COMERICA INC /NEW/
Form 10-Q
August 01, 2016
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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, 2016
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, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer,” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer ý	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company 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 26, 2016: 173,902,572 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, 2016 (unaudited)	December 31, 2015
ASSETS		
Cash and due from banks	$ 1,172	$ 1,157
Interest-bearing deposits with banks	2,938	4,990
Other short-term investments	100	113
Investment securities available-for-sale	10,712	10,519
Investment securities held-to-maturity	1,807	1,981
Commercial loans	32,360	31,659
Real estate construction loans	2,553	2,001
Commercial mortgage loans	9,038	8,977
Lease financing	684	724
International loans	1,365	1,368
Residential mortgage loans	1,856	1,870
Consumer loans	2,524	2,485
Total loans	50,380	49,084
Less allowance for loan losses	(729)	(634)
Net loans	49,651	48,450
Premises and equipment	544	550
Accrued income and other assets	4,356	4,117
Total assets	$ 71,280	$ 71,877
LIABILITIES AND SHAREHOLDERS' EQUITY		
Noninterest-bearing deposits	$ 28,559	$ 30,839
Money market and interest-bearing checking deposits	22,539	23,532
Savings deposits	2,022	1,898
Customer certificates of deposit	3,230	3,552
Foreign office time deposits	24	32
Total interest-bearing deposits	27,815	29,014
Total deposits	56,374	59,853
Short-term borrowings	12	23
Accrued expenses and other liabilities	1,279	1,383
Medium- and long-term debt	5,921	3,058
Total liabilities	63,586	64,317
Common stock - $5 par value:		
Authorized - 325,000,000 shares		
Issued - 228,164,824 shares	1,141	1,141
Capital surplus	2,165	2,173

Accumulated other comprehensive loss	(295)	(429)
Retained earnings	7,157	7,084
Less cost of common stock in treasury - 54,247,325 shares at 6/30/16 and 52,457,113 shares at 12/31/15	(2,474)	(2,409)
Total shareholders’ equity	7,694	7,560
Total liabilities and shareholders’ equity	$ 71,280	$ 71,877

See notes to consolidated financial statements.

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CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (unaudited)
Comerica Incorporated and Subsidiaries

	Three Months Ended June 30,		Six Months Ended June 30,	
(in millions, except per share data)	2016	2015	2016	2015
INTEREST INCOME				
Interest and fees on loans	$406	$388	$812	$766
Interest on investment securities	62	53	124	106
Interest on short-term investments	5	3	9	7
Total interest income	473	444	945	879
INTEREST EXPENSE				
Interest on deposits	10	11	20	22
Interest on medium- and long-term debt	18	12	33	23
Total interest expense	28	23	53	45
Net interest income	445	421	892	834
Provision for credit losses	49	47	197	61
Net interest income after provision for credit losses	396	374	695	773
NONINTEREST INCOME				
Card fees	77	69	151	132
Service charges on deposit accounts	55	56	110	111
Fiduciary income	49	48	95	95
Commercial lending fees	22	22	42	47
Letter of credit fees	13	13	26	26
Bank-owned life insurance	9	10	18	19
Foreign exchange income	11	9	21	19
Brokerage fees	5	4	9	8
Net securities losses	(1)	—	(3)	(2)
Other noninterest income	29	27	46	54
Total noninterest income	269	258	515	509
NONINTEREST EXPENSES				
Salaries and benefits expense	247	251	495	504
Outside processing fee expense	84	83	163	156
Net occupancy expense	39	39	77	77
Equipment expense	14	13	27	26
Restructuring charges	53	—	53	—
Software expense	30	24	59	47
FDIC insurance expense	14	9	25	18
Advertising expense	6	5	10	11
Litigation-related expense	—	(30)	—	(29)
Other noninterest expenses	32	39	70	78
Total noninterest expenses	519	433	979	888
Income before income taxes	146	199	231	394
Provision for income taxes	42	64	67	125
NET INCOME	104	135	164	269
Less income allocated to participating securities	1	1	2	3
Net income attributable to common shares	$103	$134	$162	$266
Earnings per common share:				

Basic	$0.60	$0.76	$0.94	$1.51
Diluted	0.58	0.73	0.92	1.46
Comprehensive income	137	109	298	285
Cash dividends declared on common stock	38	37	75	73
Cash dividends declared per common share	0.22	0.21	0.43	0.41

See notes to consolidated financial statements.

