

COMERICA INC /NEW/  
Form 10-Q  
October 31, 2018  
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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 September 30, 2018

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 (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)

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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 every Interactive Data File required to be submitted 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 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 ☒ Accelerated filer ☐

Non-accelerated filer ☐ Smaller reporting company ☐

Emerging growth company ☐

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 October 25, 2018: 161,698,314 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)

	September 30, 2018 (unaudited)	December 31, 2017
<b>ASSETS</b>		
Cash and due from banks	\$ 945	\$ 1,438
Interest-bearing deposits with banks	4,894	4,407
Other short-term investments	136	96
Investment securities available-for-sale	11,862	10,938
Investment securities held-to-maturity	—	1,266
Commercial loans	30,889	31,060
Real estate construction loans	3,158	2,961
Commercial mortgage loans	9,019	9,159
Lease financing	471	468
International loans	1,090	983
Residential mortgage loans	1,947	1,988
Consumer loans	2,436	2,554
Total loans	49,010	49,173
Less allowance for loan losses	(664)	(712)
Net loans	48,346	48,461
Premises and equipment	472	466
Accrued income and other assets	4,793	4,495
Total assets	\$ 71,448	\$ 71,567
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Noninterest-bearing deposits	\$ 29,301	\$ 32,071
Money market and interest-bearing checking deposits	22,449	21,500
Savings deposits	2,192	2,152
Customer certificates of deposit	2,051	2,165
Foreign office time deposits	13	15
Total interest-bearing deposits	26,705	25,832
Total deposits	56,006	57,903
Short-term borrowings	84	10
Accrued expenses and other liabilities	1,154	1,069
Medium- and long-term debt	6,418	4,622
Total liabilities	63,662	63,604
Common stock - \$5 par value:		
Authorized - 325,000,000 shares		

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Issued - 228,164,824 shares	1,141	1,141
Capital surplus	2,144	2,122
Accumulated other comprehensive loss	(611	) (451
Retained earnings	8,587	7,887
Less cost of common stock in treasury - 62,224,198 shares at 9/30/18 and 55,306,483 shares at 12/31/17	(3,475	) (2,736
Total shareholders' equity	7,786	7,963
Total liabilities and shareholders' equity	\$ 71,448	\$ 71,567
See notes to consolidated financial statements (unaudited).		

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## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (unaudited)

Comerica Incorporated and Subsidiaries

	Three Months Ended September 30, 2018		Nine Months Ended September 30, 2017	
(in millions, except per share data)				
INTEREST INCOME				
Interest and fees on loans	\$581	\$500	\$1,658	\$1,374
Interest on investment securities	66	63	194	186
Interest on short-term investments	28	16	63	44
Total interest income	675	579	1,915	1,604
INTEREST EXPENSE				
Interest on deposits	35	11	79	29
Interest on short-term borrowings	1	3	1	3
Interest on medium- and long-term debt	40	19	97	56
Total interest expense	76	33	177	88
Net interest income	599	546	1,738	1,516
Provision for credit losses	—	24	(17 )	57
Net interest income after provision for credit losses	599	522	1,755	1,459
NONINTEREST INCOME				
Card fees	61	85	180	242
Service charges on deposit accounts	53	57	160	172
Fiduciary income	51	48	155	148
Commercial lending fees	21	21	62	63
Letter of credit fees	9	11	30	34
Bank-owned life insurance	11	12	29	31
Foreign exchange income	12	11	36	33
Brokerage fees	7	6	20	17
Net securities losses	(20 )	—	(19 )	—
Other noninterest income	29	24	73	82
Total noninterest income	234	275	726	822
NONINTEREST EXPENSES				
Salaries and benefits expense	254	237	759	713
Outside processing fee expense	65	92	190	267
Net occupancy expense	38	38	113	114
Equipment expense	12	12	34	34
Restructuring charges	12	7	39	32
Software expense	32	35	95	95
FDIC insurance expense	11	13	36	38
Advertising expense	8	8	22	19
Litigation-related expense	—	—	—	(2 )
Other noninterest expenses	20	21	58	67
Total noninterest expenses	452	463	1,346	1,377
Income before income taxes	381	334	1,135	904
Provision for income taxes	63	108	210	273
NET INCOME	318	226	925	631

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Less income allocated to participating securities	2	2	6	5
Net income attributable to common shares	\$316	\$224	\$919	\$626
Earnings per common share:				
Basic	\$1.89	\$1.29	\$5.41	\$3.58
Diluted	1.86	1.26	5.32	3.50
Comprehensive income	296	228	764	655
Cash dividends declared on common stock	100	53	210	141
Cash dividends declared per common share	0.60	0.30	1.24	0.79
See notes to consolidated financial statements (unaudited).				

