

COMERICA INC /NEW/  
Form 10-Q  
July 29, 2013  
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

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FORM 10-Q

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(Mark One)

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT  
OF 1934

For the quarterly period ended June 30, 2013

Or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission file number 1-10706

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

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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)	

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

Indicate by check mark whether the registrant has submitted electronically 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 ☒ No ☐

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

Large accelerated filer <input checked="" type="checkbox"/>	Accelerated filer <input type="checkbox"/>	Non-accelerated filer <input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company <input type="checkbox"/>
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Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

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

\$5 par value common stock:

Outstanding as of July 25, 2013: 184,961,609 shares

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COMERICA INCORPORATED AND SUBSIDIARIES

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## Part I. FINANCIAL INFORMATION

## Item 1. Financial Statements

## CONSOLIDATED BALANCE SHEETS

## Comerica Incorporated and Subsidiaries

(in millions, except share data)	June 30, 2013 (unaudited)	December 31, 2012
<b>ASSETS</b>		
Cash and due from banks	\$1,016	\$1,395
Federal funds sold	31	100
Interest-bearing deposits with banks	2,878	3,039
Other short-term investments	119	125
Investment securities available-for-sale	9,631	10,297
Commercial loans	29,186	29,513
Real estate construction loans	1,479	1,240
Commercial mortgage loans	9,007	9,472
Lease financing	843	859
International loans	1,209	1,293
Residential mortgage loans	1,611	1,527
Consumer loans	2,124	2,153
Total loans	45,459	46,057
Less allowance for loan losses	(613)	(629)
Net loans	44,846	45,428
Premises and equipment	604	622
Accrued income and other assets	3,822	4,063
Total assets	\$62,947	\$65,069
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Noninterest-bearing deposits	\$21,870	\$23,279
Money market and interest-bearing checking deposits	21,677	21,273
Savings deposits	1,677	1,606
Customer certificates of deposit	5,594	5,531
Foreign office time deposits	437	502
Total interest-bearing deposits	29,385	28,912
Total deposits	51,255	52,191
Short-term borrowings	131	110
Accrued expenses and other liabilities	1,049	1,106
Medium- and long-term debt	3,601	4,720
Total liabilities	56,036	58,127
Common stock - \$5 par value:		
Authorized - 325,000,000 shares		
Issued - 228,164,824 shares	1,141	1,141
Capital surplus	2,160	2,162

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Accumulated other comprehensive loss	(538	) (413	)
Retained earnings	6,127	5,931	
Less cost of common stock in treasury - 42,999,083 shares at 6/30/13 and 39,889,610 shares at 12/31/12	(1,979	) (1,879	)
Total shareholders' equity	6,911	6,942	
Total liabilities and shareholders' equity	\$62,947	\$65,069	
See notes to consolidated financial statements.			

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## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (unaudited)

Comerica Incorporated and Subsidiaries

	Three Months Ended June 30,		Six Months Ended June 30,	
(in millions, except per share data)	2013	2012	2013	2012
<b>INTEREST INCOME</b>				
Interest and fees on loans	\$388	\$408	\$778	\$819
Interest on investment securities	52	59	105	122
Interest on short-term investments	3	3	6	6
Total interest income	443	470	889	947
<b>INTEREST EXPENSE</b>				
Interest on deposits	15	18	30	37
Interest on medium- and long-term debt	14	17	29	33
Total interest expense	29	35	59	70
Net interest income	414	435	830	877
Provision for credit losses	13	19	29	41
Net interest income after provision for credit losses	401	416	801	836
<b>NONINTEREST INCOME</b>				
Service charges on deposit accounts	53	53	108	109
Fiduciary income	44	39	87	77
Commercial lending fees	22	24	43	49
Letter of credit fees	16	18	32	35
Card fees	13	12	25	23
Foreign exchange income	9	10	18	20
Bank-owned life insurance	10	10	19	20
Brokerage fees	4	4	9	9
Net securities (losses) gains	(2	) 6	(2	) 11
Other noninterest income	39	35	69	64
Total noninterest income	208	211	408	417
<b>NONINTEREST EXPENSES</b>				
Salaries	182	189	370	390
Employee benefits	63	61	126	120
Total salaries and employee benefits	245	250	496	510
Net occupancy expense	39	40	78	81
Equipment expense	15	16	30	33
Outside processing fee expense	30	26	58	52
Software expense	22	21	44	44
Merger and restructuring charges	—	8	—	8
FDIC insurance expense	8	10	17	20
Advertising expense	6	7	12	14
Other real estate expense	1	1	2	4
Other noninterest expenses	50	55	95	115
Total noninterest expenses	416	434	832	881
Income before income taxes	193	193	377	372
Provision for income taxes	50	50	100	98
<b>NET INCOME</b>	143	143	277	274
Less income allocated to participating securities	2	2	4	3
Net income attributable to common shares	\$141	\$141	\$273	\$271

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Earnings per common share:

Basic	\$0.77	\$0.73	\$1.48	\$1.39
Diluted	0.76	0.73	1.46	1.39

Comprehensive income	15	169	152	329
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Cash dividends declared on common stock	32	29	64	49
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Cash dividends declared per common share	0.17	0.15	0.34	0.25
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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		Accumulated		Retained Earnings	Treasury Stock	Total Shareholders' Equity
	Shares Outstanding	Amount	Capital Surplus	Other Comprehensive Loss			
BALANCE AT DECEMBER 31, 2011	197.3	\$ 1,141	\$ 2,170	\$ (356 )	\$ 5,546	\$(1,633 )	\$ 6,868
Net income	—	—	—	—	274	—	274
Other comprehensive income, net of tax	—	—	—	55	—	—	55
Cash dividends declared on common stock (\$0.25 per share)	—	—	—	—	(49 )	—	(49 )
Purchase of common stock	(4.1 )	—	—	—	—	(125 )	(125 )
Net issuance of common stock under employee stock plans	1.1	—	(49 )	—	(27 )	60	(16 )
Share-based compensation	—	—	21	—	—	—	21
Other	—	—	2	—	—	(2 )	—
BALANCE AT JUNE 30, 2012	194.3	\$ 1,141	\$ 2,144	\$ (301 )	\$ 5,744	\$(1,700 )	\$ 7,028
BALANCE AT DECEMBER 31, 2012	188.3	\$ 1,141	\$ 2,162	\$ (413 )	\$ 5,931	\$(1,879 )	\$ 6,942
Net income	—	—	—	—	277	—	277
Other comprehensive loss, net of tax	—	—	—	(125 )	—	—	(125 )
Cash dividends declared on common stock (\$0.34 per share)	—	—	—	—	(64 )	—	(64 )
Purchase of common stock	(4.1 )	—	—	—	—	(146 )	(146 )
Net issuance of common stock under employee stock plans	1.0	—	(19 )	—	(17 )	45	9
Share-based compensation	—	—	18	—	—	—	18
Other	—	—	(1 )	—	—	1	—
BALANCE AT JUNE 30, 2013	185.2	\$ 1,141	\$ 2,160	\$ (538 )	\$ 6,127	\$(1,979 )	\$ 6,911

See notes to consolidated financial statements.



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## CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

Comerica Incorporated and Subsidiaries

	Six Months Ended June 30,		
(in millions)	2013	2012	
<b>OPERATING ACTIVITIES</b>			
Net income	\$277	\$274	
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for credit losses	29	41	
Provision for deferred income taxes	26	64	
Depreciation and amortization	62	67	
Net periodic defined benefit cost	44	41	
Share-based compensation expense	18	21	
Net amortization of securities	18	23	
Accretion of loan purchase discount	(18)	(43)	)
Net securities losses (gains)	2	(11)	)
Excess tax benefits from share-based compensation arrangements	(2)	(1)	)
Net change in:			
Trading securities	4	(23)	)
Accrued income receivable	(5)	1	)
Accrued expenses payable	(35)	(47)	)
Other, net	(135)	39	)
Net cash provided by operating activities	285	446	
<b>INVESTING ACTIVITIES</b>			
Investment securities available-for-sale:			
Maturities and redemptions	1,761	1,893	
Purchases	(1,355)	(1,689)	)
Net change in loans	563	(1,379)	)
Sales of Federal Home Loan Bank stock	41	3	
Proceeds from sales of indirect private equity and venture capital funds	—	1	
Other, net	(37)	(34)	)
Net cash provided by (used in) investing activities	973	(1,205)	)
<b>FINANCING ACTIVITIES</b>			
Net change in:			
Deposits	(636)	1,689	)
Short-term borrowings	21	13	
Medium- and long-term debt:			
Maturities and redemptions	(1,055)	(193)	)
Common stock:			
Repurchases	(146)	(125)	)
Cash dividends paid	(61)	(40)	)
Excess tax benefits from share-based compensation arrangements	2	1	
Other, net	8	(2)	)
Net cash (used in) provided by financing activities	(1,867)	1,343	)
Net (decrease) increase in cash and cash equivalents	(609)	584	)
Cash and cash equivalents at beginning of period	4,534	3,556	
Cash and cash equivalents at end of period	\$3,925	\$4,140	
Interest paid	\$61	\$69	
Income taxes, tax deposits and tax-related interest paid	22	64	

Noncash investing and financing activities:

Loans transferred to other real estate

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See notes to consolidated financial statements.

