COMERICA INC /NEW/
Form 10-Q
April 30, 2018
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)
x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2018
Or
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission file number 1-10706

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

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

Comerica Bank Tower
1717 Main Street, MC 6404
Dallas, Texas 75201
(Address of principal executive offices)
(Zip Code)
(214) 462-6831
(Registrant's telephone number, including area code)

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

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

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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

$5 par value common stock:

Outstanding as of April 24, 2018: 171,933,253 shares

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Part I. FINANCIAL INFORMATION
Item 1. Financial Statements

CONSOLIDATED BALANCE SHEETS
Comerica Incorporated and Subsidiaries

(in millions, except share data)	March 31, 2018 (unaudited)	December 31, 2017
ASSETS		
Cash and due from banks	$ 1,173	$ 1,438
Interest-bearing deposits with banks	5,663	4,407
Other short-term investments	133	96
Investment securities available-for-sale	11,971	10,938
Investment securities held-to-maturity	—	1,266
Commercial loans	30,909	31,060
Real estate construction loans	3,114	2,961
Commercial mortgage loans	9,272	9,159
Lease financing	464	468
International loans	964	983
Residential mortgage loans	2,003	1,988
Consumer loans	2,514	2,554
Total loans	49,240	49,173
Less allowance for loan losses	(698)	(712)
Net loans	48,542	48,461
Premises and equipment	468	466
Accrued income and other assets	4,385	4,495
Total assets	$ 72,335	$ 71,567
LIABILITIES AND SHAREHOLDERS' EQUITY		
Noninterest-bearing deposits	$ 30,961	$ 32,071
Money market and interest-bearing checking deposits	22,355	21,500
Savings deposits	2,233	2,152
Customer certificates of deposit	2,071	2,165
Foreign office time deposits	15	15
Total interest-bearing deposits	26,674	25,832
Total deposits	57,635	57,903
Short-term borrowings	48	10
Accrued expenses and other liabilities	1,058	1,069
Medium- and long-term debt	5,594	4,622
Total liabilities	64,335	63,604
Common stock - $5 par value:		
Authorized - 325,000,000 shares		
Issued - 228,164,824 shares	1,141	1,141
Capital surplus	2,134	2,122

Accumulated other comprehensive loss	(553)	(451)
Retained earnings	8,110	7,887
Less cost of common stock in treasury - 55,690,402 shares at 3/31/18 and 55,306,483 shares at 12/31/17	(2,832)	(2,736)
Total shareholders’ equity	8,000	7,963
Total liabilities and shareholders’ equity	$ 72,335	$ 71,567

See notes to consolidated financial statements (unaudited).

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

(in millions, except per share data)	Three Months Ended March 31, 2018	2017
INTEREST INCOME		
Interest and fees on loans	$509	$421
Interest on investment securities	64	61
Interest on short-term investments	17	14
Total interest income	590	496
INTEREST EXPENSE		
Interest on deposits	16	9
Interest on medium- and long-term debt	25	17
Total interest expense	41	26
Net interest income	549	470
Provision for credit losses	12	16
Net interest income after provision for credit losses	537	454
NONINTEREST INCOME		
Card fees	59	77
Service charges on deposit accounts	54	58
Fiduciary income	52	49
Commercial lending fees	18	20
Letter of credit fees	10	12
Bank-owned life insurance	9	10
Foreign exchange income	12	11
Brokerage fees	7	5
Other noninterest income	23	29
Total noninterest income	244	271
NONINTEREST EXPENSES		
Salaries and benefits expense	255	245
Outside processing fee expense	61	87
Net occupancy expense	38	38
Equipment expense	11	11
Restructuring charges	16	11
Software expense	31	29
FDIC insurance expense	13	13
Advertising expense	6	4
Litigation-related expense	—	(2)
Other noninterest expenses	15	21
Total noninterest expenses	446	457
Income before income taxes	335	268
Provision for income taxes	54	66
NET INCOME	281	202
Less income allocated to participating securities	2	2
Net income attributable to common shares	$279	$200
Earnings per common share:		

Basic	$1.62	$1.15
Diluted	1.59	1.11
Comprehensive income	178	206
Cash dividends declared on common stock	52	42
Cash dividends declared per common share	0.30	0.23

See notes to consolidated financial statements (unaudited).

