during the period | | |
| Less: Reclassification adjustment for gains (losses) included in net income, due to sale of foreign subsidiary | | (7) |
| Change in foreign currency translation adjustment | | 7 |
| Balance at end of period | $ | $ |
| **Accumulated defined benefit pension and other postretirement plans adjustment:** | | |

| | | |
|---|---|---|
| Balance at beginning of period, net of tax | $(215) | $ (3) |
| Minimum pension liability adjustment arising during the period before income taxes | N/A | 1 |
| Less: Provision for income taxes | N/A | 1 |
| Change in minimum pension liability, net of tax | N/A | |
| Adjustment for amounts recognized as components of net periodic benefit cost during the period | 23 | N/A |
| Less: Provision for income taxes | 9 | N/A |
| Change in defined benefit and other postretirement plans adjustment, net of tax | 14 | N/A |
| Balance at end of period, net of tax | $(201) | $ (3) |
| **Total accumulated other comprehensive loss at end of period, net of tax** | $(238) | $(128) |

N/A Not Applicable

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

**Note 8 Net Income per Common Share**

Basic and diluted net income per common share for the three and nine month periods ended September 30, 2007 and 2006 were computed as follows:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| *(in millions, except per share data)* | 2007 | 2006 | 2007 | 2006 |
| Basic | | | | |
| Income from continuing operations applicable to common stock | $ 180 | $ 195 | $ 565 | $ 597 |
| Net income applicable to common stock | 181 | 200 | 567 | 594 |
| Average common shares outstanding | 151 | 160 | 154 | 161 |
| Basic income from continuing operations per common share | $1.18 | $1.22 | $3.67 | $3.70 |
| Basic net income per common share | 1.20 | 1.25 | 3.69 | 3.69 |
| Diluted | | | | |
| Income from continuing operations applicable to common stock | $ 180 | $ 195 | $ 565 | $ 597 |
| Net income applicable to common stock | 181 | 200 | 567 | 594 |
| Average common shares outstanding | 151 | 160 | 154 | 161 |
| Nonvested stock | 1 | 1 | 1 | 1 |
| Common stock equivalents: | | | | |
| Net effect of the assumed exercise of stock options | 1 | 1 | 1 | 1 |
| Diluted average common shares | 153 | 162 | 156 | 163 |
| Diluted income from continuing operations per common share | $1.17 | $1.20 | $3.61 | $3.65 |
| Diluted net income per common share | 1.18 | 1.23 | 3.63 | 3.64 |

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| *(options in millions)* | 2007 | 2006 | 2007 | 2006 |

| | | | | |
|---|---|---|---|---|
| Average outstanding options | 10.5 | 6.0 | 5.8 | 7.8 |
| Range of exercise prices | $ 55.61 - $71.58 | $ 56.74 - $71.58 | $ 59.47 - $71.58 | $ 56.38 - $71.58 |

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**Notes to Consolidated Financial Statements (unaudited)**

*Comerica Incorporated and Subsidiaries*

**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) | 2007 | 2006 | 2007 | 2006 |
| Service cost | $ 8 | $ 8 | $ 23 | $ 23 |
| Interest cost | 15 | 14 | 46 | 43 |
| Expected return on plan assets | (23) | (22) | (70) | (67) |
| Amortization of unrecognized prior service cost | 2 | 2 | 5 | 5 |
| Amortization of unrecognized net loss | 3 | 5 | 11 | 16 |
| Net periodic benefit cost | $ 5 | $ 7 | $ 15 | $ 20 |

| Non-Qualified Defined Benefit Pension Plan | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| (in millions) | 2007 | 2006 | 2007 | 2006 |
| Service cost | $1 | $1 | $ 3 | $ 3 |
| Interest cost | 2 | 1 | 6 | 4 |
| Amortization of unrecognized prior service cost | | | (1) | (1) |
| Amortization of unrecognized net loss | 1 | 1 | 4 | 4 |
| Net periodic benefit cost | $4 | $3 | $12 | $10 |

| Postretirement Benefit Plan | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| (in millions) | 2007 | 2006 | 2007 | 2006 |
| Interest cost | $ 1 | $ 1 | $ 4 | $ 3 |
| Expected return on plan assets | (1) | (1) | (3) | (3) |
| Amortization of unrecognized transition obligation | 1 | 1 | 3 | 3 |
| Amortization of unrecognized prior service cost | 1 | | 1 | |
| Amortization of unrecognized net loss | | 1 | | 1 |
| Net periodic benefit cost | $ 2 | $ 2 | $ 5 | $ 4 |

For further information on the Corporation s employee benefit plans, refer to Note 16 to the consolidated financial statements in the Corporation s 2006 Annual Report.

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**Notes to Consolidated Financial Statements (unaudited)**
*Comerica Incorporated and Subsidiaries*
**Note 10 Derivative Instruments**

The following table presents the composition of derivative instruments, excluding commitments, held or issued for risk management purposes, and in connection with customer-initiated and other activities.

| | September 30, 2007 | | | | December 31, 2006 | | | |
|---|---|---|---|---|---|---|---|---|
| *(in millions)* | Notional/ Contract Amount (1) | Unrealized Gains (2) | Unrealized Losses | Fair Value (3) | Notional/ Contract Amount (1) | Unrealized Gains (2) | Unrealized Losses | Fair Value (3) |
| **Risk management** | | | | | | | | |
| Interest rate contracts: | | | | | | | | |
| Swaps cash flow | $ 4,000 | $ | $ 16 | $(16) | $ 6,200 | $ | $ 87 | $(87) |
| Swaps fair value | 2,202 | 83 | 5 | 78 | 2,253 | 75 | 7 | 68 |
| Total interest rate contracts | 6,202 | 83 | 21 | 62 | 8,453 | 75 | 94 | (19) |
| Foreign exchange contracts: | | | | | | | | |
| Spot and forwards | 653 | 7 | 2 | 5 | 518 | 6 | 2 | 4 |
| Swaps | 24 | | | | 33 | | | |
| Total foreign exchange contracts | 677 | 7 | 2 | 5 | 551 | 6 | 2 | 4 |
| Total risk management | 6,879 | 90 | 23 | 67 | 9,004 | 81 | 96 | (15) |
| **Customer-initiated and other** | | | | | | | | |
| Interest rate contracts: | | | | | | | | |
| Caps and floors written | 629 | | 2 | (2) | 551 | | 3 | (3) |
| Caps and floors purchased | 615 | 2 | | 2 | 536 | 3 | | 3 |
| Swaps | 5,897 | 50 | 33 | 17 | 4,480 | 37 | 26 | 11 |
| Total interest rate contracts | 7,141 | 52 | 35 | 17 | 5,567 | 40 | 29 | 11 |
| Energy derivative contracts: | | | | | | | | |
| Caps and floors written | 394 | | 30 | (30) | 310 | | 23 | (23) |
| Caps and floors purchased | 394 | 30 | | 30 | 310 | 23 | | 23 |
| Swaps | 692 | 34 | 34 | | 485 | 22 | 21 | 1 |
| Total energy derivative contracts | 1,480 | 64 | 64 | | 1,105 | 45 | 44 | 1 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Foreign exchange contracts: | | | | | | | | |
| Spot, forwards, futures and options | 2,953 | 33 | 31 | 2 | 2,889 | 24 | 21 | 3 |
| Swaps | 7 | | | | 4 | | | |
| Total foreign exchange contracts | 2,960 | 33 | 31 | 2 | 2,893 | 24 | 21 | 3 |
| Total customer-initiated and other | 11,581 | 149 | 130 | 19 | 9,565 | 109 | 94 | 15 |
| **Total derivative instruments** | $18,460 | $239 | $153 | $ 86 | $18,569 | $190 | $190 | $ |

(1) 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.

(2) 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, at current market rates, contracts in a profitable position.

(3) The fair values of derivative instruments represent the estimated amounts the Corporation would receive or pay to terminate or otherwise settle the contracts at the balance sheet date. The fair values of all derivative instruments are reflected in the consolidated balance sheets.

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**Notes to Consolidated Financial Statements (unaudited)**

*Comerica Incorporated and Subsidiaries*

**Note 10 Derivative Instruments (continued)**

Risk Management

Fluctuations in net interest income due to interest rate risk result from the composition of assets and liabilities and the mismatches in the timing of the repricing of these assets and liabilities. In addition, external factors such as interest rates, and the dynamics of yield curve and spread relationships can affect net interest income. The Corporation utilizes simulation analyses to project the sensitivity of net interest income to changes in interest rates. Cash instruments, such as investment securities, as well as derivative instruments, are employed to manage exposure to these and other risks, including liquidity risk.

The following table presents net hedge ineffectiveness gains (losses) by risk management hedge type:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| *(dollar amounts in millions)* | 2007 | 2006 | 2007 | 2006 |
| Cash flow hedges | $ 1 | $ 2 | $ 2 | $ |
| Fair value hedges | | | | |
| Foreign currency hedges | | | | |
| Total | $ 1 | $ 2 | $ 2 | $ |

As an end-user, the Corporation employs a variety of financial instruments for risk management purposes. As part of a fair value hedging strategy, the Corporation has entered into interest rate swap agreements for interest rate risk management purposes. These interest rate swap agreements effectively modify exposure to interest rate risk by converting fixed-rate deposits and debt to a floating rate. These agreements involve the receipt of fixed rate interest amounts in exchange for floating rate interest payments over the life of the agreement, without an exchange of the underlying principal amount.

As part of a cash flow hedging strategy, the Corporation entered into predominantly three-year interest rate swap agreements (weighted-average original maturity of 3.0 years) that effectively convert a portion of its existing and forecasted floating-rate loans to a fixed-rate basis, which will reduce the impact of interest rate changes on future interest income over the next 13 months. Approximately eight percent ($4.0 billion) of outstanding loans were designated as hedged items to interest rate swap agreements at September 30, 2007. During the three and nine month periods ended September 30, 2007, interest rate swap agreements designated as cash flow hedges decreased interest and fees on loans by $16 million and $61 million, respectively, compared to a decrease of $35 million and $93 million, respectively, for the comparable periods last year. If interest rates, interest yield curves and notional amounts remain at current levels, the Corporation expects to reclassify $5 million of net losses, net of tax, on derivative instruments from accumulated other comprehensive income to earnings during the next 12 months due to receipt of variable interest associated with existing and forecasted floating-rate loans.