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Notes to Consolidated Financial Statements (unaudited)

Comerica Incorporated and Subsidiaries

**NOTE 1 - BASIS OF PRESENTATION AND ACCOUNTING POLICIES**

**Organization**

The accompanying unaudited consolidated financial statements were prepared in accordance with United States (U.S.) generally accepted accounting principles (GAAP) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, the statements do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation were included. The results of operations for the six months ended June 30, 2013 are not necessarily indicative of the results that may be expected for the year ending December 31, 2013. 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, 2012.

**Allowance for Loan Losses**

The allowance for loan losses represents management's assessment of probable, estimable losses inherent in the Corporation's loan portfolio. The allowance for loan losses includes specific allowances, based on individual evaluations of certain loans, and allowances for homogeneous pools of loans with similar risk characteristics. The allowance for business loans which do not meet the criteria to be evaluated individually is determined by applying standard reserve factors to the pool of business loans within each internal risk rating. In the first quarter 2013, the Corporation enhanced the approach utilized for determining standard reserve factors by changing from a dollar-based migration method for developing probability of default statistics to a count-based method. Under the dollar-based method, each dollar that moved to default received equal weight in the determination of standard reserve factors for each internal risk rating. As a result, the movement of larger loans impacted standard reserve factors more than the movement of smaller loans. By moving to a count-based approach, where each loan that moves to default receives equal weighting, unusually large or small loans will not have a disproportionate influence on the standard reserve factors. The change resulted in a \$40 million increase to the allowance for loan losses at March 31, 2013.

**Recently Adopted Accounting Pronouncements**

In the first quarter 2013, the Corporation adopted amendments to GAAP which require enhanced disclosures about the nature and effect or potential effect of an entity's rights of setoff associated with its derivative and certain other financial instruments. The required disclosures are provided in Note 5 to these unaudited financial statements.

**NOTE 2 – FAIR VALUE MEASUREMENTS**

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

Fair value is an estimate of the exchange price that would be received to sell an asset or paid to transfer a liability in an orderly transaction (i.e., not a forced transaction, such as a liquidation or distressed sale) between market participants at the measurement date. However, the calculated fair value estimates in many instances cannot be substantiated by comparison to independent markets and, in many cases, may not be realizable in a current sale of the financial instrument.

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



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Notes to Consolidated Financial Statements (unaudited)

Comerica Incorporated and Subsidiaries

The Corporation categorizes assets and liabilities recorded at fair value on a recurring or nonrecurring basis and the estimated fair value of financial instruments not recorded at fair value on a recurring basis into a three-level hierarchy, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value.

- Level 1 Valuation is based upon quoted prices for identical instruments traded in active markets.
- Level 2 Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.
- Level 3 Valuation is generated from model-based techniques that use at least one significant assumption not observable in the market. These unobservable assumptions reflect estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include use of option pricing models, discounted cash flow models and similar techniques.

The Corporation generally utilizes third-party pricing services to value Level 1 and Level 2 trading and investment securities, as well as certain derivatives designated as fair value hedges. Management reviews the methodologies and assumptions used by the third-party pricing services and evaluates the values provided, principally by comparison with other available market quotes for similar instruments and/or analysis based on internal models using available third-party market data. The Corporation may occasionally adjust certain values provided by the third-party pricing service when management believes, as the result of its review, that the adjusted price most appropriately reflects the fair value of the particular security.

Following are 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. The descriptions include an indication of the level of the fair value hierarchy in which the assets or liabilities are classified. Transfers of assets or liabilities between levels of the fair value hierarchy are recognized at the beginning of the reporting period, when applicable.

Cash and due from banks, federal funds sold and interest-bearing deposits with banks

Due to their short-term nature, the carrying amount of these instruments approximates the estimated fair value. As such, the Corporation classifies the estimated fair value of these instruments as Level 1.

Trading securities and associated deferred compensation plan liabilities

Securities held for trading purposes and associated deferred compensation plan liabilities are recorded at fair value on a recurring basis and included in “other short-term investments” and “accrued expenses and other liabilities,” respectively, on the consolidated balance sheets. Level 1 securities held for trading purposes include assets related to employee deferred compensation plans, which are invested in mutual funds, U.S. Treasury securities that are traded by dealers or brokers in active over-the-counter markets and other securities traded on an active exchange, such as the New York Stock Exchange. Deferred compensation plan liabilities represent the fair value of the obligation to the employee, which corresponds to the fair value of the invested assets. Level 2 trading securities include municipal bonds and residential mortgage-backed securities issued by U.S. government-sponsored entities and corporate debt securities. Securities classified as Level 3 include securities in less liquid markets and securities not rated by a credit agency. The methods used to value trading securities are the same as the methods used to value investment securities available-for-sale, discussed below.

Loans held-for-sale

Loans held-for-sale, included in “other short-term investments” on the consolidated balance sheets, are recorded at the lower of cost or fair value. Loans held-for-sale may be carried at fair value on a nonrecurring basis when fair value is less than cost. The fair value is based on what secondary markets are currently offering for portfolios with similar characteristics. As such, the Corporation classifies both loans held-for-sale subjected to nonrecurring fair value

adjustments and the estimated fair value of loans held-for sale as Level 2.

**Investment securities available-for-sale**

Investment securities available-for-sale are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted prices, if available. If quoted prices are not available or the market is deemed to be inactive at the measurement date, an adjustment to the quoted prices may be necessary. In some circumstances, the Corporation may conclude that a change in valuation technique or the use of multiple valuation techniques may be appropriate to estimate an instrument's fair value. Level 1 securities include those traded on an active exchange, such as the New York Stock Exchange, U.S. Treasury securities that are traded by dealers or brokers in active over-the-counter markets and money market funds. Level 2 securities include residential mortgage-backed securities issued by U.S. government agencies and U.S. government-sponsored entities and corporate debt

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Notes to Consolidated Financial Statements (unaudited)

Comerica Incorporated and Subsidiaries

securities. The fair value of Level 2 securities was determined using quoted prices of securities with similar characteristics, or pricing models based on observable market data inputs, primarily interest rates, spreads and prepayment information.

Securities classified as Level 3, of which the substantial majority is auction-rate securities, represent securities in less liquid markets requiring significant management assumptions when determining fair value. Due to the lack of a robust secondary auction-rate securities market with active fair value indicators, fair value for all periods presented was determined using an income approach based on a discounted cash flow model. The discounted cash flow model utilizes two significant inputs: discount rate and workout period. The discount rate was calculated using credit spreads of the underlying collateral or similar securities plus a liquidity risk premium. The liquidity risk premium was derived from the rate at which various types of similar auction-rate securities had been redeemed or sold. The workout period was based on an assessment of publicly available information on efforts to re-establish functioning markets for these securities and the Corporation's own redemption experience. Significant increases in any of these inputs in isolation would result in a significantly lower fair value. Additionally, as the discount rate incorporates the liquidity risk premium, a change in an assumption used for the liquidity risk premium would be accompanied by a directionally similar change in the discount rate. The Corporate Development Department is responsible for determining the valuation methodology for auction-rate securities and for updating significant inputs based on changes to the factors discussed above. Valuation results, including an analysis of changes to the valuation methodology and significant inputs, are provided to senior management for review on a quarterly basis.

### Loans

The Corporation does not record loans at fair value on a recurring basis. However, the Corporation may establish a specific allowance for an impaired loan based on the fair value of the underlying collateral. Such loan values are reported as nonrecurring fair value measurements. Collateral values supporting individually evaluated impaired loans are evaluated quarterly. When management determines that the fair value of the collateral requires additional adjustments, either as a result of non-current appraisal value or when there is no observable market price, the Corporation classifies the impaired loan as Level 3. The Special Assets Group is responsible for performing quarterly credit quality reviews for all impaired loans as part of the quarterly allowance for loan losses process overseen by the Chief Credit Officer, during which valuation adjustments to updated collateral values are determined.

The Corporation discloses fair value estimates for loans not recorded at fair value. The estimated fair value is determined based on characteristics such as loan category, repricing features and remaining maturity, and includes prepayment and credit loss estimates. For variable rate business loans that reprice frequently, the estimated fair value is based on carrying values adjusted for estimated credit losses inherent in the portfolio at the balance sheet date. For other business loans and retail loans, fair values are estimated using a discounted cash flow model that employs a discount rate that reflects the Corporation's current pricing for loans with similar characteristics and remaining maturity, adjusted by an amount for estimated credit losses inherent in the portfolio at the balance sheet date. The rates take into account the expected yield curve, as well as an adjustment for prepayment risk, when applicable. The Corporation classifies the estimated fair value of loans held for investment as Level 3.

