COMERICA INC /NEW/
Form 10-Q
July 29, 2014
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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, 2014

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

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

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 25, 2014: 180,825,973 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, 2014	December 31, 2013
	(unaudited)	
ASSETS		
Cash and due from banks	$1,226	$1,140
Interest-bearing deposits with banks	2,668	5,311
Other short-term investments	109	112
Investment securities available-for-sale	9,534	9,307
Commercial loans	30,986	28,815
Real estate construction loans	1,939	1,762
Commercial mortgage loans	8,747	8,787
Lease financing	822	845
International loans	1,352	1,327
Residential mortgage loans	1,775	1,697
Consumer loans	2,261	2,237
Total loans	47,882	45,470
Less allowance for loan losses	(591)	(598)
Net loans	47,291	44,872
Premises and equipment	562	594
Accrued income and other assets	3,935	3,888
Total assets	$65,325	$65,224
LIABILITIES AND SHAREHOLDERS' EQUITY		
Noninterest-bearing deposits	$24,774	$23,875
Money market and interest-bearing checking deposits	22,555	22,332
Savings deposits	1,731	1,673
Customer certificates of deposit	4,962	5,063
Foreign office time deposits	148	349
Total interest-bearing deposits	29,396	29,417
Total deposits	54,170	53,292
Short-term borrowings	176	253
Accrued expenses and other liabilities	990	986
Medium- and long-term debt	2,620	3,543
Total liabilities	57,956	58,074
Common stock - $5 par value:		
Authorized - 325,000,000 shares		
Issued - 228,164,824 shares	1,141	1,141
Capital surplus	2,175	2,179
Accumulated other comprehensive loss	(304)	(391)

Retained earnings	6,520	6,318
Less cost of common stock in treasury - 47,194,492 shares at 6/30/14 and 45,860,786 shares at 12/31/13	(2,163)	(2,097)
Total shareholders’ equity	7,369	7,150
Total liabilities and shareholders’ equity	$65,325	$65,224

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)	2014	2013	2014	2013
INTEREST INCOME				
Interest and fees on loans	$385	$388	$761	$778
Interest on investment securities	53	52	108	105
Interest on short-term investments	3	3	7	6
Total interest income	441	443	876	889
INTEREST EXPENSE				
Interest on deposits	11	15	22	30
Interest on medium- and long-term debt	14	14	28	29
Total interest expense	25	29	50	59
Net interest income	416	414	826	830
Provision for credit losses	11	13	20	29
Net interest income after provision for credit losses	405	401	806	801
NONINTEREST INCOME				
Service charges on deposit accounts	54	53	108	108
Fiduciary income	45	44	89	87
Commercial lending fees	23	22	43	43
Card fees	19	18	38	35
Letter of credit fees	15	16	29	32
Bank-owned life insurance	11	10	20	19
Foreign exchange income	12	9	21	18
Brokerage fees	4	4	9	9
Net securities (losses) gains	—	(2)	1	(2)
Other noninterest income	37	48	70	86
Total noninterest income	220	222	428	435
NONINTEREST EXPENSES				
Salaries and benefits expense	240	245	487	496
Net occupancy expense	39	39	79	78
Equipment expense	15	15	29	30
Outside processing fee expense	30	30	58	58
Software expense	25	22	47	44
Litigation-related expense	3	1	6	4
FDIC insurance expense	8	8	16	17
Advertising expense	5	6	11	12
Other noninterest expenses	39	50	77	93
Total noninterest expenses	404	416	810	832
Income before income taxes	221	207	424	404
Provision for income taxes	70	64	134	127
NET INCOME	151	143	290	277
Less income allocated to participating securities	2	2	4	4
Net income attributable to common shares	$149	$141	$286	$273
Earnings per common share:				
Basic	$0.83	$0.77	$1.59	$1.48
Diluted	0.80	0.76	1.54	1.46

Comprehensive income	172	15	377	152
Cash dividends declared on common stock	36	32	71	64
Cash dividends declared per common share	0.20	0.17	0.39	0.34

See notes to consolidated financial statements.

