

COMERICA INC /NEW/  
Form 10-Q  
August 01, 2007

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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 June 30, 2007**

**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  
Incorporation or organization)

(I.R.S. Employer  
Identification No.)

Comerica Tower at Detroit Center  
Detroit, Michigan  
48226

(Address of principal executive offices)

(Zip Code)

(313) 222-2840

(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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer

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 July 13, 2007: 153,019,255 shares

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Certification of Periodic Report Pursuant to Section 302

Section 1350 Certification of Periodic Report

**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 communication 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, feels, expects, estimates, seeks, strives, plans, intends, outlook, forecast, position, t

achievable, potential, strategy, goal, aspiration, outcome, continue, remain, maintain, trend, objective, of such words and similar expressions, or future or conditional verbs such as will, would, should, could, might, may or similar expressions, as they relate to the Corporation or its management, are intended to identify forward-looking statements.

The Corporation cautions that forward-looking statements are subject to numerous assumptions, risks and uncertainties, which change over time. Forward-looking statements speak only as of the date the statement is made, and 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. Actual results could differ materially from those anticipated in forward-looking statements and future results could differ materially from historical performance.

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**Table of Contents****PART I. FINANCIAL INFORMATION****Item 1. Financial Statements****CONSOLIDATED BALANCE SHEETS***Comerica Incorporated and Subsidiaries*

<i>(in millions, except share data)</i>	<b>June 30, 2007 (unaudited)</b>	<b>December 31, 2006</b>	<b>June 30, 2006 (unaudited)</b>
<b>ASSETS</b>			
Cash and due from banks	\$ 1,372	\$ 1,434	\$ 1,664
Federal funds sold and securities purchased under agreements to resell	1,217	2,632	2,105
Other short-term investments	251	327	276
Investment securities available-for-sale	4,368	3,662	3,980
Commercial loans	27,146	26,265	25,928
Real estate construction loans	4,513	4,203	3,958
Commercial mortgage loans	9,728	9,659	9,363
Residential mortgage loans	1,839	1,677	1,568
Consumer loans	2,321	2,423	2,493
Lease financing	1,314	1,353	1,325
International loans	1,904	1,851	1,764
Total loans	48,765	47,431	46,399
Less allowance for loan losses	(507)	(493)	(481)
Net loans	48,258	46,938	45,918
Premises and equipment	616	568	522
Customers' liability on acceptances outstanding	40	56	74
Accrued income and other assets	2,448	2,384	2,541
Total assets	\$58,570	\$ 58,001	\$57,080
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
Noninterest-bearing deposits	\$12,763	\$ 13,901	\$ 15,199
Money market and NOW deposits	15,212	15,250	15,342
Savings deposits	1,397	1,365	1,470
Customer certificates of deposit	7,567	7,223	6,322
Institutional certificates of deposit	5,479	5,783	4,629
Foreign office time deposits	789	1,405	1,164
Total interest-bearing deposits	30,444	31,026	28,927
Total deposits	43,207	44,927	44,126

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Short-term borrowings	297	635	442
Acceptances outstanding	40	56	74
Accrued expenses and other liabilities	1,260	1,281	1,162
Medium- and long-term debt	8,748	5,949	6,087
<b>Total liabilities</b>	<b>53,552</b>	<b>52,848</b>	<b>51,891</b>
Common stock \$5 par value:			
Authorized - 325,000,000 shares			
Issued - 178,735,252 shares at 6/30/07, 12/31/06 and 6/30/06	894	894	894
Capital surplus	539	520	494
Accumulated other comprehensive loss	(308)	(324)	(226)
Retained earnings	5,400	5,282	4,978
Less cost of common stock in treasury - 25,725,671 shares at 6/30/07, 21,161,161 shares at 12/31/06 and 16,534,470 shares at 6/30/06	(1,507)	(1,219)	(951)
<b>Total shareholders equity</b>	<b>5,018</b>	<b>5,153</b>	<b>5,189</b>
<b>Total liabilities and shareholders equity</b>	<b>\$58,570</b>	<b>\$ 58,001</b>	<b>\$57,080</b>

See notes to consolidated financial statements.