### Customers' liability on acceptances outstanding and acceptances outstanding

Customers' liability on acceptances outstanding is included in "accrued income and other assets" and acceptances outstanding are included in "accrued expenses and other liabilities" on the consolidated balance sheets. Due to their short-term nature, the carrying amount of these instruments approximates the estimated fair value. As such, the Corporation classifies the estimated fair value of these instruments as Level 1.

### Derivative assets and derivative liabilities

Derivative instruments held or issued for risk management or customer-initiated activities are traded in over-the-counter markets where quoted market prices are not readily available. Fair value for over-the-counter derivative instruments is measured on a recurring basis using internally developed models that use primarily market observable inputs, such as yield curves and option volatilities. The Corporation manages credit risk for its over-the-counter derivative positions on a counterparty-by-counterparty basis and calculates credit valuation

adjustments, included in the fair value of these instruments, on the basis of its relationships at the counterparty portfolio/master netting agreement level. These credit valuation adjustments are determined by applying a credit spread for the counterparty or the Corporation, as appropriate, to the total expected exposure of the derivative after considering collateral and other master netting arrangements. These adjustments, which are considered Level 3 inputs, are based on estimates of current credit spreads to evaluate the likelihood of default. The Corporation assessed the significance of the impact of the credit valuation adjustments on the overall valuation of its derivative positions and determined that the credit valuation adjustments were not significant to the overall valuation of its derivatives. As a result, the Corporation classifies its over-the-counter derivative valuations in Level 2 of the fair value hierarchy. Examples of Level 2 derivative instruments are interest rate swaps and energy derivative and foreign exchange contracts.



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Notes to Consolidated Financial Statements (unaudited)

Comerica Incorporated and Subsidiaries

The Corporation holds a portfolio of warrants for generally nonmarketable equity securities with a fair value of \$3 million at June 30, 2013. These warrants are primarily from high technology, non-public companies obtained as part of the loan origination process. Warrants which contain a net exercise provision or a non-contingent put right embedded in the warrant agreement are accounted for as derivatives and recorded at fair value on a recurring basis using a Black-Scholes valuation model. The Black-Scholes valuation model utilizes five inputs: risk-free rate, expected life, volatility, exercise price, and the per share market value of the underlying company. The Corporate Development Department is responsible for the warrant valuation process, which includes reviewing all significant inputs for reasonableness, and for providing valuation results to senior management. Increases in any of these inputs in isolation, with the exception of exercise price, would result in a higher fair value. Increases in exercise price in isolation would result in a lower fair value. The Corporation classifies warrants accounted for as derivatives as Level 3.

The Corporation also holds a derivative contract associated with the 2008 sale of its remaining ownership of Visa Inc. (Visa) Class B shares. Under the terms of the derivative contract, the Corporation will compensate the counterparty primarily for dilutive adjustments made to the conversion factor of the Visa Class B to Class A shares based on the ultimate outcome of litigation involving Visa. Conversely, the Corporation will be compensated by the counterparty for any increase in the conversion factor from anti-dilutive adjustments. At June 30, 2013, the fair value of the contract was a liability of \$3 million. The recurring fair value of the derivative contract is based on unobservable inputs consisting of management's estimate of the litigation outcome, timing of litigation settlements and payments related to the derivative. Significant increases in the estimate of litigation outcome and the timing of litigation settlements in isolation would result in a significantly higher liability fair value. Significant increases in payments related to the derivative in isolation would result in a significantly lower liability fair value. The Corporation classifies the derivative liability as Level 3.

Nonmarketable equity securities

The Corporation has a portfolio of indirect (through funds) private equity and venture capital investments with a carrying value and unfunded commitments of \$13 million and \$6 million, respectively, at June 30, 2013. These funds generally cannot be redeemed and the majority are not readily marketable. Distributions from these funds are received by the Corporation as a result of the liquidation of underlying investments of the funds and/or as income distributions. It is estimated that the underlying assets of the funds will be liquidated over a period of up to 17 years. The investments are accounted for on the cost or equity method and are individually reviewed for impairment on a quarterly basis by comparing the carrying value to the estimated fair value. These investments may be carried at fair value on a nonrecurring basis when they are deemed to be impaired and written down to fair value. Where there is not a readily determinable fair value, the Corporation estimates fair value for indirect private equity and venture capital investments based on the Corporation's percentage ownership in the net asset value of the entire fund, as reported by the fund, after indication that the fund adheres to applicable fair value measurement guidance. For those funds where the net asset value is not reported by the fund, the Corporation derives the fair value of the fund by estimating the fair value of each underlying investment in the fund. In addition to using qualitative information about each underlying investment, as provided by the fund, the Corporation gives consideration to information pertinent to the specific nature of the debt or equity investment, such as relevant market conditions, offering prices, operating results, financial conditions, exit strategy and other qualitative information, as available. The lack of an independent source to validate fair value estimates, including the impact of future capital calls and transfer restrictions, is an inherent limitation in the valuation process. On a quarterly basis, the Corporate Development Department is responsible, with appropriate oversight and approval provided by senior management, for performing the valuation procedures and updating significant inputs, as are primarily provided by the underlying fund's management. The Corporation classifies fair value measurements of nonmarketable equity securities as Level 3. Commitments to fund additional investments in nonmarketable equity securities recorded at fair value on a nonrecurring basis were insignificant and \$2 million at June 30, 2013 and December 31, 2012, respectively.

The Corporation also holds restricted equity investments, primarily Federal Home Loan Bank (FHLB) and Federal Reserve Bank (FRB) stock. Restricted equity securities are not readily marketable and are recorded at cost (par value) and evaluated for impairment based on the ultimate recoverability of the par value. No significant observable market data for these instruments is available. The Corporation considers the profitability and asset quality of the issuer, dividend payment history and recent redemption experience when determining the ultimate recoverability of the par value. The Corporation's investment in FHLB stock totaled \$48 million and \$89 million at June 30, 2013 and December 31, 2012, respectively, and its investment in FRB stock totaled \$85 million at both June 30, 2013 and December 31, 2012. The Corporation believes its investments in FHLB and FRB stock are ultimately recoverable at par. Therefore, the carrying amount for these restricted equity investments approximates fair value. The Corporation classifies the estimated fair value of such investments as Level 1.

Other real estate

Other real estate is included in "accrued income and other assets" on the consolidated balance sheets and includes primarily foreclosed property. Foreclosed property is initially recorded at fair value, less costs to sell, at the date of foreclosure, establishing

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a new cost basis. Subsequently, foreclosed property is carried at the lower of cost or fair value, less costs to sell. Other real estate may be carried at fair value on a nonrecurring basis when fair value is less than cost. Fair value is based upon independent market prices, appraised value or management's estimate of the value of the property. The Special Assets Group obtains updated independent market prices and appraised values, as required by state regulation or deemed necessary based on market conditions, and determines if additional write-downs are necessary. On a quarterly basis, senior management reviews all other real estate and determines whether the carrying values are reasonable, based on the length of time elapsed since receipt of independent market price or appraised value and current market conditions. Other real estate carried at fair value based on an observable market price or a current appraised value is classified by the Corporation as Level 2. When management determines that the fair value of other real estate requires additional adjustments, either as a result of a non-current appraisal or when there is no observable market price, the Corporation classifies the other real estate as Level 3.

### Loan servicing rights

Loan servicing rights with a carrying value of \$2 million at June 30, 2013, included in "accrued income and other assets" on the consolidated balance sheets and primarily related to Small Business Administration loans, are subject to impairment testing. Loan servicing rights may be carried at fair value on a nonrecurring basis when impairment testing indicates that the fair value of the loan servicing rights is less than the recorded value. A valuation model is used for impairment testing on a quarterly basis, which utilizes a discounted cash flow model, using interest rates and prepayment speed assumptions currently quoted for comparable instruments and a discount rate determined by management. On a quarterly basis, the Accounting Department is responsible for performing the valuation procedures and updating significant inputs, which are primarily obtained from available third-party market data, with appropriate oversight and approval provided by senior management. If the valuation model reflects a value less than the carrying value, loan servicing rights are adjusted to fair value through a valuation allowance as determined by the model. As such, the Corporation classifies loan servicing rights as Level 3.

### Deposit liabilities

The estimated fair value of checking, savings and certain money market deposit accounts is represented by the amounts payable on demand. The estimated fair value of term deposits is calculated by discounting the scheduled cash flows using the period-end rates offered on these instruments. As such, the Corporation classifies the estimated fair value of deposit liabilities as Level 2.

### Short-term borrowings

The carrying amount of federal funds purchased, securities sold under agreements to repurchase and other short-term borrowings approximates the estimated fair value. As such, the Corporation classifies the estimated fair value of short-term borrowings as Level 1.

### Medium- and long-term debt

The carrying value of variable-rate FHLB advances approximates the estimated fair value. The estimated fair value of the Corporation's remaining variable- and fixed-rate medium- and long-term debt is based on quoted market values when available. If quoted market values are not available, the estimated fair value is based on the market values of debt with similar characteristics. The Corporation classifies the estimated fair value of medium- and long-term debt as Level 2.