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CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (unaudited)
Comerica Incorporated and Subsidiaries

(in millions, except per share data)	Common Stock Shares Outstanding	Common Stock Amount	Capital Surplus	Accumulated Other Comprehensive Loss	Retained Earnings	Treasury Stock	Total Shareholders' Equity
BALANCE AT DECEMBER 31, 2014	179.0	$ 1,141	$ 2,188	$ (412)	$ 6,744	$ (2,259)	$ 7,402
Net income	—	—	—	—	269	—	269
Other comprehensive income, net of tax	—	—	—	16	—	—	16
Cash dividends declared on common stock ($0.41 per share)	—	—	—	—	(73)	—	(73)
Purchase of common stock	(2.5)	—	—	—	—	(115)	(115)
Purchase and retirement of warrants	—	—	(10)	—	—	—	(10)
Net issuance of common stock under employee stock plans	0.9	—	(23)	—	(10)	43	10
Net issuance of common stock for warrants	1.0	—	(21)	—	(22)	43	—
Share-based compensation	—	—	24	—	—	—	24
BALANCE AT JUNE 30, 2015	178.4	$ 1,141	$ 2,158	$ (396)	$ 6,908	$ (2,288)	$ 7,523
BALANCE AT DECEMBER 31, 2015	175.7	$ 1,141	$ 2,173	$ (429)	$ 7,084	$ (2,409)	$ 7,560
Net income	—	—	—	—	164	—	164
Other comprehensive income, net of tax	—	—	—	134	—	—	134
Cash dividends declared on common stock ($0.43 per share)	—	—	—	—	(75)	—	(75)
Purchase of common stock	(2.9)	—	—	—	—	(114)	(114)
Net issuance of common stock under employee stock plans	1.1	—	(33)	—	(16)	49	—
Share-based compensation	—	—	25	—	—	—	25
BALANCE AT JUNE 30, 2016	173.9	$ 1,141	$ 2,165	$ (295)	$ 7,157	$ (2,474)	$ 7,694

See notes to consolidated financial statements.

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

(in millions)	Six Months Ended June 30, 2016	2015
OPERATING ACTIVITIES		
Net income	$164	$269
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for credit losses	197	61
Benefit for deferred income taxes	(52)	(25)
Depreciation and amortization	59	60
Net periodic defined benefit cost	7	23
Share-based compensation expense	25	24
Net amortization of securities	4	8
Accretion of loan purchase discount	(3)	(4)
Net securities losses	3	2
Net gains on sales of foreclosed property	(2)	(1)
Excess tax benefits from share-based compensation arrangements	(1)	(3)
Net change in:		
Accrued income receivable	(7)	(4)
Accrued expenses payable	40	(83)
Other, net	(195)	67
Net cash provided by operating activities	239	394
INVESTING ACTIVITIES		
Investment securities available-for-sale:		
Maturities and redemptions	736	842
Sales	14	37
Purchases	(756)	(1,055)
Investment securities held-to-maturity:		
Maturities and redemptions	175	153
Purchases	—	(166)
Net change in loans	(1,392)	(1,188)
Proceeds from sales of foreclosed property	11	5
Net increase in premises and equipment	(54)	(54)
Purchases of Federal Home Loan Bank stock	(115)	—
Other, net	1	2
Net cash used in investing activities	(1,380)	(1,424)
FINANCING ACTIVITIES		
Net change in:		
Deposits	(3,509)	971
Short-term borrowings	(11)	(60)
Medium- and long-term debt:		
Maturities	—	(306)
Issuances	2,800	497
Common stock:		
Repurchases	(114)	(115)
Cash dividends paid	(74)	(72)
Issuances under employee stock plans	12	18