**Table of Contents****CONSOLIDATED STATEMENTS OF INCOME (unaudited)***Comerica Incorporated and Subsidiaries*

<i>(in millions, except per share data)</i>	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>June 30,</b>		<b>June 30,</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
<b>INTEREST INCOME</b>				
Interest and fees on loans	\$ 882	\$ 792	\$ 1,733	\$ 1,515
Interest on investment securities	46	45	88	89
Interest on short-term investments	5	8	13	13
Total interest income	933	845	1,834	1,617
<b>INTEREST EXPENSE</b>				
Interest on deposits	284	236	570	435
Interest on short-term borrowings	24	45	46	87
Interest on medium- and long-term debt	116	64	207	116
Total interest expense	424	345	823	638
Net interest income	509	500	1,011	979
Provision for loan losses	36	27	59	
Net interest income after provision for loan losses	473	473	952	979
<b>NONINTEREST INCOME</b>				
Service charges on deposit accounts	55	54	109	108
Fiduciary income	49	44	98	88
Commercial lending fees	17	15	33	30
Letter of credit fees	15	15	31	31
Foreign exchange income	10	9	19	19
Brokerage fees	10	10	21	20
Card fees	14	12	26	23
Bank-owned life insurance	9	10	19	23
Net income from principal investing and warrants	6	4	2	7
Net securities gains (losses)		1		(1)
Net gain (loss) on sales of businesses	2		3	(5)
Other noninterest income	38	29	67	55
Total noninterest income	225	203	428	398
<b>NONINTEREST EXPENSES</b>				
Salaries	215	197	421	390
Employee benefits	50	44	96	94
Total salaries and employee benefits	265	241	517	484
Net occupancy expense	33	30	68	60
Equipment expense	15	15	30	28

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Outside processing fee expense	24	22	44	43
Software expense	15	14	30	28
Customer services	11	9	25	22
Litigation and operational losses (recoveries)	(9)	3	(6)	4
Provision for credit losses on lending-related commitments	(2)	1	(4)	14
Other noninterest expenses	59	54	114	135
<b>Total noninterest expenses</b>	<b>411</b>	<b>389</b>	<b>818</b>	<b>818</b>
Income from continuing operations before income taxes	287	287	562	559
Provision for income taxes	91	92	177	157
Income from continuing operations	196	195	385	402
Income (loss) from discontinued operations, net of tax		5	1	(8)
<b>NET INCOME</b>	<b>\$ 196</b>	<b>\$ 200</b>	<b>\$ 386</b>	<b>\$ 394</b>
Basic earnings per common share:				
Income from continuing operations	\$1.28	\$1.21	\$ 2.49	\$ 2.49
Net income	1.28	1.24	2.49	2.44
Diluted earnings per common share:				
Income from continuing operations	1.25	1.19	2.44	2.45
Net income	1.25	1.22	2.45	2.40
Cash dividends declared on common stock	98	96	199	192
Dividends per common share	0.64	0.59	1.28	1.18

See notes to consolidated financial statements.



**Table of Contents****CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY (unaudited)**  
*Comerica Incorporated and Subsidiaries*

	Accumulated					Treasury	Total
	Common	Capital	Other	Retained	Shareholders		
	Stock	Surplus	Loss	Earnings	Stock	Equity	
(in millions, except per share data)	Shares	Amount					
<b>BALANCE AT JANUARY 1, 2006</b>	162.9	\$ 894	\$ 461	\$ (170)	\$ 4,796	\$ (913)	\$ 5,068
Net income				394			394
Other comprehensive loss, net of tax			(56)				(56)
Total comprehensive income							338
Cash dividends declared on common stock (\$1.18 per share)				(192)			(192)
Purchase of common stock	(1.5)					(88)	(88)
Net issuance of common stock under employee stock plans	1.1	(17)		(20)		67	30
Recognition of share-based compensation expense		33					33
Employee deferred compensation obligations	(0.3)	17				(17)	
<b>BALANCE AT JUNE 30, 2006</b>	162.2	\$ 894	\$ 494	\$ (226)	\$ 4,978	\$ (951)	\$ 5,189
<b>BALANCE AT DECEMBER 31, 2006</b>	157.6	\$ 894	\$ 520	\$ (324)	\$ 5,282	\$ (1,219)	\$ 5,153
FSP 13-2 transition adjustment, net of tax				(46)			(46)
FIN 48 transition adjustment, net of tax				3			3
<b>BALANCE AT JANUARY 1, 2007</b>	157.6	894	520	(324)	5,239	(1,219)	5,110
Net income				386			386
Other comprehensive income, net of tax			16				16
Total comprehensive income							402
Cash dividends declared on common stock (\$1.28 per share)				(199)			(199)
Purchase of common stock	(6.9)					(425)	(425)
Net issuance of common stock under employee stock plans	2.3	(17)		(26)		138	95
Recognition of share-based compensation expense		35					35
Employee deferred compensation obligations		1				(1)	
<b>BALANCE AT JUNE 30, 2007</b>	153.0	\$ 894	\$ 539	\$ (308)	\$ 5,400	\$ (1,507)	\$ 5,018

See notes to consolidated financial statements.