### Credit-related financial instruments

Credit-related financial instruments include unused commitments to extend credit and standby and commercial letters of credit. These instruments generate ongoing fees which are recognized over the term of the commitment. In situations where credit losses are probable, the Corporation records an allowance. The carrying value of these instruments included in "accrued expenses and other liabilities" on the consolidated balance sheets, which includes the carrying value of the deferred fees plus the related allowance, approximates the estimated fair value. The Corporation classifies the estimated fair value of credit-related financial instruments as Level 3.



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## 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 June 30, 2013 and December 31, 2012.

(in millions)	Total	Level 1	Level 2	Level 3	
June 30, 2013					
Trading securities:					
Deferred compensation plan assets	\$92	\$92	\$—	\$—	
Residential mortgage-backed securities (a)	7	—	7	—	
State and municipal securities	8	—	8	—	
Corporate debt securities	3	—	3	—	
Total trading securities	110	92	18	—	
Investment securities available-for-sale:					
U.S. Treasury and other U.S. government agency securities	20	20	—	—	
Residential mortgage-backed securities (a)	9,270	—	9,270	—	
State and municipal securities	25	—	—	25	(b)
Corporate debt securities	56	—	55	1	(b)
Equity and other non-debt securities	260	114	—	146	(b)
Total investment securities available-for-sale	9,631	134	9,325	172	
Derivative assets:					
Interest rate contracts	428	—	428	—	
Energy derivative contracts	138	—	138	—	
Foreign exchange contracts	24	—	24	—	
Warrants	3	—	—	3	
Total derivative assets	593	—	590	3	
Total assets at fair value	\$10,334	\$226	\$9,933	\$175	
Derivative liabilities:					
Interest rate contracts	\$153	\$—	\$153	\$—	
Energy derivative contracts	23	—	23	—	
Foreign exchange contracts	138	—	138	—	
Other	3	—	—	3	
Total derivative liabilities	317	—	314	3	
Deferred compensation plan liabilities	92	92	—	—	
Total liabilities at fair value	\$409	\$92	\$314	\$3	

(a) Residential mortgage-backed securities issued and/or guaranteed by U.S. government agencies or U.S. government-sponsored enterprises.

(b) Auction-rate securities.

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(in millions)	Total	Level 1	Level 2	Level 3	
December 31, 2012					
Trading securities:					
Deferred compensation plan assets	\$88	\$88	\$—	\$—	
Residential mortgage-backed securities (a)	4	—	4	—	
State and municipal securities	19	—	19	—	
Corporate debt securities	3	—	3	—	
Total trading securities	114	88	26	—	
Investment securities available-for-sale:					
U.S. Treasury and other U.S. government agency securities	20	20	—	—	
Residential mortgage-backed securities (a)	9,935	—	9,935	—	
State and municipal securities	23	—	—	23	(b)
Corporate debt securities	58	—	57	1	(b)
Equity and other non-debt securities	261	105	—	156	(b)
Total investment securities available-for-sale	10,297	125	9,992	180	
Derivative assets:					
Interest rate contracts	556	—	556	—	
Energy derivative contracts	173	—	173	—	
Foreign exchange contracts	21	—	21	—	
Warrants	3	—	—	3	
Total derivative assets	753	—	750	3	
Total assets at fair value	\$11,164	\$213	\$10,768	\$183	
Derivative liabilities:					
Interest rate contracts	\$218	\$—	\$218	\$—	
Energy derivative contracts	172	—	172	—	
Foreign exchange contracts	18	—	18	—	
Other	1	—	—	1	
Total derivative liabilities	409	—	408	1	
Deferred compensation plan liabilities	88	88	—	—	
Total liabilities at fair value	\$497	\$88	\$408	\$1	

(a) Residential mortgage-backed securities 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 the three- and six-month periods ended June 30, 2013 and 2012.

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The following table summarizes the changes in Level 3 assets and liabilities measured at fair value on a recurring basis for the three- and six-month periods ended June 30, 2013 and 2012.

(in millions)	Balance at Beginning of Period	Net Realized/Unrealized Gains (Losses) (Pretax)						Balance at End of Period
		Recorded in Earnings	Recorded in Other Comprehensive Income	Sales	Settlements			
Three Months Ended June 30, 2013								
Investment securities available-for-sale:								
State and municipal securities (a)	\$23	\$—	\$—	\$2	(b)	\$—	\$—	\$25
Corporate debt securities (a)	1	—	—	—		—	—	1
Equity and other non-debt securities (a)	153	—	—	(7	) (b)	—	—	146
Total investment securities available-for-sale	177	—	—	(5	) (b)	—	—	172
Derivative assets:								
Warrants	3	—	1	(d) —		(1	) —	3
Derivative liabilities:								
Other	1	—	(2	) (c)	—	—	—	3
Three Months Ended June 30, 2012								
Investment securities available-for-sale:								
State and municipal securities (a)	\$23	\$—	\$—	\$2	(b)	\$(1	) \$—	\$24
Corporate debt securities (a)	1	—	—	—		—	—	1
Equity and other non-debt securities (a)	320	6	(c) —	7	(b)	(118	) —	215
Total investment securities available-for-sale	344	6	(c) —	9	(b)	(119	) —	240
Derivative assets:								
Warrants	3	2	(d) 1	(d) —		(3	) —	3
Six Months Ended June 30, 2013								
Investment securities available-for-sale:								
State and municipal securities (a)	\$23	\$—	\$—	\$2	(b)	\$—	\$—	\$25
Corporate debt securities (a)	1	—	—	—		—	—	1
Equity and other non-debt securities (a)	156	—	—	(6	) (b)	(4	) —	146
Total investment securities available-for-sale	180	—	—	(4	) (b)	(4	) —	172
Derivative assets:								
Warrants	3	1	(d) 1	(d) —		(2	) —	3
Derivative liabilities:								
Other	1	—	(2	) (c)	—	—	—	3
Six Months Ended June 30, 2012								

## Investment securities

## available-for-sale:

State and municipal securities (a)	\$24	\$—	\$—	\$1	(b) \$(1 )	\$—	\$24
Corporate debt securities (a)	1	—	—	—	—	—	1
Equity and other non-debt securities (a)	408	11	(c) —	11	(b) (215 )	—	215
Total investment securities available-for-sale	433	11	(c) —	12	(b) (216 )	—	240
Derivative assets:							
Warrants	3	3	(d) 1	(d) —	(4 )	—	3
Derivative liabilities:							
Other	6	—	—	—	—	(6 )	—

(a) Auction-rate securities.

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

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

(d) 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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**ASSETS AND LIABILITIES RECORDED AT FAIR VALUE ON A NONRECURRING BASIS**

The Corporation may be required, from time to time, to record certain assets and liabilities at fair value on a nonrecurring basis. These include assets that are recorded at the lower of cost or fair value that were recognized at fair value below cost at the end of the period. All assets recorded at fair value on a nonrecurring basis were classified as Level 3 at June 30, 2013 and December 31, 2012 and are presented in the following table. No liabilities were recorded at fair value on a nonrecurring basis at June 30, 2013 and December 31, 2012.

(in millions)	Level 3
June 30, 2013	
Loans:	
Commercial	\$60
Real estate construction	24
Commercial mortgage	94
Total loans	178
Nonmarketable equity securities	1
Other real estate	20
Loan servicing rights	2
Total assets at fair value	\$201
December 31, 2012	
Loans:	
Commercial	\$42
Real estate construction	25
Commercial mortgage	145
Lease financing	2
Total loans	214
Nonmarketable equity securities	2
Other real estate	24
Loan servicing rights	2
Total assets at fair value	\$242

The following table presents quantitative information related to the significant unobservable inputs utilized in the Corporation's significant Level 3 recurring fair value measurement as of June 30, 2013 and December 31, 2012. The Corporation's significant Level 3 recurring fair value measurements include auction-rate securities where fair value is determined using an income approach based on a discounted cash flow model. The inputs in the table below reflect management's expectation of continued illiquidity in the secondary auction-rate securities market due to a lack of market activity for the issuers remaining in the portfolio, a lack of market incentives for issuer redemptions, and the expectation for the low interest rate environment continuing into 2015. The June 30, 2013 discount rates reflect changes in liquidity premiums based on sustained illiquid market conditions for the securities during the second quarter 2013.

	Fair Value (in millions)	Discounted Cash Flow Model Unobservable Input Discount Rate	Workout Period (in years)
June 30, 2013			
State and municipal securities (a)	\$25	5% - 9%	4 - 5
Equity and other non-debt securities (a)	146	6% - 9%	2 - 4
December 31, 2012			
State and municipal securities (a)	\$23	6% - 10%	4 - 6
Equity and other non-debt securities (a)	156	4% - 6%	2 - 4

(a) Auction-rate securities.

Level 3 assets recorded at fair value on a nonrecurring basis at June 30, 2013 and December 31, 2012 included loans for which a specific allowance was established based on the fair value of collateral and other real estate for which fair value of the properties was less than the cost basis. For both asset classes, the unobservable inputs were the additional adjustments applied by management to the appraised values to reflect such factors as non-current appraisals and revisions to estimated time to sell. These adjustments are determined based on qualitative judgments made by management on a case-by-case basis and are not quantifiable inputs, although they are used in the determination of fair value.

