

COMERICA INC /NEW/  
Form 10-Q  
May 01, 2012  
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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 March 31, 2012

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 (State or other jurisdiction of incorporation or organization)	38-1998421 (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"/>

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 April 27, 2012: 196,672,892 shares

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## Part I. FINANCIAL INFORMATION

## Item 1. Financial Statements

## CONSOLIDATED BALANCE SHEETS

## Comerica Incorporated and Subsidiaries

(in millions, except share data)	March 31, 2012 (unaudited)	December 31, 2011	March 31, 2011 (unaudited)
<b>ASSETS</b>			
Cash and due from banks	\$984	\$982	\$875
Federal funds sold	10	—	—
Interest-bearing deposits with banks	2,966	2,574	3,570
Other short-term investments	180	149	154
Investment securities available-for-sale	10,061	10,104	7,406
Commercial loans	25,640	24,996	21,360
Real estate construction loans	1,442	1,533	2,023
Commercial mortgage loans	10,079	10,264	9,697
Lease financing	872	905	958
International loans	1,256	1,170	1,326
Residential mortgage loans	1,485	1,526	1,550
Consumer loans	2,238	2,285	2,262
Total loans	43,012	42,679	39,176
Less allowance for loan losses	(704)	) (726)	) (849)
Net loans	42,308	41,953	38,327
Premises and equipment	670	675	637
Accrued income and other assets	5,414	4,571	4,048
Total assets	\$62,593	\$61,008	\$55,017
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
Noninterest-bearing deposits	\$20,741	\$19,764	\$16,357
Money market and NOW deposits	20,502	20,311	17,888
Savings deposits	1,586	1,524	1,457
Customer certificates of deposit	6,145	5,808	5,672
Foreign office time deposits	332	348	499
Total interest-bearing deposits	28,565	27,991	25,516
Total deposits	49,306	47,755	41,873
Short-term borrowings	82	70	61
Accrued expenses and other liabilities	1,301	1,371	1,090
Medium- and long-term debt	4,919	4,944	6,116
Total liabilities	55,608	54,140	49,140
Common stock - \$5 par value:			
Authorized - 325,000,000 shares			
Issued - 228,164,824 shares at 3/31/12 and 12/31/11 and 203,878,110 shares at 3/31/11	1,141	1,141	1,019
Capital surplus	2,154	2,170	1,464

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Accumulated other comprehensive loss	(326	) (356	) (382	)
Retained earnings	5,630	5,546	5,317	
Less cost of common stock in treasury - 31,032,920 shares at 3/31/12, 30,831,076 shares at 12/31/11 and 27,103,941 shares at 3/31/11	(1,614	) (1,633	) (1,541	)
Total shareholders' equity	6,985	6,868	5,877	
Total liabilities and shareholders' equity	\$62,593	\$61,008	\$55,017	
See notes to consolidated financial statements.				

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## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (unaudited)

Comerica Incorporated and Subsidiaries

(in millions, except per share data)	Three Months Ended March 31,	
	2012	2011
<b>INTEREST INCOME</b>		
Interest and fees on loans	\$411	\$375
Interest on investment securities	64	57
Interest on short-term investments	3	2
Total interest income	478	434
<b>INTEREST EXPENSE</b>		
Interest on deposits	19	22
Interest on medium- and long-term debt	16	17
Total interest expense	35	39
Net interest income	443	395
Provision for loan losses	23	49
Net interest income after provision for loan losses	420	346
<b>NONINTEREST INCOME</b>		
Service charges on deposit accounts	56	52
Fiduciary income	38	39
Commercial lending fees	25	21
Letter of credit fees	17	18
Card fees	11	15
Foreign exchange income	9	9
Bank-owned life insurance	10	8
Brokerage fees	6	6
Net securities gains	5	2
Other noninterest income	29	37
Total noninterest income	206	207
<b>NONINTEREST EXPENSES</b>		
Salaries	201	188
Employee benefits	60	50
Total salaries and employee benefits	261	238
Net occupancy expense	41	40
Equipment expense	17	15
Outside processing fee expense	26	24
Software expense	23	23
FDIC insurance expense	10	15
Advertising expense	7	7
Other real estate expense	4	8
Other noninterest expenses	59	45
Total noninterest expenses	448	415
Income before income taxes	178	138
Provision for income taxes	48	35
<b>NET INCOME</b>	<b>130</b>	<b>103</b>
Less income allocated to participating securities	1	1
Net income attributable to common shares	\$129	\$102
Earnings per common share:		
Basic	\$0.66	\$0.58
Diluted	0.66	0.57

