

COMERICA INC /NEW/
Form 10-Q
July 31, 2017
Table of Contents

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

FORM 10-Q

(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, 2017

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

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

Delaware 38-1998421
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)
Comerica Bank Tower
1717 Main Street, MC 6404
Dallas, Texas 75201
(Address of principal executive offices)
(Zip Code)
(214) 462-6831
(Registrant's telephone number, including area code)

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

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, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer <input checked="" type="checkbox"/>	Accelerated filer <input type="checkbox"/>
Non-accelerated filer <input type="checkbox"/>	Smaller reporting company <input type="checkbox"/>
(Do not check if a smaller reporting company)	Emerging growth company <input type="checkbox"/>

Edgar Filing: COMERICA INC /NEW/ - Form 10-Q

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

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, 2017: 175,910,900 shares

Table of Contents

COMERICA INCORPORATED AND SUBSIDIARIES

TABLE OF CONTENTS

PART I. FINANCIAL INFORMATION

ITEM 1. Financial Statements

Consolidated Balance Sheets at June 30, 2017 (unaudited) and December 31, 2016 1

Consolidated Statements of Comprehensive Income for the Three and Six Months Ended June 30, 2017 and 2016 (unaudited) 2

Consolidated Statements of Changes in Shareholders' Equity for the Six Months Ended June 30, 2017 and 2016 (unaudited) 3

Consolidated Statements of Cash Flows for the Six Months Ended June 30, 2017 and 2016 (unaudited) 4

Notes to Consolidated Financial Statements (unaudited) 5

ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations 35

ITEM 3. Quantitative and Qualitative Disclosures about Market Risk 60

ITEM 4. Controls and Procedures 60

PART II. OTHER INFORMATION

ITEM 1. Legal Proceedings 60

ITEM 1A. Risk Factors 60

ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds 60

ITEM 6. Exhibits 61

Signature 62

Table of Contents

Part I. FINANCIAL INFORMATION

Item 1. Financial Statements

CONSOLIDATED BALANCE SHEETS

Comerica Incorporated and Subsidiaries

(in millions, except share data)	June 30, 2017 (unaudited)	December 31, 2016
ASSETS		
Cash and due from banks	\$ 1,372	\$ 1,249
Interest-bearing deposits with banks	4,259	5,969
Other short-term investments	90	92
Investment securities available-for-sale	10,944	10,787
Investment securities held-to-maturity	1,430	1,582
Commercial loans	31,449	30,994
Real estate construction loans	2,857	2,869
Commercial mortgage loans	8,974	8,931
Lease financing	472	572
International loans	1,145	1,258
Residential mortgage loans	1,976	1,942
Consumer loans	2,535	2,522
Total loans	49,408	49,088
Less allowance for loan losses	(705)	(730)
Net loans	48,703	48,358
Premises and equipment	484	501
Accrued income and other assets	4,165	4,440
Total assets	\$ 71,447	\$ 72,978
LIABILITIES AND SHAREHOLDERS' EQUITY		
Noninterest-bearing deposits	\$ 31,210	\$ 31,540
Money market and interest-bearing checking deposits	20,952	22,556
Savings deposits	2,158	2,064
Customer certificates of deposit	2,438	2,806
Foreign office time deposits	23	19
Total interest-bearing deposits	25,571	27,445
Total deposits	56,781	58,985
Short-term borrowings	541	25
Accrued expenses and other liabilities	997	1,012
Medium- and long-term debt	5,143	5,160
Total liabilities	63,462	65,182
Common stock - \$5 par value:		
Authorized - 325,000,000 shares		
Issued - 228,164,824 shares	1,141	1,141
Capital surplus	2,110	2,135

Edgar Filing: COMERICA INC /NEW/ - Form 10-Q

Accumulated other comprehensive loss	(361)	(383)
Retained earnings	7,580		7,331	
Less cost of common stock in treasury - 52,252,023 shares at 6/30/17 and 52,851,156 shares at 12/31/16	(2,485)	(2,428)
Total shareholders' equity	7,985		7,796	
Total liabilities and shareholders' equity	\$ 71,447		\$ 72,978	

See notes to consolidated financial statements.

