COMERICA INC /NEW/
Form 10-Q
July 31, 2018
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)
x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2018
Or
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission file number 1-10706

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

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

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

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

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

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

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

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

$5 par value common stock:

Outstanding as of July 25, 2018: 171,399,203 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)	June 30, 2018 (unaudited)	December 31, 2017
ASSETS		
Cash and due from banks	$ 1,424	$ 1,438
Interest-bearing deposits with banks	4,236	4,407
Other short-term investments	134	96
Investment securities available-for-sale	11,915	10,938
Investment securities held-to-maturity	—	1,266
Commercial loans	31,530	31,060
Real estate construction loans	3,257	2,961
Commercial mortgage loans	9,124	9,159
Lease financing	458	468
International loans	993	983
Residential mortgage loans	1,954	1,988
Consumer loans	2,476	2,554
Total loans	49,792	49,173
Less allowance for loan losses	(677)	(712)
Net loans	49,115	48,461
Premises and equipment	467	466
Accrued income and other assets	4,696	4,495
Total assets	$ 71,987	$ 71,567
LIABILITIES AND SHAREHOLDERS' EQUITY		
Noninterest-bearing deposits	$ 30,316	$ 32,071
Money market and interest-bearing checking deposits	22,544	21,500
Savings deposits	2,227	2,152
Customer certificates of deposit	2,089	2,165
Foreign office time deposits	34	15
Total interest-bearing deposits	26,894	25,832
Total deposits	57,210	57,903
Short-term borrowings	58	10
Accrued expenses and other liabilities	1,057	1,069
Medium- and long-term debt	5,583	4,622
Total liabilities	63,908	63,604
Common stock - $5 par value:		
Authorized - 325,000,000 shares		
Issued - 228,164,824 shares	1,141	1,141
Capital surplus	2,144	2,122

Accumulated other comprehensive loss	(589)	(451)
Retained earnings	8,374	7,887
Less cost of common stock in treasury - 57,254,526 shares at 6/30/18 and 55,306,483 shares at 12/31/17	(2,991)	(2,736)
Total shareholders’ equity	8,079	7,963
Total liabilities and shareholders’ equity	$ 71,987	$ 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 June 30,		Six Months Ended June 30,	
(in millions, except per share data)	2018	2017	2018	2017
INTEREST INCOME				
Interest and fees on loans	$568	$453	$1,077	$874
Interest on investment securities	64	62	128	123
Interest on short-term investments	18	14	35	28
Total interest income	650	529	1,240	1,025
INTEREST EXPENSE				
Interest on deposits	28	9	44	18
Interest on medium- and long-term debt	32	20	57	37
Total interest expense	60	29	101	55
Net interest income	590	500	1,139	970
Provision for credit losses	(29)	17	(17)	33
Net interest income after provision for credit losses	619	483	1,156	937
NONINTEREST INCOME				
Card fees	60	80	119	157
Service charges on deposit accounts	53	57	107	115
Fiduciary income	52	51	104	100
Commercial lending fees	23	22	41	42
Letter of credit fees	11	11	21	23
Bank-owned life insurance	9	9	18	19
Foreign exchange income	12	11	24	22
Brokerage fees	6	6	13	11
Net securities gains	—	—	1	—
Other noninterest income	22	29	44	58
Total noninterest income	248	276	492	547
NONINTEREST EXPENSES				
Salaries and benefits expense	250	231	505	476
Outside processing fee expense	64	88	125	175
Net occupancy expense	37	38	75	76
Equipment expense	11	11	22	22
Restructuring charges	11	14	27	25
Software expense	32	31	63	60
FDIC insurance expense	12	12	25	25
Advertising expense	8	7	14	11
Litigation-related expense	—	—	—	(2)
Other noninterest expenses	23	25	38	46
Total noninterest expenses	448	457	894	914
Income before income taxes	419	302	754	570
Provision for income taxes	93	99	147	165
NET INCOME	326	203	607	405
Less income allocated to participating securities	2	1	4	3
Net income attributable to common shares	$324	$202	$603	$402

Earnings per common share:				
Basic	$1.90	$1.15	$3.52	$2.30
Diluted	1.87	1.13	3.46	2.24
Comprehensive income	290	221	468	427
Cash dividends declared on common stock	58	46	110	88
Cash dividends declared per common share	0.34	0.26	0.64	0.49

See notes to consolidated financial statements (unaudited).

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CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (unaudited)

Comerica Incorporated and Subsidiaries

(in millions, except per share data)	Common Stock Shares Outstanding	Common Stock Amount	Capital Surplus	Accumulated Other Comprehensive Loss	Retained Earnings	Treasury Stock	Total Shareholders' Equity
BALANCE AT DECEMBER 31, 2016	175.3	$ 1,141	$ 2,135	$ (383)	$ 7,331	$ (2,428)	$ 7,796
Cumulative effect of change in accounting principle	—	—	3	—	(2)	—	1
Net income	—	—	—	—	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
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	—	—	—	—	607	—	607
Other comprehensive loss, net of tax	—	—	—	(139)	—	—	(139)
Cash dividends declared on common stock ($0.64 per share)	—	—	—	—	(110)	—	(110)
Purchase of common stock	(3.4)	—	—	—	—	(328)	(328)
Net issuance of common stock under employee stock plans	1.3	—	(11)	—	(21)	69	37
Net issuance of common stock for warrants	0.1	—	(1)	—	(3)	4	—
Share-based compensation	—	—	34	—	—	—	34
BALANCE AT JUNE 30, 2018	170.9	$ 1,141	$ 2,144	$ (589)	$ 8,374	$ (2,991)	$ 8,079

See notes to consolidated financial statements (unaudited).

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

(in millions)	Six Months Ended June 30, 2018	2017
OPERATING ACTIVITIES		
Net income	$607	$405
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for credit losses	(17)	33
Provision (benefit) for deferred income taxes	14	(19)
Depreciation and amortization	60	60
Net periodic defined benefit credit	(10)	(9)
Share-based compensation expense	34	24
Net amortization of securities	2	3
Accretion of loan purchase discount	—	(2)
Net securities gains	(1)	—
Net gains on sales of foreclosed property	(1)	(1)
Net change in:		
Accrued income receivable	(38)	(1)
Accrued expenses payable	(51)	(17)
Other, net	15	174
Net cash provided by operating activities	614	650
INVESTING ACTIVITIES		
Investment securities available-for-sale:		
Maturities and redemptions	895	771
Sales	5	1,259
Purchases	(891)	(2,169)
Investment securities held-to-maturity:		
Maturities and redemptions	—	153
Net change in loans	(651)	(370)
Proceeds from sales of foreclosed property	6	4
Net increase in premises and equipment	(41)	(27)
Purchases of Federal Home Loan Bank stock	(41)	(22)
Proceeds from bank-owned life insurance settlements	3	6
Other, net	(1)	2
Net cash used in investing activities	(716)	(393)
FINANCING ACTIVITIES		
Net change in:		
Deposits	(737)	(2,084)
Short-term borrowings	48	516
Medium- and long-term debt		
Federal Home Loan Bank advances	1,000	—
Terminations	—	(16)
Common stock:		
Repurchases	(337)	(265)
Cash dividends paid	(104)	(81)
Issuances under employee stock plans	46	90
Other, net	1	(4)

Net cash used in financing activities	(83)	(1,844)
Net decrease in cash and cash equivalents	(185)	(1,587)
Cash and cash equivalents at beginning of period	5,845	7,218
Cash and cash equivalents at end of period	$5,660	$5,631
Interest paid	$99	$54
Income tax paid	94	130
Noncash investing and financing activities:		
Loans transferred to other real estate	2	4
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 six months ended June 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 $37 million in card fees and $1 million in service charges on deposits accounts, included in noninterest income, and a corresponding $38 million decrease in outside processing fees included in noninterest expenses, in the Consolidated Statements of Comprehensive Income for the three months ended June 30, 2018. For the six months ended June 30, 2018, the impact on the Consolidated Statements of Comprehensive Income was a $71 million decrease in card fees, a $2 million decrease in service charges on deposit accounts and a $73 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 timing between completion of performance obligations and payment is typically not significant.
Card fees comprise interchange and other fee income earned on government card, commercial card, debit/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 $37 million and $26 million for the three months ended June 30, 2018 and 2017, respectively, and $71 million and $51 million for the six months ended June 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.

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 prices and when the services are provided. Other sources of revenue in commercial lending fees primarily include fees assessed on the unused portion of commercial lines of credit (unused commitment fees) and syndication arrangements.

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

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

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

Classification and Measurement of Financial Instruments

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

Statement of Cash Flows

The Corporation adopted FASB issued ASU No. 2016-15, “Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments,” (ASU 2016-15) on January 1, 2018 and, as a result, reclassified $6 million of proceeds from settlement of bank-owned life insurance policies from operating activities to investing activities for the six-month period ended June 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 $24 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 six months ended June 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.

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 $104 million, including $107 million recognized in the year ended December 31, 2017 and a $3 million downward revision to the estimated impact recorded in the six months ended June 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 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.

NOTE 2 – FAIR VALUE MEASUREMENTS

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

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

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

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 June 30, 2018 and December 31, 2017.

(in millions)	Total	Level 1	Level 2	Level 3	
June 30, 2018					
Deferred compensation plan assets	$91	$91	$—	$ —	
Equity securities	41	41	—	—	
Investment securities available-for-sale:					
U.S. Treasury and other U.S. government agency securities	2,699	2,699	—	—	
Residential mortgage-backed securities (a)	9,216	—	9,216	—	
Total investment securities available-for-sale	11,915	2,699	9,216	—	
Derivative assets:					
Interest rate contracts	35	—	29	6	
Energy derivative contracts	177	—	177	—	
Foreign exchange contracts	39	—	39	—	
Warrants	2	—	—	2	
Total derivative assets	253	—	245	8	
Total assets at fair value	$12,300	$2,831	$9,461	$ 8	
Derivative liabilities:					
Interest rate contracts	$117	$—	$117	$ —	
Energy derivative contracts	177	—	177	—	
Foreign exchange contracts	32	—	32	—	
Total derivative liabilities	326	—	326	—	
Deferred compensation plan liabilities	91	91	—	—	
Total liabilities at fair value	$417	$91	$326	$ —	
December 31, 2017					
Trading securities:					
Deferred compensation plan assets	$92	$92	$—	$ —	
Investment securities available-for-sale:					
U.S. Treasury and other U.S. government agency securities	2,727	2,727	—	—	
Residential mortgage-backed securities (a)	8,124	—	8,124	—	
State and municipal securities	5	—	—	5	(b)
Equity and other non-debt securities	82	38	—	44	(b)
Total investment securities available-for-sale	10,938	2,765	8,124	49	
Derivative assets:					
Interest rate contracts	57	—	43	14	
Energy derivative contracts	93	—	93	—	
Foreign exchange contracts	42	—	42	—	
Warrants	2	—	—	2	
Total derivative assets	194	—	178	16	
Total assets at fair value	11,224	$2,857	$8,302	$ 65	
Derivative liabilities:					
Interest rate contracts	59	—	59	—	
Energy derivative contracts	91	—	91	—	
Foreign exchange contracts	40	—	40	—	
Total derivative liabilities	190	—	190	—	
Deferred compensation plan liabilities	92	92	—	—	

Total liabilities at fair value	$282	$92	$190	$ —

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

(b) Auction-rate securities.