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## CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (unaudited)

Comerica Incorporated and Subsidiaries

(in millions, except per share data)	Common Stock Shares Outstanding	Amount	Capital Surplus	Accumulated Other Comprehensive Loss	Retained Earnings	Treasury Stock	Total Shareholders' Equity
BALANCE AT DECEMBER 31, 2016	175.3	\$ 1,141	\$ 2,135	\$ (383 )	\$ 7,331	\$(2,428)	\$ 7,796
Cumulative effect of change in accounting principle	—	—	3	—	(2 )	—	1
Net income	—	—	—	—	631	—	631
Other comprehensive income, net of tax	—	—	—	24	—	—	24
Cash dividends declared on common stock (\$0.79 per share)	—	—	—	—	(141 )	—	(141 )
Purchase of common stock	(5.7 )	—	—	—	—	(396 )	(396 )
Net issuance of common stock under employee stock plans	3.0	—	(26 )	—	(22 )	138	90
Net issuance of common stock for warrants	1.7	—	(28 )	—	(51 )	79	—
Share-based compensation	—	—	29	—	—	—	29
Other	—	—	(1 )	—	—	1	—
BALANCE AT SEPTEMBER 30, 2017	174.3	\$ 1,141	\$ 2,112	\$ (359 )	\$ 7,746	\$(2,606)	\$ 8,034
BALANCE AT DECEMBER 31, 2017	172.9	\$ 1,141	\$ 2,122	\$ (451 )	\$ 7,887	\$(2,736)	\$ 7,963
Cumulative effect of change in accounting principles	—	—	—	1	14	—	15
Net income	—	—	—	—	925	—	925
Other comprehensive loss, net of tax	—	—	—	(161 )	—	—	(161 )
Cash dividends declared on common stock (\$1.24 per share)	—	—	—	—	(210 )	—	(210 )
Purchase of common stock	(8.7 )	—	(7 )	—	—	(821 )	(828 )
Net issuance of common stock under employee stock plans	1.5	—	(9 )	—	(24 )	74	41
Net issuance of common stock for warrants	0.2	—	(3 )	—	(5 )	8	—
Share-based compensation	—	—	41	—	—	—	41
BALANCE AT SEPTEMBER 30, 2018	165.9	\$ 1,141	\$ 2,144	\$ (611 )	\$ 8,587	\$(3,475)	\$ 7,786

See notes to consolidated financial statements (unaudited).



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## CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

Comerica Incorporated and Subsidiaries

	Nine Months Ended September 30,	
(in millions)	2018	2017
<b>OPERATING ACTIVITIES</b>		
Net income	\$925	\$631
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for credit losses	(17)	) 57
Provision (benefit) for deferred income taxes	37	(48 )
Depreciation and amortization	90	91
Net periodic defined benefit credit	(14)	) (14 )
Share-based compensation expense	41	29
Net amortization of securities	3	5
Accretion of loan purchase discount	(1)	) (3 )
Net securities losses	19	—
Net gains on sales of foreclosed property	(1)	) (2 )
Net change in:		
Accrued income receivable	(36)	) (21 )
Accrued expenses payable	19	28
Other, net	(98)	) 97
Net cash provided by operating activities	967	850
<b>INVESTING ACTIVITIES</b>		
Investment securities available-for-sale:		
Maturities and redemptions	1,366	1,198
Sales	1,256	1,259
Purchases	(2,618)	) (2,655 )
Investment securities held-to-maturity:		
Maturities and redemptions	—	241
Net change in loans	120	(193 )
Proceeds from sales of foreclosed property	7	18
Net increase in premises and equipment	(65)	) (43 )
Federal Home Loan Bank stock:		
Purchases	(41)	) (42 )
Redemptions	—	21
Proceeds from bank-owned life insurance settlements	4	8
Other, net	(2)	) 2
Net cash provided by (used in) investing activities	27	(186 )
<b>FINANCING ACTIVITIES</b>		
Net change in:		
Deposits	(1,978)	) (1,208 )
Short-term borrowings	74	484
Medium- and long-term debt:		
Maturities	—	(500 )
Issuances and advances	1,850	—
Terminations	—	(16 )
Common stock:		