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

(in millions, except per share data)	Common Stock Shares Outstanding	Common Stock Amount	Capital Surplus	Accumulated Other Comprehensive Loss	Retained Earnings	Treasury Stock	Total Shareholders' Equity
BALANCE AT DECEMBER 31, 2016	175.3	$ 1,141	$ 2,135	$ (383)	$ 7,331	$ (2,428)	$ 7,796
Cumulative effect of change in accounting principle	—	—	3	—	(2)	—	1
Net income	—	—	—	—	202	—	202
Other comprehensive income, net of tax	—	—	—	4	—	—	4
Cash dividends declared on common stock ($0.23 per share)	—	—	—	—	(42)	—	(42)
Purchase of common stock	(1.7)	—	—	—	—	(118)	(118)
Net issuance of common stock under employee stock plans	2.3	—	(25)	—	(14)	108	69
Net issuance of common stock for warrants	1.5	—	(24)	—	(44)	68	—
Share-based compensation	—	—	18	—	—	—	18
Other	—	—	(1)	—	—	1	—
BALANCE AT MARCH 31, 2017	177.4	$ 1,141	$ 2,106	$ (379)	$ 7,431	$ (2,369)	$ 7,930
BALANCE AT DECEMBER 31, 2017	172.9	$ 1,141	$ 2,122	$ (451)	$ 7,887	$ (2,736)	$ 7,963
Cumulative effect of change in accounting principles	—	—	—	1	14	—	15
Net income	—	—	—	—	281	—	281
Other comprehensive loss, net of tax	—	—	—	(103)	—	—	(103)
Cash dividends declared on common stock ($0.30 per share)	—	—	—	—	(52)	—	(52)
Purchase of common stock	(1.7)	—	—	—	—	(159)	(159)
Net issuance of common stock under employee stock plans	1.2	—	(11)	—	(17)	59	31
Net issuance of common stock for warrants	0.1	—	(1)	—	(3)	4	—
Share-based compensation	—	—	24	—	—	—	24
BALANCE AT MARCH 31, 2018	172.5	$ 1,141	$ 2,134	$ (553)	$ 8,110	$ (2,832)	$ 8,000

See notes to consolidated financial statements (unaudited).

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

	Three Months Ended March 31,	
(in millions)	2018	2017
OPERATING ACTIVITIES		
Net income	$281	$202
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for credit losses	12	16
Provision (benefit) for deferred income taxes	7	(1)
Depreciation and amortization	31	31
Net periodic defined benefit credit	(5)	(4)
Share-based compensation expense	24	18
Net amortization of securities	1	2
Net change in:		
Accrued income receivable	(26)	3
Accrued expenses payable	(22)	5
Other, net	55	132
Net cash provided by operating activities	358	404
INVESTING ACTIVITIES		
Investment securities available-for-sale:		
Maturities and redemptions	444	393
Sales	5	1,259
Purchases	(441)	(1,699)
Investment securities held-to-maturity:		
Maturities and redemptions	—	76
Net change in loans	(98)	752
Proceeds from sales of foreclosed property	1	3
Net increase in premises and equipment	(20)	(12)
Purchases of Federal Home Loan Bank stock	(41)	—
Proceeds from bank-owned life insurance settlements	3	3
Other, net	—	1
Net cash (used in) provided by investing activities	(147)	776
FINANCING ACTIVITIES		
Net change in:		
Deposits	(77)	(5)
Short-term borrowings	38	16
FHLB issuances of medium- and long-term debt	1,000	—
Common stock:		
Repurchases	(168)	(126)
Cash dividends paid	(53)	(40)
Issuances under employee stock plans	40	77
Other, net	—	(1)
Net cash provided by (used in) financing activities	780	(79)
Net increase in cash and cash equivalents	991	1,101
Cash and cash equivalents at beginning of period	5,845	7,218
Cash and cash equivalents at end of period	$6,836	$8,319
Interest paid	$40	$27

Income tax paid (refunds received)	2	(1)
Noncash investing and financing activities:		
Loans transferred to other real estate	1	1
Securities transferred from held-to-maturity to available-for-sale	1,266	—
Securities transferred from available-for-sale to equity securities	81	—

See notes to consolidated financial statements (unaudited).