Foreign exchange rate risk arises from changes in the value of certain assets and liabilities denominated in foreign currencies. The Corporation employs cash instruments, such as investment securities, as well as derivative instruments, to manage exposure to these and other risks. In addition, the Corporation uses foreign exchange forward and option contracts to protect the value of its foreign currency investment in foreign subsidiaries. Realized and unrealized gains and losses from foreign exchange forward and option contracts used to protect the value of investments in foreign

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**Notes to Consolidated Financial Statements (unaudited)**
*Comerica Incorporated and Subsidiaries*
**Note 10 Derivative Instruments (continued)**
subsidiaries are not included in the statement of income, but are shown in the accumulated foreign currency translation adjustment account included in other comprehensive income, with the related amounts due to or from counterparties included in other liabilities or other assets. During the three and nine month periods ended September 30, 2006, in accordance with SFAS No. 52, Foreign Currency Translation, the Corporation recognized net losses of less than $0.5 million and net gains of less than $0.5 million, respectively, in accumulated foreign currency translation adjustment, related to the forward foreign exchange contracts. The Corporation did not hold any forward foreign exchange contracts recognized in accumulated foreign currency translation adjustment during the three and nine month periods ended September 30, 2007.

Management believes these strategies achieve the desired relationship between the rate maturities of assets and funding sources which, in turn, reduces 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 also uses various other types of derivative instruments to mitigate interest rate and foreign currency risks associated with specific assets or liabilities, which are reflected in the table on page 17. Such instruments may include interest rate caps and floors, foreign exchange forward contracts, foreign exchange option contracts and foreign exchange cross-currency swaps.

The following table summarizes the expected maturity distribution of the notional amount of risk management interest rate swaps and provides the weighted-average interest rates associated with amounts to be received or paid on interest rate swap agreements as of September 30, 2007. Swaps have been grouped by asset and liability designation.
Remaining Expected Maturity of Risk Management Interest Rate Swaps:

| *(dollar amounts in millions)* | 2007 | 2008 | 2009 | 2010 | 2011 | 2012-2026 | September 30, 2007 Total | Dec. 31, 2006 Total |
|---|---|---|---|---|---|---|---|---|
| **Variable rate asset designation:** | | | | | | | | |
| Generic receive fixed swaps | $ 800 | $3,200 | $ | $ | $ | $ | $4,000 | $6,200 |
| Weighted average: (1) | | | | | | | | |
| Receive rate | 6.21% | 7.02% | % | % | % | % | 6.86% | 6.03% |
| Pay rate | 8.15 | 8.04 | | | | | 8.06 | 7.69 |
| **Fixed rate asset designation:** | | | | | | | | |
| Pay fixed swaps Amortizing | $ -* | $ 2 | $ | $ | $ | $ | $ 2 | $ 3 |
| Weighted average: (2) | | | | | | | | |
| Receive rate | 4.95% | 4.95% | % | % | % | % | 4.95% | 4.34% |
| Pay rate | 3.52 | 3.52 | | | | | 3.52 | 3.52 |
| **Medium- and long-term debt designation:** | | | | | | | | |
| Generic receive fixed swaps | $ | $ 350 | $ 100 | $ | $ | $1,750 | $2,200 | $2,250 |
| Weighted average: (1) | | | | | | | | |
| Receive rate | % | 6.17% | 6.06% | % | % | 5.84% | 5.90% | 5.95% |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Pay rate | | 5.38 | 5.36 | | | 5.39 | 5.39 | 5.44 |
| **Total notional amount** | $ 800 | $3,552 | $ 100 | $ | $ | $1,750 | $6,202 | $8,453 |

* Less than $1 million

(1) Variable rates paid on receive fixed swaps are based on prime and LIBOR (with various maturities) rates in effect at September 30, 2007

(2) Variable rates received are based on one-month Canadian Dollar Offered Rates in effect at September 30, 2007

**Notes to Consolidated Financial Statements (unaudited)**
*Comerica Incorporated and Subsidiaries*
**Note 10 Derivative Instruments (continued)**

The Corporation had commitments to purchase investment securities for its trading account and available-for-sale portfolios totaling $106 million at September 30, 2007 and $20 million at December 31, 2006. Commitments to sell investment securities related to the trading account portfolio totaled $6 million at September 30, 2007 and $16 million at December 31, 2006. Outstanding commitments expose the Corporation to both credit and market risk.

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 $1 million of net gains in both the three and nine month periods ended September 30, 2007 and less than $0.5 million and $1 million of net gains in the three and nine month periods ended September 30, 2006, respectively, which were included in other noninterest income in the consolidated statements of income. The fair value of derivative instruments held or issued in connection with customer-initiated activities, including those customer-initiated derivative contracts where the Corporation does not enter into an offsetting derivative contract position, is included in the table on page 17.

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 income statements. The following table provides the average unrealized gains and losses, and noninterest income generated on customer-initiated and other interest rate contracts, energy derivative contracts and foreign exchange contracts.

| *(in millions)* | Nine Months Ended September 30, 2007 | Year Ended December 31, 2006 | Nine Months Ended September 30, 2006 |
|---|---|---|---|
| Average unrealized gains | $ 114 | $ 103 | $ 102 |
| Average unrealized losses | 98 | 92 | 92 |
| Noninterest income | 35 | 42 | 31 |

Additional information regarding the nature, terms and associated risks of derivative instruments can be found in the Corporation s 2006 Annual Report on page 54 and in Notes 1 and 20 to the consolidated financial statements.

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**Notes to Consolidated Financial Statements (unaudited)**

*Comerica Incorporated and Subsidiaries*

**Note 11 Standby and Commercial Letters of Credit and Financial Guarantees**

The total contractual amounts of standby letters of credit and financial guarantees and commercial letters of credit at September 30, 2007 and December 31, 2006, which represents the Corporation s credit risk associated with these instruments, are shown in the table below.

| *(in millions)* | September 30, 2007 | December 31, 2006 |
|---|---|---|
| Standby letters of credit and financial guarantees | $ 6,752 | $ 6,584 |
| Commercial letters of credit | 200 | 249 |

Standby and commercial letters of credit and financial guarantees represent conditional obligations of the Corporation, which guarantee the performance of a customer to a third party. Standby letters of credit and financial guarantees are primarily issued to support public and private borrowing arrangements, including commercial paper, bond financing and similar transactions. These contracts expire in decreasing amounts through the year 2016. Commercial letters of credit are issued to finance foreign or domestic trade transactions and are short-term in nature. 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 letters of credit. These risk participations covered $612 million of the $6,752 million of standby letters of credit and financial guarantees outstanding at September 30, 2007. The carrying value of the Corporation s standby and commercial letters of credit and financial guarantees, which is included in accrued expenses and other liabilities on the consolidated balance sheet, totaled $83 million and $78 million at September 30, 2007 and December 31, 2006, respectively.

**Note 12 Contingent Liabilities**

Legal Proceedings

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, determined in accordance with SFAS No. 5, Accounting for Contingencies (SFAS 5), 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 or results of operations.

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

**Note 13 Business Segment Information**

The Corporation has strategically aligned its operations into three major business segments: the Business Bank, the Retail Bank, and Wealth & Institutional Management. These business segments are differentiated based on the type of customer and the related products and services provided. In addition to the three major business segments, the Finance Division is also reported as a segment. The Finance segment includes the Corporation s securities portfolio and asset and liability management activities. This segment is responsible for managing the Corporation s funding, liquidity and capital needs, performing interest sensitivity analysis and executing various strategies to manage the Corporation s exposure to liquidity, interest rate risk, and foreign exchange risk. The Other category includes discontinued operations, the income and expense impact of equity and cash, tax benefits not assigned to specific business segments and miscellaneous other expenses of a corporate nature. Business segment results are produced by the Corporation s internal management accounting system. This system measures financial results based on the internal business unit structure of the Corporation. Information presented is not necessarily comparable with similar information for any other financial institution. The management accounting system assigns balance sheet and income statement items to each business segment using certain methodologies, which are regularly reviewed and refined. For comparability purposes, amounts in all periods are based on business segments and methodologies in effect at September 30, 2007. These methodologies may be modified as the management accounting system is enhanced and changes occur in the organizational structure and/or product lines.

For a description of the business activities of each business segment and further information on the methodologies, which form the basis for these results, refer to Note 24 to the consolidated financial statements in the Corporation s 2006 Annual Report.

Beginning in the first quarter 2007, the Corporation assigned to the business segments the portion of the allowance for loan losses maintained to capture probable losses due to the inherent imprecision in the risk rating system and new business migration risk. This portion of the allowance was previously included in the Other category. In addition, the Corporation changed its method of allocating corporate overhead. Corporate overhead is assigned 50 percent based on the ratio of the business segment s noninterest expenses to total noninterest expenses incurred by all business segments and 50 percent based on the ratio of the business segment s attributed equity to total attributed equity of all business segments. Formerly, corporate overhead was allocated based entirely on noninterest expenses. Prior periods have been restated to reflect these changes.