Purchase and retirement of warrants	—	(10)
Excess tax benefits from share-based compensation arrangements	1	3
Other, net	(1)	(2)
Net cash (used in) provided by financing activities	(896)	924
Net decrease in cash and cash equivalents	(2,037)	(106)
Cash and cash equivalents at beginning of period	6,147	6,071
Cash and cash equivalents at end of period	$4,110	$5,965
Interest paid	$51	$45
Income taxes paid (refunds received)	15	(11)
Noncash investing and financing activities:		
Loans transferred to other real estate	19	4
Loans transferred from portfolio to held-for-sale	—	19
Loans transferred from held-for-sale to portfolio	10	—

See notes to consolidated financial statements.

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

NOTE 1 - BASIS OF PRESENTATION AND ACCOUNTING POLICIES

Organization

The accompanying unaudited consolidated financial statements were prepared in accordance with United States (U.S.) generally accepted accounting principles (GAAP) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, the statements do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation were included. The results of operations for the six months ended June 30, 2016 are not necessarily indicative of the results that may be expected for the year ending December 31, 2016. 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, 2015.

Recently Issued Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-02, “Leases (Topic 842),” (ASU 2016-02), to increase the transparency and comparability of lease recognition and disclosure. The update 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. For lessors, the update makes targeted changes to the classification criteria and the lessor accounting model to align the guidance with the new lessee model and revenue guidance. ASU 2016-02 is effective for the Corporation on January 1, 2019 and must be applied using the modified retrospective approach. Early adoption is permitted. The Corporation is currently evaluating the impact of adopting ASU 2016-02.

In March 2016, the FASB issued ASU No. 2016-09, “Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payments Accounting,” (ASU 2016-09), which intends to simplify accounting for share based payment transactions, including the income tax consequences and classification of awards. Among other items, the update requires excess tax benefits and deficiencies to be recognized as a component of income taxes within the income statement rather than other comprehensive income as required in current guidance. ASU 2016-09 is effective for the Corporation on January 1, 2017. The recognition of excess tax benefits and deficiencies in the income statement must be adopted prospectively. The method of transition required will differ for other items being amended. Early adoption is permitted. The impact to the Corporation upon adoption is dependent on the market value per share of the Corporation's common stock at option expiration dates and restricted stock vesting dates.

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 allowance. 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 is currently evaluating the impact of adopting ASU 2016-13.

NOTE 2 – FAIR VALUE MEASUREMENTS

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

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

Refer to Note 1 to the consolidated financial statements in the Corporation's Annual Report on Form 10-K for the year ended December 31, 2015 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

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

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

ASSETS AND LIABLILITIES 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, 2016 and December 31, 2015.

(in millions)	Total	Level 1	Level 2	Level 3	
June 30, 2016					
Trading securities:					
Deferred compensation plan assets	$87	$87	$—	$ —	
Equity and other non-debt securities	3	3	—	—	
Total trading securities	90	90	—	—	
Investment securities available-for-sale:					
U.S. Treasury and other U.S. government agency securities	2,843	2,843	—	—	
Residential mortgage-backed securities (a)	7,680	—	7,680	—	
State and municipal securities	8	—	—	8	(b)
Corporate debt securities	1	—	—	1	(b)
Equity and other non-debt securities	180	132	—	48	(b)
Total investment securities available-for-sale	10,712	2,975	7,680	57	
Derivative assets:					
Interest rate contracts	459	—	432	27	
Energy derivative contracts	242	—	242	—	
Foreign exchange contracts	61	—	61	—	
Warrants	2	—	—	2	
Total derivative assets	764	—	735	29	
Total assets at fair value	$11,566	$3,065	$8,415	$ 86	
Derivative liabilities:					
Interest rate contracts	$204	$—	$204	$ —	
Energy derivative contracts	240	—	240	—	
Foreign exchange contracts	45	—	45	—	
Total derivative liabilities	489	—	489	—	
Deferred compensation plan liabilities	87	87	—	—	
Total liabilities at fair value	$576	$87	$489	$ —	

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

(b) Auction-rate securities.