Comprehensive income	160	110
Cash dividends declared on common stock	20	17
Cash dividends declared per common share	0.10	0.10
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		Capital Surplus	Accumulated Other Comprehensive Loss	Retained Earnings	Treasury Stock	Total Shareholders' Equity
	Shares Outstanding	Amount					
BALANCE AT DECEMBER 31, 2010	176.5	\$1,019	\$1,481	\$ (389 )	\$5,247	\$(1,565 )	\$5,793
Net income	—	—	—	—	103	—	103
Other comprehensive income, net of tax	—	—	—	7	—	—	7
Cash dividends declared on common stock (\$0.10 per share)	—	—	—	—	(17 )	—	(17 )
Purchase of common stock	(0.5 )	—	—	—	—	(21 )	(21 )
Net issuance of common stock under employee stock plans	0.8	—	(30 )	—	(16 )	45	(1 )
Share-based compensation	—	—	13	—	—	—	13
BALANCE AT MARCH 31, 2011	176.8	\$1,019	\$1,464	\$ (382 )	\$5,317	\$(1,541 )	\$5,877
BALANCE AT DECEMBER 31, 2011	197.3	\$1,141	\$2,170	\$ (356 )	\$5,546	\$(1,633 )	\$6,868
Net income	—	—	—	—	130	—	130
Other comprehensive income, net of tax	—	—	—	30	—	—	30
Cash dividends declared on common stock (\$0.10 per share)	—	—	—	—	(20 )	—	(20 )
Purchase of common stock	(1.2 )	—	—	—	—	(36 )	(36 )
Net issuance of common stock under employee stock plans	1.1	—	(32 )	—	(26 )	58	—
Share-based compensation	—	—	13	—	—	—	13
Other	(0.1 )	—	3	—	—	(3 )	—
BALANCE AT MARCH 31, 2012	197.1	\$1,141	\$2,154	\$ (326 )	\$5,630	\$(1,614 )	\$6,985

See notes to consolidated financial statements.

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## CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

Comerica Incorporated and Subsidiaries

(in millions)	Three Months Ended March 31,	
	2012	2011
<b>OPERATING ACTIVITIES</b>		
Net income	\$130	\$103
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	23	49
Provision for deferred income taxes	22	13
Depreciation and amortization	33	29
Share-based compensation expense	13	13
Net amortization of securities	10	7
Accretion of loan purchase discount	(25)	) —
Net securities gains	(5)	) (2)
Excess tax benefits from share-based compensation arrangements	(1)	) (1)
Net change in:		
Trading securities	(33)	) (13)
Accrued income receivable	(1)	) (2)
Accrued expenses payable	(85)	) (59)
Other, net	77	13
Net cash provided by operating activities	158	150
<b>INVESTING ACTIVITIES</b>		
Investment securities available-for-sale:		
Maturities and redemptions	937	592
Purchases	(869)	) (448)
Net change in loans	(357)	) 946
Other, net	(14)	) (4)
Net cash (used in) provided by investing activities	(303)	) 1,086
<b>FINANCING ACTIVITIES</b>		
Net change in:		
Deposits	600	1,226
Short-term borrowings	12	(69)
Medium- and long-term debt:		
Repayment	(4)	) —
Common stock:		
Repurchased	(36)	) (21)
Cash dividends paid	(20)	) (18)
Excess tax benefits from share-based compensation arrangements	1	1
Other, net	(4)	) 7
Net cash provided by financing activities	549	1,126
Net increase in cash and cash equivalents	404	2,362
Cash and cash equivalents at beginning of period	3,556	2,083
Cash and cash equivalents at end of period	\$3,960	\$4,445
Interest paid	\$32	\$34
Income taxes, tax deposits and tax-related interest paid	5	14
Noncash investing and financing activities:		
Loans transferred to other real estate	5	13
See notes to consolidated financial statements.		



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Notes to Consolidated Financial Statements (unaudited)

Comerica Incorporated and Subsidiaries

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

The accompanying unaudited consolidated financial statements were prepared in accordance with U.S. generally accepted accounting principles (GAAP) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, the statements do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation were included. The results of operations for the three months ended March 31, 2012 are not necessarily indicative of the results that may be expected for the year ending December 31, 2012. 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, 2011.

**Recently Adopted Accounting Standards**

In the first quarter 2012, the Corporation adopted amendments to GAAP which revise the presentation of comprehensive income in the financial statements. As a result, the Corporation presents on an interim basis the components of net income and a total for comprehensive income in one continuous consolidated statement of comprehensive income and will present on an annual basis the components of net income and other comprehensive income in two separate, but consecutive statements. Information on the components of other comprehensive income is provided on an interim basis in Note 9 to these unaudited financial statements.

In the first quarter 2012, the Corporation adopted an amendment to GAAP which generally aligns the principles of fair value measurements with International Financial Reporting Standards (IFRSs) and requires expanded disclosures. The adoption of the amendment had no impact on the Corporation's financial condition or results of operations. The required disclosures are provided in Note 2 to these unaudited financial statements.