**Table of Contents****CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)**  
*Comerica Incorporated and Subsidiaries*

<i>(in millions)</i>	<b>Six Months Ended June 30,</b>	
	<b>2007</b>	<b>2006</b>
<b>OPERATING ACTIVITIES</b>		
Net income	\$ 386	\$ 394
Income (loss) from discontinued operations, net of tax	1	(8)
Income from continuing operations	385	402
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	59	
Provision for credit losses on lending-related commitments	(4)	14
Depreciation and software amortization	45	42
Share-based compensation expense	35	33
Excess tax benefits from share-based compensation arrangements	(8)	(7)
Net amortization of securities	(1)	
Net loss on sale/settlement of investment securities available-for-sale		1
Net (gain) loss on sales of businesses	(3)	5
Net decrease in trading securities	60	23
Net decrease in loans held-for-sale	46	4
Net increase in accrued income receivable	(9)	(30)
Net decrease in accrued expenses	(68)	(40)
Other, net	(49)	44
Discontinued operations, net		
Total adjustments	103	89
Net cash provided by operating activities	488	491
<b>INVESTING ACTIVITIES</b>		
Net decrease (increase) in other short-term investments	1,385	(1,167)
Proceeds from sales of investment securities available-for-sale		1
Proceeds from maturities of investment securities available-for-sale	435	635
Purchases of investment securities available-for-sale	(1,177)	(457)
Net increase in loans	(1,385)	(3,186)
Net increase in fixed assets	(87)	(69)
Net decrease (increase) in customers liability on acceptances outstanding	16	(15)
Proceeds from sales of businesses	3	
Discontinued operations, net	1	
Net cash used in investing activities	(809)	(4,258)
<b>FINANCING ACTIVITIES</b>		
Net (decrease) increase in deposits	(1,720)	1,695
Net (decrease) increase in short-term borrowings	(338)	140
Net (decrease) increase in acceptances outstanding	(16)	15

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Proceeds from issuance of medium- and long-term debt	3,585	2,316
Repayments of medium- and long-term debt	(729)	(100)
Proceeds from issuance of common stock under employee stock plans	88	23
Excess tax benefits from share-based compensation arrangements	8	7
Purchase of common stock for treasury	(425)	(88)
Dividends paid	(194)	(186)
Discontinued operations, net		
Net cash provided by financing activities	259	3,822
Net (decrease) increase in cash and due from banks	(62)	55
Cash and due from banks at beginning of period	1,434	1,609
Cash and due from banks at end of period	\$ 1,372	\$ 1,664
Interest paid	\$ 810	\$ 599
Income taxes paid	\$ 220	\$ 133
Noncash investing and financing activities:		
Loans transferred to other real estate	\$ 6	\$ 5

See notes to consolidated financial statements.

**Table of Contents****Notes to Consolidated Financial Statements (unaudited)***Comerica Incorporated and Subsidiaries***Note 1 Basis of Presentation and Accounting Policies**

The accompanying unaudited consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles 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 U.S. generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. The results of operations for the six months ended June 30, 2007, are not necessarily indicative of the results that may be expected for the year ending December 31, 2007. Certain items in prior periods have been 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, 2006.

**Income Taxes**

On January 1, 2007, the Corporation adopted the provisions of FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes- an interpretation of FASB Statement No. 109, (FIN 48). FIN 48 permits the Corporation to elect to change its accounting policy as to where interest and penalties on tax liabilities is classified in the consolidated statements of income. Effective January 1, 2007, the Corporation prospectively changed its accounting policy to classify interest and penalties on tax liabilities in the provision for income taxes on the consolidated statements of income. The provision for income taxes included interest on tax liabilities of \$3 million and \$4 million for the three and six month periods ended June 30, 2007, respectively. For all prior periods presented, interest and penalties on tax liabilities remained classified in other noninterest expenses on the consolidated statements of income. Additional information regarding FIN 48 can be found in Note 6.