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**Notes to Consolidated Financial Statements (unaudited)**
*Comerica Incorporated and Subsidiaries*
**Note 13 Business Segment Information (continued)**

Business segment financial results for the nine months ended September 30, 2007 and 2006 are shown in the table below.

| *(dollar amounts in millions)* Nine Months Ended September 30, 2007 | Business Bank | Retail Bank | Wealth & Institutional Management | Finance | Other | Total |
|---|---|---|---|---|---|---|
| Earnings summary: | | | | | | |
| Net interest income (expense) (FTE) | $ 999 | $ 476 | $ 108 | $ (51) | $ (15) | $ 1,517 |
| Provision for loan losses | 89 | 16 | (4) | | 3 | 104 |
| Noninterest income | 211 | 165 | 211 | 49 | 22 | 658 |
| Noninterest expenses | 523 | 472 | 236 | 8 | 2 | 1,241 |
| Provision (benefit) for income taxes (FTE) | 186 | 53 | 30 | (13) | 9 | 265 |
| Income from discontinued operations, net of tax | | | | | 2 | 2 |
| Net income (loss) | $ 412 | $ 100 | $ 57 | $ 3 | $ (5) | $ 567 |
| Net credit-related charge-offs | $ 67 | $ 20 | $ 2 | $ | $ | $ 89 |
| Selected average balances: | | | | | | |
| Assets | $40,570 | $ 6,841 | $4,021 | $ 5,294 | $1,197 | $57,923 |
| Loans | 39,531 | 6,102 | 3,867 | 7 | 18 | 49,525 |
| Deposits | 16,361 | 17,123 | 2,330 | 6,023 | (50) | 41,787 |
| Liabilities | 17,201 | 17,136 | 2,335 | 15,877 | 300 | 52,849 |
| Attributed equity | 2,889 | 843 | 325 | 595 | 422 | 5,074 |
| Statistical data: | | | | | | |
| Return on average assets (1) | 1.35% | 0.74% | 1.88% | N/M | N/M | 1.30% |
| Return on average attributed equity | 19.00 | 15.86 | 23.29 | N/M | N/M | 14.89 |
| Net interest margin (2) | 3.37 | 3.72 | 3.72 | N/M | N/M | 3.75 |
| Efficiency ratio | 43.51 | 73.68 | 73.80 | N/M | N/M | 57.20 |

| Nine Months Ended September 30, 2006 | Business Bank | Retail Bank | Wealth & Institutional Management | Finance | Other | Total |
|---|---|---|---|---|---|---|
| Earnings summary: | | | | | | |
| Net interest income (expense) (FTE) | $ 979 | $ 478 | $ 111 | $ (76) | $ (9) | $ 1,483 |
| Provision for loan losses | (1) | 17 | (1) | | | 15 |
| Noninterest income | 189 | 158 | 191 | 47 | 8 | 593 |
| Noninterest expenses | 546 | 444 | 227 | 7 | (7) | 1,217 |
| Provision (benefit) for income taxes (FTE) | 188 | 58 | 26 | (22) | (3) | 247 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Loss from discontinued operations, net of tax | | | | | (3) | (3) |
| Net income (loss) | $ 435 | $ 117 | $ 50 | $ (14) | $ 6 | $ 594 |
| Net credit-related charge-offs | $ 30 | $ 19 | $ | $ | $ | $ 49 |
| Selected average balances: | | | | | | |
| Assets | $39,058 | $ 6,778 | $3,638 | $ 5,189 | $1,568 | $56,231 |
| Loans | 37,850 | 6,079 | 3,497 | 16 | 33 | 47,475 |
| Deposits | 17,999 | 16,752 | 2,409 | 4,637 | (103) | 41,694 |
| Liabilities | 18,908 | 16,753 | 2,406 | 12,718 | 305 | 51,090 |
| Attributed equity | 2,602 | 830 | 296 | 476 | 937 | 5,141 |
| Statistical data: | | | | | | |
| Return on average assets (1) | 1.49% | 0.88% | 1.84% | N/M | N/M | 1.41% |
| Return on average attributed equity | 22.30 | 18.73 | 22.59 | N/M | N/M | 15.40 |
| Net interest margin (2) | 3.45 | 3.81 | 4.23 | N/M | N/M | 3.80 |
| Efficiency ratio | 46.81 | 69.74 | 75.11 | N/M | N/M | 58.59 |

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

(2) Net interest margin is calculated based on the greater of average earning assets or average deposits and purchased funds.

FTE Fully Taxable Equivalent

N/M Not Meaningful

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**Notes to Consolidated Financial Statements (unaudited)**
*Comerica Incorporated and Subsidiaries*
**Note 13 Business Segment Information (continued)**

The Corporation s management accounting system also produces market segment results for the Corporation s four primary geographic markets: Midwest, Western, Texas and Florida. In addition to the four primary geographic markets, Other Markets and International are also reported as market segments. Market segment results are provided as supplemental information to the business segment results and may not meet all operating segment criteria as set forth in Statement of Financial Accounting Standards No. 131, Disclosures about Segments of an Enterprise and Related Information, (SFAS 131).

The Midwest market consists of operations located in the states of Michigan, Ohio and Illinois. Currently, Michigan operations represent the significant majority of the Midwest market.

The Western market consists of operations located in the states of California, Arizona, Nevada, Colorado and Washington. Currently, California operations represent the significant majority of the Western market.

The Texas and Florida markets consist of operations located in the states of Texas and Florida, respectively.

Other Markets includes the Corporation s investment management and trust alliance businesses, as well as all other markets in which the Corporation has operations, except for the International market, as described below.

The International market represents the activity of the Corporation s International Finance division, which provides banking services primarily to foreign-owned, North American-based companies and secondarily to international operations of North American-based companies.

The Finance & Other Businesses segment includes the Corporation s securities portfolio, asset and liability management activities, discontinued operations, the income and expense impact of equity and cash not assigned to specific business/market segments, tax benefits not assigned to specific business/market segments and miscellaneous other expenses of a corporate nature. This segment includes responsibility for managing the Corporation s funding, liquidity and capital needs, performing interest sensitivity analysis and executing various strategies to manage the Corporation s exposure to liquidity, interest rate risk and foreign exchange risk.

Beginning in the first quarter 2007, the Corporation assigned to the market segments the portion of the allowance for loan losses maintained to capture probable losses due to the inherent imprecision in the risk rating system and new business migration risk. This portion of the allowance was previously included in the Other category. In addition, the Corporation changed its method of allocating corporate overhead. Corporate overhead is assigned 50 percent based on the ratio of the market segment s noninterest expenses to total noninterest expenses incurred by all market segments and 50 percent based on the ratio of the market segment s attributed equity to total attributed equity of all market segments. Prior periods have been restated to reflect these changes.

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**Notes to Consolidated Financial Statements (unaudited)**
*Comerica Incorporated and Subsidiaries*
**Note 13 Business Segment Information (continued)**

Market segment financial results for the nine months ended September 30, 2007 and 2006 are shown in the table below.

| (dollar amounts in millions) Nine Months Ended September 30, 2007 | Midwest | Western | Texas | Florida | Other Markets | International | Finance & Other Businesses | Total |
|---|---|---|---|---|---|---|---|---|
| Earnings summary: | | | | | | | | |
| Net interest income (expense) (FTE) | $ 733 | $ 533 | $ 207 | $ 35 | $ 23 | $ 52 | $ (66) | $ 1,517 |
| Provision for loan losses | 89 | 16 | | 6 | 2 | (12) | 3 | 104 |
| Noninterest income | 362 | 96 | 63 | 11 | 27 | 28 | 71 | 658 |
| Noninterest expenses | 642 | 334 | 168 | 28 | 27 | 32 | 10 | 1,241 |
| Provision (benefit) for income taxes (FTE) | 98 | 104 | 35 | 4 | 7 | 21 | (4) | 265 |
| Income from discontinued operations, net of tax | | | | | | | 2 | 2 |
| Net income (loss) | $ 266 | $ 175 | $ 67 | $ 8 | $ 14 | $ 39 | $ (2) | $ 567 |
| Net credit-related charge-offs (recoveries) | $ 80 | $ 6 | $ 5 | $ 2 | $ 2 | $ (6) | $ | $ 89 |
| Selected average balances: | | | | | | | | |
| Assets | $22,807 | $17,045 | $6,914 | $1,673 | $ 750 | $2,243 | $ 6,491 | $57,923 |
| Loans | 21,848 | 16,501 | 6,641 | 1,656 | 740 | 2,114 | 25 | 49,525 |
| Deposits | 16,580 | 13,431 | 3,867 | 282 | 486 | 1,168 | 5,973 | 41,787 |
| Liabilities | 17,359 | 13,468 | 3,882 | 285 | 485 | 1,193 | 16,177 | 52,849 |
| Attributed equity | 1,972 | 1,194 | 583 | 91 | 60 | 157 | 1,017 | 5,074 |
| Statistical data: | | | | | | | | |
| Return on average assets (1) | 1.55% | 1.37% | 1.30% | 0.63% | 2.45% | 2.32% | N/M | 1.30% |
| Return on average attributed equity | 17.98 | 19.50 | 15.40 | 11.50 | 30.72 | 33.25 | N/M | 14.89 |
| Net interest margin (2) | 4.47 | 4.31 | 4.16 | 2.83 | 4.12 | 3.19 | N/M | 3.75 |
| Efficiency ratio | 58.78 | 53.20 | 62.06 | 60.53 | 54.66 | 41.80 | N/M | 57.20 |

| Nine Months Ended September 30, 2006 | Midwest | Western | Texas | Florida | Other Markets | International | Finance & Other Businesses | Total |
|---|---|---|---|---|---|---|---|---|
| Earnings summary: | | | | | | | | |
| Net interest income (expense) (FTE) | $ 746 | $ 523 | $ 192 | $ 32 | $ 24 | $ 51 | $ (85) | $ 1,483 |
| Provision for loan losses | 46 | (16) | (6) | 2 | 1 | (12) | | 15 |
| Noninterest income | 353 | 86 | 55 | 11 | 21 | 12 | 55 | 593 |
| Noninterest expenses | 644 | 328 | 157 | 25 | 25 | 38 | | 1,217 |
| Provision (benefit) for income taxes (FTE) | 112 | 107 | 31 | 5 | 6 | 11 | (25) | 247 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Loss from discontinued operations, net of tax | | | | | | | (3) | (3) |
| Net income (loss) | $ 297 | $ 190 | $ 65 | $ 11 | $ 13 | $ 26 | $ (8) | $ 594 |
| Net credit-related charge-offs (recoveries) | $ 38 | $ 3 | $ 5 | $ 2 | $ | $ 1 | $ | $ 49 |
| Selected average balances: | | | | | | | | |
| Assets | $22,661 | $16,402 | $6,021 | $1,493 | $ 660 | $2,237 | $ 6,757 | $56,231 |
| Loans | 21,617 | 15,830 | 5,761 | 1,474 | 650 | 2,094 | 49 | 47,475 |
| Deposits | 16,809 | 14,742 | 3,667 | 311 | 560 | 1,071 | 4,534 | 41,694 |
| Liabilities | 17,604 | 14,819 | 3,676 | 312 | 559 | 1,097 | 13,023 | 51,090 |
| Attributed equity | 1,826 | 1,089 | 519 | 78 | 55 | 161 | 1,413 | 5,141 |
| Statistical data: | | | | | | | | |
| Return on average assets (1) | 1.75% | 1.54% | 1.45% | 0.95% | 2.53% | 1.57% | N/M | 1.41% |
| Return on average attributed equity | 21.68 | 23.28 | 16.78 | 18.22 | 30.43 | 21.85 | N/M | 15.40 |
| Net interest margin (2) | 4.60 | 4.41 | 4.43 | 2.86 | 5.02 | 3.14 | N/M | 3.80 |
| Efficiency ratio | 58.67 | 53.83 | 63.34 | 58.12 | 55.81 | 60.51 | N/M | 58.59 |

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

(2) Net interest margin is calculated based on the greater of average earning assets or average deposits and purchased funds.