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

	Common Stock						
(in millions, except per share data)	Shares Outstanding	Amount	Capital Surplus	Accumulated Other Comprehensive Loss	Retained Earnings	Treasury Stock	Total Shareholders' Equity
BALANCE AT DECEMBER 31, 2012	188.3	$1,141	$2,162	$ (413)	$5,928	$(1,879)	$6,939
Net income	—	—	—	—	277	—	277
Other comprehensive loss, net of tax	—	—	—	(125)	—	—	(125)
Cash dividends declared on common stock ($0.34 per share)	—	—	—	—	(64)	—	(64)
Purchase of common stock	(4.1)	—	—	—	—	(146)	(146)
Net issuance of common stock under employee stock plans	1.0	—	(19)	—	(17)	45	9
Share-based compensation	—	—	18	—	—	—	18
Other	—	—	(1)	—	—	1	—
BALANCE AT JUNE 30, 2013	185.2	$1,141	$2,160	$ (538)	$6,124	$(1,979)	$6,908
BALANCE AT DECEMBER 31, 2013	182.3	$1,141	$2,179	$ (391)	$6,318	$(2,097)	$7,150
Net income	—	—	—	—	290	—	290
Other comprehensive income, net of tax	—	—	—	87	—	—	87
Cash dividends declared on common stock ($0.39 per share)	—	—	—	—	(71)	—	(71)
Purchase of common stock	(3.0)	—	—	—	—	(141)	(141)
Net issuance of common stock under employee stock plans	1.6	—	(25)	—	(17)	74	32
Share-based compensation	—	—	22	—	—	—	22
Other	—	—	(1)	—	—	1	—
BALANCE AT JUNE 30, 2014	180.9	$1,141	$2,175	$ (304)	$6,520	$(2,163)	$7,369

See notes to consolidated financial statements.

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

	Six Months Ended June 30,	
(in millions)	2014	2013
OPERATING ACTIVITIES		
Net income	$290	$277
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for credit losses	20	29
Provision (benefit) for deferred income taxes	(13)	26
Depreciation and amortization	61	62
Net periodic defined benefit cost	19	44
Share-based compensation expense	22	18
Net amortization of securities	5	18
Accretion of loan purchase discount	(22)	(18)
Net securities (gains) losses	(1)	2
Net (gains) losses on foreclosed property	(2)	5
Excess tax benefits from share-based compensation arrangements	(6)	(2)
Net change in:		
Trading securities	5	4
Accrued income receivable	(1)	(5)
Accrued expenses payable	(60)	(35)
Other, net	29	(169)
Net cash provided by operating activities	346	256
INVESTING ACTIVITIES		
Investment securities available-for-sale:		
Maturities and redemptions	825	1,761
Purchases	(940)	(1,355)
Net change in loans	(2,422)	563
Proceeds from sales of foreclosed property	9	29
Net increase in premises and equipment	(31)	(42)
Sales of Federal Home Loan Bank stock	41	41
Other, net	1	5
Net cash (used in) provided by investing activities	(2,517)	1,002
FINANCING ACTIVITIES		
Net change in:		
Deposits	763	(636)
Short-term borrowings	(77)	21
Medium- and long-term debt:		
Maturities and redemptions	(1,256)	(1,055)
Issuances	349	—
Common stock:		
Repurchases	(141)	(146)
Cash dividends paid	(65)	(61)
Issuances under employee stock plans	36	12
Excess tax benefits from share-based compensation arrangements	6	2
Other, net	(1)	(4)
Net cash used in financing activities	(386)	(1,867)
Net decrease in cash and cash equivalents	(2,557)	(609)

Cash and cash equivalents at beginning of period	6,451	4,534
Cash and cash equivalents at end of period	$3,894	$3,925
Interest paid	$50	$61
Income taxes and tax-related interest paid	110	22
Noncash investing and financing activities:		
Loans transferred to other real estate	11	9

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, 2014 are not necessarily indicative of the results that may be expected for the year ending December 31, 2014. 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, 2013.

Allowance for Credit Losses

In the second quarter 2014, the Corporation enhanced the approach used to determine the standard reserve factors used in estimating the allowance for credit losses, which had the effect of capturing certain elements in the standard reserve component that had formerly been included in the qualitative assessment. The impact of the change was largely neutral to the total allowance for loan losses at June 30, 2014. However, because standard reserves are allocated to the segments at the loan level, while qualitative reserves are allocated at the portfolio level, the impact of the methodology change on the allowance of each segment reflected the characteristics of the individual loans within each segment's portfolio, causing segment reserves to increase or decrease accordingly.

Recently Adopted Accounting Pronouncement

Effective January 1, 2014, the Corporation early adopted Accounting Standards Update (ASU) No. 2014-01, “Investments-Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Qualified Affordable Housing Projects,” an amendment to GAAP which enables companies that invest in affordable housing projects that qualify for the low-income housing tax credit (LIHTC) to elect to use the proportional amortization method if certain conditions are met. Under the proportional amortization method, the initial investment cost of the project is amortized in proportion to the amount of tax credits and other benefits received, with the results of the investment presented on a net basis as a component of the provision for income taxes. Previously, LIHTC investments were accounted for under the cost or equity method, and the amortization was recorded as a reduction to other noninterest income, with the tax credits and other benefits received recorded as a component of the provision for income taxes. The Corporation believes the proportional amortization method better represents the economics of LIHTC investments and provides users with a better understanding of the returns from such investments than the cost or equity method.