There were no transfers of assets or liabilities recorded at fair value on a recurring basis into or out of Level 1, Level 2 and Level 3 fair value measurements during each of the three- and six-month periods ended June 30, 2018 and 2017.

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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, 2018 and 2017.

(in millions)	Balance at Beginning of Period	Change in Classification (a)	Net Realized/Unrealized Gains (Losses) (Pretax) Recorded in Earnings Realized	Unrealized		Sales and Redemptions	Balance at End of Period
Three Months Ended June 30, 2018							
Derivative assets:							
Interest rate contracts	$ 7	$ —	$ —	$ (1)	(b)	$ —	$ 6
Warrants	2	—	1 (b)	—		(1)	2
Three Months Ended June 30, 2017							
Investment securities available-for-sale:							
State and municipal securities (c)	$ 5	$ —	$ —	$ —		$ —	$ 5
Equity and other non-debt securities (c)	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
Six Months Ended June 30, 2018							
Equity securities	$ —	$ 44	$ —	$ —		$ (44)	$ —
Investment securities available-for-sale:							
State and municipal securities (c)	5	—	—	—		(5)	—
Equity and other non-debt securities (c)	44	(44)	—	—		—	—
Total investment securities available-for-sale	49	(44)	—	—		(5)	—
Derivative assets:							
Interest rate contracts	14	—	—	(8)	(b)	—	6
Warrants	2	—	1 (b)	—		(1)	2
Six Months Ended June 30, 2017							
Investment securities available-for-sale:							
State and municipal securities (c)	$ 7	$ —	$ —	$ —		$ (2)	$ 5
Equity and other non-debt securities (c)	47	—	—	—		(1)	46
Total investment securities available-for-sale	54	—	—	—		(3)	51
Derivative assets:							
Interest rate contracts	11	—	—	2	(b)	—	13
Warrants	3	—	5 (b)	(1)	(b)	(5)	2

(a) Reflects the reclassification of equity securities resulting from the adoption of ASU 2016-01.
(b) Realized and unrealized gains and losses due to changes in fair value recorded in Other Noninterest Income on the Consolidated Statements of Comprehensive Income.
(c) Auction-rate securities.

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ASSESTS AND LIABILITIES AT FAIR VALUE ON A NONRECURRING BASIS

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

The following table presents assets recorded at fair value on a nonrecurring basis at June 30, 2018 and December 31, 2017. No liabilities were recorded at fair value on a nonrecurring basis at June 30, 2018 and December 31, 2017.

(in millions)	Level 3
June 30, 2018	
Loans:	
Commercial	$ 76
Commercial mortgage	4
Total loans	80
Other real estate	1
Total assets at fair value	$ 81
December 31, 2017	
Loans:	
Commercial	$ 111
Commercial mortgage	5
Total assets at fair value	$ 116

Level 3 assets recorded at fair value on a nonrecurring basis at June 30, 2018 and December 31, 2017 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.

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

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

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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:

		Estimated Fair Value			
(in millions)	Carrying Amount	Total	Level 1	Level 2	Level 3
June 30, 2018					
Assets					
Cash and due from banks	$ 1,424	$ 1,424	$ 1,424	$ —	$ —
Interest-bearing deposits with banks	4,236	4,236	4,236	—	—
Loans held-for-sale	2	2	—	2	—
Total loans, net of allowance for loan losses (a)	49,115	48,929	—	—	48,929
Customers' liability on acceptances outstanding	3	3	3	—	—
Restricted equity investments	248	248	248	—	—
Nonmarketable equity securities (b)	6	11			
Liabilities					
Demand deposits (noninterest-bearing)	30,316	30,316	—	30,316	—
Interest-bearing deposits	24,805	24,805	—	24,805	—
Customer certificates of deposit	2,089	2,061	—	2,061	—
Total deposits	57,210	57,182	—	57,182	—
Short-term borrowings	58	58	58	—	—
Acceptances outstanding	3	3	3	—	—
Medium- and long-term debt	5,583	5,588	—	5,588	—
Credit-related financial instruments	(60)	(60)	—	—	(60)
December 31, 2017					
Assets					
Cash and due from banks	$ 1,438	$ 1,438	$ 1,438	$ —	$ —
Interest-bearing deposits with banks	4,407	4,407	4,407	—	—
Investment securities held-to-maturity	1,266	1,246	—	1,246	—
Loans held-for-sale	4	4	—	4	—
Total loans, net of allowance for loan losses (a)	48,461	48,153	—	—	48,153
Customers' liability on acceptances outstanding	2	2	2	—	—
Restricted equity investments	207	207	207	—	—
Nonmarketable equity securities (b)	6	9			
Liabilities					
Demand deposits (noninterest-bearing)	32,071	32,071	—	32,071	—
Interest-bearing deposits	23,667	23,667	—	23,667	—
Customer certificates of deposit	2,165	2,142	—	2,142	—
Total deposits	57,903	57,880	—	57,880	—
Short-term borrowings	10	10	10	—	—
Acceptances outstanding	2	2	2	—	—
Medium- and long-term debt	4,622	4,636	—	4,636	—
Credit-related financial instruments	(67)	(67)	—	—	(67)

(a) Included $80 million and $116 million of impaired loans recorded at fair value on a nonrecurring basis at June 30, 2018 and December 31, 2017, respectively.

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

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

(in millions)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
June 30, 2018				
Investment securities available-for-sale:				
U.S. Treasury and other U.S. government agency securities	$ 2,744	$ —	$ 45	$ 2,699
Residential mortgage-backed securities (a)	9,499	10	293	9,216
Total investment securities available-for-sale	$ 12,243	$ 10	$ 338	$ 11,915
December 31, 2017				
Investment securities available-for-sale:				
U.S. Treasury and other U.S. government agency securities	$ 2,743	$ —	$ 16	$ 2,727
Residential mortgage-backed securities (a)	8,230	22	128	8,124
State and municipal securities	5	—	—	5
Equity and other non-debt securities	83	1	2	82
Total investment securities available-for-sale (b)	$ 11,061	$ 23	$ 146	$ 10,938
Investment securities held-to-maturity (c):				
Residential mortgage-backed securities (a)	$ 1,266	$ —	$ 20	$ 1,246

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

(b) Included auction-rate securities at amortized cost and fair value of $51 million and $49 million, respectively, as of December 31, 2017.

(c) The amortized cost of investment securities held-to-maturity included net unrealized losses of $9 million at December 31, 2017 related to securities transferred from available-for-sale in 2014, which are included in accumulated other comprehensive loss.

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

A summary of the Corporation’s investment securities in an unrealized loss position as of June 30, 2018 and December 31, 2017 follows:

	Temporarily Impaired					
	Less than 12 Months		12 Months or more		Total	
(in millions)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
June 30, 2018						
U.S. Treasury and other U.S. government agency securities	$2,699	$ 45	$ —	$ —	$2,699	$ 45
Residential mortgage-backed securities (a)	4,544	106	3,934	187	8,478	293
Total temporarily impaired securities	$7,243	$ 151	$ 3,934	$ 187	$11,177	$ 338
December 31, 2017						
U.S. Treasury and other U.S. government agency securities	$2,727	$ 16	$ —	$ —	$2,727	$ 16

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

(a) Issued and/or guaranteed by U.S. government agencies or U.S. government-sponsored enterprises.
(b) Primarily auction-rate securities.
(c) Unrealized losses less than $0.5 million.

At June 30, 2018, the Corporation had 399 securities in an unrealized loss position with no credit impairment, including 29 U.S. Treasury securities and 370 residential mortgage-backed securities. The unrealized losses for these securities resulted from changes in market interest rates, not changes in credit quality. The Corporation ultimately expects full collection of the carrying amount of these securities, does not intend to sell the securities in an unrealized loss position, and it is not more-likely-than-not that the Corporation will be required to sell the securities in an unrealized loss position prior to recovery of amortized cost. The Corporation does not consider these securities to be other-than-temporarily impaired at June 30, 2018.

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)

June 30, 2018	Amortized Cost	Fair Value
Contractual maturity		
Within one year	$100	$100
After one year through five years	3,008	2,963
After five years through ten years	1,752	1,722
After ten years	7,383	7,130
Total investment securities	$12,243	$11,915

Included in the contractual maturity distribution in the table above were residential mortgage-backed securities with total amortized cost of $9.5 billion and fair value of $9.2 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, 2018, investment securities with a carrying value of $393 million were pledged where permitted or required by law to secure $272 million of liabilities, primarily public and other deposits of state and local government agencies and derivative instruments.

NOTE 4 – CREDIT QUALITY AND ALLOWANCE FOR CREDIT LOSSES

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

(in millions)	Loans Past Due and Still Accruing 30-59 Days	60-89 Days	90 Days or More	Total	Nonaccrual Loans	Current Loans	Total Loans
June 30, 2018							
Business loans:							
Commercial	$ 66	$ 8	$ 13	$ 87	$ 171	$31,272	$31,530
Real estate construction:							
Commercial Real Estate business line (a)	6	—	—	6	—	2,882	2,888
Other business lines (b)	6	—	—	6	—	363	369
Total real estate construction	12	—	—	12	—	3,245	3,257
Commercial mortgage:							
Commercial Real Estate business line (a)	4	10	—	14	9	1,724	1,747
Other business lines (b)	21	5	7	33	20	7,324	7,377
Total commercial mortgage	25	15	7	47	29	9,048	9,124
Lease financing	—	—	—	—	2	456	458
International	2	—	—	2	4	987	993
Total business loans	105	23	20	148	206	45,008	45,362
Retail loans:							
Residential mortgage	16	1	—	17	29	1,908	1,954
Consumer:							
Home equity	4	1	—	5	19	1,707	1,731
Other consumer	2	—	—	2	—	743	745
Total consumer	6	1	—	7	19	2,450	2,476
Total retail loans	22	2	—	24	48	4,358	4,430
Total loans	$ 127	$ 25	$ 20	$ 172	$ 254	$49,366	$49,792
December 31, 2017							
Business loans:							
Commercial	$ 79	$ 134	$ 12	$ 225	$ 309	$30,526	$31,060
Real estate construction:							
Commercial Real Estate business line (a)	3	—	—	3	—	2,627	2,630
Other business lines (b)	4	—	—	4	—	327	331
Total real estate construction	7	—	—	7	—	2,954	2,961
Commercial mortgage:							
Commercial Real Estate business line (a)	14	—	—	14	9	1,808	1,831
Other business lines (b)	27	6	22	55	22	7,251	7,328
Total commercial mortgage	41	6	22	69	31	9,059	9,159
Lease financing	—	—	—	—	4	464	468
International	13	—	—	13	6	964	983
Total business loans	140	140	34	314	350	43,967	44,631
Retail loans:							
Residential mortgage	10	2	—	12	31	1,945	1,988
Consumer:							
Home equity	5	1	—	6	21	1,789	1,816
Other consumer	4	—	1	5	—	733	738
Total consumer	9	1	1	11	21	2,522	2,554