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

(in millions)	Total	Level 1	Level 2	Level 3	
December 31, 2015					
Trading securities:					
Deferred compensation plan assets	$89	$89	$—	$ —	
Equity and other non-debt securities	3	3	$—	$ —	
Total trading securities	92	92	—	—	
Investment securities available-for-sale:					
U.S. Treasury and other U.S. government agency securities	2,763	2,763	—	—	
Residential mortgage-backed securities (a)	7,545	—	7,545	—	
State and municipal securities	9	—	—	9	(b)
Corporate debt securities	1	—	—	1	(b)
Equity and other non-debt securities	201	134	—	67	(b)
Total investment securities available-for-sale	10,519	2,897	7,545	77	
Derivative assets:					
Interest rate contracts	286	—	277	9	
Energy derivative contracts	475	—	475	—	
Foreign exchange contracts	57	—	57	—	
Warrants	2	—	—	2	
Total derivative assets	820	—	809	11	
Total assets at fair value	$11,431	$2,989	$8,354	$ 88	
Derivative liabilities:					
Interest rate contracts	$92	$—	$92	$ —	
Energy derivative contracts	472	—	472	—	
Foreign exchange contracts	46	—	46	—	
Total derivative liabilities	610	—	610	—	
Deferred compensation plan liabilities	89	89	—	—	
Total liabilities at fair value	$699	$89	$610	$ —	

(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, 2016 and 2015.

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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, 2016 and 2015.

(in millions)	Balance at Beginning of Period	Net Realized/Unrealized Gains (Losses) (Pretax) Recorded in Earnings: Realized	Net Realized/Unrealized Gains (Losses) (Pretax) Recorded in Earnings: Unrealized	Recorded in Other Comprehensive Income	Sales	Balance at End of Period
Three Months Ended June 30, 2016						
Investment securities available-for-sale:						
State and municipal securities (a)	$ 9	$ —	$ —	$ —	$ (1)	$ 8
Corporate debt securities (a)	1	—	—	—	—	1
Equity and other non-debt securities (a)	51	—	—	(3) (b)	—	48
Total investment securities available-for-sale	61	—	—	(3) (b)	(1)	57
Derivative assets:						
Interest rate contracts	20	—	7 (c)	—	—	27
Warrants	2	—	1 (c)	—	(1)	2
Three Months Ended June 30, 2015						
Investment securities available-for-sale:						
State and municipal securities (a)	$ 23	$ —	$ —	$ —	$ —	$ 23
Corporate debt securities (a)	1	—	—	—	—	1
Equity and other non-debt securities (a)	71	—	—	—	—	71
Total investment securities available-for-sale	95	—	—	—	—	95
Derivative assets:						
Interest rate contracts	11	—	(9) (c)	—	—	2
Warrants	3	1 (c)	—	—	(1)	3
Six Months Ended June 30, 2016						
Investment securities available-for-sale:						
State and municipal securities (a)	$ 9	$ —	$ —	$ —	$ (1)	$ 8
Corporate debt securities (a)	1	—	—	—	—	1
Equity and other non-debt securities (a)	67	—	—	(4) (b)	(15)	48
Total investment securities available-for-sale	77	—	—	(4) (b)	(16)	57
Derivative assets:						
Interest rate contracts	9	—	18 (c)	—	—	27
Warrants	2	—	1 (c)	—	(1)	2
Six Months Ended June 30, 2015						
Investment securities available-for-sale:						
State and municipal securities (a)	$ 23	$ —	$ —	$ —	$ —	$ 23
Corporate debt securities (a)	1	—	—	—	—	1
Equity and other non-debt securities (a)	112	(2) (d)	—	1 (b)	(40)	71
Total investment securities available-for-sale	136	(2) (d)	—	1 (b)	(40)	95
Derivative assets:						
Interest rate contracts	—	—	2 (c)	—	—	2
Warrants	4	1 (c)	(1) (c)	—	(1)	3

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

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

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

ASSETS AND LIABILITIES RECORDED AT FAIR VALUE ON A NONRECURRING BASIS

The Corporation may be required, from time to time, to record certain assets and liabilities at fair value on a nonrecurring basis. These include assets that are recorded at the lower of cost or fair value that were recognized at fair value below cost at the end of the period. The following table presents assets recorded at fair value on a nonrecurring basis at June 30, 2016 and December 31, 2015. No liabilities were recorded at fair value on a nonrecurring basis at June 30, 2016 and December 31, 2015.