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

NOTE 1 - BASIS OF PRESENTATION AND ACCOUNTING POLICIES
Organization
The accompanying unaudited consolidated financial statements were prepared in accordance with United States (U.S.) generally accepted accounting principles (GAAP) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, the statements do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation were included. The results of operations for the three months ended March 31, 2018 are not necessarily indicative of the results that may be expected for the year ending December 31, 2018. Certain items in prior periods were reclassified to conform to the current presentation. For further information, refer to the consolidated financial statements and footnotes thereto included in the Annual Report of Comerica Incorporated and Subsidiaries (the Corporation) on Form 10-K for the year ended December 31, 2017.
Revenue Recognition
Effective January 1, 2018, the Corporation adopted the provision of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 606, "Revenue from Contracts with Customers" (Topic 606), using the modified retrospective method applied to all open contracts as of January 1, 2018.
Under Topic 606, card fee revenue from certain products is generally presented net of network costs, including interchange costs, surcharge fees and assessment fees, as opposed to the previous presentation of associated network costs in outside processing fees in the Consolidated Statements of Comprehensive Income. Similar adjustments were made for other revenue streams that resulted in certain costs being recognized in the same category as the associated revenues in noninterest income.
The impact on the Consolidated Statements of Comprehensive Income of adopting Topic 606 was a $34 million decrease in card fees and a $1 million decrease in service charges on deposit accounts included in noninterest income, along with a corresponding $35 million decrease in outside processing fees included in noninterest expenses for the three months ended March 31, 2018.
The Corporation previously deferred recognition of certain treasury management fees included in service charges on deposit accounts in the Consolidated Statements of Comprehensive Income until the amount of compensation was considered fixed and determinable. Under the new guidance, the portion of these fees that are based on agreed upon rates less estimated credits expected to be earned by the customer is recognized as services are rendered. As a result, the Corporation recorded a transition adjustment of $14 million, after tax, to retained earnings, included in cumulative effect of change in accounting principles in the accompanying Consolidated Statements of Changes in Shareholders Equity. Similar adjustments were made for other revenue streams that resulted in an additional cumulative transition after-tax adjustment to retained earnings of $2 million.
The Corporation's revenues from contracts with customers may be recognized when services are complete or as they are rendered, although contracts are generally short-term by nature. Services provided over a period of time are typically transferred to customers evenly over the term of the contracts and revenue is recognized evenly over the period services are provided. Contract receivables are included in accrued income and other assets on the Consolidated Balance Sheets. Payment terms vary by services offered, and the timing between completion of performance obligations and payment is typically not significant.
Card fees comprise interchange and other fee income earned on government card, commercial card, debit/ATM card and merchant payment processing programs. Card fees are presented net of network costs as performance obligations for card services are limited to transaction processing and settlement with the card network on behalf of the customers. Network costs were approximately $34 million and $25 million for the three months ended March 31, 2018 and 2017, respectively. Fees for these services are primarily based on interchange rates set by the network and transaction volume. The Corporation also provides ongoing card program support services, for which fees are based on contractually agreed prices and customer demand for services.

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

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

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

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

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

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

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

Classification and Measurement of Financial Instruments

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

Statement of Cash Flows

The Corporation adopted FASB issued ASU No. 2016-15, “Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments,” (ASU 2016-15) on January 1, 2018 and, as a result, reclassified $3 million of proceeds from settlement of bank-owned life insurance policies from operating activities to investing activities for the three-month period ended March 31, 2017.

Defined Benefit Pension and Other Postretirement Costs

The Corporation retrospectively adopted the provisions of ASU No. 2017-07, “Compensation - Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost” (ASU 2017-07) on January 1, 2018, which requires employers to report service cost as part of compensation expense and the other components of net benefit cost separately from service cost. As a result, $12 million of benefit from the other components of net benefit cost was reclassified from salaries and benefits expense to other noninterest expenses in the Consolidated Statements of Comprehensive Income for the three months ended March 31, 2017. The Corporation based the adjustment to the prior period on amounts disclosed in note 10.