**Pending Accounting Pronouncements**

In December 2011, the Financial Accounting Standards Board issued an amendment to GAAP which requires enhanced disclosures about the nature and effect or potential effect of an entity's rights of setoff associated with its financial and derivative instruments. The Corporation will adopt the amendment in the first quarter 2013. While the amendment will expand the Corporation's financial and derivative instruments disclosures, the Corporation does not expect the adoption of the amendment to have any effect on the Corporation's financial condition and results of operations.

**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.

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.

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

- 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 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.

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Comerica Incorporated and Subsidiaries

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 observed liquidity premiums based on auction-rate securities valuations performed by third parties and incorporated the rate at which the various types of similar auction-rate securities had been redeemed or sold since acquisition in 2008. 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. As of March 31, 2012, approximately 72 percent of the aggregate auction-rate securities par value had been redeemed or sold since acquisition. 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. On an annual basis, an independent third party verifies the fair value by reviewing the appropriateness of the discounted cash flow model and its significant inputs.

## Loans

The Corporation does not record loans at fair value on a recurring basis. However, periodically, the Corporation records nonrecurring adjustments to the carrying value of loans based on fair value measurements. Loans for which it is probable that payment of interest or principal will not be made in accordance with the contractual terms of the original loan agreement are considered impaired, which are reported as nonrecurring fair value measurements when a specific allowance for the impaired loan is established based on the fair value of collateral. 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 Corporation provides 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 reflect 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

The carrying amount of these instruments approximates the estimated fair value, due to their short-term nature. 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.

The Corporation holds a portfolio of warrants for generally nonmarketable equity securities. 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

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

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. Significant increases in any of these inputs in isolation, with the exception of exercise price, would result in a significantly higher fair value. Significant increases in exercise price in isolation would result in a significantly 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. 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. 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 15 years. The value of these investments is at risk to changes in equity markets, general economic conditions and a variety of other factors. 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. The Corporation classifies both nonmarketable equity securities subjected to nonrecurring fair value adjustments and the estimated fair value of nonmarketable equity securities not recorded at fair value in their entirety on a recurring basis as Level 3. Commitments to fund additional investments in nonmarketable equity securities recorded at fair value on a nonrecurring basis were \$2 million and \$1 million at March 31, 2012 and December 31, 2011, 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 \$92 million and its investment in FRB stock totaled \$85 million at both March 31, 2012 and December 31, 2011, respectively. The Corporation believes its investments in FHLB and FRB stock are ultimately recoverable at par.

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 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. Throughout each quarter, the Corporation obtains updated independent market prices and appraised values as are required by state regulation or as are 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 collateral values and other current market

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

factors. 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, 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. 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, 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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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 March 31, 2012 and December 31, 2011.

(in millions)	Total	Level 1	Level 2	Level 3
March 31, 2012				
Trading securities:				
Deferred compensation plan assets	\$94	\$94	\$—	\$—
Residential mortgage-backed securities (a)	5	—	5	—
State and municipal securities	46	—	46	—
Corporate debt securities	2	—	2	—
Total trading securities	147	94	53	—
Investment securities available-for-sale:				
U.S. Treasury and other U.S. government agency securities	20	20	—	—
Residential mortgage-backed securities (a)	9,584	—	9,584	—
State and municipal securities (b)	23	—	—	23
Corporate debt securities:				
Auction-rate debt securities	1	—	—	1
Other corporate debt securities	47	—	47	—
Equity and other non-debt securities:				
Auction-rate preferred securities	320	—	—	320
Money market and other mutual funds	66	66	—	—
Total investment securities available-for-sale	10,061	86	9,631	344
Derivative assets:				
Interest rate contracts	564	—	564	—
Energy derivative contracts	152	—	152	—
Foreign exchange contracts	33	—	33	—
Warrants	3	—	—	3
Total derivative assets	752	—	749	3
Total assets at fair value	\$10,960	\$180	\$10,433	\$347
Derivative liabilities:				
Interest rate contracts	\$235	\$—	\$235	\$—
Energy derivative contracts	151	—	151	—
Foreign exchange contracts	28	—	28	—
Total derivative liabilities	414	—	414	—
Deferred compensation plan liabilities	94	94	—	—
Total liabilities at fair value	\$508	\$94	\$414	\$—

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

(b) Primarily auction-rate securities.

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Comerica Incorporated and Subsidiaries

(in millions)	Total	Level 1	Level 2	Level 3
December 31, 2011				
Trading securities:				
Deferred compensation plan assets	\$90	\$90	\$—	\$—
Residential mortgage-backed securities (a)	2	—	2	—
Other government-sponsored enterprise securities	9	—	9	—
State and municipal securities	12	—	12	—
Corporate debt securities	1	—	1	—
Other securities	1	1	—	—
Total trading securities	115	91	24	—
Investment securities available-for-sale:				
U.S. Treasury and other U.S. government agency securities	20	20	—	