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

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

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

	Internally Assigned Rating				
(in millions)	Pass (a)	Special Mention (b)	Substandard (c)	Nonaccrual (d)	Total
June 30, 2018					
Business loans:					
Commercial	$30,185	$ 580	$ 594	$ 171	$31,530
Real estate construction:					
Commercial Real Estate business line (e)	2,868	20	—	—	2,888
Other business lines (f)	362	7	—	—	369
Total real estate construction	3,230	27	—	—	3,257
Commercial mortgage:					
Commercial Real Estate business line (e)	1,678	15	45	9	1,747
Other business lines (f)	7,144	133	80	20	7,377
Total commercial mortgage	8,822	148	125	29	9,124
Lease financing	449	4	3	2	458
International	969	2	18	4	993
Total business loans	43,655	761	740	206	45,362
Retail loans:					
Residential mortgage	1,925	—	—	29	1,954
Consumer:					
Home equity	1,704	—	8	19	1,731
Other consumer	743	1	1	—	745
Total consumer	2,447	1	9	19	2,476
Total retail loans	4,372	1	9	48	4,430
Total loans	$48,027	$ 762	$ 749	$ 254	$49,792
December 31, 2017					
Business loans:					
Commercial	$29,263	$ 591	$ 897	$ 309	$31,060
Real estate construction:					
Commercial Real Estate business line (e)	2,630	—	—	—	2,630
Other business lines (f)	327	4	—	—	331
Total real estate construction	2,957	4	—	—	2,961
Commercial mortgage:					
Commercial Real Estate business line (e)	1,759	20	43	9	1,831
Other business lines (f)	7,099	115	92	22	7,328
Total commercial mortgage	8,858	135	135	31	9,159
Lease financing	440	23	1	4	468
International	946	11	20	6	983
Total business loans	42,464	764	1,053	350	44,631
Retail loans:					
Residential mortgage	1,955	2	—	31	1,988
Consumer:					
Home equity	1,786	1	8	21	1,816
Other consumer	737	1	—	—	738

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

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

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

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

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

(e) Primarily loans to real estate developers.

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

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The following table summarizes nonperforming assets.

(in millions)	June 30, 2018	December 31, 2017
Nonaccrual loans	$ 254	$ 402
Reduced-rate loans (a)	8	8
Total nonperforming loans	262	410
Foreclosed property (b)	2	5
Total nonperforming assets	$ 264	$ 415

(a) There were no reduced-rate business loans at both June 30, 2018 and December 31, 2017. Reduced-rate retail loans were $8 million at both June 30, 2018 and December 31, 2017.

(b) Included $1 million and $4 million of foreclosed residential real estate properties at June 30, 2018 and December 31, 2017, respectively.

There were no retail loans secured by residential real estate properties in process of foreclosure included in nonaccrual loans at both June 30, 2018 and December 31, 2017.

Allowance for Credit Losses

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

(in millions)	2018 Business Loans	Retail Loans	Total	2017 Business Loans	Retail Loans	Total
Three Months Ended June 30						
Allowance for loan losses:						
Balance at beginning of period	$653	$45	$698	$661	$47	$708
Loan charge-offs	(18)	(2)	(20)	(37)	(2)	(39)
Recoveries on loans previously charged-off	22	1	23	20	1	21
Net loan recoveries (charge-offs)	4	(1)	3	(17)	(1)	(18)
Provision for loan losses	(21)	(2)	(23)	17	(2)	15
Foreign currency translation adjustment	(1)	—	(1)	—	—	—
Balance at end of period	$635	$42	$677	$661	$44	$705
Six Months Ended June 30						
Allowance for loan losses:						
Balance at beginning of period	$661	$51	$712	$682	$48	$730
Loan charge-offs	(54)	(3)	(57)	(79)	(4)	(83)
Recoveries on loans previously charged-off	30	2	32	29	3	32
Net loan charge-offs	(24)	(1)	(25)	(50)	(1)	(51)
Provision for loan losses	(1)	(8)	(9)	29	(3)	26
Foreign currency translation adjustment	(1)	—	(1)	—	—	—
Balance at end of period	$635	$42	$677	$661	$44	$705
As a percentage of total loans	1.40 %	0.96 %	1.36 %	1.47 %	0.98 %	1.43 %
June 30						
Allowance for loan losses:						
Individually evaluated for impairment	$39	$—	$39	$93	$1	$94
Collectively evaluated for impairment	596	42	638	568	43	611
Total allowance for loan losses	$635	$42	$677	$661	$44	$705

Loans:						
Individually evaluated for impairment	$310	$30	$340	$509	$41	$550
Collectively evaluated for impairment	45,052	4,400	49,452	44,388	4,470	48,858
Total loans evaluated for impairment	$45,362	$4,430	$49,792	$44,897	$4,511	$49,408

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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.

	Three Months Ended June 30,		Six Months Ended June 30,	
(in millions)	2018	2017	2018	2017
Balance at beginning of period	$40	$46	$42	$41
Provision for credit losses on lending-related commitments	(6)	2	(8)	7
Balance at end of period	$34	$48	$34	$48

Individually Evaluated Impaired Loans

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

	Recorded Investment In:				
(in millions)	Impaired Loans with No Related Allowance	Impaired Loans with Related Allowance	Total Impaired Loans	Unpaid Principal Balance	Related Allowance for Loan Losses
June 30, 2018					
Business loans:					
Commercial	$85	$ 154	$ 239	$ 313	$ 35
Commercial mortgage:					
Commercial Real Estate business line (a)	37	3	40	49	—
Other business lines (b)	—	26	26	29	3
Total commercial mortgage	37	29	66	78	3
International	3	2	5	9	1
Total business loans	125	185	310	400	39
Retail loans:					
Residential mortgage	11	8	19	20	—
Consumer:					
Home equity	10	—	10	13	—
Other consumer	1	—	1	1	—
Total consumer	11	—	11	14	—
Total retail loans (c)	22	8	30	34	—
Total individually evaluated impaired loans	$147	$ 193	$ 340	$ 434	$ 39
December 31, 2017					
Business loans:					
Commercial	$105	$ 267	$ 372	$ 460	$ 63
Commercial mortgage:					
Commercial Real Estate business line (a)	39	1	40	49	—
Other business lines (b)	3	22	25	29	3
Total commercial mortgage	42	23	65	78	3
International	—	6	6	17	1
Total business loans	147	296	443	555	67
Retail loans:					
Residential mortgage	14	8	22	22	—

Consumer:					
Home equity	11	—	11	14	—
Other consumer	1	—	1	2	—
Total consumer	12	—	12	16	—
Total retail loans (c)	26	8	34	38	—
Total individually evaluated impaired loans	$173	$ 304	$ 477	$ 593	$ 67

(a) Primarily loans to real estate developers.

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

(c) Individually evaluated retail loans generally have no related allowance for loan losses, primarily due to policy which results in direct write-downs of most restructured retail loans.

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The following table presents information regarding average individually evaluated impaired loans and the related interest recognized as of June 30, 2018 and 2017. Interest income recognized for the period primarily related to performing restructured loans.

	Individually Evaluated Impaired Loans			
	2018		2017	
(in millions)	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	$277	$ 1	$473	$ 2
Commercial mortgage:				
Commercial Real Estate business line (a)	40	1	7	—
Other business lines (b)	25	—	35	—
Total commercial mortgage	65	1	42	—
International	4	—	7	—
Total business loans	346	2	522	2
Retail loans:				
Residential mortgage	19	—	27	—
Consumer loans:				
Home equity	11	—	12	—
Other consumer	1	—	2	—
Total consumer	12	—	14	—
Total retail loans	31	—	41	—
Total individually evaluated impaired loans	$377	$ 2	$563	$ 2
Six Months Ended June 30				
Business loans:				
Commercial	$309	$ 2	$487	$ 4
Commercial mortgage:				
Commercial Real Estate business line (a)	40	2	7	—
Other business lines (b)	25	—	34	—
Total commercial mortgage	65	2	41	—
International	5	—	9	—
Total business loans	379	4	537	4
Retail loans:				
Residential mortgage	20	—	27	—
Consumer:				
Home equity	11	—	13	—
Other consumer	1	—	3	—
Total consumer	12	—	16	—
Total retail loans	32	—	43	—
Total individually evaluated impaired loans	$411	$ 4	$580	$ 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 table details the recorded balance at June 30, 2018 and 2017 of loans considered to be troubled debt restructurings (TDRs) that were restructured during the three- and six-month periods ended June 30, 2018 and 2017, 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.

	2018			2017			
	Type of Modification			Type of Modification			
(in millions)	Principal Deferrals (a)	Interest Rate Reductions	Total Modifications	Principal Deferrals (a)	Interest Rate Reductions	AB Note Restructures (b)	Total Modifications
Three Months Ended June 30							
Business loans:							
Commercial	$25	$ —	$ 25	$47	$ —	$ 36	$ 83
Commercial mortgage:							
Other business lines (c)	—	—	—	1	—	—	1
Total business loans	25	—	25	48	—	36	84
Retail loans:							
Consumer:							
Home equity (d)	—	1	1	—	1	—	1
Total loans	$25	$ 1	$ 26	$48	$ 1	$ 36	$ 85
Six Months Ended June 30							
Business loans:							
Commercial	$45	$ —	$ 45	$96	$ —	$ 36	$ 132
Commercial mortgage:							
Other business lines (c)	1	—	1	4	—	—	4
Total business loans	46	—	46	100	—	36	136
Retail loans:							
Consumer:							
Home equity (d)	1	1	2	1	2	—	3
Total loans	$47	$ 1	$ 48	$101	$ 2	$ 36	$ 139

(a) Primarily represents loan balances where terms were extended 90 days or more at or above contractual interest rates.
(b) Loan restructurings whereby the original loan is restructured into two notes: an "A" note, which generally reflects the portion of the modified loan which is expected to be collected; and a "B" note, which is generally fully charged off.
(c) Primarily loans to secured by owner-occupied real estate.
(d) Includes bankruptcy loans for which the court has discharged the borrower's obligation and the borrower has not reaffirmed the debt.

At June 30, 2018 and December 31, 2017, commitments to lend additional funds to borrowers whose terms have been modified in TDRs totaled $44 million and $31 million, respectively.
The majority of the modifications considered to be TDRs that occurred during the six months ended June 30, 2018 and 2017 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 six months ended June 30, 2018 and 2017 were insignificant.