**Note 2 Pending Accounting Pronouncements**

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements, (SFAS 157), which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS 157 applies whenever other standards require (or permit) assets or liabilities to be measured at fair value, and therefore, does not expand the use of fair value in any new circumstances. Fair value refers to the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the market in which the Corporation transacts. SFAS 157 clarifies that fair value should be based on the assumptions market participants would use when pricing an asset or liability and establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. The fair value hierarchy gives the highest priority to quoted prices in active markets and the lowest priority to unobservable data, for example, the Corporation's own data. SFAS 157 requires fair value measurements to be separately disclosed by level within the fair value hierarchy. While not expanding the use of fair value, SFAS 157 may change the measurement of fair value. Any change in the measurement of fair value would be considered a change in estimate and included in the results of operations in the period of adoption. SFAS 157 is effective for fiscal years beginning after November 15, 2007. Accordingly, the Corporation will adopt the provisions of SFAS 157 in the first quarter of 2008. The Corporation is currently evaluating the guidance contained in SFAS 157 to determine the effect adoption of the guidance will have on the Corporation's financial condition and results of operations.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115, (SFAS 159). SFAS 159 provides entities with the irrevocable option to account for selected financial assets and liabilities at fair value on a contract-by-contract basis. The Corporation can elect to apply the standard prospectively and measure certain financial instruments at fair value beginning January 1, 2008. The Corporation is currently evaluating the guidance contained in SFAS 159, and has yet to determine which assets or liabilities (if any) will be selected. At adoption, the difference between the carrying amount and the fair value of existing eligible assets and liabilities selected (if any) would be recognized via a cumulative adjustment to beginning retained earnings on January 1, 2008. After adoption, all changes in fair value would be included in the results of operations.



**Table of Contents****Notes to Consolidated Financial Statements (unaudited)***Comerica Incorporated and Subsidiaries***Note 3 Investment Securities**

A summary of the Corporation's temporarily impaired investment securities available-for-sale as of June 30, 2007 follows:

<i>(in millions)</i>	Less than 12 months		Impaired Over 12 months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Treasury and other Government agency securities	\$ 20	\$ *	\$ 9	\$ *	\$ 29	\$ *
Government-sponsored enterprise securities	1,641	23	2,488	97	4,129	120
State and municipal securities						
Other securities						
Total temporarily impaired securities	\$1,661	\$ 23	\$2,497	\$ 97	\$4,158	\$120

\* Unrealized losses less than \$0.5 million.

At June 30, 2007, the Corporation had 160 securities in an unrealized loss position, including 158 Government-sponsored enterprise securities (i.e., FMNA, FHLMC). The unrealized losses resulted from changes in market interest rates, not credit quality. The Corporation has the ability and intent to hold these available-for-sale investment securities until maturity or market price recovery, and full collection of the amounts due according to the contractual terms of the debt is expected; therefore, the Corporation does not consider these investments to be other-than-temporarily impaired at June 30, 2007.

At June 30, 2007, investment securities having a carrying value of \$1.8 billion were pledged where permitted or required by law to secure \$791 million of liabilities, including public and other deposits, and derivative instruments. This included securities of \$922 million pledged with the Federal Reserve Bank to secure actual treasury tax and loan borrowings of \$50 million at June 30, 2007, and potential borrowings of up to an additional \$800 million. The remaining pledged securities of \$829 million are primarily with state and local government agencies to secure \$740 million of deposits and other liabilities, including deposits of the State of Michigan of \$192 million at June 30, 2007.

**Table of Contents****Notes to Consolidated Financial Statements (unaudited)***Comerica Incorporated and Subsidiaries***Note 4 Allowance for Credit Losses**

The following summarizes the changes in the allowance for loan losses:

<i>(in millions)</i>	Six Months Ended June 30,	
	2007	2006
Balance at beginning of period	\$493	\$516
Loan charge-offs:		
Domestic		
Commercial	32	28
Real estate construction		
Commercial Real Estate business line	7	
Other business lines	2	
Total real estate construction	9	
Commercial mortgage		
Commercial Real Estate business line	6	
Other business lines	24	5
Total commercial mortgage	30	5
Residential mortgage		
Consumer	6	7
Lease financing		7
International		3
Total loan charge-offs	77	50
Recoveries:		
Domestic		
Commercial	15	9
Real estate construction		
Commercial mortgage	2	2
Residential mortgage		
Consumer	2	2
Lease financing	4	
International	8	2
Total recoveries	31	15
Net loan charge-offs	46	35
Provision for loan losses	59	
Foreign currency translation adjustment	1	
Balance at end of period	\$507	\$481





**Table of Contents****Notes to Consolidated Financial Statements (unaudited)***Comerica Incorporated and Subsidiaries***Note 4 Allowance for Credit Losses (continued)**

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.