The cumulative effect of the retrospective application of the change in amortization method was a $3 million decrease to both "accrued income and other assets" and "retained earnings" on the consolidated balance sheets as of January 1, 2013. The unaudited consolidated financial statements have been retrospectively adjusted to reflect the prior period effect of the adoption of the amendment, which resulted in increases of $14 million and $27 million to both "other noninterest income" and "provision for income taxes" for the three- and six-month periods ended June 30, 2013, respectively. The adoption of ASU 2014-01 had no effect on net income or earnings per common share for any period presented.

See Note 6 to these unaudited consolidated financial statements for additional information regarding LIHTC and other tax credit investments.

Pending Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued ASU No. 2014-09, “Revenue from Contracts with Customers (Topic 606),” (ASU 2014-09), which is intended to improve and converge the financial reporting requirements for revenue contracts with customers. Previous GAAP comprised broad revenue recognition concepts along with numerous industry-specific requirements. The new guidance establishes a five-step model which entities must follow to recognize revenue and removes inconsistencies and weaknesses in existing guidance. ASU 2014-09 is

effective for annual and interim periods beginning after December 15, 2016, and must be retrospectively applied. Entities will have the option of presenting prior periods as impacted by the new guidance or presenting the cumulative effect of initial application along with supplementary disclosures. Early adoption is prohibited. The Corporation is currently evaluating the impact of adopting ASU 2014-09.

In June 2014, the FASB issued ASU No. 2014-12, “Compensation-Stock Compensation (Topic 718): Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period,” (ASU 2014-12). The new guidance requires that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. ASU 2014-12 is effective for annual and interim periods beginning after December 15, 2015, with early adoption permitted. The Corporation's current accounting treatment of

performance conditions for employees who are or become retirement eligible prior to the achievement of the performance target are consistent with ASU 2014-12, and as such does not expect the new guidance to have a material effect on the Corporation's financial condition and results of operations. The Corporation expects to prospectively adopt ASU 2014-12 in the first quarter 2015.

NOTE 2 – FAIR VALUE MEASUREMENTS

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

Fair value is an estimate of the exchange price that would be received to sell an asset or paid to transfer a liability in an orderly transaction (i.e., not a forced transaction, such as a liquidation or distressed sale) between market participants at the measurement date. However, the calculated fair value estimates in many instances cannot be substantiated by comparison to independent markets and, in many cases, may not be realizable in a current sale of the financial instrument.

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

The Corporation categorizes assets and liabilities recorded at fair value on a recurring or nonrecurring basis and the estimated fair value of financial instruments not recorded at fair value on a recurring basis into a three-level hierarchy, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value.

Level 1	Valuation is based upon quoted prices for identical instruments traded in active markets.
Level 2	Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.
Level 3	Valuation is generated from model-based techniques that use at least one significant assumption not observable in the market. These unobservable assumptions reflect estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include use of option pricing models, discounted cash flow models and similar techniques.

The Corporation generally utilizes third-party pricing services to value Level 1 and Level 2 trading securities and investment securities available-for-sale, as well as certain derivatives designated as fair value hedges. Management reviews the methodologies and assumptions used by the third-party pricing services and evaluates the values provided, principally by comparison with other available market quotes for similar instruments and/or analysis based on internal models using available third-party market data. The Corporation may occasionally adjust certain values provided by the third-party pricing service when management believes, as the result of its review, that the adjusted price most appropriately reflects the fair value of the particular security.

Following are descriptions of the valuation methodologies and key inputs used to measure financial assets and liabilities recorded at fair value, as well as a description of the methods and significant assumptions used to estimate fair value disclosures for financial instruments not recorded at fair value in their entirety on a recurring basis. The descriptions include an indication of the level of the fair value hierarchy in which the assets or liabilities are classified.

Transfers of assets or liabilities between levels of the fair value hierarchy are recognized at the beginning of the reporting period, when applicable.

Cash and due from banks, federal funds sold and interest-bearing deposits with banks

Due to their short-term nature, the carrying amount of these instruments approximates the estimated fair value. As such, the Corporation classifies the estimated fair value of these instruments as Level 1.

Trading securities and associated deferred compensation plan liabilities

Trading securities include securities held for trading purposes as well as assets held related to employee deferred compensation plans. Trading securities and associated deferred compensation plan liabilities are recorded at fair value on a recurring basis and included in "other short-term investments" and "accrued expenses and other liabilities," respectively, on the consolidated

balance sheets. Level 1 trading securities include assets related to employee deferred compensation plans, which are invested in mutual funds, U.S. Treasury securities that are traded by dealers or brokers in active over-the-counter markets and other securities traded on an active exchange, such as the New York Stock Exchange. Deferred compensation plan liabilities represent the fair value of the obligation to the employee, which corresponds to the fair value of the invested assets. Level 2 trading securities include municipal bonds and residential mortgage-backed securities issued by U.S. government-sponsored entities and corporate debt securities. The methods used to value trading securities are the same as the methods used to value investment securities available-for-sale, discussed below.