FTE Fully Taxable Equivalent

N/M Not Meaningful

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

**Note 14 Discontinued Operations**

In December 2006, the Corporation sold its ownership interest in Munder Capital Management (Munder) to an investor group. As a result of the sale transaction, the Corporation accounted for Munder as a discontinued operation and all prior periods presented have been restated. As such, Munder was reported in Other and Finance & Other for business and market segment reporting purposes, respectively. Munder was previously reported in Wealth & Institutional Management and Other Markets for business and market segment reporting purposes, respectively. The assets and liabilities related to the discontinued operations of Munder are not material and have not been reclassified on the consolidated balance sheets.

The components of net income (loss) from discontinued operations for the three and nine month periods ended September 30, 2007 and 2006, respectively, were as follows:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| *(in millions, except per share data)* | 2007 | 2006 | 2007 | 2006 |
| Income from discontinued operations before income taxes and cumulative effect of change in accounting principle | $ 2 | $ 8 | $ 3 | $ 16 |
| Provision for income taxes | 1 | 3 | 1 | 11 |
| Income from discontinued operations before cumulative effect of change in accounting principle | 1 | 5 | 2 | 5 |
| Cumulative effect of change in accounting principle, net of tax* | | | | (8) |
| Net income (loss) from discontinued operations | $ 1 | $ 5 | $ 2 | $ (3) |
| Earnings (loss) from discontinued operations per common share: | | | | |
| Basic | $0.02 | $0.03 | $0.02 | $(0.01) |
| Diluted | 0.01 | 0.03 | 0.02 | (0.01) |

* Resulting from adoption of SFAS No. 123 (revised 2004), Share-Based Payment, in January 2006.

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

Results of Operations

Net income for the three months ended September 30, 2007 was $181 million, a decrease of $19 million, or 10 percent, from $200 million reported for the three months ended September 30, 2006. Quarterly diluted net income per share decreased four percent to $1.18 in the third quarter 2007, compared to $1.23 in the same period a year ago. Income from continuing operations for the three months ended September 30, 2007 was $180 million, a decrease of $15 million, or eight percent, from $195 million reported for the three months ended September 30, 2006. Quarterly diluted income from continuing operations per share decreased three percent to $1.17 in the third quarter 2007, compared to $1.20 in the same period a year ago. Return on average common shareholders equity was 14.38 percent and return on average assets was 1.23 percent for the third quarter 2007, compared to 15.38 percent and 1.41 percent, respectively, for the comparable quarter last year. Return on average common shareholders equity from continuing operations was 14.24 percent and return on average assets from continuing operations was 1.22 percent for the third quarter 2007, compared to 15.00 percent and 1.37 percent, respectively, for the same period in 2006.

Net income for the first nine months of 2007 was $567 million, a decrease of $27 million, or five percent, from $594 million reported for the nine months ended September 30, 2006. Diluted net income per share for the first nine months of 2007 decreased less than one percent to $3.63 per diluted share, compared to $3.64 per diluted share, for the comparable period last year. Income from continuing operations for the nine months ended September 30, 2007 was $565 million, a decrease of $32 million, or five percent, from $597 million reported for the nine months ended September 30, 2006. Diluted income from continuing operations per share decreased one percent to $3.61 for the nine months ended September 30, 2007, compared to $3.65 for the same period in the prior year. The decrease in income from continuing operations in the nine months ended September 30, 2007 from the comparable period last year reflects a $76 million increase in the provision for credit losses (the net result of a $89 million increase in the provision for loan losses and a $13 million decrease in the provision for credit losses on lending-related commitments), from a provision for credit losses of $24 million for the nine months ended September 30, 2006. Return on average common shareholders equity was 14.89 percent and return on average assets was 1.30 percent for the first nine months of 2007, compared to 15.40 percent and 1.41 percent, respectively, for the first nine months of 2006. Return on average common shareholders equity from continuing operations was 14.83 percent and return on average assets from continuing operations was 1.30 percent for the first nine months of 2007, compared to 15.48 percent and 1.42 percent, respectively, for the same period in 2006.

Discontinued Operations

In December 2006, the Corporation sold its ownership interest in Munder Capital Management (Munder) to an investor group. The Corporation accounted for Munder as a discontinued operation and all prior periods presented have been restated. The remaining discussion and analysis of the Corporation s results of operations is based on results from continuing operations. For detailed information concerning the sale of Munder and the components of discontinued operations, refer to Note 14 to these consolidated financial statements.

Full-year 2007 Outlook.

For full-year 2007, management expects the following compared to full-year 2006:

- Mid to high single-digit average loan growth, excluding Financial Services Division loans, with flat growth in the Midwest market, and low double-digit growth in the Western and Texas markets
- Average earning asset growth slightly less than average loan growth
- Average Financial Services Division noninterest-bearing deposits of about $2.8 billion, reflecting expected average deposits of about $1.8 billion in the fourth quarter 2007. Financial Services Division loans will fluctuate in tandem with the level of noninterest-bearing deposits
- Average full year net interest margin in the high 3.60 percent range, reflecting a net interest margin in the low 3.50 percent range for the fourth quarter 2007
- Average net credit-related charge-offs of about 25 basis points of average loans, with a provision for credit losses modestly exceeding net charge-offs. Fourth quarter 2007 net credit-related charge-offs consistent with third quarter 2007

High single-digit growth in noninterest income, from a 2006 adjusted base of $820 million which excludes the Financial Services Division-related lawsuit settlement and the loss on sale of the Mexican bank charter

Flat noninterest expenses, excluding the provision for credit losses on lending-related commitments, from a 2006 adjusted base of $1,669 million

Effective tax rate of about 32 percent

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Active capital management within targeted capital ratios (Tier 1 common of 6.50 percent to 7.50 percent and Tier 1 of 7.25 percent to 8.25 percent). Total open market share repurchases in 2007 expected to be about ten million shares

Net Interest Income

The rate-volume analysis in Table I details the components of the change in net interest income on a fully taxable equivalent (FTE) basis for the three months ended September 30, 2007. On a FTE basis, net interest income increased $2 million to $504 million for the three months ended September 30, 2007, from $502 million for the comparable period in 2006. The increase in net interest income in the third quarter 2007, compared to the same period in 2006, resulted primarily from loan growth, partially offset by changes in the funding mix, including a continued shift in funding sources toward higher-cost funds, and a decline in noninterest-bearing deposits (principally Financial Services Division). Average earning assets increased $2.1 billion, or four percent, to $54.6 billion in the third quarter 2007, compared to $52.5 billion in the third quarter 2006, primarily due to a $1.7 billion, or four percent, increase in average loans to $49.9 billion in the third quarter 2007. The net interest margin (FTE) for the three months ended September 30, 2007 was 3.66 percent, compared to 3.79 percent for the comparable period in 2006. The decrease in the net interest margin (FTE) resulted from the changes in the funding mix noted above and competitive pricing.

Table II provides an analysis of net interest income for the first nine months of 2007. On a FTE basis, net interest income for the nine months ended September 30, 2007 was $1.5 billion, an increase of $34 million compared to the same period in 2006. Average earning assets increased $2.1 billion, or four percent, to $54.0 billion, in the nine months ended September 30, 2007, compared to the same period in the prior year, primarily due to a $2.1 billion, or four percent, increase in average loans to $49.5 billion in the nine months ended September 30, 2007. The net interest margin (FTE) for the nine months ended September 30, 2007 decreased to 3.75 percent from 3.80 percent for the same period in 2006, due to loan growth funded with purchased funds and higher-cost deposits, resulting in a change in the funding mix.

Financial Services Division customers deposit large balances (primarily noninterest-bearing) and the Corporation pays certain customer services expenses (included in noninterest expenses on the consolidated statements of income) and/or makes low-rate loans (included in net interest income on the consolidated statements of income) to such customers. Footnote (1) to Tables I and II displays average Financial Services Division loans and deposits, with related interest income/expense and average rates. As shown in footnote (2) to Tables I and II, the impact of Financial Services Division loans (primarily low-rate) on net interest margin (assuming the loans were funded by Financial Services Division noninterest-bearing deposits) was a decrease of seven basis points and nine basis points in the three and nine month periods ended September 30, 2007, respectively, compared to a decrease of 14 basis points and 18 basis points for the comparable periods in the prior year.

For further discussion of the effects of market rates on net interest income, refer to the Interest Rate Risk subheading in the section entitled Market Risk of this financial review.

Management currently expects average full-year 2007 net interest margin in the high 3.60 percent range, reflecting a net interest margin in the low 3.50 percent range for the fourth quarter 2007.