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Repurchases	(837 )	(412 )
Cash dividends paid	(161 )	(128 )
Issuances under employee stock plans	50	106
Other, net	2	(4 )
Net cash used in financing activities	(1,000 )	(1,678 )
Net decrease in cash and cash equivalents	(6 )	(1,014 )
Cash and cash equivalents at beginning of period	5,845	7,218
Cash and cash equivalents at end of period	\$5,839	\$6,204
Interest paid	\$172	\$89
Income tax paid	125	247
Noncash investing and financing activities:		
Loans transferred to other real estate	2	6
Securities transferred from held-to-maturity to available-for-sale	1,266	—
Securities transferred from available-for-sale to equity securities	81	—
See notes to consolidated financial statements (unaudited).		

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Notes to Consolidated Financial Statements (unaudited)

Comerica Incorporated and Subsidiaries

NOTE 1 - BASIS OF PRESENTATION AND ACCOUNTING POLICIES

Organization

The accompanying unaudited consolidated financial statements were prepared in accordance with United States (U.S.) generally accepted accounting principles (GAAP) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, the statements do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation were included. The results of operations for the nine months ended September 30, 2018 are not necessarily indicative of the results that may be expected for the year ending December 31, 2018. Certain items in prior periods were reclassified to conform to the current presentation. For further information, refer to the consolidated financial statements and footnotes thereto included in the Annual Report of Comerica Incorporated and Subsidiaries (the Corporation) on Form 10-K for the year ended December 31, 2017.

Revenue Recognition

Effective January 1, 2018, the Corporation adopted the provision of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 606, "Revenue from Contracts with Customers" (Topic 606), using the modified retrospective method applied to all open contracts as of January 1, 2018.

Under Topic 606, card fee revenue from certain products is generally presented net of network costs, including interchange costs, surcharge fees and assessment fees, as opposed to the previous presentation of associated network costs in outside processing fees in the Consolidated Statements of Comprehensive Income. Similar adjustments were made for other revenue streams that resulted in certain costs being recognized in the same category as the associated revenues in noninterest income.

The adoption of Topic 606 resulted in decreases of \$34 million in card fees and \$2 million in service charges on deposits accounts, included in noninterest income, and a corresponding \$36 million decrease in outside processing fees included in noninterest expenses, in the Consolidated Statements of Comprehensive Income for the three months ended September 30, 2018. For the nine months ended September 30, 2018, the impact on the Consolidated Statements of Comprehensive Income was a \$105 million decrease in card fees, a \$4 million decrease in service charges on deposit accounts and a \$109 million decrease in outside processing fee expense.

The Corporation previously deferred recognition of certain treasury management fees included in service charges on deposit accounts in the Consolidated Statements of Comprehensive Income until the amount of compensation was considered fixed and determinable. Under the new guidance, the portion of these fees that are based on agreed-upon rates less estimated credits expected to be earned by the customer is recognized as services are rendered. As a result, the Corporation recorded a transition adjustment of \$14 million, after tax, to retained earnings, included in cumulative effect of change in accounting principles in the accompanying Consolidated Statements of Changes in Shareholders Equity. Similar adjustments were made for other revenue streams that resulted in an additional cumulative transition after-tax adjustment to retained earnings of \$2 million.

Revenues from contracts with customers may be recognized when services are complete or as they are rendered, although contracts are generally short-term by nature. Services provided over a period of time are typically transferred to customers evenly over the term of the contracts and revenue is recognized evenly over the period services are provided. Contract receivables are included in accrued income and other assets on the Consolidated Balance Sheets. Payment terms vary by services offered, and the time between completion of performance obligations and payment is typically not significant.