1

Table of Contents

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)	2017	2016	2017	2016
INTEREST INCOME				
Interest and fees on loans	\$453	\$406	\$874	\$812
Interest on investment securities	62	62	124	124
Interest on short-term investments	14	5	27	9
Total interest income	529	473	1,025	945
INTEREST EXPENSE				
Interest on deposits	9	10	18	20
Interest on medium- and long-term debt	20	18	37	33
Total interest expense	29	28	55	53
Net interest income	500	445	970	892
Provision for credit losses	17	49	33	197
Net interest income after provision for credit losses	483	396	937	695
NONINTEREST INCOME				
Card fees	80	76	157	148
Service charges on deposit accounts	57	55	115	110
Fiduciary income	51	49	100	95
Commercial lending fees	22	22	42	42
Letter of credit fees	11	13	23	26
Bank-owned life insurance	9	9	19	18
Foreign exchange income	11	11	22	21
Brokerage fees	6	5	11	9
Net securities losses	(2)	(1)	(2)	(3)
Other noninterest income	31	29	60	46
Total noninterest income	276	268	547	512
NONINTEREST EXPENSES				
Salaries and benefits expense	219	247	452	495
Outside processing fee expense	88	83	175	161
Net occupancy expense	38	39	76	77
Equipment expense	11	14	22	27
Restructuring charges	14	53	25	53
Software expense	31	30	60	59
FDIC insurance expense	12	14	25	25
Advertising expense	7	6	11	10
Litigation-related expense	—	—	(2)	—
Other noninterest expenses	37	32	70	69
Total noninterest expenses	457	518	914	976
Income before income taxes	302	146	570	231
Provision for income taxes	99	42	165	67
NET INCOME	203	104	405	164
Less income allocated to participating securities	1	1	3	2
Net income attributable to common shares	\$202	\$103	\$402	\$162
Earnings per common share:				

Edgar Filing: COMERICA INC /NEW/ - Form 10-Q

Basic	\$1.15	\$0.60	\$2.30	\$0.94
Diluted	1.13	0.58	2.24	0.92
Comprehensive income	221	137	427	298
Cash dividends declared on common stock	46	38	88	75
Cash dividends declared per common share	0.26	0.22	0.49	0.43

See notes to consolidated financial statements.

2

Table of Contents

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (unaudited)

Comerica Incorporated and Subsidiaries

(in millions, except per share data)	Common Stock		Capital Surplus	Accumulated Other Comprehensive Loss	Retained Earnings	Treasury Stock	Total Shareholders' Equity
	Shares Outstanding	Amount					
BALANCE AT DECEMBER 31, 2015	175.7	\$ 1,141	\$ 2,173	\$ (429)	\$ 7,084	\$(2,409)	\$ 7,560
Net income	—	—	—	—	164	—	164
Other comprehensive income, net of tax	—	—	—	134	—	—	134
Cash dividends declared on common stock (\$0.43 per share)	—	—	—	—	(75)	—	(75)
Purchase of common stock	(2.9)	—	—	—	—	(114)	(114)
Net issuance of common stock under employee stock plans	1.1	—	(33)	—	(16)	49	—
Share-based compensation	—	—	25	—	—	—	25
BALANCE AT JUNE 30, 2016	173.9	\$ 1,141	\$ 2,165	\$ (295)	\$ 7,157	\$(2,474)	\$ 7,694
BALANCE AT DECEMBER 31, 2016	175.3	\$ 1,141	\$ 2,135	\$ (383)	\$ 7,331	\$(2,428)	\$ 7,796
Cumulative effect of change in accounting principle	—	—	3	—	(2)	—	1
Net income	—	—	—	—	405	—	405
Other comprehensive income, net of tax	—	—	—	22	—	—	22
Cash dividends declared on common stock (\$0.49 per share)	—	—	—	—	(88)	—	(88)
Purchase of common stock	(3.7)	—	—	—	—	(257)	(257)
Net issuance of common stock under employee stock plans	2.8	—	(26)	—	(20)	128	82
Net issuance of common stock for warrants	1.5	—	(25)	—	(46)	71	—
Share-based compensation	—	—	24	—	—	—	24
Other	—	—	(1)	—	—	1	—
BALANCE AT JUNE 30, 2017	175.9	\$ 1,141	\$ 2,110	\$ (361)	\$ 7,580	\$(2,485)	\$ 7,985

See notes to consolidated financial statements.