Loans held-for-sale

Loans held-for-sale, included in "other short-term investments" on the consolidated balance sheets, are recorded at the lower of cost or fair value. Loans held-for-sale may be carried at fair value on a nonrecurring basis when fair value is less than cost. The fair value is based on what secondary markets are currently offering for portfolios with similar characteristics. As such, the Corporation classifies both loans held-for-sale subjected to nonrecurring fair value adjustments and the estimated fair value of loans held-for sale as Level 2.

Investment securities available-for-sale

Investment securities available-for-sale are recorded at fair value on a recurring basis. Level 1 securities include those traded on an active exchange, such as the New York Stock Exchange, U.S. Treasury securities that are traded by dealers or brokers in active over-the-counter markets and money market funds. Level 2 securities include residential mortgage-backed securities issued by U.S. government agencies and U.S. government-sponsored entities and corporate debt securities. The fair value of Level 2 securities was determined using quoted prices of securities with similar characteristics, or pricing models based on observable market data inputs, primarily interest rates, spreads and prepayment information.

Securities classified as Level 3 represent securities in less liquid markets requiring significant management assumptions when determining fair value. Auction-rate securities comprise Level 3 investment securities available-for-sale. Due to the lack of a robust secondary auction-rate securities market with active fair value indicators, fair value for all periods presented was determined using an income approach based on a discounted cash flow model. The discounted cash flow model utilizes two significant inputs: discount rate and workout period. The discount rate was calculated using credit spreads of the underlying collateral or similar securities plus a liquidity risk premium. The liquidity risk premium was derived from the rate at which various types of similar auction-rate securities had been redeemed or sold. The workout period was based on an assessment of publicly available information on efforts to re-establish functioning markets for these securities and the Corporation's own redemption experience. Significant increases in any of these inputs in isolation would result in a significantly lower fair value. The Corporate Development Department, with appropriate oversight and approval provided by senior management, is responsible for determining the valuation methodology for auction-rate securities and for updating significant inputs based on changes to the factors discussed above. Valuation results, including an analysis of changes to the valuation methodology and significant inputs, are provided to senior management for review on a quarterly basis.

Loans

The Corporation does not record loans at fair value on a recurring basis. However, the Corporation may establish a specific allowance for an impaired loan based on the fair value of the underlying collateral. Such loan values are reported as nonrecurring fair value measurements. Collateral values supporting individually evaluated impaired loans are evaluated quarterly. When management determines that the fair value of the collateral requires additional adjustments, either as a result of non-current appraisal value or when there is no observable market price, the Corporation classifies the impaired loan as Level 3. The Special Assets Group is responsible for performing quarterly credit quality reviews for all impaired loans as part of the quarterly allowance for loan losses process overseen by the Chief Credit Officer, during which valuation adjustments to updated collateral values are determined.

The Corporation discloses fair value estimates for loans. The estimated fair value is determined based on characteristics such as loan category, repricing features and remaining maturity, and includes prepayment and credit loss estimates. For variable rate business loans that reprice frequently, the estimated fair value is based on carrying

values adjusted for estimated credit losses inherent in the portfolio at the balance sheet date. For other business loans and retail loans, fair values are estimated using a discounted cash flow model that employs a discount rate that reflects the Corporation's current pricing for loans with similar characteristics and remaining maturity, adjusted by an amount for estimated credit losses inherent in the portfolio at the balance sheet date. The rates take into account the expected yield curve, as well as an adjustment for prepayment risk, when applicable. The Corporation classifies the estimated fair value of loans held for investment as Level 3.

Customers’ liability on acceptances outstanding and acceptances outstanding

Customers' liability on acceptances outstanding is included in "accrued income and other assets" and acceptances outstanding are included in "accrued expenses and other liabilities" on the consolidated balance sheets. Due to their short-term nature, the carrying amount of these instruments approximates the estimated fair value. As such, the Corporation classifies the estimated fair value of these instruments as Level 1.