Card fees comprise interchange and other fee income earned on government card, commercial card, debit/automated teller machine card and merchant payment processing programs. Card fees are presented net of network costs, as performance obligations for card services are limited to transaction processing and settlement with the card network on behalf of the customers. Network costs were approximately \$34 million and \$29 million for the three months ended September 30, 2018 and 2017, respectively, and \$105 million and \$80 million for the nine months ended September 30, 2018 and 2017, respectively. Fees for these services are primarily based on interchange rates set by the network

and transaction volume. The Corporation also provides ongoing card program support services, for which fees are based on contractually agreed prices and customer demand for services.

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

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Notes to Consolidated Financial Statements (unaudited)

Comerica Incorporated and Subsidiaries

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

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

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

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

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

### Classification and Measurement of Financial Instruments

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

### Statement of Cash Flows

The Corporation adopted FASB issued ASU No. 2016-15, "Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments," (ASU 2016-15) on January 1, 2018 and, as a result, reclassified \$8 million of proceeds from settlement of bank-owned life insurance policies from operating activities to investing activities for the nine-month period ended September 30, 2017.

### Defined Benefit Pension and Other Postretirement Costs

The Corporation retrospectively adopted the provisions of ASU No. 2017-07, "Compensation - Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost" (ASU 2017-07) on January 1, 2018, which requires employers to report service cost as part of compensation expense and the other components of net benefit credit separately from service cost. As a result, \$12 million and \$36 million of benefit from the other components of net benefit credit was reclassified from salaries and benefits expense to other noninterest expenses in the Consolidated Statements of Comprehensive Income for the three and nine months ended September 30, 2017, respectively. The Corporation based the adjustment to the prior periods on amounts disclosed in note 10.

### Derivatives Instruments and Hedging Activities

The Corporation adopted ASU No. 2017-12, "Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities" (ASU 2017-12), effective January 1, 2018. At transition, the Corporation elected to

change the measurement methodology of all long-haul fair value hedges existing at December 31, 2017. The prior period effect of this election was a \$1 million reduction to opening retained earnings, included in cumulative effect of change in accounting principles in the Consolidated Statements of Shareholders' Equity. In addition, the Corporation made a transition election to reclassify the portfolio of held-to-maturity securities to available-for-sale in January 2018 as the securities are eligible to be hedged. This resulted in the recognition of additional unrealized losses of \$11 million at the date of transfer.

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Notes to Consolidated Financial Statements (unaudited)

Comerica Incorporated and Subsidiaries

### Income Taxes

The Tax Cuts and Jobs Act (the "Act"), enacted on December 22, 2017, reduced the U.S. federal corporate tax rate from 35 percent to 21 percent. Also, on December 22, 2017, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 118 (SAB 118), which provides guidance on accounting for tax effects of the Act. SAB 118 provides a measurement period of up to one year from the enactment date to complete the accounting. Based on the information available and current interpretation of the rules, the Corporation has made reasonable estimates of the impact of the reduction in the corporate tax rate and remeasurement of certain deferred tax assets and liabilities based on the rate at which they are expected to reverse in the future, generally 21 percent. The provisional amount recorded related to the remeasurement of the Corporation's deferred tax balance was \$99 million, including \$107 million recognized in the year ended December 31, 2017 and an \$8 million downward revision to the estimated impact recorded in the nine months ended September 30, 2018. The final impact of the Act may differ from these estimates as a result of changes in management's interpretations and assumptions, as well as new guidance that may be issued by the Internal Revenue Service (IRS).