Table of Contents

CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

Comerica Incorporated and Subsidiaries

(in millions)	Six Months	
	Ended June 30, 2017	2016
OPERATING ACTIVITIES		
Net income	\$405	\$164
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for credit losses	33	197
Benefit for deferred income taxes	(19)	(52)
Depreciation and amortization	60	59
Net periodic defined benefit (credit) cost	(9)	7
Share-based compensation expense	24	25
Net amortization of securities	3	4
Accretion of loan purchase discount	(2)	(3)
Net gains on sales of foreclosed property	(1)	(2)
Net change in:		
Accrued income receivable	(1)	(7)
Accrued expenses payable	(17)	40
Other, net	180	(188)
Net cash provided by operating activities	656	244
INVESTING ACTIVITIES		
Investment securities available-for-sale:		
Maturities and redemptions	771	750
Sales	1,259	—
Purchases	(2,169)	(756)
Investment securities held-to-maturity:		
Maturities and redemptions	153	175
Net change in loans	(370)	(1,392)
Proceeds from sales of foreclosed property	4	11
Net increase in premises and equipment	(27)	(54)
Purchases of Federal Home Loan Bank stock	(22)	(115)
Other, net	2	1
Net cash used in investing activities	(399)	(1,380)
FINANCING ACTIVITIES		
Net change in:		
Deposits	(2,084)	(3,509)
Short-term borrowings	516	(11)
Medium- and long-term debt:		
Terminations	(16)	—
Issuances	—	2,800
Common stock:		
Repurchases	(257)	(118)
Cash dividends paid	(81)	(74)
Issuances under employee stock plans	82	12
Other, net	(4)	(1)
Net cash used in financing activities	(1,844)	(901)
Net decrease in cash and cash equivalents	(1,587)	(2,037)

Edgar Filing: COMERICA INC /NEW/ - Form 10-Q

Cash and cash equivalents at beginning of period	7,218	6,147
Cash and cash equivalents at end of period	\$5,631	\$4,110
Interest paid	\$54	\$51
Income tax paid	130	60
Noncash investing and financing activities:		
Loans transferred to other real estate	4	19
Loans transferred from held-for-sale to portfolio	—	10
See notes to consolidated financial statements.		

4

Table of Contents

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, 2017 are not necessarily indicative of the results that may be expected for the year ending December 31, 2017. 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, 2016.

Share-Based Compensation

Effective January 1, 2016, the Corporation adopted the provisions of Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2016-09, "Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payments Accounting" (ASU 2016-09). ASU 2016-09 provides for the election of an accounting policy as to the timing of when stock award forfeitures are recognized in compensation expense. The Corporation elected to account for forfeitures as they occur, rather than account for compensation cost based on an estimate of the number of awards that are expected to vest. The prior period effect of this policy election as of the beginning of the year was reported as "cumulative effect of change in accounting principle" in the accompanying Consolidated Statements of Changes in Shareholders' Equity (unaudited). In addition, ASU 2016-09 requires excess tax benefits and deficiencies resulting from employee stock awards to be prospectively recognized as a component of income taxes. Previously, excess tax benefits and deficiencies were recognized in "capital surplus" in the Consolidated Statements of Changes in Shareholders' Equity. Net excess tax benefits for awards that vested, were exercised or expired included in the "provision for income taxes" totaled \$5 million and \$29 million for the three- and six-month periods ended June 30, 2017, respectively.

The Corporation also retrospectively adopted certain changes to the statement of cash flows in accordance with ASU 2016-09. Excess tax benefits must be classified as an operating activity, and cash paid to a tax authority by the Corporation when withholding shares from an employee's award for tax-withholding purposes must be classified as a financing activity. Accordingly, the Corporation reclassified \$4 million from operating activities to financing activities in the Consolidated Statements of Cash Flows (unaudited) pertaining to shares withheld from employee awards for tax withholding purposes for the six months ended June 30, 2016.

Recently Issued Accounting Pronouncements

In March 2017, the FASB issued ASU No. 2017-07, "Compensation - Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost" (ASU 2017-07), which requires employers to report service cost as part of compensation expense and the other components of net benefit cost separately from service cost on the statement of income. ASU 2017-07 is effective for the Corporation on January 1, 2018. Early adoption is permitted. The Corporation does not expect the new guidance to have a material impact on its financial condition or results of operation.

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.

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

Refer to note 1 to the consolidated financial statements in the Corporation's Annual Report on Form 10-K for the year ended December 31, 2016 for further information about the fair value hierarchy, descriptions of the valuation methodologies and key inputs used to measure financial assets and liabilities recorded at fair value, as well as a description of the methods and

Table of Contents

Notes to Consolidated Financial Statements (unaudited)

Comerica Incorporated and Subsidiaries

significant assumptions used to estimate fair value disclosures for financial instruments not recorded at fair value in their entirety on a recurring basis.