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

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

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

(in millions)	Carrying Amount	Estimated Fair Value Total	Level 1	Level 2	Level 3
June 30, 2013					
Assets					
Cash and due from banks	\$1,016	\$1,016	\$1,016	\$—	\$—
Federal funds sold	31	31	31	—	—
Interest-bearing deposits with banks	2,878	2,878	2,878	—	—
Loans held-for-sale	9	9	—	9	—
Total loans, net of allowance for loan losses (a)	44,846	44,922	—	—	44,922
Customers' liability on acceptances outstanding	13	13	13	—	—
Nonmarketable equity securities (b)	13	20	—	—	20
Restricted equity investments	133	133	133	—	—
Liabilities					
Demand deposits (noninterest-bearing)	21,870	21,870	—	21,870	—
Interest-bearing deposits	23,791	23,791	—	23,791	—
Customer certificates of deposit	5,594	5,594	—	5,594	—
Total deposits	51,255	51,255	—	51,255	—
Short-term borrowings	131	131	131	—	—
Acceptances outstanding	13	13	13	—	—
Medium- and long-term debt	3,601	3,594	—	3,594	—
Credit-related financial instruments	(99)	(99)	—	—	(99)
December 31, 2012					
Assets					
Cash and due from banks	\$1,395	\$1,395	\$1,395	\$—	\$—
Federal funds sold	100	100	100	—	—
Interest-bearing deposits with banks	3,039	3,039	3,039	—	—
Loans held-for-sale	12	12	—	12	—
Total loans, net of allowance for loan losses (a)	45,428	45,649	—	—	45,649
Customers' liability on acceptances outstanding	18	18	18	—	—
Nonmarketable equity securities (b)	13	22	—	—	22
Restricted equity investments	174	174	174	—	—
Liabilities					
Demand deposits (noninterest-bearing)	23,279	23,279	—	23,279	—
Interest-bearing deposits	23,381	23,381	—	23,381	—
Customer certificates of deposit	5,531	5,535	—	5,535	—
Total deposits	52,191	52,195	—	52,195	—
Short-term borrowings	110	110	110	—	—

Acceptances outstanding	18	18	18	—	—	
Medium- and long-term debt	4,720	4,685	—	4,685	—	
Credit-related financial instruments	(103	) (103	) —	—	(103	)

(a) Included \$178 million and \$214 million of impaired loans recorded at fair value on a nonrecurring basis at June 30, 2013 and December 31, 2012, respectively.

(b) Included \$1 million and \$2 million of nonmarketable equity securities recorded at fair value on a nonrecurring basis at June 30, 2013 and December 31, 2012, respectively.

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## NOTE 3 - INVESTMENT SECURITIES

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

(in millions)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
June 30, 2013				
U.S. Treasury and other U.S. government agency securities	\$20	\$—	\$—	\$20
Residential mortgage-backed securities (a)	9,260	100	90	9,270
State and municipal securities	27	—	2	25
Corporate debt securities	56	—	—	56
Equity and other non-debt securities	273	—	13	260
Total investment securities available-for-sale (b)	\$9,636	\$100	\$105	\$9,631

## December 31, 2012

U.S. Treasury and other U.S. government agency securities	\$20	\$—	\$—	\$20
Residential mortgage-backed securities (a)	9,687	248	—	9,935
State and municipal securities	27	—	4	23
Corporate debt securities	58	—	—	58
Equity and other non-debt securities	268	—	7	261
Total investment securities available-for-sale (b)	\$10,060	\$248	\$11	\$10,297

(a) Residential mortgage-backed securities 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 \$187 million and \$172 million, respectively, as of June 30, 2013 and \$191 million and \$180 million, respectively, as of December 31, 2012.

A summary of the Corporation's investment securities available-for-sale in an unrealized loss position as of June 30, 2013 and December 31, 2012 follows:

(in millions)	Temporarily Impaired					
	Less than 12 Months Fair Value	Unrealized Losses	12 Months or more Fair Value	Unrealized Losses	Total Fair Value	Unrealized Losses
June 30, 2013						
Residential mortgage-backed securities (a)	\$4,503	\$90	\$—	\$—	\$4,503	\$90
State and municipal securities (b)	—	—	25	2	25	2
Corporate debt securities (b)	—	—	1	—	(c) 1	— (c)
Equity and other non-debt securities (b)	—	—	146	13	146	13
Total impaired securities	\$4,503	\$90	\$172	\$15	\$4,675	\$105
December 31, 2012						
State and municipal securities (b)	\$—	\$—	\$23	\$4	\$23	\$4
Corporate debt securities (b)	—	—	1	—	(c) 1	— (c)
Equity and other non-debt securities (b)	—	—	156	7	156	7
Total impaired securities	\$—	\$—	\$180	\$11	\$180	\$11

(a) Residential mortgage-backed securities issued and/or guaranteed by U.S. government agencies or U.S. government-sponsored enterprises.

(b) Auction-rate securities.

(c) Unrealized losses less than \$0.5 million.

At June 30, 2013, the Corporation had 156 securities in an unrealized loss position with no credit impairment, including 83 residential mortgage-backed securities, 50 equity and other non-debt auction-rate preferred securities, 22 state and municipal auction-rate securities and one corporate auction-rate debt security. As of June 30, 2013, approximately 85 percent of the aggregate par value of auction-rate securities have been redeemed or sold since acquisition, of which approximately 95 percent were redeemed at or above cost. The unrealized losses for these securities resulted from changes in market interest rates and liquidity. The Corporation ultimately expects full collection of the carrying amount of these securities, does not intend to sell the securities in an unrealized loss position, and it is not more-likely-than-not that the Corporation will be required to sell the securities in an unrealized loss position prior to recovery of amortized cost. The Corporation does not consider these securities to be other-than-temporarily impaired at June 30, 2013.

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Sales, calls and write-downs of investment securities available-for-sale resulted in the following gains and losses recorded in “net securities (losses) gains” on the consolidated statements of comprehensive income, computed based on the adjusted cost of the specific security.

(in millions)	Six Months Ended June 30,	
	2013	2012
Securities gains	\$—	\$11
Securities losses (a)	(2	) —
Net securities (losses) gains	\$(2	) \$11

(a) Charges related to a derivative contract tied to the conversion rate of Visa Class B shares.

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)	Amortized Cost Fair Value	
June 30, 2013		
Contractual maturity		
Within one year	\$58	\$58
After one year through five years	267	266
After five years through ten years	104	103
After ten years	8,934	8,944
Subtotal	9,363	9,371
Equity and other non-debt securities	273	260
Total investment securities available-for-sale	\$9,636	\$9,631

Included in the contractual maturity distribution in the table above were auction-rate securities with a total amortized cost and fair value of \$28 million and \$26 million, respectively. Auction-rate securities are long-term, floating rate instruments for which interest rates are reset at periodic auctions. At each successful auction, the Corporation has the option to sell the security at par value. Additionally, the issuers of auction-rate securities generally have the right to redeem or refinance the debt. As a result, the expected life of auction-rate securities may differ significantly from the contractual life. Also included in the table above were residential mortgage-backed securities with total amortized cost 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 June 30, 2013, investment securities with a carrying value of \$2.8 billion were pledged where permitted or required by law to secure \$2.2 billion of liabilities, primarily public and other deposits of state and local government agencies and derivative instruments.

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## NOTE 4 – CREDIT QUALITY AND ALLOWANCE FOR CREDIT LOSSES

The following table presents an aging analysis of the recorded balance of loans.

(in millions)	Loans Past Due and Still Accruing				Nonaccrual Loans	Current Loans (c)	Total Loans
	30-59 Days	60-89 Days	90 Days or More	Total			
June 30, 2013							
Business loans:							
Commercial	\$39	\$3	\$5	\$47	\$102	\$29,037	\$29,186
Real estate construction:							
Commercial Real Estate business line (a)	—	—	—	—	26	1,197	1,223
Other business lines (b)	3	—	—	3	2	251	256
Total real estate construction	3	—	—	3	28	1,448	1,479
Commercial mortgage:							
Commercial Real Estate business line (a)	6	—	—	6	69	1,668	1,743
Other business lines (b)	13	14	11	38	157	7,069	7,264
Total commercial mortgage	19	14	11	44	226	8,737	9,007
Lease financing	—	—	—	—	—	843	843
International	4	—	—	4	—	1,205	1,209
Total business loans	65	17	16	98	356	41,270	41,724
Retail loans:							
Residential mortgage	10	5	—	15	62	1,534	1,611
Consumer:							
Home equity	10	2	—	12	28	1,434	1,474
Other consumer	4	2	4	10	3	637	650
Total consumer	14	4	4	22	31	2,071	2,124
Total retail loans	24	9	4	37	93	3,605	3,735
Total loans	\$89	\$26	\$20	\$135	\$449	\$44,875	\$45,459
December 31, 2012							
Business loans:							
Commercial	\$23	\$19	\$5	\$47	\$103	\$29,363	\$29,513
Real estate construction:							
Commercial Real Estate business line (a)	—	—	—	—	30	1,019	1,049
Other business lines (b)	—	—	—	—	3	188	191
Total real estate construction	—	—	—	—	33	1,207	1,240
Commercial mortgage:							
Commercial Real Estate business line (a)	20	4	—	24	94	1,755	1,873
Other business lines (b)	27	9	8	44	181	7,374	7,599
Total commercial mortgage	47	13	8	68	275	9,129	9,472
Lease financing	—	—	—	—	3	856	859
International	4	—	3	7	—	1,286	1,293
Total business loans	74	32	16	122	414	41,841	42,377
Retail loans:							
Residential mortgage	27	6	2	35	70	1,422	1,527



Consumer:

Home equity	9	3	—	12	31	1,494	1,537
Other consumer	4	3	5	12	4	600	616
Total consumer	13	6	5	24	35	2,094	2,153
Total retail loans	40	12	7	59	105	3,516	3,680
Total loans	\$114	\$44	\$23	\$181	\$519	\$45,357	\$46,057

(a) Primarily loans to real estate developers.