Derivatives Instruments and Hedging Activities

The Corporation adopted ASU No. 2017-12, “Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities” (ASU 2017-12), effective January 1, 2018. At transition, the Corporation elected to change the measurement methodology of all long-haul fair value hedges existing at December 31, 2017. The prior period effect of this election was a $1 million reduction to opening retained earnings, included in cumulative effect of change in accounting principles in the Consolidated Statements of Shareholders' Equity. In addition, the Corporation made a transition election to reclassify the portfolio of held-to-maturity securities to available-for-sale in January 2018 as the securities are eligible to be hedged. This resulted in the recognition of additional unrealized losses of $11

million at the date of transfer.
Income Taxes
The Tax Cuts and Jobs Act (the "Act"), enacted on December 22, 2017, reduced the U.S. federal corporate tax rate from 35 percent to 21 percent. Also on December 22, 2017, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 118 (SAB 118), which provides guidance on accounting for tax effects of the Act. SAB 118 provides a measurement period of up to one year from the enactment date to complete the accounting. Based on the information available and current interpretation

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Comerica Incorporated and Subsidiaries

of the rules, the Corporation has made reasonable estimates of the impact of the reduction in the corporate tax rate and remeasurement of certain deferred tax assets and liabilities based on the rate at which they are expected to reverse in the future, generally 21 percent. The provisional amount recorded related to the remeasurement of the Corporation's deferred tax balance was $104 million, including $107 million recognized in the year ended December 31, 2017 and a $3 million downward revision to the estimated impact recorded in the three months ended March 31, 2018. The final impact of the Act may differ from these estimates as a result of changes in management’s interpretations and assumptions, as well as new guidance that may be issued by the Internal Revenue Service (IRS).

NOTE 2 – FAIR VALUE MEASUREMENTS

The Corporation utilizes fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. The determination of fair values of financial instruments often requires the use of estimates. In cases where quoted market values in an active market are not available, the Corporation uses present value techniques and other valuation methods to estimate the fair values of its financial instruments. These valuation methods require considerable judgment and the resulting estimates of fair value can be significantly affected by the assumptions made and methods used.

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

Refer to note 1 to the consolidated financial statements in the Corporation's Annual Report on Form 10-K for the year ended December 31, 2017 for further information about the fair value hierarchy, descriptions of the valuation methodologies and key inputs used to measure financial assets and liabilities recorded at fair value, as well as a description of the methods and significant assumptions used to estimate fair value disclosures for financial instruments not recorded at fair value in their entirety on a recurring basis.

ASSETS AND LIABILITIES RECORDED AT FAIR VALUE ON A RECURRING BASIS

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

(in millions)	Total	Level 1	Level 2	Level 3
March 31, 2018				
Deferred compensation plan assets	$93	$93	$—	$ —
Equity securities	38	38	—	—
Investment securities available-for-sale:				
U.S. Treasury and other U.S. government agency securities	2,706	2,706	—	—
Residential mortgage-backed securities (a)	9,265	—	9,265	—
Total investment securities available-for-sale	11,971	2,706	9,265	—
Derivative assets:				
Interest rate contracts	33	—	26	7
Energy derivative contracts	107	—	107	—
Foreign exchange contracts	37	—	37	—
Warrants	2	—	—	2
Total derivative assets	179	—	170	9
Total assets at fair value	$12,281	$2,837	$9,435	$ 9
Derivative liabilities:				
Interest rate contracts	$98	$—	$98	$ —
Energy derivative contracts	106	—	106	—
Foreign exchange contracts	32	—	32	—

Total derivative liabilities	236	—	236	—
Deferred compensation plan liabilities	93	93	—	—
Total liabilities at fair value	$329	$93	$236	$ —

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

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

(in millions)	Total	Level 1	Level 2	Level 3	
December 31, 2017					
Trading securities:					
Deferred compensation plan assets	$92	$92	$—	$ —	
Investment securities available-for-sale:					
U.S. Treasury and other U.S. government agency securities	2,727	2,727	—	—	
Residential mortgage-backed securities (a)	8,124	—	8,124	—	
State and municipal securities	5	—	—	5	(b)
Equity and other non-debt securities	82	38	—	44	(b)
Total investment securities available-for-sale	10,938	2,765	8,124	49	
Derivative assets:					
Interest rate contracts	57	—	43	14	
Energy derivative contracts	93	—	93	—	
Foreign exchange contracts	42	—	42	—	
Warrants	2	—	—	2	
Total derivative assets	194	—	178	16	
Total assets at fair value	$11,224	$2,857	$8,302	$ 65	
Derivative liabilities:					
Interest rate contracts	$59	$—	$59	$ —	
Energy derivative contracts	91	—	91	—	
Foreign exchange contracts	40	—	40	—	
Total derivative liabilities	190	—	190	—	
Deferred compensation plan liabilities	92	92	—	—	
Total liabilities at fair value	$282	$92	$190	$ —	

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

There were no transfers of assets or liabilities recorded at fair value on a recurring basis into or out of Level 1, Level 2 and Level 3 fair value measurements during each of the three-month period ended March 31, 2018 and 2017.
The following table summarizes the changes in Level 3 assets and liabilities measured at fair value on a recurring basis for the three-month period ended March 31, 2018 and 2017.

