

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

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2018

Or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____
Commission file number 1-10706

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

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

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer
Non-accelerated filer Smaller reporting company

Emerging growth company

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

Exchange Act.

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

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

\$5 par value common stock:

Outstanding as of October 25, 2018: 161,698,314 shares

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COMERICA INCORPORATED AND SUBSIDIARIES

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Part I. FINANCIAL INFORMATION

Item 1. Financial Statements

CONSOLIDATED BALANCE SHEETS

Comerica Incorporated and Subsidiaries

(in millions, except share data)

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

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

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Comerica Incorporated and Subsidiaries

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

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

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CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (unaudited)

Comerica Incorporated and Subsidiaries

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

See notes to consolidated financial statements (unaudited).

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CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

Comerica Incorporated and Subsidiaries

	Nine Months Ended September 30,	
(in millions)	2018	2017
OPERATING ACTIVITIES		
Net income	\$925	\$631
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for credit losses	(17)	57
Provision (benefit) for deferred income taxes	37	(48)
Depreciation and amortization	90	91
Net periodic defined benefit credit	(14)	(14)
Share-based compensation expense	41	29
Net amortization of securities	3	5
Accretion of loan purchase discount	(1)	(3)
Net securities losses	19	—
Net gains on sales of foreclosed property	(1)	(2)
Net change in:		
Accrued income receivable	(36)	(21)
Accrued expenses payable	19	28
Other, net	(98)	97
Net cash provided by operating activities	967	850
INVESTING ACTIVITIES		
Investment securities available-for-sale:		
Maturities and redemptions	1,366	1,198
Sales	1,256	1,259
Purchases	(2,618)	(2,655)
Investment securities held-to-maturity:		
Maturities and redemptions	—	