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

(c) Included purchased credit-impaired (PCI) loans with a total carrying value of \$25 million and \$36 million at June 30, 2013 and December 31, 2012, respectively.

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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.

(in millions)	Internally Assigned Rating				Total
	Pass (a)	Special Mention (b)	Substandard (c)	Nonaccrual (d)	
June 30, 2013					
Business loans:					
Commercial	\$27,505	\$950	\$ 629	\$ 102	\$29,186
Real estate construction:					
Commercial Real Estate business line (e)	1,164	18	15	26	1,223
Other business lines (f)	245	2	7	2	256
Total real estate construction	1,409	20	22	28	1,479
Commercial mortgage:					
Commercial Real Estate business line (e)	1,448	152	74	69	1,743
Other business lines (f)	6,613	204	290	157	7,264
Total commercial mortgage	8,061	356	364	226	9,007
Lease financing	837	4	2	—	843
International	1,182	27	—	—	1,209
Total business loans	38,994	1,357	1,017	356	41,724
Retail loans:					
Residential mortgage	1,532	10	7	62	1,611
Consumer:					
Home equity	1,428	13	5	28	1,474
Other consumer	619	19	9	3	650
Total consumer	2,047	32	14	31	2,124
Total retail loans	3,579	42	21	93	3,735
Total loans	\$42,573	\$1,399	\$ 1,038	\$ 449	\$45,459
December 31, 2012					
Business loans:					
Commercial	\$28,032	\$820	\$ 558	\$ 103	\$29,513
Real estate construction:					
Commercial Real Estate business line (e)	921	77	21	30	1,049
Other business lines (f)	176	3	9	3	191
Total real estate construction	1,097	80	30	33	1,240
Commercial mortgage:					
Commercial Real Estate business line (e)	1,479	213	87	94	1,873
Other business lines (f)	6,783	258	377	181	7,599
Total commercial mortgage	8,262	471	464	275	9,472
Lease financing	840	9	7	3	859
International	1,230	57	6	—	1,293
Total business loans	39,461	1,437	1,065	414	42,377
Retail loans:					
Residential mortgage	1,438	12	7	70	1,527
Consumer:					
Home equity	1,489	11	6	31	1,537
Other consumer	581	22	9	4	616

Total consumer	2,070	33	15	35	2,153
Total retail loans	3,508	45	22	105	3,680
Total loans	\$42,969	\$1,482	\$1,087	\$519	\$46,057

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

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

- (b) of repayment prospects from the borrower at some future date. Included in the special mention category were \$180 million and \$303 million at June 30, 2013 and December 31, 2012, respectively, of loans proactively monitored by management that were considered "pass" by regulatory authorities.

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

- (c) 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. PCI loans are included in the substandard category. This category is generally consistent with the "substandard" category as defined by regulatory authorities.

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 - Summary of Significant

- (d) Accounting Policies - on page F-59 in the Corporation's 2012 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)	June 30, 2013	December 31, 2012
Nonaccrual loans	\$449	\$519
Reduced-rate loans (a)	22	22
Total nonperforming loans	471	541
Foreclosed property	29	54
Total nonperforming assets	\$500	\$595

(a) Reduced-rate business loans totaled \$6 million at both June 30, 2013 and December 31, 2012, and reduced-rate retail loans totaled \$16 million at both June 30, 2013 and December 31, 2012.

## Allowance for Credit Losses

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

	2013			2012		
(in millions)	Business Loans	Retail Loans	Total	Business Loans	Retail Loans	Total
Three Months Ended June 30						
Allowance for loan losses:						
Balance at beginning of period	\$544	\$73	\$617	\$632	\$72	\$704
Loan charge-offs	(30)	(5)	(35)	(56)	(8)	(64)
Recoveries on loans previously charged-off	15	3	18	15	4	19
Net loan charge-offs	(15)	(2)	(17)	(41)	(4)	(45)
Provision for loan losses	13	—	13	2	6	8
Balance at end of period	\$542	\$71	\$613	\$593	\$74	\$667
Six Months Ended June 30						
Allowance for loan losses:						
Balance at beginning of period	\$552	\$77	\$629	\$648	\$78	\$726
Loan charge-offs	(64)	(9)	(73)	(111)	(15)	(126)
Recoveries on loans previously charged-off	27	5	32	29	7	36
Net loan charge-offs	(37)	(4)	(41)	(82)	(8)	(90)
Provision for loan losses	27	(2)	25	27	4	31
Balance at end of period	\$542	\$71	\$613	\$593	\$74	\$667
As a percentage of total loans	1.30	% 1.91	% 1.35	% 1.47	% 2.02	% 1.52
June 30						
Allowance for loan losses:						
Individually evaluated for impairment	\$56	\$—	\$56	\$119	\$3	\$122
Collectively evaluated for impairment	486	71	557	474	71	545
Total allowance for loan losses	\$542	\$71	\$613	\$593	\$74	\$667
Loans:						
Individually evaluated for impairment	\$314	\$42	\$356	\$569	\$49	\$618

Collectively evaluated for impairment	41,390	3,688	45,078	39,681	3,631	43,312
PCI loans (a)	20	5	25	55	7	62
Total loans evaluated for impairment	\$41,724	\$3,735	\$45,459	\$40,305	\$3,687	\$43,992

(a) No allowance for loan losses was required for PCI loans at June 30, 2013 and 2012.

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 June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Balance at beginning of period	\$36	\$25	\$32	\$26
Provision for credit losses on lending-related commitments	—	11	4	10
Balance at end of period	\$36	\$36	\$36	\$36

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## Individually Evaluated Impaired Loans

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

(in millions)	Recorded Investment In:		Total Impaired Loans	Unpaid Principal Balance	Related Allowance for Loan Losses
	Impaired Loans with No Related Allowance	Impaired Loans with Related Allowance			
June 30, 2013					
Business loans:					
Commercial	\$9	\$88	\$97	\$165	\$23
Real estate construction:					
Commercial Real Estate business line (a)	—	24	24	28	2
Other business lines (b)	—	—	—	1	—
Total real estate construction	—	24	24	29	2
Commercial mortgage:					
Commercial Real Estate business line (a)	—	81	81	125	11
Other business lines (b)	4	108	112	150	20
Total commercial mortgage	4	189	193	275	31
Total business loans	13	301	314	469	56
Retail loans:					
Residential mortgage	33	—	33	39	—
Consumer:					
Home equity	6	—	6	8	—
Other consumer	3	—	3	10	—
Total consumer	9	—	9	18	—
Total retail loans (c)	42	—	42	57	—
Total individually evaluated impaired loans	\$55	\$301	\$356	\$526	\$56
December 31, 2012					
Business loans:					
Commercial	\$2	\$117	\$119	\$207	\$26
Real estate construction:					
Commercial Real Estate business line (a)	—	26	26	31	4
Other business lines (b)	—	—	—	1	—
Total real estate construction	—	26	26	32	4
Commercial mortgage:					
Commercial Real Estate business line (a)	—	99	99	159	18
Other business lines (b)	—	122	122	167	28
Total commercial mortgage	—	221	221	326	46
Lease financing	—	2	2	5	—
Total business loans	2	366	368	570	76
Retail loans:					
Residential mortgage	39	—	39	48	—
Consumer:					
Home equity	8	—	8	10	—
Other consumer	4	—	4	10	—
Total consumer	12	—	12	20	—

Total retail loans (c)	51	—	51	68	—
Total individually evaluated impaired loans	\$53	\$366	\$419	\$638	\$76

(a) Primarily loans to real estate developers.

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

(c) Individually evaluated retail loans had no related allowance for loan losses, primarily due to policy changes which resulted in direct write-downs of restructured retail loans.