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**Table I Quarterly Analysis of Net Interest Income & Rate/Volume Fully Taxable Equivalent (FTE)**

| | Three Months Ended | | | | | |
|---|---|---|---|---|---|---|
| | September 30, 2007 | | | September 30, 2006 | | |
| *(dollar amounts in millions)* | Average Balance | Interest | Average Rate | Average Balance | Interest | Average Rate |
| Commercial loans (1) (2) | $ 28,052 | $ 520 | 7.37% | $ 27,534 | $ 498 | 7.18% |
| Real estate construction loans | 4,607 | 97 | 8.33 | 4,064 | 90 | 8.79 |
| Commercial mortgage loans | 9,829 | 181 | 7.30 | 9,362 | 175 | 7.42 |
| Residential mortgage loans | 1,865 | 29 | 6.12 | 1,602 | 24 | 6.08 |
| Consumer loans | 2,320 | 41 | 7.06 | 2,474 | 45 | 7.32 |
| Lease financing | 1,319 | 11 | 3.25 | 1,323 | 13 | 4.00 |
| International loans | 1,882 | 33 | 6.98 | 1,766 | 33 | 7.35 |
| Business loan swap expense | | (16) | | | (35) | |
| Total loans (2) | 49,874 | 896 | 7.13 | 48,125 | 843 | 6.96 |
| Investment securities available-for-sale | 4,405 | 52 | 4.60 | 3,887 | 43 | 4.22 |
| Federal funds sold and securities purchased under agreements to resell | 99 | 1 | 5.25 | 282 | 4 | 5.39 |
| Other short-term investments | 263 | 4 | 5.27 | 206 | 3 | 6.23 |
| Total earning assets | 54,641 | 953 | 6.91 | 52,500 | 893 | 6.74 |
| Cash and due from banks | 1,351 | | | 1,561 | | |
| Allowance for loan losses | (521) | | | (495) | | |
| Accrued income and other assets | 3,075 | | | 3,224 | | |
| Total assets | $ 58,546 | | | $ 56,790 | | |
| Money market and NOW deposits (1) | $ 14,996 | 119 | 3.14 | $ 14,885 | 116 | 3.07 |
| Savings deposits | 1,380 | 3 | 0.97 | 1,434 | 3 | 0.87 |
| Customer certificates of deposit | 7,702 | 87 | 4.48 | 6,710 | 70 | 4.17 |
| Institutional certificates of deposit | 5,170 | 72 | 5.49 | 5,180 | 72 | 5.45 |
| Foreign office time deposits | 1,028 | 13 | 4.96 | 924 | 11 | 4.96 |
| Total interest-bearing deposits | 30,276 | 294 | 3.85 | 29,133 | 272 | 3.70 |
| Short-term borrowings | 2,278 | 29 | 5.15 | 2,125 | 28 | 5.29 |
| Medium- and long-term debt | 8,852 | 126 | 5.61 | 6,297 | 91 | 5.73 |
| Total interest-bearing sources | 41,406 | 449 | 4.29 | 37,555 | 391 | 4.13 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Noninterest-bearing deposits (1) | 10,840 | | | 12,723 | | |
| Accrued expenses and other liabilities | 1,276 | | | 1,309 | | |
| Shareholders equity | 5,024 | | | 5,203 | | |
| Total liabilities and shareholders equity | $ 58,546 | | | $ 56,790 | | |
| Net interest income/rate spread (FTE) | | $ 504 | 2.62 | | $ 502 | 2.61 |
| FTE adjustment | | $ 1 | | | $ | |
| Impact of net noninterest-bearing sources of funds | | | 1.04 | | | 1.18 |
| Net interest margin (as a percentage of average earning assets) (FTE) (2) | | | 3.66% | | | 3.79% |
| (1) FSD balances included above: | | | | | | |
| Loans (primarily low-rate) | $ 1,191 | $ 2 | 0.71% | $ 2,093 | $ 3 | 0.64% |
| Interest-bearing deposits | 1,214 | 12 | 4.06 | 1,465 | 15 | 3.95 |
| Noninterest-bearing deposits | 2,575 | | | 4,079 | | |
| (2) Impact of FSD loans (primarily low-rate) on the following: | | | | | | |
| Commercial loans | | | (0.30)% | | | (0.54)% |
| Total loans | | | (0.16) | | | (0.28) |
| Net interest margin (FTE) (assuming loans were funded by noninterest-bearing deposits) | | | (0.07) | | | (0.14) |

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**Table I Quarterly Analysis of Net Interest Income & Rate/Volume Fully Taxable Equivalent (FTE) (continued)**

| | Three Months Ended September 30, 2007/September 30, 2006 | | |
|---|---|---|---|
| *(in millions)* | Increase (Decrease) Due to Rate | Increase (Decrease) Due to Volume* | Net Increase (Decrease) |
| Loans | $20 | $ 33 | $ 53 |
| Investment securities available-for-sale | 3 | 6 | 9 |
| Federal funds sold and securities purchased under agreements to repurchase | | (3) | (3) |
| Other short-term investments | | 1 | 1 |
| Total earning assets | 23 | 37 | 60 |
| Interest-bearing deposits | 9 | 13 | 22 |
| Short-term borrowings | (1) | 2 | 1 |
| Medium- and long-term debt | (1) | 36 | 35 |
| Total interest-bearing sources | 7 | 51 | 58 |
| Net interest income/rate spread (FTE) | $16 | $ (14) | $ 2 |

* Rate/Volume variances are allocated to variances due to volume.

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**Table II Year-to-date Analysis of Net Interest Income & Rate/Volume Fully Taxable Equivalent (FTE)**

| | Nine Months Ended | | | | | |
|---|---|---|---|---|---|---|
| | September 30, 2007 | | | September 30, 2006 | | |
| *(dollar amounts in millions)* | Average Balance | Interest | Average Rate | Average Balance | Interest | Average Rate |
| Commercial loans (1) (2) | $ 28,046 | $ 1,538 | 7.33% | $ 27,251 | $ 1,375 | 6.75% |
| Real estate construction loans | 4,454 | 282 | 8.47 | 3,805 | 244 | 8.57 |
| Commercial mortgage loans | 9,713 | 534 | 7.35 | 9,198 | 496 | 7.22 |
| Residential mortgage loans | 1,788 | 82 | 6.12 | 1,544 | 69 | 5.99 |
| Consumer loans | 2,351 | 125 | 7.12 | 2,555 | 135 | 7.07 |
| Lease financing | 1,293 | 32 | 3.26 | 1,307 | 40 | 4.04 |
| International loans | 1,880 | 99 | 7.07 | 1,815 | 94 | 6.93 |
| Business loan swap expense | | (61) | | | (93) | |
| Total loans (2) | 49,525 | 2,631 | 7.10 | 47,475 | 2,360 | 6.65 |
| Investment securities available-for-sale | 4,080 | 140 | 4.47 | 4,042 | 132 | 4.20 |
| Federal funds sold and securities purchased under agreements to resell | 189 | 8 | 5.36 | 269 | 10 | 5.06 |
| Other short-term investments | 242 | 10 | 5.73 | 169 | 10 | 7.66 |
| Total earning assets | 54,036 | 2,789 | 6.89 | 51,955 | 2,512 | 6.44 |
| Cash and due from banks | 1,390 | | | 1,589 | | |
| Allowance for loan losses | (513) | | | (497) | | |
| Accrued income and other assets | 3,010 | | | 3,184 | | |
| Total assets | $ 57,923 | | | $ 56,231 | | |
| Money market and NOW deposits (1) | $ 14,858 | 344 | 3.09 | $ 15,597 | 327 | 2.80 |
| Savings deposits | 1,393 | 9 | 0.91 | 1,463 | 8 | 0.76 |
| Customer certificates of deposit | 7,505 | 250 | 4.46 | 6,275 | 181 | 3.86 |
| Institutional certificates of deposit | 5,490 | 224 | 5.45 | 4,053 | 156 | 5.13 |
| Foreign office time deposits | 1,001 | 37 | 4.92 | 1,007 | 35 | 4.70 |
| Total interest-bearing deposits | 30,247 | 864 | 3.82 | 28,395 | 707 | 3.33 |
| Short-term borrowings | 1,919 | 75 | 5.24 | 3,193 | 115 | 4.84 |
| Medium- and long-term debt | 7,865 | 333 | 5.65 | 4,963 | 207 | 5.57 |
| Total interest-bearing sources | 40,031 | 1,272 | 4.25 | 36,551 | 1,029 | 3.76 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Noninterest-bearing deposits (1) | 11,540 | | | 13,299 | | |
| Accrued expenses and other liabilities | 1,278 | | | 1,240 | | |
| Shareholders equity | 5,074 | | | 5,141 | | |
| Total liabilities and shareholders equity | $ 57,923 | | | $ 56,231 | | |
| Net interest income/rate spread (FTE) | | $ 1,517 | 2.64 | | $ 1,483 | 2.68 |
| FTE adjustment | | $ 3 | | | $ 2 | |
| Impact of net noninterest-bearing sources of funds | | | 1.11 | | | 1.12 |
| Net interest margin (as a percentage of average earning assets) (FTE) (2) | | | 3.75% | | | 3.80% |
| (1) FSD balances included above: | | | | | | |
| Loans (primarily low-rate) | $ 1,445 | $ 7 | 0.63% | $ 2,516 | $ 10 | 0.55% |
| Interest-bearing deposits | 1,230 | 36 | 3.95 | 1,835 | 53 | 3.84 |
| Noninterest-bearing deposits | 3,097 | | | 4,516 | | |
| (2) Impact of FSD loans (primarily low-rate) on the following: | | | | | | |
| Commerical loans | | | (0.36)% | | | (0.63)% |
| Total loans | | | (0.20) | | | (0.34) |
| Net interest margin (FTE) (assuming loans were funded by noninterest-bearing deposits) | | | (0.09) | | | (0.18) |

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**Table II Year-to-date Analysis of Net Interest Income & Rate/Volume Fully Taxable Equivalent (FTE) (continued)**

| | Nine Months Ended September 30, 2007/September 30, 2006 | | |
|---|---|---|---|
| *(in millions)* | Increase (Decrease) Due to Rate | Increase (Decrease) Due to Volume* | Net Increase (Decrease) |
| Loans | $155 | $ 116 | $271 |
| Investment securities available-for-sale | 7 | 1 | 8 |
| Federal funds sold and securities purchased under agreements to repurchase | 1 | (3) | (2) |
| Other short-term investments | (2) | 2 | |
| Total earning assets | 161 | 116 | 277 |
| Interest-bearing deposits | 76 | 81 | 157 |
| Short term borrowings | 10 | (50) | (40) |
| Medium- and long-term debt | 3 | 123 | 126 |
| Total interest-bearing sources | 89 | 154 | 243 |
| Net interest income/rate spread (FTE) | $ 72 | $ (38) | $ 34 |

* Rate/Volume variances are allocated to variances due to volume.