<i>(in millions)</i>	Six Months Ended June 30,	
	2007	2006
Balance at beginning of period	\$26	\$33
Less: Charge-offs on lending-related commitments*	3	6
Add: Provision for credit losses on lending-related commitments	(4)	14
Balance at end of period	\$19	\$41

\* Charge-offs result from the sale of unfunded lending-related commitments.

A loan is impaired when it is probable that interest and principal payments will not be made in accordance with the contractual terms of the loan agreement. Consistent with this definition, all nonaccrual and reduced-rate loans (with the exception of residential mortgage and consumer loans) are impaired. Impaired loans that are restructured and meet the requirements to be on accrual status are included with total impaired loans for the remainder of the calendar year of the restructuring. There were two loans totaling \$8 million included in the \$248 million of impaired loans at June 30, 2007 that were restructured and met the requirements to be on accrual status. Impaired loans averaged \$225 million and \$220 million for the three and six month periods ended June 30, 2007, respectively, and \$135 million and \$133 million for the three and six month periods ended June 30, 2006, respectively. The following presents information regarding the period-end balances of impaired loans:

<i>(in millions)</i>	Six Months Ended	Year Ended December 31,
	June 30, 2007	2006
Total period-end nonaccrual business loans	\$ 240	\$ 209
Plus: Impaired loans restructured during the period on accrual status at period-end	8	
Total period-end impaired loans	\$ 248	\$ 209
Period-end impaired loans requiring an allowance	\$ 204	\$ 195
Allowance allocated to impaired loans	\$ 44	\$ 34

Those impaired loans not requiring an allowance represent loans for which the fair value of expected repayments or collateral exceeded the recorded investments in such loans.



**Table of Contents****Notes to Consolidated Financial Statements (unaudited)***Comerica Incorporated and Subsidiaries***Note 5 Medium- and Long-term Debt**

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

<i>(in millions)</i>	June 30, 2007	December 31, 2006
Parent company		
7.25% subordinated note due 2007	\$ 150	\$ 151
4.80% subordinated note due 2015	286	294
6.576% subordinated notes due 2037	510	
7.60% subordinated note due 2050		361
Total parent company	946	806
Subsidiaries		
Subordinated notes:		
7.25% subordinated note due 2007		201
9.98% subordinated note due 2007		58
6.00% subordinated note due 2008	252	253
6.875% subordinated note due 2008	101	102
8.50% subordinated note due 2009	101	101
7.125% subordinated note due 2013	155	157
5.70% subordinated note due 2014	245	251
5.75% subordinated notes due 2016	648	397
5.20% subordinated notes due 2017	474	489
8.375% subordinated note due 2024	176	182
7.875% subordinated note due 2026	182	192
Total subordinated notes	2,334	2,383
Medium-term notes:		
Floating rate based on LIBOR indices due 2007 to 2011	4,618	2,299
Floating rate based on PRIME indices due 2007 to 2008	850	350
2.85% fixed rate note due 2007		100
Variable rate note payable due 2009		11
Total subsidiaries	7,802	5,143
Total medium- and long-term debt	\$ 8,748	\$ 5,949

The carrying value of medium- and long-term debt has been adjusted to reflect the gain or loss attributable to the risk hedged with interest rate swaps.

In February 2007, the Corporation issued \$515 million of 6.576% subordinated notes that relate to trust preferred securities issued by an unconsolidated subsidiary. The notes pay interest on February 20 and August 20 of each year, beginning August 20, 2007 through February 20, 2032. Beginning February 20, 2032, the notes will bear interest at an annual rate based on LIBOR, payable monthly on the 20<sup>th</sup> day of each calendar month until the scheduled maturity

date of February 20, 2037. The subordinated notes qualify as Tier 1 capital. The Corporation used the proceeds for the March 2007 redemption of a \$350 million, 7.60% subordinated note due 2050 and to repurchase additional shares.

In March 2007, Comerica Bank (the Bank), a subsidiary of the Corporation, issued an additional \$250 million of 5.75% subordinated notes under a series initiated in November 2006. The notes pay interest on May 21 and November 21 of each year, beginning with May 21, 2007, and mature November 21, 2016. The Bank used the net proceeds for general corporate purposes.