ASSETS AND LIABILITIES RECORDED AT FAIR VALUE ON A RECURRING BASIS

The following tables present the recorded amount of assets and liabilities measured at fair value on a recurring basis as of June 30, 2017 and December 31, 2016.

(in millions)	Total	Level 1	Level 2	Level 3
June 30, 2017				
Trading securities:				
Deferred compensation plan assets	\$88	\$88	\$—	\$—
Investment securities available-for-sale:				
U.S. Treasury and other U.S. government agency securities	2,773	2,773	—	—
Residential mortgage-backed securities (a)	8,057	—	8,057	—
State and municipal securities	5	—	—	5 (b)
Equity and other non-debt securities	109	63	—	46 (b)
Total investment securities available-for-sale	10,944	2,836	8,057	51
Derivative assets:				
Interest rate contracts	96	—	83	13
Energy derivative contracts	104	—	104	—
Foreign exchange contracts	36	—	36	—
Warrants	2	—	—	2
Total derivative assets	238	—	223	15
Total assets at fair value	\$11,270	\$2,924	\$8,280	\$ 66
Derivative liabilities:				
Interest rate contracts	\$47	\$—	\$47	\$—
Energy derivative contracts	102	—	102	—
Foreign exchange contracts	34	—	34	—
Total derivative liabilities	183	—	183	—
Deferred compensation plan liabilities	88	88	—	—
Total liabilities at fair value	\$271	\$88	\$183	\$—

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

(b) Auction-rate securities.

Table of Contents

Notes to Consolidated Financial Statements (unaudited)

Comerica Incorporated and Subsidiaries

(in millions)	Total	Level 1	Level 2	Level 3
December 31, 2016				
Trading securities:				
Deferred compensation plan assets	\$87	\$87	\$—	\$—
Equity and other non-debt securities	1	1	—	—
Total trading securities	88	88	—	—
Investment securities available-for-sale:				
U.S. Treasury and other U.S. government agency securities	2,779	2,779	—	—
Residential mortgage-backed securities (a)	7,872	—	7,872	—
State and municipal securities	7	—	—	7 (b)
Equity and other non-debt securities	129	82	—	47 (b)
Total investment securities available-for-sale	10,787	2,861	7,872	54
Derivative assets:				
Interest rate contracts	223	—	212	11
Energy derivative contracts	146	—	146	—
Foreign exchange contracts	38	—	38	—
Warrants	3	—	—	3
Total derivative assets	410	—	396	14
Total assets at fair value	\$11,285	\$2,949	\$8,268	\$ 68
Derivative liabilities:				
Interest rate contracts	\$81	\$—	\$81	\$—
Energy derivative contracts	144	—	144	—
Foreign exchange contracts	29	—	29	—
Total derivative liabilities	254	—	254	—
Deferred compensation plan liabilities	87	87	—	—
Total liabilities at fair value	\$341	\$87	\$254	\$—

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

(b) Auction-rate securities.

There were no transfers of assets or liabilities recorded at fair value on a recurring basis into or out of Level 1, Level 2 and Level 3 fair value measurements during each of the three- and six-month periods ended June 30, 2017 and 2016.

Table of Contents

Notes to Consolidated Financial Statements (unaudited)

Comerica Incorporated and Subsidiaries

The following table summarizes the changes in Level 3 assets and liabilities measured at fair value on a recurring basis for the three- and six-month periods ended June 30, 2017 and 2016.

(in millions)	Balance at Beginning of Period	Net Realized/Unrealized Gains (Losses) (Pretax)					Redemptions	Sales	Balance at End of Period
		Recorded in Earnings	Unrealized	Recorded in Other Comprehensive Income					
Three Months Ended June 30, 2017									
Investment securities available-for-sale:									
State and municipal securities (a)	\$ 5	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 5	
Equity and other non-debt securities (a)	46	—	—	—	—	—	—	46	
Total investment securities available-for-sale	51	—	—	—	—	—	—	51	
Derivative assets:									
Interest rate contracts	11	—	2 (b)	—	—	—	—	13	
Warrants	2	4 (b)	—	—	—	—	(4)	2	
Three Months Ended June 30, 2016									
Investment securities available-for-sale:									
State and municipal securities (a)	\$ 9	\$ —	\$ —	\$ —	\$ (1)	\$ —	\$ —	\$ 8	
Corporate debt securities (a)	1	—	—	—	—	—	—	1	
Equity and other non-debt securities (a)	51	—	—	(3)	—	—	—		