Derivative assets and derivative liabilities

Derivative instruments held or issued for risk management or customer-initiated activities are traded in over-the-counter markets where quoted market prices are not readily available. Fair value for over-the-counter derivative instruments is measured on a recurring basis using internally developed models that use primarily market observable inputs, such as yield curves and option volatilities. The Corporation manages credit risk on its derivative positions based on whether the derivatives are being settled through a clearinghouse or bilaterally with each counterparty. For derivative positions settled on a counterparty-by-counterparty basis, the Corporation calculates credit valuation adjustments, included in the fair value of these instruments, on the basis of its relationships at the counterparty portfolio/master netting agreement level. These credit valuation adjustments are determined by applying a credit spread for the counterparty or the Corporation, as appropriate, to the total expected exposure of the derivative after considering collateral and other master netting arrangements. These adjustments, which are considered Level 3 inputs, are based on estimates of current credit spreads to evaluate the likelihood of default. The Corporation assessed the significance of the impact of the credit valuation adjustments on the overall valuation of its derivative positions and determined that the credit valuation adjustments were not significant to the overall valuation of its derivatives. As a result, the Corporation classifies its over-the-counter derivative valuations in Level 2 of the fair value hierarchy. Examples of Level 2 derivative instruments are interest rate swaps and energy derivative and foreign exchange contracts.

Warrants which contain a net exercise provision or a non-contingent put right embedded in the warrant agreement are accounted for as derivatives and recorded at fair value on a recurring basis using a Black-Scholes valuation model. The Black-Scholes valuation model utilizes five inputs: risk-free rate, expected life, volatility, exercise price, and the per share market value of the underlying company. The Corporation holds a portfolio of warrants for generally nonmarketable equity securities with a fair value of $4 million at June 30, 2014, included in "accrued income and other assets" on the consolidated balance sheets. These warrants are primarily from non-public technology companies obtained as part of the loan origination process. The Corporate Development Department is responsible for the warrant valuation process, which includes reviewing all significant inputs for reasonableness, and for providing valuation results to senior management. Increases in any of these inputs in isolation, with the exception of exercise price, would result in a higher fair value. Increases in exercise price in isolation would result in a lower fair value. The Corporation classifies warrants accounted for as derivatives as Level 3.

The Corporation also holds a derivative contract associated with the 2008 sale of its remaining ownership of Visa Inc. (Visa) Class B shares. Under the terms of the derivative contract, the Corporation will compensate the counterparty primarily for dilutive adjustments made to the conversion factor of the Visa Class B to Class A shares based on the ultimate outcome of litigation involving Visa. Conversely, the Corporation will be compensated by the counterparty for any increase in the conversion factor from anti-dilutive adjustments. At June 30, 2014, the fair value of the contract was a liability of $2 million. The recurring fair value of the derivative contract is based on unobservable inputs consisting of management's estimate of the litigation outcome, timing of litigation settlements and payments related to the derivative. Significant increases in the estimate of litigation outcome and the timing of litigation settlements in isolation would result in a significantly higher liability fair value. Significant increases in payments related to the derivative in isolation would result in a significantly lower liability fair value. The Corporation classifies the derivative liability as Level 3.

Nonmarketable equity securities

The Corporation has a portfolio of indirect (through funds) private equity and venture capital investments with a carrying value and unfunded commitments of $12 million and $5 million, respectively, at June 30, 2014. These funds

generally cannot be redeemed and the majority are not readily marketable. Distributions from these funds are received by the Corporation as a result of the liquidation of underlying investments of the funds and/or as income distributions. It is estimated that the underlying assets of the funds will be liquidated over a period of up to 16 years. Recently issued federal regulations may require the Corporation to sell certain of these funds prior to liquidation. The investments are accounted for either on the cost or equity method and are individually reviewed for impairment on a quarterly basis by comparing the carrying value to the estimated fair value. These investments may be carried at fair value on a nonrecurring basis when they are deemed to be impaired and written down to fair value. Where there is not a readily determinable fair value, the Corporation estimates fair value for indirect private equity and venture capital investments based on the net asset value, as reported by the fund, after indication that the fund adheres to applicable fair value measurement guidance. For those funds where the net asset value is not reported by the fund, the Corporation derives the fair value of the fund by estimating the fair value of each underlying investment in the fund. In addition to using qualitative

information about each underlying investment, as provided by the fund, the Corporation gives consideration to information pertinent to the specific nature of the debt or equity investment, such as relevant market conditions, offering prices, operating results, financial conditions, exit strategy and other qualitative information, as available. The lack of an independent source to validate fair value estimates, including the impact of future capital calls and transfer restrictions, is an inherent limitation in the valuation process. On a quarterly basis, the Corporate Development Department is responsible, with appropriate oversight and approval provided by senior management, for performing the valuation procedures and updating significant inputs, as are primarily provided by the underlying fund's management. The Corporation classifies fair value measurements of nonmarketable equity securities as Level 3. Commitments to fund additional investments in nonmarketable equity securities recorded at fair value on a nonrecurring basis were not significant at June 30, 2014 or December 31, 2013.