(in millions)	Balance at Beginning of Period	Change in Classification (a)	Net Realized/Unrealized Gains (Losses) (Pretax) Recorded in Earnings Realized	Unrealized	Sales and Redemptions	Balance at End of Period
Three Months Ended March 31, 2018						
Equity securities	—	44	—	—	(44)	—
Investment securities available-for-sale:						
State and municipal securities (b)	$ 5	$ —	$ —	$ —	$ (5)	$ —
Equity and other non-debt securities (b)	44	(44)	—	—	—	—
Total investment securities available-for-sale	49	(44)	—	—	(5)	—
Derivative assets:						
Interest rate contracts	14	—	—	(7) (c)	—	7
Warrants	2	—	—	—	—	2

Three Months Ended March 31, 2017						
Investment securities available-for-sale:						
State and municipal securities (b)	$ 7	$ —	$ —	$ —	$ (2)	$ 5
Equity and other non-debt securities (b)	47	—	—	—	(1)	46
Total investment securities available-for-sale	54	—	—	—	(3)	51
Derivative assets:						
Interest rate contracts	11	—	—	—	—	11
Warrants	3	—	1 (c)	(1) (c)	(1)	2

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

(b) Auction-rate securities.

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

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ASSESTS AND LIABILITIES AT FAIR VALUE ON A NONRECURRING BASIS

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

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

(in millions)	Level 3
March 31, 2018	
Loans:	
Commercial	$ 102
Commercial mortgage	4
Total assets at fair value	$ 106
December 31, 2017	
Loans:	
Commercial	$ 111
Commercial mortgage	5
Total assets at fair value	$ 116

Level 3 assets recorded at fair value on a nonrecurring basis at March 31, 2018 and December 31, 2017 included loans for which a specific allowance was established based on the fair value of collateral. The unobservable inputs were the additional adjustments applied by management to the appraised values to reflect such factors as non-current appraisals and revisions to estimated time to sell. These adjustments are determined based on qualitative judgments made by management on a case-by-case basis and are not quantifiable inputs, although they are used in the determination of fair value.

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

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

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Comerica Incorporated and Subsidiaries

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

(in millions)	Carrying Amount	Estimated Fair Value Total	Level 1	Level 2	Level 3
March 31, 2018					
Assets					
Cash and due from banks	$1,173	$1,173	$1,173	$ —	$ —
Interest-bearing deposits with banks	5,663	5,663	5,663	—	—
Loans held-for-sale	2	2	—	2	—
Total loans, net of allowance for loan losses (a)	48,542	48,345	—	—	48,345
Customers' liability on acceptances outstanding	2	2	2	—	—
Restricted equity investments	248	248	248	—	—
Nonmarketable equity securities (b)	6	9			
Liabilities					
Demand deposits (noninterest-bearing)	30,961	30,961	—	30,961	—
Interest-bearing deposits	24,603	24,603	—	24,603	—
Customer certificates of deposit	2,071	2,041	—	2,041	—
Total deposits	57,635	57,605	—	57,605	—
Short-term borrowings	48	48	48	—	—
Acceptances outstanding	2	2	2	—	—
Medium- and long-term debt	5,594	5,604	—	5,604	—
Credit-related financial instruments	(68)	(68)	—	—	(68)
December 31, 2017					
Assets					
Cash and due from banks	$1,438	$1,438	$1,438	$ —	$ —
Interest-bearing deposits with banks	4,407	4,407	4,407	—	—
Investment securities held-to-maturity	1,266	1,246	—	1,246	—
Loans held-for-sale	4	4	—	4	—
Total loans, net of allowance for loan losses (a)	48,461	48,153	—	—	48,153
Customers' liability on acceptances outstanding	2	2	2	—	—
Restricted equity investments	207	207	207	—	—
Nonmarketable equity securities (b)	6	9			
Liabilities					
Demand deposits (noninterest-bearing)	32,071	32,071	—	32,071	—
Interest-bearing deposits	23,667	23,667	—	23,667	—
Customer certificates of deposit	2,165	2,142	—	2,142	—
Total deposits	57,903	57,880	—	57,880	—
Short-term borrowings	10	10	10	—	—
Acceptances outstanding	2	2	2	—	—
Medium- and long-term debt	4,622	4,636	—	4,636	—
Credit-related financial instruments	(67)	(67)	—	—	(67)

(a) Included $106 million and $116 million of impaired loans recorded at fair value on a nonrecurring basis at March 31, 2018 and December 31, 2017, respectively.