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

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The following table presents information regarding the recorded balance at June 30, 2018 and 2017 of loans modified by principal deferral and interest rate reduction during the twelve-month periods ended June 30, 2018 and 2017.

	Principal Deferrals		Interest Rate Reductions	
(in millions)	2018	2017	2018	2017
Balance at June 30,				
Business loans:				
Commercial	$97	$141	$ —	$ —
Commercial mortgage:				
Commercial Real Estate business line (a)	37	1	—	—
Other business lines (b)	2	7	—	—
Total commercial mortgage	39	8	—	—
Total business loans	136	149	—	—
Retail loans:				
Consumer:				
Home equity (c)	1	2	2	3
Total principal deferrals	$137	$151	$ 2	$ 3

(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.

There were no loans restructured into two notes (AB note restructures) during the twelve-month periods ended June 30, 2018, compared to loans with a carrying value of $68 million during the twelve-month period ended June 30, 2017.

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. For interest rate reductions and 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 defaults of principal deferrals, interest rate reductions or AB note restructures during the three- and six-month periods ended June 30, 2018 and 2017.

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. 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 positions are monitored 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. Derivatives with dealer counterparties are either cleared through a clearinghouse or settled directly with a single counterparty. For derivatives settled directly 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. At June 30, 2018, counterparties with bilateral collateral agreements had pledged $3 million of marketable investment securities and deposited $10 million of cash with the Corporation to secure the fair value of contracts in an unrealized gain position, and the Corporation had pledged $10 million of marketable investment securities and posted $131 million of 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. There were no derivative instruments with credit-risk-related contingent features that were in a liability position at June 30, 2018.

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 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. In addition, certain derivative contracts executed bilaterally with a dealer counterparty in the over-the-counter market are cleared through a clearinghouse, whereby the clearinghouse becomes the counterparty to the transaction.

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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, 2018 and December 31, 2017. The table excludes commitments and warrants accounted for as derivatives.

	June 30, 2018			December 31, 2017		
		Fair Value			Fair Value	
(in millions)	Notional/Contract Amount (a)	Gross Derivative Assets	Gross Derivative Liabilities	Notional/Contract Amount (a)	Gross Derivative Assets	Gross Derivative Liabilities
Risk management purposes						
Derivatives designated as hedging instruments						
Interest rate contracts:						
Swaps - fair value - receive fixed/pay floating	$1,775	$—	$ 3	$1,775	$—	$ 2
Derivatives used as economic hedges						
Foreign exchange contracts:						
Spot, forwards and swaps	793	2	1	650	—	2
Total risk management purposes	2,568	2	4	2,425	—	4
Customer-initiated and other activities						
Interest rate contracts:						
Caps and floors written	715	—	2	635	—	—
Caps and floors purchased	715	2	—	635	—	—
Swaps	12,590	33	112	13,119	57	57
Total interest rate contracts	14,020	35	114	14,389	57	57
Energy contracts:						
Caps and floors written	172	—	16	164	—	11
Caps and floors purchased	172	16	—	164	11	—
Swaps	2,046	161	161	1,519	82	80
Total energy contracts	2,390	177	177	1,847	93	91
Foreign exchange contracts:						
Spot, forwards, options and swaps	1,919	37	31	1,884	42	38
Total customer-initiated and other activities	18,329	249	322	18,120	192	186
Total gross derivatives	$20,897	$251	$ 326	$20,545	$192	$ 190
Amounts offset in the Consolidated Balance Sheets:						
Netting adjustment - Offsetting derivative assets/liabilities		(48)	(48)		(49)	(49)
Netting adjustment - Cash collateral received/posted		(6)	(130)		(1)	(39)
Net derivatives included in the Consolidated Balance Sheets (b)		197	148		142	102
Amounts not offset in the Consolidated Balance Sheets:						
Marketable securities pledged under bilateral collateral agreements		(3)	(10)		(3)	(24)
Net derivatives after deducting amounts not offset in the Consolidated Balance Sheets		$194	$ 138		$139	$ 78

(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 of $4 million at both June 30, 2018 and December 31, 2017, respectively.

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Risk Management
The Corporation's derivative instruments used for managing interest rate risk currently comprise swaps converting fixed-rate long-term debt to variable rates.

The following table details the effects of fair value hedging on the Consolidated Statements of Comprehensive Income.

	Interest on Medium- and Long-Term Debt			
	Three Months Ended June 30,		Six Months Ended June 30,	
(in millions)	2018	2017	2018	2017
Total interest on medium-and long-term debt (a)	$32	$20	$57	$37
Fair value hedging relationships:				
Interest rate contracts:				
Hedged items	15	23	30	45
Derivatives designated as hedging instruments	(2)	(10)	(5)	(20)

(a) Includes the effects of hedging.

The following table summarizes the expected weighted average remaining maturity of the notional amount of risk management interest rate swaps, the carrying amount of the related hedged items and the weighted average interest rates associated with amounts expected to be received or paid on interest rate swap agreements as of June 30, 2018 and December 31, 2017.

			Weighted Average		
(dollar amounts in millions)	Derivative Notional Amount	Carrying Value of Hedged Items (a)	Remaining Maturity (in years)	Receive Rate	Pay Rate (b)
June 30, 2018					
Swaps - fair value - receive fixed/pay floating rate					
Medium- and long-term debt	$ 1,775	$ 1,783	4.1	3.26 %	3.06 %
December 31, 2017					
Swaps - fair value - receive fixed/pay floating rate					
Medium- and long-term debt	1,775	1,822	4.6	3.26	2.35

(a) Included $16 million and $56 million of cumulative hedging adjustments at June 30, 2018 and December 31, 2017, respectively, which included $8 million and $9 million, respectively, of hedging adjustment on a discontinued hedging relationship.

(b) Variable rates paid on receive fixed swaps are based on six-month LIBOR rates in effect at June 30, 2018 and December 31, 2017.

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. These instruments are used as economic hedges and net gains or losses are included in other noninterest income in the Consolidated Statements of Comprehensive Income.

Customer-Initiated and Other

The Corporation enters into derivative transactions at the request of customers and generally takes offsetting positions with dealer counterparties to mitigate the inherent market risk. Income primarily results from the spread between the customer derivative and the offsetting dealer position.

For customer-initiated foreign exchange contracts where offsetting positions have not been taken, the Corporation manages the remaining inherent market risk through individual foreign currency position limits and aggregate value-at-risk limits. These limits are established annually and reviewed quarterly. For those customer-initiated derivative contracts which were not offset or where the Corporation holds a position within the limits described above, the Corporation recognized no net gains or losses in other noninterest income in the Consolidated Statements of Comprehensive Income for both the three- and six-month periods ended June 30, 2018 and 2017.

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Fair values of customer-initiated and other derivative instruments represent the net unrealized gains or losses on such contracts and are recorded in the Consolidated Balance Sheets. Changes in fair value are recognized in the Consolidated Statements of Comprehensive Income. The net gains recognized in income on customer-initiated derivative instruments, net of the impact of offsetting positions, were as follows.

		Three Months Ended June 30,		Six Months Ended June 30,	
(in millions)	Location of Gain	2018	2017	2018	2017
Interest rate contracts	Other noninterest income	$7	$ 7	$11	$ 13
Energy contracts	Other noninterest income	—	1	—	1
Foreign exchange contracts	Foreign exchange income	12	11	24	22
Total		$19	$ 19	$35	$ 36

Credit-Related Financial Instruments
The Corporation issues off-balance sheet financial instruments in connection with commercial and consumer lending activities. The Corporation's credit risk associated with these instruments is represented by the contractual amounts indicated in the following table.

(in millions)	June 30, 2018	December 31, 2017
Unused commitments to extend credit:		
Commercial and other	$23,424	$ 22,636
Bankcard, revolving check credit and home equity loan commitments	2,937	2,833
Total unused commitments to extend credit	$26,361	$ 25,469
Standby letters of credit	$3,236	$ 3,228
Commercial letters of credit	48	39

The Corporation maintains an allowance to cover probable credit losses inherent in lending-related commitments, including unused commitments to extend credit, letters of credit and financial guarantees. The allowance for credit losses on lending-related commitments, included in accrued expenses and other liabilities was $34 million and $42 million at June 30, 2018 and December 31, 2017, respectively.
Unused Commitments to Extend Credit
Commitments to extend credit are legally binding agreements to lend to a customer, provided there is no violation of any condition established in the contract. These commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many commitments expire without being drawn upon, the total contractual amount of commitments does not necessarily represent future cash requirements of the Corporation. Commercial and other unused commitments are primarily variable rate commitments. The allowance for credit losses on lending-related commitments included $24 million and $27 million at June 30, 2018 and December 31, 2017, respectively, for probable credit losses inherent in the Corporation's unused commitments to extend credit.
Standby and Commercial Letters of Credit
Standby letters of credit represent conditional obligations of the Corporation which guarantee the performance of a customer to a third party. Standby letters of credit are primarily issued to support public and private borrowing arrangements, including commercial paper, bond financing and similar transactions. Commercial letters of credit are issued to finance foreign or domestic trade transactions. These contracts expire in decreasing amounts through the year 2028. The Corporation may enter into participation arrangements with third parties that effectively reduce the maximum amount of future payments which may be required under standby and commercial letters of credit. These risk participations covered $127 million of the $3.3 billion standby and commercial letters of credit outstanding at both June 30, 2018 and December 31, 2017.

The carrying value of the Corporation's standby and commercial letters of credit, included in accrued expenses and other liabilities, totaled $36 million at June 30, 2018, including $26 million in deferred fees and $10 million in the allowance for credit losses on lending-related commitments. At December 31, 2017, the comparable amounts were $40 million, $25 million and $15 million, respectively.

The following table presents a summary of criticized standby and commercial letters of credit at June 30, 2018 and December 31, 2017. The Corporation's criticized list is generally consistent with the Special Mention, Substandard and Doubtful categories defined by regulatory authorities. The Corporation manages credit risk through underwriting, periodically reviewing and approving its credit exposures using Board committee approved credit policies and guidelines.

(dollar amounts in millions)	June 30, 2018		December 31, 2017	
Total criticized standby and commercial letters of credit	$ 83		$ 88	
As a percentage of total outstanding standby and commercial letters of credit	2.5	%	2.7	%

Other Credit-Related Financial Instruments

The Corporation enters into credit risk participation agreements, under which the Corporation assumes credit exposure associated with a borrower's performance related to certain interest rate derivative contracts. The Corporation is not a party to the interest rate derivative contracts and only enters into these credit risk participation agreements in instances in which the Corporation is also a party to the related loan participation agreement for such borrowers. The Corporation manages its credit risk on the credit risk participation agreements by monitoring the creditworthiness of the borrowers, which is based on the normal credit review process had it entered into the derivative instruments directly with the borrower. The notional amount of such credit risk participation agreement reflects the pro-rata share of the derivative instrument, consistent with its share of the related participated loan. As of June 30, 2018 and December 31, 2017, the total notional amount of the credit risk participation agreements was approximately $586 million and $549 million, respectively, and the fair value was insignificant for both periods. The maximum estimated exposure to these agreements, as measured by projecting a maximum value of the guaranteed derivative instruments, assuming 100 percent default by all obligors on the maximum values, was insignificant at June 30, 2018 and December 31, 2017. In the event of default, the lead bank has the ability to liquidate the assets of the borrower, in which case the lead bank would be required to return a percentage of the recouped assets to the participating banks. As of June 30, 2018, the weighted average remaining maturity of outstanding credit risk participation agreements was 2.7 years.