(in millions)	Total	Level 2	Level 3
June 30, 2016			
Loans held-for-sale:			
Commercial	$5	$ 5	$ —
Loans:			
Commercial	381	—	381
Commercial mortgage	9	—	9
International	18	—	18
Total loans	408	—	408
Other real estate	1	—	1
Total assets at fair value	$414	$ 5	$ 409
December 31, 2015			
Loans held-for-sale:			
Commercial	$8	$ 8	$ —
Loans:			
Commercial	134	—	134
Commercial mortgage	11	—	11
International	8	—	8
Total loans	153	—	153
Other real estate	2	—	2
Total assets at fair value excluding investments recorded at net asset value	163	8	155
Other investments recorded at net asset value:			
Nonmarketable equity securities (a)	1		
Total assets at fair value	$164		

(a) 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.

Level 3 assets recorded at fair value on a nonrecurring basis at June 30, 2016 and December 31, 2015 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.

The Corporation's Level 3 recurring fair value measurements primarily include auction-rate securities where fair value is determined using an income approach based on a discounted cash flow model and certain interest rate derivative contracts where credit valuation adjustments are significant to the overall fair value of the derivative. The inputs in the table below reflect management's expectation of continued illiquidity in the secondary auction-rate securities market due to a lack of market activity for the issuers remaining in the portfolio, a lack of market incentives for issuer redemptions, and the expectation for a continuing low interest rate environment. The June 30, 2016 workout periods reflect the view that short-term interest rates could rise at a slower pace in 2016 than was expected at December 31, 2015.

			Discounted Cash Flow Model Unobservable Input	
	Fair Value (in millions)		Discount Rate	Workout Period (in years)
June 30, 2016				
State and municipal securities (a)	$	8	4% - 6%	1 - 3
Equity and other non-debt securities (a)	48		6% - 10%	1 - 2
December 31, 2015				
State and municipal securities (a)	$	9	3% - 8%	1 - 2
Equity and other non-debt securities (a)	67		4% - 9%	1

(a) Auction-rate securities.

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

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

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

		Estimated Fair Value			
(in millions)	Carrying Amount	Total	Level 1	Level 2	Level 3
June 30, 2016					
Assets					
Cash and due from banks	$ 1,172	$ 1,172	$ 1,172	$ —	$ —
Interest-bearing deposits with banks	2,938	2,938	2,938	—	—
Investment securities held-to-maturity	1,807	1,834	—	1,834	—
Loans held-for-sale (a)	10	10	—	10	—
Total loans, net of allowance for loan losses (b)	49,651	49,614	—	—	49,614
Customers' liability on acceptances outstanding	4	4	4	—	—
Restricted equity investments	207	207	207	—	—
Nonmarketable equity securities (c) (d)	10	16			
Liabilities					
Demand deposits (noninterest-bearing)	28,559	28,559	—	28,559	—
Interest-bearing deposits	24,585	24,585	—	24,585	—
Customer certificates of deposit	3,230	3,221	—	3,221	—
Total deposits	56,374	56,365	—	56,365	—
Short-term borrowings	12	12	12	—	—
Acceptances outstanding	4	4	4	—	—
Medium- and long-term debt	5,921	5,863	—	5,863	—
Credit-related financial instruments	(79)	(79)	—	—	(79)
December 31, 2015					
Assets					
Cash and due from banks	$ 1,157	$ 1,157	$ 1,157	$ —	$ —
Interest-bearing deposits with banks	4,990	4,990	4,990	—	—
Investment securities held-to-maturity	1,981	1,973	—	1,973	—
Loans held-for-sale (a)	21	21	—	21	—
Total loans, net of allowance for loan losses (b)	48,450	48,269	—	—	48,269
Customers' liability on acceptances outstanding	5	5	5	—	—
Restricted equity investments	92	92	92	—	—
Nonmarketable equity securities (c) (d)	10	18			
Liabilities					
Demand deposits (noninterest-bearing)	30,839	30,839	—	30,839	—
Interest-bearing deposits	25,462	25,462	—	25,462	—
Customer certificates of deposit	3,552	3,536	—	3,536	—
Total deposits	59,853	59,837	—	59,837	—
Short-term borrowings	23	23	23	—	—
Acceptances outstanding	5	5	5	—	—
Medium- and long-term debt	3,058	3,032	—	3,032	—
Credit-related financial instruments	(83)	(83)	—	—	(83)