The Bank issued a total of \$2.8 billion of floating rate notes during the first and second quarters of 2007 under an existing \$15 billion medium-term senior note program. The Bank used the proceeds for general corporate purposes.

**Table of Contents****Notes to Consolidated Financial Statements (unaudited)***Comerica Incorporated and Subsidiaries***Note 6 Income Taxes and Tax-Related Items**

The provision for income taxes is computed by applying statutory federal income tax rates to income before income taxes as reported in the consolidated financial statements after deducting non-taxable items, principally income on bank-owned life insurance, and deducting tax credits related to investments in low income housing partnerships. State and foreign taxes are then added to the federal tax provision. In addition, beginning January 1, 2007, interest on tax liabilities is classified in the provision for income taxes.

The Corporation adopted the provisions of FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes- an interpretation of FASB Statement No. 109, (FIN 48) on January 1, 2007. As a result, the Corporation recognized an increase in the liability for unrecognized tax benefits of approximately \$5 million at January 1, 2007, accounted for as a change in accounting principle via a decrease to the opening balance of retained earnings. At January 1, 2007, the Corporation had unrecognized tax benefits of approximately \$72 million. After consideration of the effect of the federal tax benefit available on unrecognized state tax benefits, the total amount of unrecognized tax benefits that, if recognized, would affect the Corporation's effective tax rate was approximately \$66 million at January 1, 2007.

The Corporation recognized approximately \$3 million and \$4 million in interest on tax liabilities included in the provision for income taxes on the consolidated statements of income for the three and six month periods ended June 30, 2007, respectively, compared to a negative \$5 million for the three months ended June 30, 2006 and \$21 million for the six months ended June 30, 2006, included in other noninterest expenses on the consolidated statements of income. For further information regarding the change in classification of interest and penalties on tax liabilities as a result of applying the provisions of FIN 48, refer to footnote 1 to these consolidated financial statements. The Corporation had approximately \$74 million and \$70 million accrued for the payment of interest at June 30, 2007 and January 1, 2007, respectively. Upon adoption of FIN 48, the Corporation recorded an \$8 million decrease to interest on tax liabilities as an increase to the opening balance of retained earnings.

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) questions and/or challenges the tax position taken by the Corporation with respect to those transactions. The Corporation engaged in certain types of structured leasing transactions that the IRS disallowed in its examination of the Corporation's federal tax returns for the years 1996 through 2000. The IRS also disallowed foreign tax credits associated with the interest on a series of loans to foreign borrowers. The Corporation has had ongoing discussions with the IRS Appeals Office related to the disallowance of the foreign tax credits associated with the loans and adjusted tax and related interest reserves based on settlements discussed. The Corporation believes it is reasonably possible that a final settlement amount with the IRS will be agreed upon within the next twelve months. The FIN 48 unrecognized tax benefit related to the foreign tax credits was approximately \$38 million at June 30, 2007, and reflects the Corporation's current settlement expectations.

Based on current knowledge and probability assessment of various potential outcomes, the Corporation believes that current tax reserves, determined in accordance with FIN 48, are adequate to cover the matters outlined above, 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 or results of operations. Probabilities and outcomes are reviewed as events unfold, and adjustments to the reserves are made when necessary.

The Corporation believes that its tax returns were filed based upon applicable statutes, regulations and case law in effect at the time of the transactions. The Corporation intends to vigorously defend its positions taken in those returns in accordance with its view of the law controlling these activities. However, as noted above, the IRS examination team, an administrative authority or a court, if presented with the transactions, could disagree with the Corporation's interpretation of the tax law. After evaluating the risks and opportunities, the best outcome may result in a settlement. The ultimate outcome for each position is not known.

The following tax years for significant jurisdictions remain subject to examination as of June 30, 2007:

Jurisdiction

Tax Years

Federal	2001-2006
California	2002-2006

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**Notes to Consolidated Financial Statements (unaudited)**

*Comerica Incorporated and Subsidiaries*

**Note 6 Income Taxes and Tax-Related Items (continued)**

On January 1, 2007, the Corporation adopted the provisions of FASB Staff Position No. FAS 13-2, Accounting for a Change or Projected Change in the Timing of Cash Flows Relating to Income Taxes Generated by a Leveraged Lease Transaction, (FSP 13-2). FSP 13-2 requires a recalculation of the lease income from the inception of a leveraged lease if, during the lease term, the expected timing of the income tax cash flows generated from a leveraged lease is revised. The Corporation recorded a one-time non-cash after-tax charge to beginning retained earnings of \$46 million to reflect changes in expected timing of the income tax cash flows generated from affected leveraged leases, which is expected to be recognized as income over periods ranging from 4 years to 20 years.