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Provision for Credit Losses

The provision for loan losses was $45 million for the third quarter 2007, compared to $15 million for the same period in 2006. The provision for loan losses for the first nine months of 2007 was $104 million, compared to a provision of $15 million for the same period in 2006. The Corporation establishes this provision to maintain an adequate allowance for loan losses, which is discussed under the Credit Risk subheading in the section entitled Risk Management of this financial review. The increases in the provision for loan losses in the three and nine month periods ended September 30, 2007, when compared to the same periods in 2006, resulted primarily from challenges in the Michigan and California residential real estate development industries, a leveling off of overall credit quality improvement trends in the Texas market and remaining divisions in the Western market and loan growth. These credit trends reflect economic conditions in the Corporation s three largest geographic markets. While the economic conditions in Michigan deteriorated over the last year, the economic conditions in Texas continue to experience growth at a rate somewhat faster than the national economy, while those in California, other than real estate, appear to be growing, but at a rate equal to the nation as a whole. The average Michigan Business Activity index for the first nine months of 2007 is essentially the same as the average index for the year ended December 31, 2006. The Michigan Business Activity index represents 10 different measures of Michigan economic activity compiled by the Corporation. Intense restructuring efforts in the Michigan-based automotive sector and weakness in the real estate sector are creating a significant drag on the state economy, however the economy is showing signs of stabilizing. Forward-looking indicators suggest that economic conditions in the Corporation s primary markets are likely to resemble recent trends for the remainder of 2007.

The provision for credit losses on lending-related commitments was a provision of zero and a negative provision of $4 million for the three and nine month periods ended September 30, 2007, respectively, compared to a negative provision of $5 million and a provision of $9 million for the comparable periods in 2006. The Corporation establishes this provision to maintain an adequate allowance to cover probable credit losses inherent in lending-related commitments. The negative provision of $5 million in the three month period ending September 30, 2006 was primarily driven by reduced levels of commitments and improvements in the associated market values for unused commitments to customers in the automotive industry. The decrease of $13 million in the nine month period ended September 30, 2007, when compared to the same period in 2006, was primarily the result of a decrease in specific reserves related to unused commitments extended to two large customers in the automotive industry. These reserves declined due to sales of commitments and improved market values for the remaining commitments.

Net credit-related charge-offs were 24 basis points as a percent of average total loans for the first nine months of 2007, compared to 13 basis points for the same period in 2006. Management currently expects full-year 2007 average net credit-related charge-offs of about 25 basis points of full-year average loans, with a provision for credit losses modestly exceeding net charge-offs, reflecting fourth quarter 2007 net credit-related charge-offs consistent with third quarter 2007.

Noninterest Income

Noninterest income was $230 million for the three months ended September 30, 2007, an increase of $35 million, or 18 percent, compared to $195 million for the same period in 2006. The increase in noninterest income in the third quarter 2007 was primarily due to increases in net income from principal investing and warrants ($11 million), fiduciary income ($4 million), commercial lending fees ($3 million), card fees ($3 million) and the $7 million incremental net loss recognized on the sale of the Mexican bank charter in the third quarter of 2006. In addition, $4 million of net securities gains were recorded in the three months ended September 30, 2007, primarily consisting of a $3 million gain on the sale of put rights obtained in a nonaccrual loan workout several years ago.

Noninterest income was $658 million for the first nine months of 2007, an increase of $65 million, or 11 percent, compared to the same period in 2006, due primarily to increases in fiduciary income ($14 million), commercial lending fees ($6 million), card fees ($6 million), net income from principal investing and warrants ($6 million) and deferred compensation asset returns ($5 million), net securities gains of $4 million in the nine months ended September 30, 2007 and the net loss of $12 million recognized on the sale of the Mexican bank charter in the nine months ended September 30, 2006.

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Certain categories included in other noninterest income on the consolidated statements of income are highlighted in the following table.

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| *(in millions)* | 2007 | 2006 | 2007 | 2006 |
| Other noninterest income | | | | |
| Risk mangagement hedge gains (losses) from interest rate and foreign exchange contracts | $ 1 | $2 | $3 | $(1) |
| Deferred compensation asset returns* | (2) | 1 | 5 | |

* Compensation deferred by the Corporation s officers is invested in stocks and bonds to reflect the investment selections of the officers. Income earned on these assets is reported in noninterest income and the offsetting increase in the liability is reported in salaries expense.

Management currently expects high single-digit growth in noninterest income in full-year 2007, from a 2006 adjusted base of $820 million which excludes the Financial Services Division-related lawsuit settlement and the loss on sale of the Mexican bank charter in 2006.

Noninterest Expenses

Noninterest expenses were $423 million for the three months ended September 30, 2007, an increase of $24 million, or six percent, from $399 million for the comparable period in 2006. The increase in noninterest expenses in the third quarter 2007, compared to the third quarter 2006, reflected increases in regular salaries ($6 million), net occupancy and equipment expense combined ($5 million), the provision for credit losses on lending-related commitments ($5 million) and incentive compensation ($4 million). The $6 million increase in regular salaries was primarily the result of annual merit increases. Net occupancy and equipment expense increased in part due to the addition of 13 new banking centers in the nine months ended September 30, 2007, along with 25 new banking centers in full-year 2006. Expenses from the addition of new banking centers totaled $13 million for the three months ended September 30, 2007, an increase of $5 million from the comparable period in 2006. For discussion regarding the $5 million increase in the provision for credit losses on lending-related commitments, refer to the section entitled

Provision for Credit Losses above. The $4 million increase in incentive compensation included increased incentives primarily tied to peer-comparison performance. Customer services expense, which represents compensation provided to customers and is one method to attract and retain title and escrow deposits in the Financial Services Division, was $11 million in both the third quarter 2007 and 2006. The amount of customer services expense varies from period to period as a result of changes in the level of noninterest-bearing deposits in the Financial Services Division, the level of the low-rate loans, the earnings credit allowances provided on these deposits, and a competitive environment. Noninterest expenses in the third quarter 2007 included approximately $2 million of costs related to the previously announced relocation of the Corporation s headquarters to Dallas, Texas, reflected in salaries and other noninterest expenses.

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The following table summarizes the various components of salaries and employee benefits expense.

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| *(in millions)* | 2007 | 2006 | 2007 | 2006 |
| Salaries | | | | |
| Salaries regular | $162 | $156 | $472 | $457 |
| Severance | | 1 | 1 | 3 |
| Incentives | 35 | 31 | 102 | 87 |
| Deferred compensation plan costs | (2) | 1 | 6 | |
| Share-based compensation | 12 | 13 | 47 | 45 |
| Total salaries | 207 | 202 | 628 | 592 |
| Employee benefits | | | | |
| Pension expense | 9 | 10 | 27 | 30 |
| Other employee benefits | 40 | 38 | 118 | 112 |
| Total employee benefits | 49 | 48 | 145 | 142 |
| Total salaries and employee benefits | $256 | $250 | $773 | $734 |

Noninterest expenses were $1.2 billion for the first nine months of 2007, an increase of $24 million, or two percent, from the comparable period in 2006. Noninterest expenses in the first nine months of 2007, compared to first nine months of 2006, reflected increases in regular salaries ($15 million), incentive compensation ($15 million) and net occupancy and equipment expense combined ($15 million), and were partially offset by decreases in the provision for credit losses on lending-related commitments ($13 million) and litigation and operational losses ($7 million). Expenses from the addition of new banking centers totaled $38 million for the first nine months of 2007, an increase of $17 million from the comparable period in 2006. The decrease in litigation and operational losses reflected a litigation-related settlement of $8 million in the second quarter 2007. All other increases and decreases for the first nine months of 2007, compared to the same period of 2006, were primarily due to the same reasons cited in the quarterly discussion above.

Beginning January 1, 2007, the Corporation prospectively classified interest expense on tax liabilities in the provision for income taxes on the consolidated statements of income. For further discussion of interest on tax liabilities, refer to Note 1 to the consolidated financial statements, and to the following section, entitled Provision for Income Taxes and Tax-Related Interest. Noninterest expenses included $23 million of interest on tax liabilities for the first nine months of 2006.

Management currently expects flat noninterest expenses for the full-year 2007, excluding the provision for credit losses on lending-related commitments, from a 2006 adjusted base of $1,669 million.

Provision for Income Taxes and Tax-related Interest

The provision for income taxes for the third quarter 2007 was $85 million, compared to $88 million for the same period a year ago. The effective tax rate was 32 percent and 31 percent for the third quarter 2007 and 2006, respectively. For the nine months ended September 30, 2007 and 2006, the provision for income taxes was $262 million and $245 million, respectively, and the effective tax rate was 32 percent and 29 percent, respectively. In the first quarter 2006, the IRS completed the examination of the Corporation s federal tax returns for the years 1996 through 2000. Tax reserves, which include the provision for income taxes and interest expense on tax liabilities (included in other noninterest expenses in 2006) were adjusted to reflect the resolution of those tax years, and to reflect an updated assessment of reserves on certain types of structured lease transactions and a series of loans to foreign borrowers. The effect of these adjustments decreased federal taxes ($16 million) and increased interest expense on tax liabilities ($23 million, $15 million after-tax) in the first quarter 2006. Tax-related interest was reduced by $6 million in the second quarter 2006 upon settlement of various refund claims with the IRS.

On July 12, 2007, the State of Michigan replaced its current Single Business Tax (SBT) with a new Michigan Business Tax (MBT). For taxpayers other than financial institutions and insurance companies, the MBT imposes two taxes, a modified gross receipts tax and a business income tax. Financial institutions are subject to an industry-specific tax which is based on net capital. The MBT is effective January 1, 2008. Management believes the MBT will have an immaterial effect on the Corporation s financial condition and results of operations when compared to the SBT. Both the SBT and the MBT, when effective, are recorded in other noninterest expenses on the consolidated statements of income.

On October 1, 2007, the State of Michigan enacted a new law which becomes effective December 1, 2007, expanding Michigan s use tax to include specific services. The Corporation is currently analyzing the applicability of the new use tax on services provided and consumed by the Corporation to determine the effect that the law will have on the Corporation s financial condition and results of operations.

Management currently expects an effective tax rate for the full-year 2007 of about 32 percent.

Business Segments

The Corporation s operations are strategically aligned into three major business segments: the Business Bank, the Retail Bank, and Wealth & Institutional Management. These business segments are differentiated based on the products and services provided. In addition to the three major business segments, the Finance Division is also reported as a segment. The Other category includes discontinued operations and items not directly associated with these business segments or the Finance Division. Note 13 to the consolidated financial statements presents financial results of these business segments for the nine months ended September 30, 2007 and 2006. For a description of the business activities of each business segment and the methodologies which form the basis for these results, refer to Note 13 to these consolidated financial statements and Note 24 to the consolidated financial statements in the Corporation s 2006 Annual Report.