The Corporation also holds restricted equity investments, primarily Federal Home Loan Bank (FHLB) and Federal Reserve Bank (FRB) stock. Restricted equity securities are not readily marketable and are recorded at cost (par value) in "accrued income and other assets" on the consolidated balance sheets and evaluated for impairment based on the ultimate recoverability of the par value. No significant observable market data for these instruments is available. The Corporation considers the profitability and asset quality of the issuer, dividend payment history and recent redemption experience when determining the ultimate recoverability of the par value. The Corporation’s investment in FHLB stock totaled $7 million and $48 million at June 30, 2014 and December 31, 2013, respectively, and its investment in FRB stock totaled $85 million at both June 30, 2014 and December 31, 2013. The Corporation believes its investments in FHLB and FRB stock are ultimately recoverable at par. Therefore, the carrying amount for these restricted equity investments approximates fair value. The Corporation classifies the estimated fair value of such investments as Level 1.

Other real estate

Other real estate is included in “accrued income and other assets” on the consolidated balance sheets and includes primarily foreclosed property. Foreclosed property is initially recorded at fair value, less costs to sell, at the date of foreclosure, establishing a new cost basis. Subsequently, foreclosed property is carried at the lower of cost or fair value, less costs to sell. Other real estate may be carried at fair value on a nonrecurring basis when fair value is less than cost. Fair value is based upon independent market prices, appraised value or management's estimate of the value of the property. The Special Assets Group obtains updated independent market prices and appraised values, as required by state regulation or deemed necessary based on market conditions, and determines if additional write-downs are necessary. On a quarterly basis, senior management reviews all other real estate and determines whether the carrying values are reasonable, based on the length of time elapsed since receipt of independent market price or appraised value and current market conditions. When management determines that the fair value of other real estate requires additional adjustments, either as a result of a non-current appraisal or when there is no observable market price, the Corporation classifies the other real estate as Level 3.

Deposit liabilities

The estimated fair value of checking, savings and certain money market deposit accounts is represented by the amounts payable on demand. The estimated fair value of term deposits is calculated by discounting the scheduled cash flows using the period-end rates offered on these instruments. As such, the Corporation classifies the estimated fair value of deposit liabilities as Level 2.

Short-term borrowings

The carrying amount of federal funds purchased, securities sold under agreements to repurchase and other short-term borrowings approximates the estimated fair value. As such, the Corporation classifies the estimated fair value of short-term borrowings as Level 1.

Medium- and long-term debt

The carrying value of variable-rate FHLB advances approximates the estimated fair value. The estimated fair value of the Corporation's remaining variable- and fixed-rate medium- and long-term debt is based on quoted market values when available. If quoted market values are not available, the estimated fair value is based on the market values of

debt with similar characteristics. The Corporation classifies the estimated fair value of medium- and long-term debt as Level 2.

Credit-related financial instruments

Credit-related financial instruments include unused commitments to extend credit and letters of credit. These instruments generate ongoing fees which are recognized over the term of the commitment. In situations where credit losses are probable, the Corporation records an allowance. The carrying value of these instruments included in "accrued expenses and other liabilities" on the consolidated balance sheets, which includes the carrying value of the deferred fees plus the related allowance, approximates the estimated fair value. The Corporation classifies the estimated fair value of credit-related financial instruments as Level 3.

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, 2014 and December 31, 2013.

(in millions)	Total	Level 1	Level 2	Level 3	
June 30, 2014					
Trading securities:					
Deferred compensation plan assets	$96	$96	$—	$—	
Equity and other non-debt securities	2	2	—	—	
Residential mortgage-backed securities (a)	3	—	3	—	
State and municipal securities	1	—	1	—	
Corporate debt securities	1	—	1	—	
Total trading securities	103	98	5	—	
Investment securities available-for-sale:					
U.S. Treasury and other U.S. government agency securities	65	65	—	—	
Residential mortgage-backed securities (a)	9,141	—	9,141	—	
State and municipal securities	23	—	—	23	(b)
Corporate debt securities	55	—	54	1	(b)
Equity and other non-debt securities	250	132	—	118	(b)
Total investment securities available-for-sale	9,534	197	9,195	142	
Derivative assets:					
Interest rate contracts	344	—	344	—	
Energy derivative contracts	153	—	153	—	
Foreign exchange contracts	20	—	20	—	
Warrants	4	—	—	4	
Total derivative assets	521	—	517	4	
Total assets at fair value	$10,158	$295	$9,717	$146	
Derivative liabilities:					
Interest rate contracts	$115	$—	$115	$—	
Energy derivative contracts	151	—	151	—	
Foreign exchange contracts	20	—	20	—	
Other	2	—	—	2	
Total derivative liabilities	288	—	286	2	
Deferred compensation plan liabilities	96	96	—	—	
Total liabilities at fair value	$384	$96	$286	$2	

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

(b) Auction-rate securities.