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

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NOTE 3 - INVESTMENT SECURITIES
A summary of the Corporation's investment securities follows:

(in millions)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
March 31, 2018				
Investment securities available-for-sale:				
U.S. Treasury and other U.S. government agency securities	$ 2,744	$ —	$ 38	$ 2,706
Residential mortgage-backed securities (a)	9,500	13	248	9,265
Total investment securities available-for-sale	$ 12,244	$ 13	$ 286	$ 11,971
December 31, 2017				
Investment securities available-for-sale:				
U.S. Treasury and other U.S. government agency securities	$ 2,743	$ —	$ 16	$ 2,727
Residential mortgage-backed securities (a)	8,230	22	128	8,124
State and municipal securities	5	—	—	5
Equity and other non-debt securities	83	1	2	82
Total investment securities available-for-sale (b)	$ 11,061	$ 23	$ 146	$ 10,938
Investment securities held-to-maturity (c):				
Residential mortgage-backed securities (a)	$ 1,266	$ —	$ 20	$ 1,246

(a) Issued and/or guaranteed by U.S. government agencies or U.S. government-sponsored enterprises.
(b) Included auction-rate securities at amortized cost and fair value of $51 million and $49 million, respectively, as of December 31, 2017.
(c) The amortized cost of investment securities held-to-maturity included net unrealized losses of $9 million at December 31, 2017 related to securities transferred from available-for-sale in 2014, which are included in accumulated other comprehensive loss.

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

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

(in millions)	Temporarily Impaired Less than 12 Months		12 Months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
March 31, 2018						
U.S. Treasury and other U.S. government agency securities	$2,706	$ 38	$ —	$ —	$2,706	$ 38
Residential mortgage-backed securities (a)	4,623	81	3,855	167	8,478	248
Total temporarily impaired securities	$7,329	$ 119	$ 3,855	$ 167	$11,184	$ 286
December 31, 2017						
U.S. Treasury and other U.S. government agency securities	$2,727	$ 16	$ —	$ —	$2,727	$ 16

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

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

(b) Unrealized losses less than $0.5 million.

(c) Primarily auction-rate securities.

At March 31, 2018, the Corporation had 377 securities in an unrealized loss position with no credit impairment, including 29 U.S. Treasury securities and 348 residential mortgage-backed securities. The unrealized losses for these securities resulted from changes in market interest rates and liquidity, not changes in credit quality. The Corporation ultimately expects full collection of the carrying amount of these securities, does not intend to sell the securities in an unrealized loss position, and it is not more-likely-than-not that the Corporation will be required to sell the securities in an unrealized loss position prior to recovery of amortized cost. The Corporation does not consider these securities to be other-than-temporarily impaired at March 31, 2018.

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There were no significant gains or losses of debt securities available-for-sale or equity securities during the three months ended March 31, 2018, including the sale and redemption of the remaining auction-rate securities in the investment securities portfolio. Additionally, there were no significant gains or losses of investment securities available-for-sale during the three months ended March 31, 2017.

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

(in millions)

March 31, 2018	Amortized Cost	Fair Value
Contractual maturity		
Within one year	$100	$100
After one year through five years	2,861	2,823
After five years through ten years	1,727	1,709
After ten years	7,557	7,339
Total investment securities	$12,245	$11,971

Included in the contractual maturity distribution in the table above were residential mortgage-backed securities with total amortized cost of $9.5 billion and fair value of $9.3 billion. The actual cash flows of mortgage-backed securities may differ from contractual maturity as the borrowers of the underlying loans may exercise prepayment options.

At March 31, 2018, investment securities with a carrying value of $628 million were pledged where permitted or required by law to secure $311 million of liabilities, primarily public and other deposits of state and local government agencies and derivative instruments.