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

| | Nine Months Ended September 30, | | | |
|---|---|---|---|---|
| *(dollar amounts in millions)* | 2007 | | 2006 | |
| Business Bank | $412 | 72% | $435 | 73% |
| Retail Bank | 100 | 18 | 117 | 19 |
| Wealth & Institutional Management | 57 | 10 | 50 | 8 |
| | 569 | 100% | 602 | 100% |
| Finance | 3 | | (14) | |
| Other* | (5) | | 6 | |
| Total | $567 | | $594 | |

* *Includes discontinued operations and items not directly associated with the three major business segments or the Finance Division*

The Business Bank s net income of $412 million decreased $23 million, or five percent, for the nine months ended September 30, 2007, compared to the nine months ended September 30, 2006. Net interest income (FTE) was $999 million, an increase of $20 million from the comparable prior year period. The increase in net interest income (FTE) was primarily due to a $2.8 billion increase in average loan balances (excluding Financial Services Division), partially offset by a decline in net interest income from the Financial Services Division and a decline in loan spreads.

Average low-rate Financial Services Division loan balances declined $1.1 billion for the nine months ended September 30, 2007, compared to the nine months ended September 30, 2006, and average Financial Services Division noninterest-bearing deposits declined $1.4 billion. The provision for loan losses increased $90 million, from a negative provision of $1 million in the comparable period in the prior year, primarily due to increases in industry reserves in 2007 for Michigan commercial real estate and California residential real estate and credit improvements recognized in the first nine months of 2006. Noninterest income of $211 million increased $22 million from the comparable prior year period, primarily due to a $12 million loss on the sale of the Mexican bank charter in 2006, net securities gains of $4 million in 2007, and increases in commercial lending fees ($4 million) and card fees ($3 million) over the comparable prior year period. Noninterest expenses of $523 million for the nine months ended September 30, 2007 decreased $23 million from the same period in the prior year, primarily due to a $12 million decline in the provision of loan losses on lending-related commitments and a $7 million decrease in legal fees related to the Financial Services Division, partially offset by a $4 million increase in salaries and employee benefits expense.

The Retail Bank s net income decreased $17 million, or 14 percent, to $100 million for the nine months ended September 30, 2007, compared to the same period in 2006. Net interest income (FTE) of $476 million decreased $2 million from the comparable prior year period as the benefit of a $371 million increase in average deposit balances was more than offset by a decline in loan and deposit spreads. The provision for loan losses decreased $1 million. Noninterest income of $165 million increased $7 million from the comparable prior year period, partially due to a $4 million increase in income from the sale of Small Business Administration (SBA) loans. Noninterest expenses of $472 million for the nine months ended September 30, 2007 increased $28 million from the same period in the prior year, primarily due to a $17 million increase in expenses related to the addition of new banking centers, primarily salaries and employee benefits expense and net occupancy expenses**.** The Corporation opened 13 new banking centers in the nine months ended September 30, 2007, and is on target to open 30 banking centers in 2007.

Wealth & Institutional Management s net income increased $7 million, or 13 percent, to $57 million for the nine months ended September 30, 2007, compared to the nine months ended September 30, 2006. Net interest income (FTE) of $108 million decreased $3 million from the comparable period in the prior year as decreases in loan spreads and average deposit balances were partially offset by an increase in average loan balances. The provision for loan losses decreased $3 million, primarily due to an improvement from one large customer in the Midwest market. Noninterest income of $211 million increased $20 million from the comparable period in the prior year, primarily due to a $14 million increase in fiduciary income, a $2 million increase in brokerage fees and a $1 million gain from the sale of an insurance subsidiary in the first quarter 2007. Noninterest expenses of $236 million increased $9 million from the same period in the prior year primarily due to a $5 million increase in salaries and employee benefits expense and a $2 million increase in outside processing fee expense.

Net income for the Finance Division was $3 million for the nine months ended September 30, 2007, compared to a net loss of $14 million for the same period in 2006. Contributing to the increase in net income was a $25 million increase in net interest income (FTE), primarily due to the rising rate environment in which income received from the lending-related business increased faster than the longer-term value attributed to deposits generated by the business units.

The net loss for the Other category was $5 million for the nine months ended September 30, 2007, compared to net income of $6 million for the nine months ended September 30, 2006. Income from discontinued operations, net of tax, was $2 million for the nine months ended September 30, 2007, compared to a net loss of $3 million for the same period of 2006. Noninterest income increased $14 million, primarily due to a $6 million increase in net income from principal investing and warrants and a $5 million increase in deferred compensation asset returns. The remaining difference is due to timing differences between when corporate overhead expenses are reflected as a consolidated expense and when the expenses are allocated to the business segments.

Market Segments

The Corporation s management accounting system also produces market segment results for the Corporation s four primary geographic markets: Midwest, Western, Texas and Florida. In addition to the four primary geographic markets, Other Markets and International are also reported as market segments. Note 13 to the consolidated financial statements contains a description and presents financial results of these market segments for the nine months ended September 30, 2007 and 2006.

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

| | Nine Months Ended September 30, 2007 | | | |
|---|---|---|---|---|
| *(dollar amounts in millions)* | 2007 | | 2006 | |
| Midwest | $266 | 47% | $297 | 49% |
| Western | 175 | 31 | 190 | 32 |
| Texas | 67 | 12 | 65 | 11 |
| Florida | 8 | 1 | 11 | 2 |
| Other Markets | 14 | 2 | 13 | 2 |
| International | 39 | 7 | 26 | 4 |
| | 569 | 100% | 602 | 100% |
| Finance & Other Businesses* | (2) | | (8) | |

| | | |
|---|---|---|
| Total | $567 | $594 |

* *Includes discontinued operations and items not directly associated with the market segments*

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The Midwest market s net income decreased $31 million, or 10 percent, to $266 million for the nine months ended September 30, 2007, compared to the nine months ended September 30, 2006. Net interest income (FTE) of $733 million decreased $13 million from the comparable period in the prior year, as a decrease in loan spreads was partially offset by increases in average loan balances and deposit spreads. The provision for loan losses increased $43 million, primarily due to an increase in commercial real estate reserves in the first nine months of 2007, compared to the first nine months of 2006. Noninterest income of $362 million increased $9 million from the comparable period in the prior year due to a $7 million increase in fiduciary income and a $5 million increase in card fees, partially offset by a $2 million decline in investment banking fees. Noninterest expenses of $642 million decreased $2 million from the same period in the prior year, primarily due to a $13 million decline in the provision for loan losses on lending-related commitments, which reflected stable credit quality in 2007 for customers in the automotive industry, compared to declining credit quality in 2006. This decrease was partially offset by a $4 million increase in salaries and employee benefits expense and a $3 million increase in litigation and operational losses. The Corporation opened two new banking centers in Michigan in the nine months ended September 30, 2007.

The Western market s net income decreased $15 million, or eight percent, to $175 million for the nine months ended September 30, 2007, compared to the same period in 2006. Net interest income (FTE) of $533 million increased $10 million from the comparable prior year period. The increase in net interest income (FTE) was primarily due to a $1.7 billion increase in average loan balances (excluding Financial Services Division) and a $780 million increase in average deposit balances (excluding Financial Services Division), partially offset by a decrease in net interest income from the Financial Services Division and declining loan spreads. Average low-rate Financial Services Division loan balances declined $1.1 billion in the first nine months of 2007 and average Financial Services Division noninterest-bearing deposits declined $1.7 billion. The provision for loan losses increased $32 million, primarily due to an increase in credit risk in the California residential real estate industry in the first nine months of 2007, compared to credit improvements in the first nine months of 2006. Noninterest income of $96 million for the nine months ended September 30, 2007 increased $10 million from the same period in 2006, in part due to a $4 million increase in income from the sale of SBA loans and a $2 million increase in customer derivative income. Noninterest expenses of $334 million increased $6 million primarily due to a $9 million increase in expenses related to the addition of new banking centers, primarily salaries and employee benefits expense and net occupancy expense. These increases were partially offset by a $7 million decrease in legal fees related to the Financial Services Division. The Corporation opened five new banking centers in the Western market in the nine months ended September 30, 2007.

The Texas market s net income increased $2 million, or three percent, to $67 million for the nine months ended September 30, 2007, compared to the nine months ended September 30, 2006. Net interest income (FTE) of $207 million increased $15 million from the comparable period in the prior year. The increase in net interest income (FTE) was primarily due to an increase in average loan and deposit balances, partially offset by a decrease in loan spreads. The provision for loan losses increased $6 million, primarily due to credit improvements recognized in the first nine months of 2006. Noninterest income of $63 million increased $8 million from the same period in the prior year, primarily due to a $2 million increase in commercial lending fees and increases in various other fee categories. Noninterest expenses of $168 million increased $11 million from the comparable period in the prior year, primarily due to a $7 million increase in salaries and employee benefits expense and a $1 million increase in net occupancy expense, of which $5 million was related to the addition of new banking centers. The Corporation opened six new banking centers in the Texas market in the nine months ended September 30, 2007.

The Florida market s net income decreased $3 million, or 26 percent, to $8 million for the nine months ended September 30, 2007, compared to the same period in 2006. Net interest income (FTE) of $35 million increased $3 million from the comparable period in the prior year, primarily due to an increase in average loan balances. The provision for loan losses increased $4 million, primarily due to an increase in commercial real estate industry reserves in the first nine months of 2007, compared to the same period in 2006. Noninterest income of $11 million was unchanged from the same period in the prior year. Noninterest expenses of $28 million increased $3 million from the comparable period in the prior year, primarily due to a $1 million increase in salaries and employee benefit expenses and a $1 million increase in net occupancy expenses.

The Other Markets net income increased $1 million to $14 million for the nine months ended September 30, 2007, compared to the nine months ended September 30, 2006. Net interest income (FTE) of $23 million decreased $1 million from the comparable period in the prior year, primarily due to a decrease in average deposit balances and a decline in loan spreads. The provision for loan losses increased $1 million, primarily due to an increase in loan balances. Noninterest income of $27 million increased $6 million from the comparable period in the prior year, primarily due to a $4 million increase in fiduciary income from Strategic Trust Alliances business. Noninterest expenses of $27 million increased $2 million from the comparable period in the prior year, primarily due to an increase in salaries and employee benefits expense.