**Note 7 Accumulated Other Comprehensive Income (Loss)**

Other comprehensive income (loss) includes the change in net unrealized gains and losses on investment securities available-for-sale, the change in accumulated net gains and losses on cash flow hedges, the change in the accumulated foreign currency translation adjustment and the change in the accumulated defined benefit and other postretirement plans adjustment. The Consolidated Statements of Changes in Shareholders' Equity on page 5 include only combined other comprehensive income (loss), net of tax. The following table presents reconciliations of the components of the accumulated other comprehensive income (loss) for the six months ended June 30, 2007 and 2006. Total comprehensive income totaled \$402 million and \$338 million for the six months ended June 30, 2007 and 2006, respectively. The \$64 million increase in total comprehensive income in the six months ended June 30, 2007, when compared to the same period in the prior year, resulted principally from a decrease in net unrealized losses on investment securities available-for-sale (\$30 million) due to changes in the interest rate environment, and an increase in net gains on cash flow hedges (\$33 million).

**Table of Contents****Notes to Consolidated Financial Statements (unaudited)***Comerica Incorporated and Subsidiaries***Note 7 Accumulated Other Comprehensive Income (Loss) (continued)**

<i>(in millions)</i>	Six Months Ended June 30,	
	2007	2006
<b>Accumulated net unrealized gains (losses) on investment securities available-for-sale:</b>		
Balance at beginning of period, net of tax	\$ (61)	\$ (69)
Net unrealized holding gains (losses) arising during the period	(24)	(71)
Less: Reclassification adjustment for gains (losses) included in net income		(1)
Change in net unrealized gains (losses) before income taxes	(24)	(70)
Less: Provision for income taxes	(9)	(25)
Change in net unrealized gains (losses) on investment securities available-for-sale, net of tax	(15)	(45)
Balance at end of period, net of tax	\$ (76)	\$(114)
<b>Accumulated net gains (losses) on cash flow hedges:</b>		
Balance at beginning of period, net of tax	\$ (48)	\$ (91)
Net cash flow hedges gains (losses) arising during the period	(12)	(76)
Less: Reclassification adjustment for gains (losses) included in net income	(45)	(58)
Change in cash flow hedges before income taxes	33	(18)
Less: Provision for income taxes	12	(6)
Change in cash flow hedges, net of tax	21	(12)
Balance at end of period, net of tax	\$ (27)	\$(103)
<b>Accumulated foreign currency translation adjustment:</b>		
Balance at beginning of period	\$	\$ (7)
Net translation gains (losses) arising during the period		1
Change in foreign currency translation adjustment		1
Balance at end of period	\$	\$ (6)
<b>Accumulated defined benefit pension and other postretirement plans adjustment:</b>		
Balance at beginning of period, net of tax	\$(215)	\$ (3)



Minimum pension liability adjustment arising during the period before income taxes	N/A	1
Less: Provision for income taxes	N/A	1
Change in minimum pension liability, net of tax	N/A	
Net defined benefit pension and other postretirement adjustment arising during the period	16	N/A
Less: Provision for income taxes	6	N/A
Change in defined benefit and other postretirement plans adjustment, net of tax	10	N/A
Balance at end of period, net of tax	\$(205)	\$ (3)
<b>Total accumulated other comprehensive loss at end of period, net of tax</b>	<b>\$(308)</b>	<b>\$(226)</b>

N/A Not Applicable

**Table of Contents****Notes to Consolidated Financial Statements (unaudited)***Comerica Incorporated and Subsidiaries***Note 8 Net Income per Common Share**

Basic and diluted net income per common share for the three and six month periods ended June 30, 2007 and 2006 were computed as follows:

<i>(in millions, except per share data)</i>	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2007	2006	2007	2006
<b>Basic</b>				
Income from continuing operations applicable to common stock	\$ 196	\$ 195	\$ 385	\$ 402
Net income applicable to common stock	196	200	386	394
Average common shares outstanding	154	161	155	162
Basic income from continuing operations per common share	\$1.28	\$1.21	\$2.49	\$2.49
Basic net income per common share	1.28	1.24	2.49	2.44
<b>Diluted</b>				
Income from continuing operations applicable to common stock	\$ 196	\$ 195	\$ 385	\$ 402
Net income applicable to common stock	196	200	386	394
Average common shares outstanding	154	161	155	162
Nonvested stock	2	1	2	1
Common stock equivalents:				
Net effect of the assumed exercise of stock options	1	1	1	1
Diluted average common shares	157	163	158	164
Diluted income from continuing operations per common share	\$1.25	\$1.19	\$2.44	\$2.45
Diluted net income per common share	1.25	1.22	2.45	2.40

The following average outstanding options to purchase shares of common stock were not included in the computation of diluted net income per common share because the options' exercise prices were greater than the average market price of common shares for the period.