(a) Included $5 million and $8 million impaired loans held-for-sale recorded at fair value on a nonrecurring basis at June 30, 2016 and December 31, 2015, respectively.

(b) Included $408 million and $153 million of impaired loans recorded at fair value on a nonrecurring basis at June 30, 2016 and December 31, 2015, respectively.

(c) Included $1 million of nonmarketable equity securities recorded at fair value on a nonrecurring basis at December 31, 2015.

(d) 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, 2016				
Investment securities available-for-sale:				
U.S. Treasury and other U.S. government agency securities	$ 2,770	$ 73	$ —	$ 2,843
Residential mortgage-backed securities (a)	7,532	152	4	7,680
State and municipal securities	8	—	—	8
Corporate debt securities	1	—	—	1
Equity and other non-debt securities	182	1	3	180
Total investment securities available-for-sale (b)	$ 10,493	$ 226	$ 7	$ 10,712
Investment securities held-to-maturity (c):				
Residential mortgage-backed securities (a)	$ 1,807	$ 27	$ —	$ 1,834
December 31, 2015				
Investment securities available-for-sale:				
U.S. Treasury and other U.S. government agency securities	$ 2,769	$ 1	$ 7	$ 2,763
Residential mortgage-backed securities (a)	7,513	76	44	7,545
State and municipal securities	9	—	—	9
Corporate debt securities	1	—	—	1
Equity and other non-debt securities	199	2	—	201
Total investment securities available-for-sale (b)	$ 10,491	$ 79	$ 51	$ 10,519
Investment securities held-to-maturity (c):				
Residential mortgage-backed securities (a)	$ 1,981	$ 2	$ 10	$ 1,973

(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 $60 million and $57 million, respectively as of June 30, 2016 and $76 million and $77 million, respectively, as of December 31, 2015.

(c) The amortized cost of investment securities held-to-maturity included net unrealized losses of $14 million at June 30, 2016 and $15 million at December 31, 2015 related to securities transferred from available-for-sale, which are included in accumulated other comprehensive loss.

A summary of the Corporation's investment securities in an unrealized loss position as of June 30, 2016 and December 31, 2015 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, 2016						
Residential mortgage-backed securities (a)	$36	$ — (c)	$ 1,357	$ 11	$1,393	$ 11
State and municipal securities (b)	—	—	8	— (c)	8	— (c)
Corporate debt securities (b)	—	—	1	— (c)	1	— (c)
Equity and other non-debt securities (b)	49	3	—	—	49	3
Total temporarily impaired securities	$85	$ 3	$ 1,366	$ 11	$1,451	$ 14
December 31, 2015						
	$2,265	$ 7	$ —	$ —	$2,265	$ 7

U.S. Treasury and other U.S. government agency securities						
Residential mortgage-backed securities (a)	2,665	21	1,976	51	4,641	72
State and municipal securities (b)	—	—	9	— (c)	9	— (c)
Corporate debt securities (b)	—	—	1	— (c)	1	— (c)
Equity and other non-debt securities (b)	14	— (c)	—	—	14	— (c)
Total temporarily impaired securities	$4,944	$ 28	$ 1,986	$ 51	$6,930	$ 79

(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, 2016, the Corporation had 86 securities in an unrealized loss position with no credit impairment, including 41 residential mortgage-backed securities, 29 auction-rate preferred securities, 15 state and municipal auction-rate securities, and one corporate auction-rate debt security. As of June 30, 2016, approximately 95 percent of the aggregate par value of auction-rate securities have been redeemed or sold since acquisition, of which approximately 90 percent were redeemed at or above cost. The unrealized losses for these securities resulted from changes in market interest rates and liquidity. The Corporation ultimately expects full collection of the carrying amount of these securities, does not intend to sell the securities in an unrealized loss position, and it is not more-likely-than-not that the Corporation will be required to sell the securities in an unrealized loss position prior to recovery of amortized cost. The Corporation does not consider these securities to be other-than-temporarily impaired at June 30, 2016.