NOTE 6 - VARIABLE INTEREST ENTITIES (VIEs)

The Corporation evaluates its interest in certain entities to determine if these entities meet the definition of a VIE and whether the Corporation is the primary beneficiary and should consolidate the entity based on the variable interests it held both at inception and when there is a change in circumstances that requires a reconsideration.

The Corporation holds ownership interests in funds in the form of limited partnerships or limited liability companies (LLCs) investing in affordable housing projects that qualify for the low-income housing tax credit (LIHTC). The Corporation also directly invests in limited partnerships and LLCs which invest in community development projects which generate similar tax credits to investors (other tax credit entities). As an investor, the Corporation obtains income tax credits and deductions from the operating losses of these tax credit entities. These tax credit entities meet the definition of a VIE; however, the Corporation is not the primary beneficiary of the entities, as the general partner or the managing member has both the power to direct the activities that most significantly impact the economic performance of the entities and the obligation to absorb losses or the right to receive benefits that could be significant to the entities.

The Corporation accounts for its interests in LIHTC entities using the proportional amortization method. Exposure to loss as a result of the Corporation’s involvement with LIHTC entities at June 30, 2018 was limited to $409 million. Ownership interests in other tax credit entities are accounted for under either the cost or equity method. Exposure to loss as a result of the Corporation's involvement in other tax credit entities at June 30, 2018 was limited to $7 million. Investment balances, including all legally binding commitments to fund future investments, are included in accrued income and other assets on the Consolidated Balance Sheets. A liability is recognized in accrued expenses and other liabilities on the Consolidated Balance Sheets for all legally binding unfunded commitments to fund tax credit entities ($150 million at June 30, 2018). Amortization and other write-downs of LIHTC investments are presented on a net basis as a component of the provision for income taxes on the Consolidated Statements of Comprehensive Income, while amortization and write-downs of other tax credit investments are recorded in other noninterest income. The income tax credits and deductions are recorded as a reduction of income tax expense and a reduction of federal income taxes payable.

The Corporation provided no financial or other support that was not contractually required to any of the above VIEs during the six months ended June 30, 2018 and 2017.

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The following table summarizes the impact of these tax credit entities on line items on the Corporation's Consolidated Statements of Comprehensive Income.

(in millions)	Three Months Ended June 30, 2018	2017	Six Months Ended June 30, 2018	2017
Other noninterest income:				
Amortization of other tax credit investments	$1	$—	$2	$1
Provision for income taxes:				
Amortization of LIHTC investments	16	16	31	32
Low income housing tax credits	(15)	(16)	(30)	(31)
Other tax benefits related to tax credit entities	(4)	(6)	(7)	(12)
Total provision for income taxes	$(3)	$(6)	$(6)	$(11)

For further information on the Corporation's consolidation policy, see note 1 to the consolidated financial statements in the Corporation's 2017 Annual Report.

NOTE 7 - MEDIUM- AND LONG-TERM DEBT

Medium- and long-term debt is summarized as follows:

(in millions)	June 30, 2018	December 31, 2017
Parent company		
Subordinated notes:		
3.80% subordinated notes due 2026 (a)	$ 245	$ 255
Medium-term notes:		
2.125% notes due 2019 (a)	346	347
Total parent company	591	602
Subsidiaries		
Subordinated notes:		
4.00% subordinated notes due 2025 (a)	335	347
7.875% subordinated notes due 2026 (a)	198	208
Total subordinated notes	533	555
Medium-term notes:		
2.50% notes due 2020 (a)	659	665
Federal Home Loan Bank (FHLB) advances:		
Floating-rate based on FHLB auction rate due 2026	2,800	2,800
Floating-rate based on FHLB auction rate due 2028	1,000	—
Total FHLB advances	3,800	2,800
Total subsidiaries	4,992	4,020
Total medium- and long-term debt	$ 5,583	$ 4,622

(a) The fixed interest rates on these notes have been swapped to a variable rate and designated in a hedging relationship. Accordingly, carrying value has been adjusted to reflect the change in the fair value of the debt as a result of changes in the benchmark rate.

Subordinated notes with remaining maturities greater than one year qualify as Tier 2 capital.

Comerica Bank (the Bank), a wholly-owned subsidiary of the Corporation, is a member of the FHLB, which provides short- and long-term funding to its members through advances collateralized by real estate-related assets. On February 7, 2018, the Bank borrowed an additional $1.0 billion of 10-year, floating-rate FHLB advances due January 26, 2028. The interest rate on the FHLB advances resets between four and eight weeks, based on the FHLB auction rate. At June 30, 2018, the weighted-average rate on the FHLB advances was 2.06%. Each note may be prepaid in full, without penalty, at each scheduled reset date. Borrowing capacity is contingent on the amount of collateral available to be pledged to the FHLB. At June 30, 2018, $16.0 billion of real estate-related loans were pledged to the FHLB as blanket collateral for current and potential future borrowings of approximately $5.5 billion. Unamortized debt issuance costs deducted from the carrying amount of medium- and long-term debt totaled $4 million at June 30, 2018 and $5 million at December 31, 2017.

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NOTE 8 - ACCUMULATED OTHER COMPREHENSIVE LOSS

The following table presents a reconciliation of the changes in the components of accumulated other comprehensive loss and details the components of other comprehensive income (loss) for the six months ended June 30, 2018 and 2017, including the amount of income tax expense (benefit) allocated to each component of other comprehensive income (loss).

	Six Months Ended June 30,	
(in millions)	2018	2017
Accumulated net unrealized losses on investment securities:		
Balance at beginning of period, net of tax	$(101)	$(33)
Cumulative effect of change in accounting principle	1	—
Net unrealized holding (losses) gains arising during the period	(197)	21
Less: (Benefit) provision for income taxes	(46)	8
Net unrealized holding (losses) gains arising during the period, net of tax	(151)	13
Less:		
Reclassification adjustment for net losses realized as a yield adjustment included in net income, net of tax	—	(1)
Change in net unrealized losses on investment securities, net of tax	(151)	14
Balance at end of period, net of tax	$(251)	$(19)
Accumulated defined benefit pension and other postretirement plans adjustment:		
Balance at beginning of period, net of tax	$(350)	$(350)
Amortization of actuarial net loss	30	25
Amortization of prior service credit	(14)	(13)
Amounts recognized in other noninterest expense	16	12
Less: Provision for income taxes	4	4
Change in defined benefit pension and other postretirement plans adjustment, net of tax	12	8
Balance at end of period, net of tax	$(338)	$(342)
Total accumulated other comprehensive loss at end of period, net of tax	$(589)	$(361)

NOTE 9 - NET INCOME PER COMMON SHARE

Basic and diluted net income per common share are presented in the following table.

	Three Months Ended June 30,		Six Months Ended June 30,	
(in millions, except per share data)	2018	2017	2018	2017
Basic and diluted				
Net income	$326	$203	$607	$405
Less:				
Income allocated to participating securities	2	1	4	3
Net income attributable to common shares	$324	$202	$603	$402
Basic average common shares	171	175	171	175

Basic net income per common share	$1.90	$1.15	$3.52	$2.30
Basic average common shares	171	175	171	175
Dilutive common stock equivalents:				
Net effect of the assumed exercise of stock options	2	3	2	3
Net effect of the assumed exercise of warrants	1	1	1	2
Diluted average common shares	174	179	174	180
Diluted net income per common share	$1.87	$1.13	$3.46	$2.24

There were no anti-dilutive options for any of the three- and six-month periods ended June 30, 2018 and 2017.

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NOTE 10 - EMPLOYEE BENEFIT PLANS
Net periodic defined benefit cost (credit) comprise services cost and other components of net benefit cost (credit). Service costs are included in salaries and benefits expense and other components of net benefit cost (credit) are included in other noninterest expenses on the Consolidated Statements of Comprehensive Income. For further information on the Corporation's employee benefit plans, refer to note 17 to the consolidated financial statements in the Corporation's 2017 Annual Report.
The components of net periodic benefit cost (credit) for the Corporation's qualified pension plan, non-qualified pension plan and postretirement benefit plan are as follows.

Qualified Defined Benefit Pension Plan	Three Months Ended June 30,		Six Months Ended June 30,	
(in millions)	2018	2017	2018	2017
Service cost	$ 8	$ 7	$ 15	$ 14
Other components of net benefit credit:				
Interest cost	18	19	37	39
Expected return on plan assets	(41)	(39)	(82)	(79)
Amortization of prior service credit	(4)	(4)	(9)	(9)
Amortization of net loss	12	10	25	21
Total other components of net benefit credit	(15)	(14)	(29)	(28)
Net periodic defined benefit credit	$ (7)	$ (7)	$ (14)	$ (14)

Non-Qualified Defined Benefit Pension Plan	Three Months Ended June 30,		Six Months Ended June 30,	
(in millions)	2018	2017	2018	2017
Service cost	$ 1	$ —	$ 1	$ 1
Other components of net benefit cost:				
Interest cost	2	2	4	4
Amortization of prior service credit	(3)	(2)	(5)	(4)
Amortization of net loss	3	2	5	4
Total other components of net benefit cost	2	2	4	4
Net periodic defined benefit cost	$ 3	$ 2	$ 5	$ 5

Postretirement Benefit Plan	Three Months Ended June 30,		Six Months Ended June 30,	
(in millions)	2018	2017	2018	2017
Other components of net benefit credit:				
Interest cost	$ —	$ —	$ 1	$ 1
Expected return on plan assets	(1)	—	(2)	(1)
Net periodic defined benefit credit	$ (1)	$ —	$ (1)	$ —

NOTE 11 - INCOME TAXES AND TAX-RELATED ITEMS
Net unrecognized tax benefits were $10 million at both June 30, 2018 and December 31, 2017. The Corporation anticipates it is reasonably possible that final settlements with tax authorities will result in a decrease in net

unrecognized tax benefits of $1 million within the next twelve months. The liability for tax-related interest and penalties included in accrued expenses and other liabilities was $10 million at both June 30, 2018 and December 31, 2017.

Net deferred tax assets were $169 million at June 30, 2018, compared to $141 million at December 31, 2017. The $28 million increase in net deferred tax assets resulted primarily from an increase in deferred tax assets related to unrealized losses on investment securities available-for-sale, partially offset by the decrease in the allowance for loan losses and an increase in deferred tax liabilities related to defined benefit pension plans. Included in deferred tax assets at both June 30, 2018 and December 31, 2017 were $4 million of state net operating loss carryforwards, which expire between 2018 and 2027. The Corporation believes it is more likely than not the benefit from certain of these state net operating loss carryforwards will not be realized and, accordingly, maintained a valuation allowance of $3 million at both June 30, 2018 and December 31, 2017.