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

(in millions)	Individually Evaluated Impaired Loans			
	2013		2012	
	Average Balance for the Period	Interest Income Recognized for the Period	Average Balance for the Period	Interest Income Recognized for the Period
Three Months Ended June 30				
Business loans:				
Commercial	\$103	\$1	\$215	\$1
Real estate construction:				
Commercial Real Estate business line (a)26	—	—	61	—
Other business lines (b)	—	—	5	—
Total real estate construction	26	—	66	—
Commercial mortgage:				
Commercial Real Estate business line (a)87	—	—	156	—
Other business lines (b)	119	1	194	1
Total commercial mortgage	206	1	350	1
Lease financing	—	—	3	—
International	—	—	2	—
Total business loans	335	2	636	2
Retail loans:				
Residential mortgage	33	—	41	—
Consumer loans:				
Home equity	5	—	5	—
Other consumer	4	—	3	—
Total consumer	9	—	8	—
Total retail loans	42	—	49	—
Total individually evaluated impaired loans	\$377	\$2	\$685	\$2
Six Months Ended June 30				
Business loans:				
Commercial	\$108	\$2	\$225	\$2
Real estate construction:				
Commercial Real Estate business line (a)26	—	—	74	—
Other business lines (b)	—	—	5	—
Total real estate construction	26	—	79	—
Commercial mortgage:				
Commercial Real Estate business line (a)91	—	—	153	—
Other business lines (b)	120	1	199	2
Total commercial mortgage	211	1	352	2
Lease financing	1	—	3	—
International	—	—	4	—
Total business loans	346	3	663	4
Retail loans:				
Residential mortgage	35	—	43	—
Consumer:				



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Home equity	6	—	3	—
Other consumer	4	—	4	—
Total consumer	10	—	7	—
Total retail loans	45	—	50	—
Total individually evaluated impaired loans	\$391	\$3	\$713	\$4

(a) Primarily loans to real estate developers.

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

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## Troubled Debt Restructurings

The following tables detail the recorded balance at June 30, 2013 and 2012 of loans considered to be TDRs that were restructured during the three- and six-month periods ended June 30, 2013 and 2012, by type of modification. In cases of loans with more than one type of modification, the loans were categorized based on the most significant modification.

(in millions)	2013				2012			
	Type of Modification				Type of Modification			
	Principal	Interest	AB Note	Total	Principal	Interest	AB Note	Total
	Deferral	Rate	Restructures	Modifications	Deferral	Rate	Restructures	Modifications
	(a)	Reductions	(b)		(a)	Reductions	(b)	
Three Months Ended June 30								
Business loans:								
Commercial	\$4	\$ —	\$ 9	\$ 13	\$6	\$ 1	\$ —	\$ 7
Commercial mortgage:								
Commercial Real Estate business line (c)	5	—	—	5	16	—	—	16
Other business lines (d)	5	—	—	5	5	2	—	7
Total commercial mortgage	10	—	—	10	21	2	—	23
Total business loans	14	—	9	23	27	3	—	30
Retail loans:								
Residential mortgage	1	(e) 1	—	2	—	1	—	1
Consumer:								
Home equity	1	(e) 1	—	2	—	—	—	—
Total retail loans	2	2	—	4	—	1	—	1
Total loans	\$16	\$ 2	\$ 9	\$ 27	\$27	\$ 4	\$ —	\$ 31
Six Months Ended June 30								
Business loans:								
Commercial	\$11	\$ —	\$ 9	\$ 20	\$27	\$ 1	\$ —	\$ 28
Commercial mortgage:								
Commercial Real Estate business line (c)	21	—	—	21	16	—	3	19
Other business lines (d)	11	—	10	21	14	2	—	16
Total commercial mortgage	32	—	10	42	30	2	3	35
Total business loans	43	—	19	62	57	3	3	63
Retail loans:								
Residential mortgage	1	(e) 1	—	2	—	1	—	1
Consumer:								
Home equity	2	(e) 1	—	3	—	—	—	—
Other consumer	1	(e) —	—	1	—	—	—	—
Total consumer	3	1	—	4	—	—	—	—
Total retail loans	4	2	—	6	—	1	—	1
Total loans	\$47	\$ 2	\$ 19	\$ 68	\$57	\$ 4	\$ 3	\$ 64

(a) Primarily represents loan balances where terms were extended 90 days or more at or above contractual interest rates.

Loan restructurings whereby the original loan is restructured into two notes: an "A" note, which generally reflects (b) the portion of the modified loan which is expected to be collected; and a "B" note, which is either fully charged off or exchanged for an equity interest.

(c) Primarily loans to real estate developers.

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

(e) Includes bankruptcy loans for which the court has discharged the borrower's obligation and the borrower has not reaffirmed the debt.

At June 30, 2013 and December 31, 2012, commitments to lend additional funds to borrowers whose terms have been modified in TDRs totaled \$2 million and \$5 million, respectively.

The majority of the modifications considered to be TDRs that occurred during the three- and six-month periods ended June 30, 2013 and 2012 were principal deferrals. The Corporation charges interest on principal balances outstanding during deferral periods. Additionally, none of the modifications involved forgiveness of principal. As a result, the current and future financial effects of the recorded balance of loans considered to be TDRs that were restructured during the three- and six-month periods ended June 30, 2013 and 2012 were insignificant.

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

The following table presents information regarding the recorded balance at June 30, 2013 and 2012 of loans modified by principal deferral during the twelve months ended June 30, 2013 and 2012, and those principal deferrals which experienced a subsequent default during the three- and six-month periods ended June 30, 2013 and 2012. For principal deferrals, incremental deterioration in the credit quality of the loan, represented by a downgrade in the risk rating of the loan, for example, due to missed interest payments or a reduction of collateral value, is considered a subsequent default.

(in millions)	2013			2012		
	Balance at June 30	Subsequent Default in the Three Months Ended June 30	Subsequent Default in the Six Months Ended June 30	Balance at June 30	Subsequent Default in the Three Months Ended June 30	Subsequent Default in the Six Months Ended June 30
Principal deferrals:						
Business loans:						
Commercial	\$ 14	\$ 11	\$ 12	\$ 79	\$ 7	\$ 19
Real estate construction:						
Commercial Real Estate business line (a)	1	—	—	—	—	—
Total real estate construction	1	—	—	—	—	—
Commercial mortgage:						
Commercial Real Estate business line (a)	27	—	16	41	23	23
Other business lines (b)	19	4	7	33	7	12
Total commercial mortgage	46	4	23	74	30	35
Total business loans	61	15	35	153	37	54
Retail loans:						
Residential mortgage	5	(c) —	—	—	—	—
Consumer:						
Home equity	5	(c) —	—	—	—	—
Other consumer	2	(c) —	—	3	—	—
Total consumer	7	—	—	3	—	—
Total retail loans	12	—	—	3	—	—
Total principal deferrals	\$ 73	\$ 15	\$ 35	\$ 156	\$ 37	\$ 54

(a) Primarily loans to real estate developers.

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

(c) Includes bankruptcy loans for which the court has discharged the borrower's obligation and the borrower has not reaffirmed the debt.

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The following table presents information regarding the recorded balance at June 30, 2013 and 2012 of loans modified by interest rate reduction during the twelve months ended June 30, 2013 and 2012, and those reduced-rate loans which experienced a subsequent default during the three- and six-month periods ended June 30, 2013 and 2012. For reduced-rate loans, a subsequent payment default is defined in terms of delinquency, when a principal or interest payment is 90 days past due.

(in millions)	2013			2012		
	Balance at June 30	Subsequent Default in the Three Months Ended June 30	Subsequent Default in the Six Months Ended June 30	Balance at June 30	Subsequent Default in the Three Months Ended June 30	Subsequent Default in the Six Months Ended June 30
Interest rate reductions:						
Business loans:						
Commercial	\$—	\$—	\$—	\$1	\$—	\$—
Real estate construction:						
Commercial Real Estate business line (a)	—	—	—	1	1	1
Total real estate construction	—	—	—	1	1	1
Commercial mortgage:						
Other business lines (b)	—	—	—	19	4	4
Total commercial mortgage	—	—	—	19	4	4
Lease financing	—	—	—	3	—	—
Total business loans	—	—	—	24	5	5
Retail loans:						
Residential mortgage	1	—	—	6	—	—
Consumer:						
Home equity	1	—	—	—	—	—
Total consumer	1	—	—	—	—	—
Total retail loans	2	—	—	6	—	—
Total interest rate reductions	\$2	\$—	\$—	\$30	\$5	\$5

(a) Primarily loans to real estate developers.

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

During the twelve months ended June 30, 2013 and 2012 loans with a carrying value of \$38 million and \$29 million at June 30, 2013 and 2012, respectively, were restructured into two notes (AB note restructures). For AB note restructures, a subsequent payment default is defined in terms of delinquency, when a principal or interest payment is 90 days past due. There were no subsequent payment defaults of AB note restructures during both the three- and six-month periods ended June 30, 2013, as well as during the three months ended June 30, 2012. During the six months ended June 30, 2012 there were \$1 million of subsequent payment defaults of AB note restructures.

**Purchased Credit-Impaired Loans**

Acquired loans are initially recorded at fair value with no carryover of any allowance for loan losses.

Loans acquired with evidence of credit quality deterioration at acquisition for which it was probable that the Corporation would not be able to collect all contractual amounts due were accounted for as PCI loans. The Corporation aggregated the acquired PCI loans into pools of loans based on common risk characteristics.