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

(in millions)	Three Months Ended June 30, 2016	Three Months Ended June 30, 2015	Six Months Ended June 30, 2016	Six Months Ended June 30, 2015
Securities gains	$ —	$ —	$ —	$ —
Securities losses	(1)	—	(3)	(2)
Net securities losses	$ (1)	$ —	$ (3)	$ (2)

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)	Available-for-sale		Held-to-maturity	
June 30, 2016	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Contractual maturity				
Within one year	$ 10	$ 10	$ —	$ —
After one year through five years	2,925	3,000	—	—
After five years through ten years	1,393	1,450	—	—
After ten years	5,983	6,072	1,807	1,834
Subtotal	10,311	10,532	1,807	1,834
Equity and other non-debt securities	182	180		
Total investment securities	$ 10,493	$ 10,712	$ 1,807	$ 1,834

Included in the contractual maturity distribution in the table above were residential mortgage-backed securities available-for-sale with total amortized cost and fair value of $7.5 billion and $7.7 billion, respectively, and residential mortgage-backed securities held-to-maturity with a total amortized cost and fair value of $1.8 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, 2016, investment securities with a carrying value of $1.9 billion were pledged where permitted or required by law to secure $1.4 billion 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.

	Loans Past Due and Still Accruing						
(in millions)	30-59 Days	60-89 Days	90 Days or More	Total	Nonaccrual Loans	Current Loans	Total Loans
June 30, 2016							
Business loans:							
Commercial	$ 51	$ 4	$ 8	$ 63	$ 482	$31,815	$32,360
Real estate construction:							
Commercial Real Estate business line (a)	—	—	—	—	—	2,197	2,197
Other business lines (b)	—	—	—	—	—	356	356
Total real estate construction	—	—	—	—	—	2,553	2,553
Commercial mortgage:							
Commercial Real Estate business line (a)	4	—	1	5	8	2,223	2,236
Other business lines (b)	12	3	3	18	36	6,748	6,802
Total commercial mortgage	16	3	4	23	44	8,971	9,038
Lease financing	—	—	—	—	6	678	684
International	16	—	1	17	18	1,330	1,365
Total business loans	83	7	13	103	550	45,347	46,000
Retail loans:							
Residential mortgage	9	1	9	19	26	1,811	1,856
Consumer:							
Home equity	4	2	1	7	28	1,744	1,779
Other consumer	1	3	12	16	1	728	745
Total consumer	5	5	13	23	29	2,472	2,524
Total retail loans	14	6	22	42	55	4,283	4,380
Total loans	$ 97	$ 13	$ 35	$ 145	$ 605	$49,630	$50,380
December 31, 2015							
Business loans:							
Commercial	$ 46	$ 12	$ 13	$ 71	$ 238	$31,350	$31,659
Real estate construction:							
Commercial Real Estate business line (a)	5	—	—	5	—	1,676	1,681
Other business lines (b)	3	—	—	3	1	316	320
Total real estate construction	8	—	—	8	1	1,992	2,001
Commercial mortgage:							
Commercial Real Estate business line (a)	7	—	1	8	16	2,080	2,104
Other business lines (b)	7	5	3	15	44	6,814	6,873
Total commercial mortgage	14	5	4	23	60	8,894	8,977
Lease financing	—	—	—	—	6	718	724
International	2	—	—	2	8	1,358	1,368
Total business loans	70	17	17	104	313	44,312	44,729
Retail loans:							
Residential mortgage	26	1	—	27	27	1,816	1,870
Consumer:							
Home equity	5	3	—	8	27	1,685	1,720
Other consumer	7	—	—	7	—	758	765
Total consumer	12	3	—	15	27	2,443	2,485