In the ordinary course of business, the Corporation enters into certain transactions that have tax consequences. From time to time, the Internal Revenue Service (IRS) or other tax jurisdictions may review and/or challenge specific interpretive tax positions taken by the Corporation with respect to those transactions. The Corporation believes its tax returns were filed based upon applicable statutes, regulations and case law in effect at the time of the transactions. The IRS or other tax jurisdictions, an administrative authority or a court, if presented with the transactions, could disagree with the Corporation’s interpretation of the tax law.

Based on current knowledge and probability assessment of various potential outcomes, the Corporation believes the current tax reserves are adequate, and the amount of any potential incremental liability arising is not expected to have a material adverse effect on the Corporation's consolidated financial condition or results of operations. Probabilities and outcomes are reviewed as events unfold, and adjustments to the reserves are made when necessary.

NOTE 12 - CONTINGENT LIABILITIES

Legal Proceedings

As previously reported in the Corporation's Form 10-K for the year ended December 31, 2017 and Form 10-Q for the period ended March 31, 2018, Comerica Bank, a wholly owned subsidiary of the Corporation, was named in November 2011 as a third-party defendant in Butte Local Development v. Masters Group v. Comerica Bank ("the case"), for lender liability. The case was tried in January 2014, in the Montana Second District Judicial Court for Silver Bow County in Butte, Montana. On January 17, 2014, a jury awarded Masters $52 million against the Bank. On July 1, 2015, after an appeal filed by the Corporation, the Montana Supreme Court reversed the judgment against the Corporation and remanded the case for a new trial with instructions that Michigan contract law should apply and dismissing all other claims. The case was retried in the same district court, without a jury, in January 2017, and the Corporation awaits a ruling. Management believes current reserves related to this case are adequate in the event of a negative outcome.

The Corporation and certain of its subsidiaries are subject to various other pending or threatened legal proceedings arising out of the normal course of business or operations. The Corporation believes it has meritorious defenses to the claims asserted against it in its other currently outstanding legal proceedings and, with respect to such legal proceedings, intends to continue to defend itself vigorously, litigating or settling cases according to management's judgment as to what is in the best interests of the Corporation and its shareholders. Settlement may result from the Corporation's determination that it may be more prudent financially to settle, rather than litigate, and should not be regarded as an admission of liability. On at least a quarterly basis, the Corporation assesses its potential liabilities and contingencies in connection with outstanding legal proceedings utilizing the latest information available. On a case-by-case basis, reserves are established for those legal claims for which it is probable that a loss will be incurred either as a result of a settlement or judgment, and the amount of such loss can be reasonably estimated. The actual costs of resolving these claims may be substantially higher or lower than the amounts reserved. Based on current knowledge, and after consultation with legal counsel, management believes current reserves are adequate, and the amount of any incremental liability arising from these matters is not expected to have a material adverse effect on the Corporation's consolidated financial condition, results of operations or cash flows. Legal fees of $4 million and $5 million were included in other noninterest expenses for the three-month periods ended June 30, 2018 and 2017, respectively, and $7 million and $10 million for the six-month periods ended June 30, 2018 and 2017, respectively.

For matters where a loss is not probable, the Corporation has not established legal reserves. The Corporation believes the estimate of the aggregate range of reasonably possible losses, in excess of reserves established, for all legal proceedings in which it is involved is from zero to approximately $33 million at June 30, 2018. This estimated aggregate range of reasonably possible losses is based upon currently available information for those proceedings in which the Corporation is involved, taking into account the Corporation's best estimate of such losses for those cases for which such estimate can be made. For certain cases, the Corporation does not believe an estimate can currently be made. The Corporation's estimate involves significant judgment, given the varying stages of the proceedings (including the fact many are currently in preliminary stages), the existence in certain proceedings of multiple defendants (including the Corporation) whose share of liability has yet to be determined, the numerous yet-unresolved issues in many of the proceedings (including issues regarding class certification and the scope of many of the claims) and the attendant uncertainty of the various potential outcomes of such proceedings. Accordingly, the Corporation's estimate will change from time to time, and actual losses may be more or less than the current estimate.

In the event of unexpected future developments, it is possible the ultimate resolution of these matters, if unfavorable, may be material to the Corporation's consolidated financial condition, results of operations or cash flows.

For information regarding income tax contingencies, refer to note 11.

NOTE 13 - RESTRUCTURING CHARGES

The Corporation launched an initiative in 2016 designed to reduce overhead and increase revenue (the "GEAR Up" initiative). The actions in the initiative include, but are not limited to, a reduction in workforce, a new retirement program, streamlining operational processes, real estate optimization including consolidating banking centers as well as reducing office and operations space, selective outsourcing of technology functions, reduction of technology system applications, enhanced sales tools and training, expanded product offerings and improved customer analytics to drive opportunities.

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Certain actions associated with the GEAR Up initiative result in restructuring charges. Generally, costs associated with or incurred to generate revenue as part of the initiative are recorded according to the nature of the cost and are not included in restructuring charges. The Corporation considers the following costs associated with the initiative to be restructuring charges:

- Employee costs: Primarily severance costs in accordance with the Corporation’s severance plan.
- Facilities costs: Costs pertaining to consolidating banking centers and other facilities, such as lease termination costs and decommissioning costs. Also includes accelerated depreciation and impairment of owned property to be sold.
- Technology costs: Impairment and other costs associated with optimizing technology infrastructure and reducing the number of applications.
- Other costs: Includes primarily professional fees, as well as other contract termination fees and legal fees incurred in the execution of the initiative.

Restructuring charges are recorded as a component of noninterest expenses on the Consolidated Statements of Comprehensive Income. The following table presents changes in restructuring reserves, cumulative charges incurred to date and total expected restructuring charges:

(in millions)	Employee Costs	Facilities Costs	Technology Costs	Other Costs	Total
Three Months Ended June 30, 2018					
Balance at beginning of period	$ 10	$ —	$ 9	$ —	$ 19
Restructuring charges	—	1	10	—	11
Payments	(6)	(1)	(8)	—	(15)
Balance at end of period	$ 4	$ —	$ 11	$ —	$ 15
Three Months Ended June 30, 2017					
Balance at beginning of period	$ 7	$ —	$ 3	$ 3	$ 13
Restructuring charges	3	4	6	1	14
Payments	(4)	(4)	(4)	(2)	(14)
Adjustments for non-cash charges (a)	—	—	(2)	—	(2)
Balance at end of period	$ 6	$ —	$ 3	$ 2	$ 11
Six Months Ended June 30, 2018					
Balance at beginning of period	$ 8	$ —	$ 6	$ 1	$ 15
Restructuring charges	5	2	20	—	27
Payments	(9)	(2)	(15)	(1)	(27)
Balance at end of period	$ 4	$ —	$ 11	$ —	$ 15
Six Months Ended June 30, 2017					
Balance at beginning of period	$ 10	$ 4	$ —	$ 4	$ 18
Restructuring charges	4	5	12	4	25
Payments	(8)	(9)	(4)	(6)	(27)
Adjustments for non-cash charges (a)	—	—	(5)	—	(5)
Balance at end of period	$ 6	$ —	$ 3	$ 2	$ 11
Total restructuring charges incurred to date	$ 67	$ 19	$ 46	$ 33	$ 165
Total expected restructuring charges (b)	70	20	60 - 65	35	185 - 190

(a)

Adjustments for non-cash charges primarily relate to impairments of previously capitalized software costs in Technology Costs.

(b) Restructuring activities are expected to be substantially completed by 12/31/2018.

Restructuring charges directly attributable to a business segment are assigned to that business segment. Restructuring charges incurred by areas whose services support the overall Corporation are allocated based on the methodology described in note 22 to the consolidated financial statements in the Corporation's 2017 Annual Report. Total restructuring charges assigned to the Business Bank, Retail Bank and Wealth Management were $6 million, $4 million and $1 million, respectively, for the three months ended June 30, 2018 and $15 million, $9 million, and $3 million, respectively, for six months ended June 30, 2018. Total restructuring charges assigned to the Business Bank, Retail Bank and Wealth Management were $7 million, $4 million, and $3 million, respectively, for the three months ended June 30, 2017 and $13 million, $8 million, and $4 million, respectively, for the six months ended June 30, 2017. Remaining expected restructuring charges will be assigned to the business segments using the same methodology. Facilities costs pertaining to the consolidation of banking centers primarily impacted the Retail Bank.

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NOTE 14 - BUSINESS SEGMENT INFORMATION
The Corporation has strategically aligned its operations into three major business segments: the Business Bank, the Retail Bank and Wealth Management. These business segments are differentiated based on the type of customer and the related products and services provided. In addition to the three major business segments, the Finance Division is also reported as a segment. Business segment results are produced by the Corporation’s internal management accounting system. This system measures financial results based on the internal business unit structure of the Corporation. The performance of the business segments is not comparable with the Corporation's consolidated results and is not necessarily comparable with similar information for any other financial institution. Additionally, because of the interrelationships of the various segments, the information presented is not indicative of how the segments would perform if they operated as independent entities. The management accounting system assigns balance sheet and income statement items to each business segment using certain methodologies, which are regularly reviewed and refined. From time to time, the Corporation may make reclassifications among the segments to more appropriately reflect management's current view of the segments, and methodologies may be modified as the management accounting system is enhanced and changes occur in the organizational structure and/or product lines. For comparability purposes, amounts in all periods are based on business unit structure and methodologies in effect at June 30, 2018.
The following discussion provides information about the activities of each business segment. A discussion of the financial results and the factors impacting performance can be found in the section entitled "Business Segments" in the financial review.
The Business Bank meets the needs of middle market businesses, multinational corporations and governmental entities by offering various products and services, including commercial loans and lines of credit, deposits, cash management, capital market products, international trade finance, letters of credit, foreign exchange management services and loan syndication services.
The Retail Bank includes small business banking and personal financial services, consisting of consumer lending, consumer deposit gathering and mortgage loan origination. In addition to a full range of financial services provided to small business customers, this business segment offers a variety of consumer products, including deposit accounts, installment loans, credit cards, student loans, home equity lines of credit and residential mortgage loans.
Wealth Management offers products and services consisting of fiduciary services, private banking, retirement services, investment management and advisory services, investment banking and brokerage services. This business segment also offers the sale of annuity products, as well as life, disability and long-term care insurance products.
The Finance segment includes the Corporation’s securities portfolio and asset and liability management activities. This segment is responsible for managing the Corporation’s funding, liquidity and capital needs, performing interest sensitivity analysis and executing various strategies to manage the Corporation’s exposure to liquidity, interest rate risk and foreign exchange risk.
The Other category includes the income and expense impact of equity and cash, tax benefits not assigned to specific business segments, charges of an unusual or infrequent nature that are not reflective of the normal operations of the business segments and miscellaneous other expenses of a corporate nature.
For further information on the methodologies which form the basis for these results refer to note 23 to the consolidated financial statements in the Corporation's 2017 Annual Report.