<i>(options in millions)</i>	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2007	2006	2007	2006

Average outstanding options	5.7	8.6	5.7	7.5
Range of exercise prices	\$ 61.94 - \$71.58	\$ 55.47 - \$71.58	\$ 61.25 - \$71.58	\$ 56.19 - \$71.58

**Table of Contents****Notes to Consolidated Financial Statements (unaudited)***Comerica Incorporated and Subsidiaries***Note 9 Employee Benefit Plans**

Net periodic benefit costs are charged to employee benefits expense on the consolidated statements of income. The components of net periodic benefit cost for the Corporation's qualified pension plan, non-qualified pension plan and postretirement benefit plan are as follows:

Qualified Defined Benefit Pension Plan (in millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
Service cost	\$ 7	\$ 6	\$ 15	\$ 15
Interest cost	16	12	31	29
Expected return on plan assets	(23)	(19)	(47)	(45)
Amortization of unrecognized prior service cost	1	1	3	3
Amortization of unrecognized net loss	5	4	8	11
Net periodic benefit cost	\$ 6	\$ 4	\$ 10	\$ 13
Non-Qualified Defined Benefit Pension Plan (in millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
Service cost	\$ 1	\$ 1	\$ 2	\$ 2
Interest cost	3	2	4	3
Amortization of unrecognized prior service cost	(1)	(1)	(1)	(1)
Amortization of unrecognized net loss	2	2	3	3
Net periodic benefit cost	\$ 5	\$ 4	\$ 8	\$ 7
Postretirement Benefit Plan (in millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
Interest cost	\$ 1	\$ 1	\$ 3	\$ 2
Expected return on plan assets	(1)	(1)	(2)	(2)
Amortization of unrecognized transition obligation	1	1	2	2
Net periodic benefit cost	\$ 1	\$ 1	\$ 3	\$ 2

For further information on the Corporation's employee benefit plans, refer to Note 16 to the consolidated financial statements in the Corporation's 2006 Annual Report.

**Table of Contents****Notes to Consolidated Financial Statements (unaudited)***Comerica Incorporated and Subsidiaries***Note 10 Derivative Instruments**

The following table presents the composition of derivative instruments, excluding commitments, held or issued for risk management purposes, and in connection with customer-initiated and other activities.

	June 30, 2007				December 31, 2006			
	Notional/ Contract Amount (1)	Unrealized Gains (2)	Unrealized Losses (3)	Fair Value (3)	Notional/ Contract Amount (1)	Unrealized Gains (2)	Unrealized Losses (3)	Fair Value (3)
<i>(in millions)</i>								
<b>Risk management</b>								
Interest rate contracts:								
Swaps cash flow	\$4,800	\$	\$ 50	\$(50)	\$6,200	\$	\$ 87	\$(87)
Swaps fair value	2,352	51	33	18	2,253	75	7	68
Total interest rate contracts	7,152	51	83	(32)	8,453	75	94	(19)
Foreign exchange contracts:								
Spot and forwards	707	5	1	4	518	6	2	4
Swaps	27				33			
Total foreign exchange contracts	734	5	1	4	551	6	2	4
Total risk management	7,886	56	84	(28)	9,004	81	96	(15)
<b>Customer-initiated and other</b>								
Interest rate contracts:								
Caps and floors written	644		1	(1)	551		3	(3)
Caps and floors purchased	630	1		1	536	3		3
Swaps	4,907	43	29	14	4,480	37	26	11
Total interest rate contracts	6,181	44	30	14	5,567	40	29	11
Energy derivative contracts:								
Caps and floors written	358		29	(29)	310		23	(23)
Caps and floors purchased	358	29		29	310	23		23
Swaps	690	29	29		485	22	21	1
Total energy derivative contracts	1,406	58	58		1,105	45	44	1
Foreign exchange contracts:								
Spot, forwards, futures and options	2,366	26	25	1	2,889	24	21	3
Swaps	7				4			