Total retail loans	38	4	—	42	54	4,259	4,355
Total loans	$ 108	$ 21	$ 17	$ 146	$ 367	$48,571	$49,084

(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, 2016					
Business loans:					
Commercial	$29,404	$ 1,067	$ 1,407	$ 482	$32,360
Real estate construction:					
Commercial Real Estate business line (e)	2,197	—	—	—	2,197
Other business lines (f)	354	2	—	—	356
Total real estate construction	2,551	2	—	—	2,553
Commercial mortgage:					
Commercial Real Estate business line (e)	2,186	19	23	8	2,236
Other business lines (f)	6,461	182	123	36	6,802
Total commercial mortgage	8,647	201	146	44	9,038
Lease financing	660	11	7	6	684
International	1,263	37	47	18	1,365
Total business loans	42,525	1,318	1,607	550	46,000
Retail loans:					
Residential mortgage	1,818	2	10	26	1,856
Consumer:					
Home equity	1,745	2	4	28	1,779
Other consumer	741	—	3	1	745
Total consumer	2,486	2	7	29	2,524
Total retail loans	4,304	4	17	55	4,380
Total loans	$46,829	$ 1,322	$ 1,624	$ 605	$50,380
December 31, 2015					
Business loans:					
Commercial	$29,117	$ 1,293	$ 1,011	$ 238	$31,659
Real estate construction:					
Commercial Real Estate business line (e)	1,681	—	—	—	1,681
Other business lines (f)	318	1	—	1	320
Total real estate construction	1,999	1	—	1	2,001
Commercial mortgage:					
Commercial Real Estate business line (e)	2,031	31	26	16	2,104
Other business lines (f)	6,536	172	121	44	6,873
Total commercial mortgage	8,567	203	147	60	8,977
Lease financing	693	17	8	6	724
International	1,245	59	56	8	1,368
Total business loans	41,621	1,573	1,222	313	44,729
Retail loans:					
Residential mortgage	1,828	2	13	27	1,870
Consumer:					
Home equity	1,687	1	5	27	1,720
Other consumer	755	3	7	—	765

Total consumer	2,442	4	12	27	2,485
Total retail loans	4,270	6	25	54	4,355
Total loans	$45,891	$ 1,579	$ 1,247	$ 367	$49,084

(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.

(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 page F-58 in the Corporation's 2015 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, 2016	December 31, 2015
Nonaccrual loans	$ 605	$ 367
Reduced-rate loans (a)	8	12
Total nonperforming loans	613	379
Foreclosed property (b)	22	12
Total nonperforming assets	$ 635	$ 391

(a) There were no reduced-rate business loans at both June 30, 2016 and December 31, 2015. Reduced-rate retail loans were $8 million and $12 million at June 30, 2016 and December 31, 2015, respectively.

(b) Included $6 million and $9 million of foreclosed residential real estate properties at June 30, 2016 and December 31, 2015, respectively.

There were no retail loans secured by residential real estate properties in process of foreclosure included in nonaccrual loans at June 30, 2016 compared to $1 million at December 31, 2015.

Allowance for Credit Losses

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

(in millions)	2016 Business Loans	2016 Retail Loans	2016 Total	2015 Business Loans	2015 Retail Loans	2015 Total
Three Months Ended June 30						
Allowance for loan losses:						
Balance at beginning of period	$674	$ 50	$724	$541	$ 60	$601
Loan charge-offs	(52)	(2)	(54)	(31)	(4)	(35)
Recoveries on loans previously charged-off	11	1	12	16	1	17
Net loan charge-offs	(41)	(1)	(42)	(15)	(3)	(18)
Provision for loan losses	49	(2)	47	37	(2)	35
Balance at end of period	$682	$ 47	$729	$563	$ 55	$618
Six Months Ended June 30						
Allowance for loan losses:						
Balance at beginning of period	$579	$ 55	$634	$534		