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Business segment financial results are as follows:

(dollar amounts in millions) Three Months Ended June 30, 2018	Business Bank	Retail Bank	Wealth Management	Finance	Other	Total
Earnings summary:						
Net interest income	$341	$169	$ 40	$26	$14	$590
Provision for credit losses	(17)	(9)	1	—	(4)	(29)
Noninterest income	126	42	67	12	1	248
Noninterest expenses	182	178	75	(1)	14	448
Provision for income taxes	68	10	7	6	2 (a)	93
Net income	$234	$32	$ 24	$33	$3	$326
Net credit-related charge-offs (recoveries)	$—	$(4)	$ 1	$—	$—	$(3)
Selected average balances:						
Assets	$39,961	$6,412	$ 5,260	$13,735	$5,152	$70,520
Loans	38,332	5,766	5,127	—	—	49,225
Deposits	26,582	24,161	3,852	1,093	142	55,830
Statistical data:						
Return on average assets (b)	2.34 %	0.52 %	1.90 %	N/M	N/M	1.85 %
Efficiency ratio (c)	39.00	84.05	69.03	N/M	N/M	53.24

(dollar amounts in millions) Three Months Ended June 30, 2017	Business Bank	Retail Bank	Wealth Management	Finance	Other	Total
Earnings summary:						
Net interest income (expense)	$336	$162	$ 42	$(49)	$9	$500
Provision for credit losses	12	5	(2)	—	2	17
Noninterest income	152	48	64	10	2	276
Noninterest expenses	196	180	71	(1)	11	457
Provision (benefit) for income taxes	100	9	14	(17)	(7) (a)	99
Net income (loss)	$180	$16	$ 23	$(21)	$5	$203
Net credit-related charge-offs (recoveries)	$10	$9	$ (1)	$—	$—	$18
Selected average balances:						
Assets	$38,881	$6,487	$ 5,432	$13,936	$6,610	$71,346
Loans	37,580	5,865	5,278	—	—	48,723
Deposits	28,748	23,935	4,106	156	183	57,128
Statistical data:						
Return on average assets (b)	1.85 %	0.27 %	1.76 %	N/M	N/M	1.14 %
Efficiency ratio (c)	40.25	84.80	66.44	N/M	N/M	58.70

(a) Included tax benefits from employee stock transactions of $3 million and $5 million for the three months ended June 30, 2018 and 2017, respectively.

(b) Return on average assets is calculated based on the greater of average assets or average liabilities and attributed equity.

(c) Noninterest expenses as a percentage of the sum of net interest income and noninterest income excluding net securities gains (losses) and a derivative contract tied to the conversion rate of Visa Class B shares.

N/M – not meaningful

Notes to Consolidated Financial Statements (unaudited)
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(dollar amounts in millions) Six Months Ended June 30, 2018	Business Bank	Retail Bank	Wealth Management	Finance	Other	Total
Earnings summary:						
Net interest income	$671	$334	$ 81	$27	$26	$1,139
Provision for credit losses	(7)	(5)	(3)	—	(2)	(17)
Noninterest income	247	84	135	23	3	492
Noninterest expenses	366	355	147	(2)	28	894
Provision (benefit) for income taxes	127	16	17	7	(20)(a)	147
Net income	$432	$52	$ 55	$45	$23	$607
Net credit-related charge-offs (recoveries)	$18	$8	$ (1)	$—	$—	$25
Selected average balances:						
Assets	$39,438	$6,420	$ 5,316	$13,757	$5,492	$70,423
Loans	37,853	5,786	5,186	—	—	48,825
Deposits	26,946	24,112	3,824	959	118	55,959
Statistical data:						
Return on average assets (b)	2.21 %	0.42 %	2.10 %	N/M	N/M	1.74 %
Efficiency ratio (c)	39.85	84.54	68.06	N/M	N/M	54.74

(dollar amounts in millions) Six Months Ended June 30, 2017	Business Bank	Retail Bank	Wealth Management	Finance	Other	Total
Earnings summary:						
Net interest income (expense)	$668	$322	$ 83	$(120)	$17	$970
Provision for credit losses	22	17	(3)	—	(3)	33
Noninterest income	296	96	128	21	6	547
Noninterest expenses	393	359	141	(2)	23	914
Provision (benefit) for income taxes	192	15	27	(41)	(28)(a)	165
Net income	$357	$27	$ 46	$(56)	$31	$405
Net credit-related charge-offs (recoveries)	$40	$14	$ (3)	$—	$—	$51
Selected average balances:						
Assets	$38,488	$6,506	$ 5,419	$13,940	$7,228	$71,581
Loans	37,169	5,880	5,264	—	—	48,313
Deposits	29,196	23,866	4,042	149	199	57,452
Statistical data:						
Return on average assets (b)	1.87 %	0.22 %	1.73 %	N/M	N/M	1.14 %
Efficiency ratio (c)	40.82	85.40	66.81	N/M	N/M	60.17

(a) Included tax benefits from employee stock transactions of $22 million and $29 million for the six months ended June 30, 2018 and 2017, respectively.

(b) Return on average assets is calculated based on the greater of average assets or average liabilities and attributed equity.

(c) Noninterest expenses as a percentage of the sum of net interest income and noninterest income excluding net securities gains (losses) and a derivative contract tied to the conversion rate of Visa Class B shares.

N/M – not meaningful

The Corporation operates in three primary markets - Texas, California, and Michigan, as well as in Arizona and Florida, with select businesses operating in several other states, and in Canada and Mexico. The Corporation produces market segment results for the Corporation’s three primary geographic markets as well as Other Markets. Other Markets includes Florida, Arizona, the International Finance division and businesses with a national perspective. The Finance & Other category includes the Finance segment and the Other category as previously described. Market segment results are provided as supplemental information to the business segment results and may not meet all operating segment criteria as set forth in GAAP. For comparability purposes, amounts in all periods are based on market segments and methodologies in effect at June 30, 2018.

A discussion of the financial results and the factors impacting performance can be found in the section entitled "Market Segments" in the financial review.

Notes to Consolidated Financial Statements (unaudited)
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Market segment financial results are as follows:

(dollar amounts in millions) Three Months Ended June 30, 2018	Michigan	California	Texas	Other Markets	Finance & Other	Total
Earnings summary:						
Net interest income	$167	$183	$117	$83	$40	$590
Provision for credit losses	1	(9)	(15)	(2)	(4)	(29)
Noninterest income	73	42	30	90	13	248
Noninterest expenses	144	105	92	94	13	448
Provision for income taxes	22	32	16	15	8 (a)	93
Net income	$73	$97	$54	$66	$36	$326
Net credit-related charge-offs (recoveries)	$—	$—	$3	$(6)	$—	$(3)
Selected average balances:						
Assets	$13,427	$18,697	$10,439	$9,070	$18,887	$70,520
Loans	12,641	18,435	9,862	8,287	—	49,225
Deposits	20,904	16,642	8,967	8,082	1,235	55,830
Statistical data:						
Return on average assets (b)	1.37 %	2.06 %	2.08 %	2.93 %	N/M	1.85 %
Efficiency ratio (c)	59.77	46.94	62.17	53.72	N/M	53.24

(dollar amounts in millions) Three Months Ended June 30, 2017	Michigan	California	Texas	Other Markets	Finance & Other	Total
Earnings summary:						
Net interest income (expense)	$167	$178	$113	$82	$(40)	$500
Provision for credit losses	(2)	24	(15)	8	2	17
Noninterest income	81	45	33	105	12	276
Noninterest expenses	145	98	94	110	10	457
Provision (benefit) for income taxes	38	40	25	20	(24) (a)	99
Net income (loss)	$67	$61	$42	$49	$(16)	$203
Net credit-related charge-offs (recoveries)	$(1)	$8	$5	$6	$—	$18
Selected average balances:						
Assets	$13,371	$18,474	$10,481	$8,474	$20,546	$71,346
Loans	12,712	18,194	10,015	7,802	—	48,723
Deposits	21,698	17,344	9,632	8,115	339	57,128
Statistical data:						
Return on average assets (b)	1.20 %	1.33 %	1.52 %	2.24 %	N/M	1.14 %
Efficiency ratio (c)	58.18	43.85	64.39	58.59	N/M	58.70

(a) Included tax benefits from employee stock transactions of $3 million and $5 million for the three months ended June 30, 2018 and 2017, respectively.

(b) Return on average assets is calculated based on the greater of average assets or average liabilities and attributed equity.

(c) Noninterest expenses as a percentage of the sum of net interest income and noninterest income excluding net securities gains (losses) and a derivative contract tied to the conversion rate of Visa Class B shares.

N/M – not meaningful

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(dollar amounts in millions) Six Months Ended June 30, 2018	Michigan	California	Texas	Other Markets	Finance & Other	Total
Earnings summary:						
Net interest income	$336	$363	$226	$161	$53	$1,139
Provision for credit losses	34	(11)	(28)	(10)	(2)	(17)
Noninterest income	146	81	61	178	26	492
Noninterest expenses	288	211	184	185	26	894
Provision (benefit) for income taxes	38	62	30	30	(13)(a)	147
Net income	$122	$182	$101	$134	$68	$607
Net credit-related charge-offs (recoveries)	$(1)	$13	$8	$5	$—	$25
Selected average balances:						
Assets	$13,411	$18,639	$10,406	$8,718	$19,249	$70,423
Loans	12,623	18,391	9,846	7,965	—	48,825
Deposits	21,064	16,865	9,077	7,876	1,077	55,959
Statistical data:						
Return on average assets (b)	1.13 %	1.96 %	1.96 %	3.11 %	N/M	1.74 %
Efficiency ratio (c)	59.64	47.66	63.85	54.41	N/M	54.74

(dollar amounts in millions) Six Months Ended June 30, 2017	Michigan	California	Texas	Other Markets	Finance & Other	Total
Earnings summary:						
Net interest income (expense)	$337	$349	$226	$161	$(103)	$970
Provision for credit losses	(4)	45	(24)	19	(3)	33
Noninterest income	164	86	65	205	27	547
Noninterest expenses	295	194	188	216	21	914
Provision (benefit) for income taxes	75	76	47	36	(69)(a)	165
Net income (loss)	$135	$120	$80	$95	$(25)	$405
Net credit-related charge-offs (recoveries)	$(4)	$18	$27	$10	$—	$51
Selected average balances:						
Assets	$13,313	$18,217	$10,518	$8,365	$21,168	$71,581
Loans	12,650	17,938	10,062	7,663	—	48,313
Deposits	21,923	17,294	9,871	8,016	348	57,452
Statistical data:						
Return on average assets (b)	1.20 %	1.33 %	1.44 %	2.17 %	N/M	1.14 %
Efficiency ratio (c)	58.79	44.53	64.59	59.01	N/M	60.17

(a) Included tax benefits from employee stock transactions of $22 million and $29 million for the six months ended June 30, 2018 and 2017, respectively.