(in millions)	Total	Level 1	Level 2	Level 3	
December 31, 2013					
Trading securities:					
Deferred compensation plan assets	$96	$96	$—	$—	
Equity and other non-debt securities	7	7	—	—	
Residential mortgage-backed securities (a)	2	—	2	—	
State and municipal securities	3	—	3	—	
Total trading securities	108	103	5	—	
Investment securities available-for-sale:					
U.S. Treasury and other U.S. government agency securities	45	45	—	—	
Residential mortgage-backed securities (a)	8,926	—	8,926	—	
State and municipal securities	22	—	—	22	(b)
Corporate debt securities	56	—	55	1	(b)
Equity and other non-debt securities	258	122	—	136	(b)
Total investment securities available-for-sale	9,307	167	8,981	159	
Derivative assets:					
Interest rate contracts	380	—	380	—	
Energy derivative contracts	105	—	105	—	
Foreign exchange contracts	15	—	15	—	
Warrants	3	—	—	3	
Total derivative assets	503	—	500	3	
Total assets at fair value	$9,918	$270	$9,486	$162	
Derivative liabilities:					
Interest rate contracts	$133	$—	$133	$—	
Energy derivative contracts	102	—	102	—	
Foreign exchange contracts	14	—	14	—	
Other	2	—	—	2	
Total derivative liabilities	251	—	249	2	
Deferred compensation plan liabilities	96	96	—	—	
Total liabilities at fair value	$347	$96	$249	$2	

(a) Residential mortgage-backed securities 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, 2014 and 2013.

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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, 2014 and 2013.

		Net Realized/Unrealized Gains (Losses) (Pretax)				
		Recorded in Earnings				
(in millions)	Balance at Beginning of Period	Realized	Unrealized	Recorded in Other Comprehensive Income	Sales	Balance at End of Period
Three Months Ended June 30, 2014						
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)	118	—	—	1 (b)	(1)	118
Total investment securities available-for-sale	142	—	—	1 (b)	(1)	142
Derivative assets:						
Warrants	3	4 (d)	—	—	(3)	4
Derivative liabilities:						
Other	2	—	—	—	—	2
Three Months Ended June 30, 2013						
Investment securities available-for-sale:						
State and municipal securities (a)	$23	$—	$—	$2 (b)	$—	$25
Corporate debt securities (a)	1	—	—	—	—	1
Equity and other non-debt securities (a)	153	—	—	(7) (b)	—	146
Total investment securities available-for-sale	177	—	—	(5) (b)	—	172
Derivative assets:						
Warrants	3	—	1 (d)	—	(1)	3
Derivative liabilities:						
Other	1	—	(2) (c)	—	—	3
Six Months Ended June 30, 2014						
Investment securities available-for-sale:						
State and municipal securities (a)	$22	$—	$—	$1 (b)	$—	$23
Corporate debt securities (a)	1	—	—	—	—	1
Equity and other non-debt securities (a)	136	1 (c)	—	6 (b)	(25)	118
Total investment securities available-for-sale	159	1 (c)	—	7 (b)	(25)	142
Derivative assets:						
Warrants	3	4 (d)	1 (d)	—	(4)	4
Derivative liabilities:						
Other	2	—	—	—	—	2
Six Months Ended June 30, 2013						
Investment securities available-for-sale:						
State and municipal securities (a)	$23	$—	$—	$2 (b)	$—	$25
Corporate debt securities (a)	1	—	—	—	—	1
Equity and other non-debt securities (a)	156	—	—	(6) (b)	(4)	146
Total investment securities	180	—	—	(4) (b)	(4)	172

available-for-sale						
Derivative assets:						
Warrants	3	1 (d)	1 (d)	—	(2)	3
Derivative liabilities:						
Other	1	—	(2) (c)	—	—	3

(a) Auction-rate securities.

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

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

(d) Realized and unrealized gains and losses due to changes in fair value recorded in "other noninterest income" 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. All assets recorded at fair value on a nonrecurring basis were classified as Level 3 at June 30, 2014 and December 31, 2013 and are presented in the following table. No liabilities were recorded at fair value on a nonrecurring basis at June 30, 2014 and December 31, 2013.

(in millions)	Level 3
June 30, 2014	
Loans:	
Commercial	$10
Real estate construction	17
Commercial mortgage	68
Total loans	95
Nonmarketable equity securities	1
Other real estate	1
Total assets at fair value	$97
December 31, 2013	
Loans:	
Commercial	$43
Real estate construction	20
Commercial mortgage	61
International	4
Total loans	128
Nonmarketable equity securities	2
Other real estate	5
Total assets at fair value	$135

Level 3 assets recorded at fair value on a nonrecurring basis at June 30, 2014 and December 31, 2013 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 following table presents quantitative information related to the significant unobservable inputs utilized in the Corporation's Level 3 recurring fair value measurement as of June 30, 2014 and December 31, 2013. The Corporation's Level 3 recurring fair value measurements include auction-rate securities where fair value is determined using an income approach based on a discounted cash flow model. 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, 2014 workout periods reflect management's view that short-term interest rates could begin to rise in 2015.