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

	Loans Past Due and Still Accruing						
(in millions)	30-59 Days	60-89 Days	90 Days or More	Total	Nonaccrual Loans	Current Loans	Total Loans
March 31, 2018							
Business loans:							
Commercial	$ 84	$ 29	$ 26	$ 139	$ 242	$30,528	$30,909
Real estate construction:							
Commercial Real Estate business line (a)	12	—	—	12	—	2,746	2,758
Other business lines (b)	—	—	—	—	—	356	356
Total real estate construction	12	—	—	12	—	3,102	3,114
Commercial mortgage:							
Commercial Real Estate business line (a)	15	—	—	15	9	1,882	1,906
Other business lines (b)	20	6	8	34	20	7,312	7,366
Total commercial mortgage	35	6	8	49	29	9,194	9,272
Lease financing	—	—	—	—	3	461	464
International	14	—	—	14	4	946	964
Total business loans	145	35	34	214	278	44,231	44,723
Retail loans:							
Residential mortgage	11	1	—	12	29	1,962	2,003
Consumer:							
Home equity	6	2	1	9	19	1,735	1,763
Other consumer	1	—	1	2	—	749	751
Total consumer	7	2	2	11	19	2,484	2,514
Total retail loans	18	3	2	23	48	4,446	4,517
Total loans	$ 163	$ 38	$ 36	$ 237	$ 326	$48,677	$49,240
December 31, 2017							
Business loans:							
Commercial	$ 79	$ 134	$ 12	$ 225	$ 309	$30,526	$31,060
Real estate construction:							
Commercial Real Estate business line (a)	3	—	—	3	—	2,627	2,630
Other business lines (b)	4	—	—	4	—	327	331
Total real estate construction	7	—	—	7	—	2,954	2,961
Commercial mortgage:							
Commercial Real Estate business line (a)	14	—	—	14	9	1,808	1,831
Other business lines (b)	27	6	22	55	22	7,251	7,328
Total commercial mortgage	41	6	22	69	31	9,059	9,159
Lease financing	—	—	—	—	4	464	468
International	13	—	—	13	6	964	983
Total business loans	140	140	34	314	350	43,967	44,631
Retail loans:							
Residential mortgage	10	2	—	12	31	1,945	1,988
Consumer:							
Home equity	5	1	—	6	21	1,789	1,816
Other consumer	4	—	1	5	—	733	738
Total consumer	9	1	1	11	21	2,522	2,554

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

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

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

	Internally Assigned Rating				
(in millions)	Pass (a)	Special Mention (b)	Substandard (c)	Nonaccrual (d)	Total
March 31, 2018					
Business loans:					
Commercial	$29,195	$ 579	$ 893	$ 242	$30,909
Real estate construction:					
Commercial Real Estate business line (e)	2,758	—	—	—	2,758
Other business lines (f)	352	4	—	—	356
Total real estate construction	3,110	4	—	—	3,114
Commercial mortgage:					
Commercial Real Estate business line (e)	1,836	15	46	9	1,906
Other business lines (f)	7,144	107	95	20	7,366
Total commercial mortgage	8,980	122	141	29	9,272
Lease financing	453	5	3	3	464
International	926	5	29	4	964
Total business loans	42,664	715	1,066	278	44,723
Retail loans:					
Residential mortgage	1,973	1	—	29	2,003
Consumer:					
Home equity	1,733	—	11	19	1,763
Other consumer	750	1	—	—	751
Total consumer	2,483	1	11	19	2,514
Total retail loans	4,456	2	11	48	4,517
Total loans	$47,120	$ 717	$ 1,077	$ 326	$49,240
December 31, 2017					
Business loans:					
Commercial	$29,263	$ 591	$ 897	$ 309	$31,060
Real estate construction:					
Commercial Real Estate business line (e)	2,630	—	—	—	2,630
Other business lines (f)	327	4	—	—	331
Total real estate construction	2,957	4	—	—	2,961
Commercial mortgage:					
Commercial Real Estate business line (e)	1,759	20	43	9	1,831
Other business lines (f)	7,099	115	92	22	7,328
Total commercial mortgage	8,858	135	135	31	9,159
Lease financing	440	23	1	4	468
International	946	11	20	6	983
Total business loans	42,464	764	1,053	350	44,631
Retail loans:					
Residential mortgage	1,955	2	—	31	1,988
Consumer:					
Home equity	1,786	1	8	21	1,816
Other consumer	737	1	—	—	738

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

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

(b) Special mention loans are accruing loans that have potential credit weaknesses that deserve management’s close attention, such as loans to borrowers who may be experiencing financial difficulties that may result in deterioration of repayment prospects from the borrower at some future date. This category is generally consistent with the "special mention" category as defined by regulatory authorities.