(b) Return on average assets is calculated based on the greater of average assets or average liabilities and attributed equity.

(c) Noninterest expenses as a percentage of the sum of net interest income and noninterest income excluding net securities gains (losses) and a derivative contract tied to the conversion rate of Visa Class B shares.

N/M – not meaningful

NOTE 15 - REVENUE FROM CONTRACTS WITH CUSTOMERS

Revenue from contracts with customers comprises the noninterest income earned by the Corporation in exchange for services provided to customers. The following table presents the composition of revenue from contracts with customers, segregated from other sources of noninterest income, by business segment.

(in millions)	Business Bank	Retail Bank	Wealth Management	Finance & Other	Total
Three Months Ended June 30, 2018					
Revenue from contracts with customers:					
Card fees (a)	$ 47	$ 12	$ 1	$ —	$60
Service charges on deposit accounts (a)	28	23	2	—	53
Fiduciary income	—	—	52	—	52
Commercial loan servicing fees (b)	5	—	—	—	5
Brokerage fees	—	—	6	—	6
Other noninterest income (c)	3	3	5	—	11
Total revenue from contracts with customers	83	38	66	—	187
Other sources of noninterest income	43	4	1	13	61
Total noninterest income	$ 126	$ 42	$ 67	$ 13	$248
Three Months Ended June 30, 2017					
Revenue from contracts with customers:					
Card fees	$ 65	$ 14	$ 1	$ —	$80
Service charges on deposit accounts	30	25	2	—	57
Fiduciary income	—	—	51	—	51
Commercial loan servicing fees (b)	6	—	—	—	6
Brokerage fees	—	—	6	—	6
Other noninterest income (c)	2	7	3	—	12
Total revenue from contracts with customers	103	46	63	—	212
Other sources of noninterest income	49	2	1	12	64
Total noninterest income	$ 152	$ 48	$ 64	$ 12	$276
Six Months Ended June 30, 2018					
Revenue from contracts with customers:					
Card fees (a)	$ 94	$ 23	$ 2	$ —	$119
Service charges on deposit accounts (a)	58	46	3	—	107
Fiduciary income	—	—	104	—	104
Commercial loan servicing fees (b)	9	—	—	—	9
Brokerage fees	—	—	13	—	13
Other noninterest income (c)	6	8	9	—	23
Total revenue from contracts with customers	167	77	131	—	375
Other sources of noninterest income	80	7	4	26	117
Total noninterest income	$ 247	$ 84	$ 135	$ 26	$492
Six Months Ended June 30, 2017					
Revenue from contracts with customers:					
Card fees	$ 129	$ 26	$ 2	$ —	$157
Service charges on deposit accounts	62	50	3	—	115

Fiduciary income	—	—	100	—	100
Commercial loan servicing fees (b)	9	—	—	—	9
Brokerage fees	—	—	11	—	11
Other noninterest income (c)	6	15	8	—	29
Total revenue from contracts with customers	206	91	124	—	421
Other sources of noninterest income	90	5	4	27	126
Total noninterest income	$ 296	$ 96	$ 128	$ 27	$547

(a) Adoption of Topic 606 resulted in a change in presentation which records certain costs in the same category as the associated revenues.
The effect of this change was to reduce card fees by $37 million and $71 million and service charges on deposit accounts by $1 million
and 2 million for three- and six-month periods ended June 30, 2018, respectively. Refer to note 1 for further information.
(b) Included in commercial lending fees on the Consolidated Statements of Comprehensive Income.
(c) Excludes derivative, warrant and other miscellaneous income.

Adjustments to revenue during the three- and six-month periods ended June 30, 2018 for refunds or credits relating to prior periods were not significant.
Revenue from contracts with customers did not generate significant contract assets and liabilities.

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ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations
FORWARD-LOOKING STATEMENTS
This report includes forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995. In addition, the Corporation may make other written and oral communications from time to time that contain such statements. All statements regarding the Corporation's expected financial position, strategies and growth prospects and general economic conditions expected to exist in the future are forward-looking statements. The words, "anticipates," "believes," "contemplates," "feels," "expects," "estimates," "seeks," "strives," "plans," "intends," "outlook," "forecast," "position," "target," "mission," "assume," "achievable," "potential," "strategy," "goal," "aspiration," "opportunity," "initiative," "outcome," "continue," "remain," "maintain," "on track," "trend," "objective," "looks forward," "projects," "models," and variations of such words and similar expressions, or future or conditional verbs such as "will," "would," "should," "could," "might," "can," "may" or similar expressions, as they relate to the Corporation or its management, are intended to identify forward-looking statements. These forward-looking statements are predicated on the beliefs and assumptions of the Corporation's management based on information known to the Corporation's management as of the date of this report and do not purport to speak as of any other date. Forward-looking statements may include descriptions of plans and objectives of the Corporation's management for future or past operations, products or services, including the GEAR Up initiative, and forecasts of the Corporation's revenue, earnings or other measures of economic performance, including statements of profitability, business segments and subsidiaries as well as estimates of the economic benefits of the GEAR Up initiative, estimates of credit trends and global stability. Such statements reflect the view of the Corporation's management as of this date with respect to future events and are subject to risks and uncertainties. Should one or more of these risks materialize or should underlying beliefs or assumptions prove incorrect, the Corporation's actual results could differ materially from those discussed. Factors that could cause or contribute to such differences are changes in general economic, political or industry conditions; changes in monetary and fiscal policies; whether the Corporation may achieve opportunities for revenue enhancements and efficiency improvements under the GEAR Up initiative, or changes in the scope or assumptions underlying the GEAR Up initiative; operational difficulties, failure of technology infrastructure or information security incidents; reliance on other companies to provide certain key components of business infrastructure; the Corporation's ability to maintain adequate sources of funding and liquidity; the effects of more stringent capital or liquidity requirements; declines or other changes in the businesses or industries of the Corporation's customers; unfavorable developments concerning credit quality; changes in regulation or oversight; changes in the financial markets, including fluctuations in interest rates and their impact on deposit pricing; transitions away from LIBOR towards new interest rate benchmarks; reductions in the Corporation's credit rating; damage to the Corporation's reputation; the Corporation's ability to utilize technology to efficiently and effectively develop, market and deliver new products and services; competitive product and pricing pressures among financial institutions within the Corporation's markets; the interdependence of financial service companies; the implementation of the Corporation's strategies and business initiatives; changes in customer behavior; management's ability to maintain and expand customer relationships; the effectiveness of methods of reducing risk exposures; the effects of catastrophic events including, but not limited to, hurricanes, tornadoes, earthquakes, fires, droughts and floods; the effects of recent tax reform and potential legislative, administrative or judicial changes or interpretations related to these and other tax regulations; any future strategic acquisitions or divestitures; management's ability to retain key officers and employees; the impact of legal and regulatory proceedings or determinations; the effects of terrorist activities and other hostilities; changes in accounting standards; the critical nature of the Corporation's accounting policies and the volatility of the Corporation’s stock price. The Corporation cautions that the foregoing list of factors is not all-inclusive. For discussion of factors that may cause actual results to differ from expectations, please refer to our filings with the Securities and Exchange Commission. In particular, please refer to “Item 1A. Risk Factors” beginning on page 11 of the Corporation's Annual Report on Form 10-K for the year ended December 31, 2017. Forward-looking statements speak only as of the date they are made. The Corporation does not undertake to update forward-looking statements to reflect facts, circumstances, assumptions or events that occur after the date the forward-looking statements are made. For any forward-looking statements made in this report or in any documents, the Corporation claims the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995.

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RESULTS OF OPERATIONS

Net income for the three months ended June 30, 2018 was $326 million, an increase of $123 million from $203 million reported for the three months ended June 30, 2017. Net income per diluted common share for the same respective periods was $1.87 compared to $1.13. Management of loan and deposit pricing in a rising rate environment, improved credit quality, successful execution of GEAR Up initiatives and a decrease in the federal statutory tax rate in 2018 resulting from the Tax Cuts and Jobs Act contributed to the increase in net income. Net income included tax benefits from employee stock transactions of $3 million (2 cents per share) and $5 million (3 cents per share) for the three months ended June 30, 2018 and 2017, respectively. After-tax restructuring charges were $9 million (5 cents per share) in both periods.

Net income for the six months ended June 30, 2018 was $607 million, an increase of $202 million from $405 million reported for the six months ended June 30, 2017. Net income per diluted common share for the same respective periods was $3.46 compared to $2.24. Net income for the six months ended June 30, 2018 included $22 million of tax benefits from employee stock transactions (13 cents per share), $21 million of restructuring charges, after-tax, (12 cents per share) and a $3 million deferred tax benefit resulting from the Tax Cut and Jobs Act (1 cent per share). Net income for the six months ended June 30, 2017 included tax benefits from employee stock transactions of $29 million (16 cents per share) and a $16 million after-tax impact from restructuring charges (9 cents per share).

Growth in Efficiency and Revenue Initiative

Since the GEAR Up initiative was launched in 2016, the Corporation has consolidated 38 banking centers, implemented a new retirement program resulting in a significant reduction in retirement plan expense and reduced the number of full-time equivalent employees by over 900, including a reduction of approximately 100 in the first six months of 2018, among other initiatives. The impact of increases in short-term rates and the execution of certain GEAR Up initiatives helped lower the efficiency ratio to 53.2 percent and 54.7 percent for the three- and six-month periods ended June 30, 2018, respectively, and increase return on equity to 16.4 percent and 15.4 percent for the same periods, respectively. The Corporation anticipates cumulative benefits to pre-tax income from GEAR Up initiatives of approximately $270 million and $305 million for full-year 2018 and 2019, respectively, relative to when the initiative was announced. For further details on anticipated additional benefits, refer to page F-5 of the Corporation's 2017 Annual Report.

Total pre-tax restructuring charges for 2018 are expected to range from $47 million to $52 million with no restructuring charges anticipated beyond 2018. Cumulative restructuring charges from inception of GEAR Up through 2018 are expected to range from $185 million to $190 million. For additional information regarding restructuring charges, refer to note 13 to the consolidated financial statements.

2018 Second-Half Outlook

For the second half of 2018, management expects the following, assuming a continuation of the current economic and rate environment as well as the benefits from the GEAR Up initiative:

- Moderate growth in average loans
  - Growth in most lines of business with a slower pace in general Middle Market, National Dealer Services and Mortgage Banker Finance due to seasonality.
  - Energy and Corporate Banking to remain stable.
- Net interest income higher, reflecting recent rate increases, loan growth and three additional days.
  - Full-year 2018 net benefit of $70 million from the first quarter 2018 rate increase and $35 million to $40 million from the second quarter 2018 rate increase.
  - Elevated interest recoveries not expected to repeat ($11 million in second quarter 2018).
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