### Pending Accounting Pronouncements

In February 2016, the FASB issued ASU No. 2016-02, "Leases (Topic 842)," (ASU 2016-02), to increase the transparency and comparability of lease recognition and disclosure. ASU 2016-02 requires lessees to recognize lease contracts with a term greater than one year on the balance sheet, while recognizing expenses on the income statement in a manner similar to current guidance. ASU 2016-02 is effective for the Corporation on January 1, 2019 and must be applied using the modified retrospective approach. In July 2018, the FASB issued ASU 2018-11 "Leases (Topic 842): Targeted Improvements," which provides lessees the option to apply the new leasing standard to all open leases as of the adoption date. The Corporation expects to make use of this transition option and is currently finalizing review of key assumptions and evaluation of service contracts for embedded leases. Based on preliminary evaluation, the right-of-use asset and corresponding lease obligation liability are expected to range between \$450 million and \$550 million at adoption, resulting in an 8- to 10-basis point decrease in the common equity tier 1 capital (CET1) ratio. Preliminary estimates are based on the current interest rate environment which may differ from those at the time of adoption of the standard. The Corporation will continue to evaluate other impacts of adoption but does not anticipate these to be significant.

In June 2016, the FASB issued ASU No. 2016-13, "Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments," (ASU 2016-13), which addresses concerns regarding the perceived delay in recognition of credit losses under the existing incurred loss model. The amendment introduces a new, single model for recognizing credit losses on all financial instruments presented on a cost basis. Under the new model, entities must estimate current expected credit losses by considering all available relevant information, including historical and current information, as well as reasonable and supportable forecasts of future events. The update also requires additional qualitative and quantitative information to allow users to better understand the credit risk within the portfolio and the methodologies for determining the allowance for credit losses. ASU 2016-13 is effective for the Corporation on January 1, 2020 and must be applied using the modified retrospective approach with limited exceptions. Early adoption is permitted. The Corporation will adopt the standard on January 1, 2020 and is currently evaluating the impact of adoption.

In August 2018, the FASB issued ASU No. 2018-15, "Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract," (ASU 2018-15), to align the requirements for capitalizing implementation costs in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs relating to internal-use software. The ASU 2018-15 update requires entities in a hosting arrangement that is a service contract to follow the guidance in Subtopic 350-40 to determine which implementation costs to capitalize as an asset and which costs to expense. ASU 2018-15 is effective for the Corporation on January 1, 2020 and may be applied using either the retrospective or prospective approach. Early adoption is permitted. The Corporation is currently evaluating the impact of adopting ASU 2018-15.

NOTE 2 – FAIR VALUE MEASUREMENTS

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

Equity securities, investment securities available-for-sale, derivatives and deferred compensation plan assets and liabilities are recorded at fair value on a recurring basis. Additionally, from time to time, the Corporation may be required to record other assets and liabilities at fair value on a nonrecurring basis, such as impaired loans, other real estate (primarily foreclosed property),



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Notes to Consolidated Financial Statements (unaudited)

Comerica Incorporated and Subsidiaries

nonmarketable equity securities and certain other assets and liabilities. These nonrecurring fair value adjustments typically involve write-downs of individual assets or application of lower of cost or fair value accounting. Refer to note 1 to the consolidated financial statements in the Corporation's Annual Report on Form 10-K for the year ended December 31, 2017 for further information about the fair value hierarchy, descriptions of the valuation methodologies and key inputs used to measure financial assets and liabilities recorded at fair value, as well as a description of the methods and significant assumptions used to estimate fair value disclosures for financial instruments not recorded at fair value in their entirety on a recurring basis.

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Notes to Consolidated Financial Statements (unaudited)

Comerica Incorporated and Subsidiaries

**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 September 30, 2018 and December 31, 2017.

(in millions)	Total	Level 1	Level 2	Level 3
September 30, 2018				
Deferred compensation plan assets	\$94	\$94	\$—	\$—
Equity securities	40	40	—	—
Investment securities available-for-sale:				
U.S. Treasury and other U.S. government agency securities	2,699	2,699	—	—
Residential mortgage-backed securities (a)	9,163	—	9,163	—
Total investment securities available-for-sale	11,862	2,699	9,163	—
Derivative assets:				
Interest rate contracts	31	—	29	2
Energy derivative contracts	219	—	219	—
Foreign exchange contracts	17	—	17	—
Warrants	2	—	—	2
Total derivative assets	269	—	265	4
Total assets at fair value	\$12,265	\$2,833	\$9,428	\$4
Derivative liabilities:				
Interest rate contracts	\$131	\$—	\$131	\$—
Energy derivative contracts	219	—	219	—
Foreign exchange contracts	14	—	14	—