The carrying amount of acquired PCI loans included in the consolidated balance sheet and the related outstanding balance at June 30, 2013 and December 31, 2012 were as follows. The outstanding balance represents the total amount owed as of June 30, 2013 and December 31, 2012, including accrued but unpaid interest and any amounts previously charged off. No allowance for loan losses was required on the acquired PCI loan pools at both June 30, 2013 and

December 31, 2012.

(in millions)	June 30, 2013	December 31, 2012
Acquired PCI loans:		
Carrying amount	\$25	\$36
Outstanding balance	119	138
Changes in the accretable yield for acquired PCI loans for the three- and six-month periods ended June 30, 2013 and 2012 were as follows.		

(in millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Balance at beginning of period	\$12	\$20	\$16	\$25
Accretion	(2	) (4	) (6	) (9
Balance at end of period	\$10	\$16	\$10	\$16

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**NOTE 5 - DERIVATIVE AND CREDIT-RELATED FINANCIAL INSTRUMENTS**

In the normal course of business, the Corporation enters into various transactions involving derivative and credit-related financial instruments to manage exposure to fluctuations in interest rate, foreign currency and other market risks and to meet the financing needs of customers (customer-initiated derivatives). These financial instruments involve, to varying degrees, elements of market and credit risk. The Corporation presents derivative instruments at fair value in the consolidated balance sheets on a net basis when a right of offset exists, based on transactions with a single counterparty and any cash collateral paid to and/or received from that counterparty for derivative contracts that are subject to legally enforceable master netting arrangements. Market and credit risk are included in the determination of fair value.

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

Credit risk is the possible loss that may occur in the event of nonperformance by the counterparty to a financial instrument. The Corporation attempts to minimize credit risk arising from customer-initiated derivatives by evaluating the creditworthiness of each customer, adhering to the same credit approval process used for traditional lending activities and obtaining collateral as deemed necessary. For derivatives with dealer counterparties, the Corporation utilizes counterparty risk limits and monitoring procedures as well as master netting arrangements and bilateral collateral agreements to facilitate the management of credit risk. Master netting arrangements effectively reduce credit risk by permitting settlement of positive and negative positions and offset cash collateral held with the same counterparty on a net basis. Bilateral collateral agreements require daily exchange of cash or highly rated securities issued by the U.S. Treasury or other U.S. government entities to collateralize amounts due to either party beyond certain risk limits. At June 30, 2013, counterparties with bilateral collateral agreements had pledged \$123 million of marketable investment securities and deposited \$78 million of cash with the Corporation to secure the fair value of contracts in an unrealized gain position, and the Corporation had pledged \$23 million of investment securities and posted no cash as collateral for contracts in an unrealized loss position. For those counterparties not covered under bilateral collateral agreements, collateral is obtained, if deemed necessary, based on the results of management's credit evaluation of the counterparty. Collateral varies, but may include cash, investment securities, accounts receivable, equipment or real estate. Included in the fair value of derivative instruments are credit valuation adjustments reflecting counterparty credit risk. These adjustments are determined by applying a credit spread for the counterparty or the Corporation, as appropriate, to the total expected exposure of the derivative.

The aggregate fair value of all derivative instruments with credit-risk-related contingent features that were in a liability position on June 30, 2013 was \$17 million, for which the Corporation had pledged collateral of \$12 million in the normal course of business. The credit-risk-related contingent features require the Corporation's debt to maintain an investment grade credit rating from each of the major credit rating agencies. If the Corporation's debt were to fall below investment grade, the counterparties to the derivative instruments could require additional overnight collateral on derivative instruments in net liability positions. If the credit-risk-related contingent features underlying these agreements had been triggered on June 30, 2013, the Corporation would have been required to assign an additional \$5 million of collateral to its counterparties.

Derivative Instruments

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

Over-the-counter contracts are tailored to meet the needs of the counterparties involved and, therefore, contain a greater degree of credit risk and liquidity risk than exchange-traded contracts, which have standardized terms and readily available price information. The Corporation reduces exposure to market and liquidity risks from over-the-counter derivative instruments entered into for risk management purposes, and transactions entered into to mitigate the market risk associated with customer-initiated



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transactions, by conducting hedging transactions with investment grade domestic and foreign financial institutions and subjecting counterparties to credit approvals, limits and collateral monitoring procedures similar to those used in making other extensions of credit.

The following table presents the composition of the Corporation's derivative instruments held or issued for risk management purposes or in connection with customer-initiated and other activities at June 30, 2013 and December 31, 2012. The table excludes commitments, warrants accounted for as derivatives and a derivative related to the Corporation's 2008 sale of its remaining ownership of Visa shares.

(in millions)	June 30, 2013			December 31, 2012		
	Notional/ Contract Amount (a)	Fair Value		Notional/ Contract Amount (a)	Fair Value	
		Gross Derivative Assets	Gross Derivative Liabilities		Gross Derivative Assets	Gross Derivative Liabilities
Risk management purposes						
Derivatives designated as hedging instruments						
Interest rate contracts:						
Swaps - fair value - receive fixed/pay floating	\$1,450	\$229	\$—	\$1,450	\$290	\$—
Derivatives used as economic hedges						
Foreign exchange contracts:						
Spot, forwards and swaps	245	—	2	475	1	—
Total risk management purposes	1,695	229	2	1,925	291	—
Customer-initiated and other activities						
Interest rate contracts:						
Caps and floors written	526	—	3	545	—	3
Caps and floors purchased	526	3	—	545	3	—
Swaps	10,879	196	150	10,952	263	215
Total interest rate contracts	11,931	199	153	12,042	266	218
Energy contracts:						
Caps and floors written	1,699	—	76	1,873	—	112
Caps and floors purchased	1,699	76	—	1,873	112	—
Swaps	2,383	62	60	1,815	61	60
Total energy contracts	5,781	138	136	5,561	173	172
Foreign exchange contracts:						
Spot, forwards, options and swaps	1,919	24	23	2,253	20	18
Total customer-initiated and other activities	19,631	361	312	19,856	459	408
Total gross derivatives	\$21,326	590	314	\$21,781	750	408
Amounts offset in the consolidated balance sheets:						
Netting adjustment - Offsetting derivative assets/liabilities		(221)	(221)		(279)	(279)
Netting adjustment - Cash collateral received/posted		(78)	—		(11)	—
Net derivatives included in the consolidated balance sheets (b)		291	93		460	129

Amounts not offset in the consolidated balance sheets:

Marketable securities pledged under bilateral collateral agreements	(108	)	(13	)	(180	)	(56	)
Net derivatives after deducting amounts not offset in the consolidated balance sheets	\$183		\$80		\$280		\$73	

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

(b) Net derivative assets are included in “accrued income and other assets” and net derivative liabilities are included in “accrued expenses and other liabilities” on the consolidated balance sheets. Included in the fair value of net derivative assets and net derivative liabilities are credit valuation adjustments reflecting counterparty credit risk and credit risk of the Corporation. The fair value of net derivative assets included credit valuation adjustments for counterparty credit risk totaled \$3 million and \$4 million at June 30, 2013 and December 31, 2012, respectively.

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Notes to Consolidated Financial Statements (unaudited)

Comerica Incorporated and Subsidiaries

**Risk Management**

As an end-user, the Corporation employs a variety of financial instruments for risk management purposes, including cash instruments, such as investment securities, as well as derivative instruments. Activity related to these instruments is centered predominantly in the interest rate markets and mainly involves interest rate swaps. Various other types of instruments also may be used to manage exposures to market risks, including interest rate caps and floors, total return swaps, foreign exchange forward contracts and foreign exchange swap agreements.

As part of a fair value hedging strategy, the Corporation entered into interest rate swap agreements for interest rate risk management purposes. These interest rate swap agreements effectively modify the Corporation's exposure to interest rate risk by converting fixed-rate debt to a floating rate. These agreements involve the receipt of fixed-rate interest amounts in exchange for floating-rate interest payments over the life of the agreement, without an exchange of the underlying principal amount. Risk management fair value interest rate swaps generated net interest income of \$18 million and \$36 million for the three- and six-month periods ended June 30, 2013, respectively, compared to \$17 million and \$34 million for the three- and six-month periods ended June 30, 2012, respectively. The Corporation recognized an insignificant amount of net gains (losses) in "other noninterest income" in the consolidated statements of comprehensive income for the ineffective portion of risk management derivative instruments designated as fair value hedges of fixed-rate debt for both the three- and six-month periods ended June 30, 2013 and 2012.

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

The Corporation recognized an insignificant amount of net gains on risk management derivative instruments used as economic hedges in "other noninterest income" in the consolidated statements of comprehensive income for both the three- and six-month periods ended June 30, 2013 and 2012.

The following table summarizes the expected weighted average remaining maturity of the notional amount of risk management interest rate swaps and the weighted average interest rates associated with amounts expected to be received or paid on interest rate swap agreements as of June 30, 2013 and December 31, 2012.

Weighted Average