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

(d) Nonaccrual loans are loans for which the accrual of interest has been discontinued. For further information regarding nonaccrual loans, refer to the Nonperforming Assets subheading in Note 1 - Basis of Presentation and Accounting Policies - on pages F-51 and F-52 in the Corporation's 2017 Annual Report. A significant majority of nonaccrual loans are generally consistent with the "substandard" category and the remainder are generally consistent with the "doubtful" category as defined by regulatory authorities.

(e) Primarily loans to real estate developers.

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

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The following table summarizes nonperforming assets.

(in millions)	March 31, 2018	December 31, 2017
Nonaccrual loans	$ 326	$ 402
Reduced-rate loans (a)	8	8
Total nonperforming loans	334	410
Foreclosed property (b)	5	5
Total nonperforming assets	$ 339	$ 415

(a) There were no reduced-rate business loans at both March 31, 2018 and December 31, 2017. Reduced-rate retail loans were $8 million at both March 31, 2018 and December 31, 2017.
(b) Included $4 million of foreclosed residential real estate properties at both March 31, 2018 and December 31, 2017.

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

Allowance for Credit Losses

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

(in millions)	2018 Business Loans	2018 Retail Loans	2018 Total	2017 Business Loans	2017 Retail Loans	2017 Total
Three Months Ended March 31						
Allowance for loan losses:						
Balance at beginning of period	$661	$51	$712	$682	$48	$730
Loan charge-offs	(36)	(1)	(37)	(42)	(2)	(44)
Recoveries on loans previously charged-off	8	1	9	9	2	11
Net loan charge-offs	(28)	—	(28)	(33)	—	(33)
Provision for loan losses	20	(6)	14	12	(1)	11
Balance at end of period	$653	$45	$698	$661	$47	$708
As a percentage of total loans	1.46 %	0.99 %	1.42 %	1.51 %	1.05 %	1.47 %
March 31						
Allowance for loan losses:						
Individually evaluated for impairment	$42	$—	$42	$87	$2	$89
Collectively evaluated for impairment	611	45	656	574	45	619
Total allowance for loan losses	$653	$45	$698	$661	$47	$708
Loans:						
Individually evaluated for impairment	$384	$31	$415	$535	$41	$576
Collectively evaluated for impairment	44,339	4,486	48,825	43,287	4,440	47,727
Total loans evaluated for impairment	$44,723	$4,517	$49,240	$43,822	$4,481	$48,303

Changes in the allowance for credit losses on lending-related commitments, included in accrued expenses and other liabilities on the Consolidated Balance Sheets, are summarized in the following table.

(in millions)	Three Months Ended March 31, 2018	2017
Balance at beginning of period	$42	$ 41
Provision for credit losses on lending-related commitments	(2)	5
Balance at end of period	$40	$ 46

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Individually Evaluated Impaired Loans
The following table presents additional information regarding individually evaluated impaired loans.

(in millions)	Recorded Investment In: Impaired Loans with No Related Allowance	Impaired Loans with Related Allowance	Total Impaired Loans	Unpaid Principal Balance	Related Allowance for Loan Losses
March 31, 2018					
Business loans:					
Commercial	$159	$ 156	$ 315	$ 403	$ 39
Commercial mortgage:					
Commercial Real Estate business line (a)	39	1	40	49	—
Other business lines (b)	3	22	25	29	3
Total commercial mortgage	42	23	65	78	3
International	3	1	4	9	—
Total business loans	204	180	384	490	42
Retail loans:					
Residential mortgage	11	8	19	20	—
Consumer:					
Home equity	11	—	11	13	—
Other consumer	1	—	1	2	—
Total consumer	12	—	12	15	—
Total retail loans (c)	23	8	31	35	—
Total individually evaluated impaired loans	$227	$ 188	$ 415	$ 525	$ 42
December 31, 2017					
Business loans:					
Commercial	$105	$ 267	$ 372	$ 460	$ 63
Commercial mortgage:					
Commercial Real Estate business line (a)	39	1	40	49	—
Other business lines (b)	3	22	25	29	3
Total commercial mortgage	42	23	65	78	3
International	—	6	6	17	1
Total business loans	147	296	443	555	67
Retail loans:					
Residential mortgage	14	8	22	22	—
Consumer:					
Home equity	11	—	11	14	