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The International market s net income increased $13 million, to $39 million for the nine months ended September 30, 2007, compared to the same period in 2006. Net interest income (FTE) of $52 million increased $1 million from the comparable period in the prior year. The provision for loan losses was negative in both the first nine months of 2007 and 2006, due to credit improvements and recoveries. Noninterest income of $28 million increased $16 million from the comparable period in the prior year, primarily due to a $12 million loss on the sale of the Mexican bank charter in the third quarter 2006 and a $3 million increase in net securities gains in the first nine months of 2007. Noninterest expenses of $32 million decreased $6 million from the comparable period in the prior year, partially due to the sale of the Mexican bank charter in the third quarter 2006.

The net loss for the Finance & Other Business segment was $2 million for the nine months ended September 30, 2007, compared to a loss of $8 million for the nine months ended September 30, 2006. Income from discontinued operations, net of tax, was $2 million for the nine months ended September 30, 2007, compared to a net loss of $3 million for the nine months ended September 30, 2006. Net interest income (FTE) increased $19 million, primarily due to the rising rate environment in which income received from the lending-related business increased faster than the longer-term value attributed to deposits generated by the business units. Noninterest income increased $16 million, primarily due to a $6 million increase in net income from principal investing and warrants and a $5 million increase in deferred compensation asset returns. The remaining difference is due to timing differences between when corporate overhead expenses are reflected as a consolidated expense and when the expenses are allocated to the business segments.

The following table lists the number of the Corporation s banking centers by market at September 30:

| | 2007 | 2006 |
|---|---|---|
| Midwest | 240 | 240 |
| Western | 80 | 69 |
| Texas | 73 | 64 |
| Florida | 9 | 8 |
| International | 1 | 1 |
| Total | 403 | 382 |

## Financial Condition

Total assets were $60.0 billion at September 30, 2007, compared to $58.0 billion at year-end 2006 and $58.5 billion at September 30, 2006. Total period-end loans increased $2.2 billion, or five percent, to $49.6 billion from December 31, 2006 to September 30, 2007. On an average basis, total loans increased $1.3 billion, or three percent ($2.0 billion, or four percent, excluding Financial Services Division loans), to $49.9 billion in the third quarter 2007, compared to $48.6 billion in the fourth quarter 2006. Within average loans, several business lines showed growth from the fourth quarter 2006 to the third quarter 2007 including the Global Corporate Banking (12 percent), Private Banking (nine percent), Small Business (four percent), Commercial Real Estate (four percent) and Middle Market (three percent) loan portfolios. Excluding Financial Services Division loans, average loans grew in the Western Market (nine percent), Texas Market (nine percent), International Market (eight percent), Other Markets (eight percent) and the Florida Market (five percent), from the fourth quarter 2006 to the third quarter 2007. Period-end federal funds sold and securities purchased under agreements to resell decreased $2.5 billion from December 31, 2006 to September 30, 2007 as a result of loan growth. Investment securities available-for-sale increased $1.2 billion, from $3.7 billion at December 31, 2006, to $4.9 billion at September 30, 2007 primarily due to the purchase of approximately $1.4 billion of mortgage-backed Government-sponsored agency securities in the first nine months of 2007, to assist in managing interest rate risk.

Management currently expects average loan growth for full-year 2007, compared to 2006, to be in the mid to high single-digit range, excluding Financial Services Division loans, with flat growth in the Midwest market and low double-digit growth in the Western and Texas markets.

Shared National Credit (SNC) loans totaled $10.0 billion (approximately 1,045 borrowers) at September 30, 2007, compared to $8.8 billion (approximately 1,000 borrowers) at December 31, 2006. SNC loans are facilities greater than $20 million shared by three or more federally supervised financial institutions, which are reviewed by regulatory authorities at the agent bank level. These loans, diversified by both line of business and geography, represented approximately 20 percent and 19 percent of total loans at September 30, 2007 and December 31, 2006, respectively. The Corporation generally seeks to obtain ancillary business within about two years of entering a SNC relationship. There were no SNC net loan charge-offs for the nine month period ended September 30, 2007 and no nonaccrual SNC loans at September 30, 2007. SNC loans comprised less than one percent of total nonaccrual loans at December 31, 2006.

Commercial real estate loans, consisting of real estate construction and commercial mortgage loans, totaled $14.8 billion at September 30, 2007, of which $5.5 billion, or 37 percent, were to borrowers in the Commercial Real Estate line of business. Borrowers in the Commercial Real Estate line of business include both local and national real estate developers, primarily involved in residential real estate. The $9.3 billion of commercial real estate loans in other business lines consist primarily of commercial mortgages for properties of middle market and small business customers.

The following table reflects real estate construction and commercial mortgage loans to borrowers in the Commercial Real Estate line of business by project type and location of property.

*(dollar amounts in millions)*
September 30, 2007

| | Location of Property | | | | | | |
|---|---|---|---|---|---|---|---|
| Project Type: | Western | Michigan | Texas | Florida | Other Markets | Total | % of Total |
| Real estate construction loans: | | | | | | | |
| Commercial Real Estate business line: | | | | | | | |
| Single Family | $ 978 | $ 99 | $167 | $290 | $184 | $1,718 | 43% |
| Land Development | 386 | 119 | 154 | 44 | 55 | 758 | 19 |
| Retail | 131 | 94 | 189 | 38 | 45 | 497 | 12 |
| Multi-family | 68 | 21 | 129 | 42 | 52 | 312 | 8 |
| Multi-use | 123 | 21 | 26 | 29 | 13 | 212 | 5 |
| Office | 83 | 16 | 62 | | 12 | 173 | 4 |
| Land Carry | 155 | 6 | | | | 161 | 4 |
| Commercial | 105 | 26 | 10 | 5 | 59 | 205 | 5 |
| Other | | | | | 9 | 9 | |
| Total | $2,029 | $402 | $737 | $448 | $429 | $4,045 | 100% |
| Commercial mortgage loans: | | | | | | | |
| Commercial Real Estate business line: | | | | | | | |
| Land Carry | $ 290 | $186 | $109 | $111 | $ 35 | $ 731 | 50% |
| Office | 45 | 57 | 32 | | 2 | 136 | 10 |
| Retail | 9 | 53 | 12 | 3 | 47 | 124 | 9 |
| Multi-family | 7 | 97 | 16 | 31 | 64 | 215 | 15 |
| Commercial | 92 | 38 | 3 | | 8 | 141 | 10 |
| Single Family | 14 | 2 | 5 | 11 | 20 | 52 | 4 |
| Other | 3 | 14 | | | 17 | 34 | 2 |
| Total | $ 460 | $447 | $177 | $156 | $193 | $1,433 | 100% |

Total liabilities increased $2.1 billion, or four percent, from $52.8 billion at December 31, 2006, to $54.9 billion at September 30, 2007. Total deposits decreased $3.0 billion, or seven percent, to $41.9 billion at September 30, 2007, from $44.9 billion at December 31, 2006, reflecting decreases of $2.6 billion in noninterest-bearing deposits and $436 million in money market and NOW deposits. Institutional certificates of deposit decreased $734 million, as the Corporation replaced maturing certificates with senior debt, a trend expected to continue for the remainder of 2007.

Partially offsetting the declines in deposits was an increase of $787 million in customer certificates of deposits. Deposits in the Financial Services Division, some of which are not expected to be long-lived, decreased $2.7 billion to $3.8 billion at September 30, 2007 from $6.5 billion at December 31, 2006. Average Financial Services Division deposits decreased $1.5 billion, to $3.8 billion in the third quarter 2007 from $5.3 billion in the fourth quarter 2006, in part due to the continued slowing of the real estate activity combined with the destabilization of the mortgage market in California in the third quarter 2007. Average Financial Services Division noninterest-bearing deposits decreased $1.4 billion, to $2.6 billion in the third quarter 2007, from $4.0 billion in the fourth quarter 2006.

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Management expects the following for full-year 2007, based upon current trends:

Average Financial Services Division noninterest-bearing deposits of about $2.8 billion, reflecting expected average deposits of about $1.8 billion in the fourth quarter 2007; and

Average Financial Services Division loans will fluctuate in tandem with the level of noninterest-bearing deposits.

Capital

Shareholders equity was $5.1 billion at September 30, 2007 and $5.2 billion at December 31, 2006.

The following table presents a summary of changes in shareholders equity in the nine month period ended September 30, 2007:

| *(in millions)* | | |
|---|---|---|
| Balance at December 31, 2006 | | $5,153 |
| FSP 13-2 transition adjustment, net of tax | | (46) |
| FIN 48 transition adjustment, net of tax | | 3 |
| Balance at January 1, 2007 | | 5,110 |
| Retention of earnings (net income less cash dividends declared) | | 271 |
| Change in accumulated other comprehensive income (loss): | | |
| Investment securities available-for-sale | $30 | |
| Cash flow hedges | 42 | |
| Defined benefit and other postretirement plans adjustment | 14 | |
| Total change in accumulated other comprehensive income (loss) | | 86 |
| Repurchase of approximately 9.0 million shares of common stock | | (533) |
| Net issuance of common stock under employee stock plans | | 97 |
| Recognition of share-based compensation expense | | 46 |
| Balance at September 30, 2007 | | $5,077 |

The November 14, 2006 authorization of the Board of Directors of the Corporation to purchase up to 10 million shares of Comerica Incorporated outstanding common stock remained unfilled at September 30, 2007. There is no expiration date for the Corporation s share repurchase program. Substantially all shares purchased as part of the Corporation s publicly announced repurchase program were transacted in the open market and were within the scope of Rule 10b-18, which provides a safe harbor for purchases in a given day if an issuer of equity securities satisfies the manner, timing, price and volume conditions of the rule when purchasing its own common shares in the open market.

The following table summarizes the Corporation s share repurchase activity for the nine months ended September 30, 2007.

| *(shares in thousands)* | Total Number of Shares Purchased (1) | Average Price Paid Per Share | Total Number of Shares Purchased as Part of Publicly Announced Repurchase Plans or Programs | Remaining Share Repurchase Authorization (2) |
|---|---|---|---|---|

| | | | | |
|---|---|---|---|---|
| Total first quarter 2007 | 3,491 | $ 60.29 | 3,441 | 9,113 |
| Total second quarter 2007 | 3,496 | 62.15 | 3,488 | 5,625 |
| July 2007 | 868 | 54.42 | 864 | 4,761 |
| August 2007 | 649 | 53.50 | 649 | 4,112 |
| September 2007 | 503 | 53.42 | 503 | 3,609 |
| Total third quarter 2007 | 2,020 | 53.88 | | |