		Discounted Cash Flow Model Unobservable Input	
	Fair Value (in millions)	Discount Rate	Workout Period (in years)
June 30, 2014			
State and municipal securities (a)	$23	3% - 10%	1 - 3.5

Equity and other non-debt securities (a)	118	4% - 8%	1 - 2.5
December 31, 2013			
State and municipal securities (a)	$22	5% - 10%	3 - 4
Equity and other non-debt securities (a)	136	5% - 8%	2 - 3

(a) Auction-rate securities.

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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:

	Carrying	Estimated Fair Value			
(in millions)	Amount	Total	Level 1	Level 2	Level 3
June 30, 2014					
Assets					
Cash and due from banks	$1,226	$1,226	$1,226	$—	$—
Interest-bearing deposits with banks	2,668	2,668	2,668	—	—
Loans held-for-sale	6	6	—	6	—
Total loans, net of allowance for loan losses (a)	47,291	47,236	—	—	47,236
Customers' liability on acceptances outstanding	10	10	10	—	—
Nonmarketable equity securities (b)	12	19	—	—	19
Restricted equity investments	92	92	92	—	—
Liabilities					
Demand deposits (noninterest-bearing)	24,774	24,774	—	24,774	—
Interest-bearing deposits	24,434	24,434	—	24,434	—
Customer certificates of deposit	4,962	4,955	—	4,955	—
Total deposits	54,170	54,163	—	54,163	—
Short-term borrowings	176	176	176	—	—
Acceptances outstanding	10	10	10	—	—
Medium- and long-term debt	2,620	2,593	—	2,593	—
Credit-related financial instruments	(94)	(94)	—	—	(94)
December 31, 2013					
Assets					
Cash and due from banks	$1,140	$1,140	$1,140	$—	$—
Interest-bearing deposits with banks	5,311	5,311	5,311	—	—
Loans held-for-sale	4	4	—	4	—
Total loans, net of allowance for loan losses (a)	44,872	44,801	—	—	44,801
Customers' liability on acceptances outstanding	11	11	11	—	—
Nonmarketable equity securities (b)	12	19	—	—	19
Restricted equity investments	133	133	133	—	—
Liabilities					
Demand deposits (noninterest-bearing)	23,875	23,875	—	23,875	—
Interest-bearing deposits	24,354	24,354	—	24,354	—
Customer certificates of deposit	5,063	5,055	—	5,055	—
Total deposits	53,292	53,284	—	53,284	—
Short-term borrowings	253	253	253	—	—
Acceptances outstanding	11	11	11	—	—
Medium- and long-term debt	3,543	3,540	—	3,540	—

Credit-related financial instruments	(88)	(88)	—	—	(88)

(a) Included $95 million and $128 million of impaired loans recorded at fair value on a nonrecurring basis at June 30, 2014 and December 31, 2013, respectively.

(b) Included $1 million and $2 million of nonmarketable equity securities recorded at fair value on a nonrecurring basis at June 30, 2014 and December 31, 2013, respectively.

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NOTE 3 - INVESTMENT SECURITIES
A summary of the Corporation's investment securities available-for-sale follows:

(in millions)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
June 30, 2014				
U.S. Treasury and other U.S. government agency securities	$65	$—	$—	$65
Residential mortgage-backed securities (a)	9,129	125	113	9,141
State and municipal securities	24	—	1	23
Corporate debt securities	55	—	—	55
Equity and other non-debt securities	253	—	3	250
Total investment securities available-for-sale (b)	$9,526	$125	$117	$9,534
December 31, 2013				
U.S. Treasury and other U.S. government agency securities	$45	$—	$—	$45
Residential mortgage-backed securities (a)	9,023	91	188	8,926
State and municipal securities	24	—	2	22
Corporate debt securities	56	—	—	56
Equity and other non-debt securities	266	1	9	258
Total investment securities available-for-sale (b)	$9,414	$92	$199	$9,307

(a) Residential mortgage-backed securities 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 $145 million and $142 million, respectively, as of June 30, 2014 and $169 million and $159 million, respectively, as of December 31, 2013.

A summary of the Corporation's investment securities available-for-sale in an unrealized loss position as of June 30, 2014 and December 31, 2013 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, 2014								
Residential mortgage-backed securities (a)	$911	$5	$3,408	$108		$4,319	$113	
State and municipal securities (b)	—	—	22	1		22	1	
Corporate debt securities (b)	—	—	1	—	(c)	1	—	(c)
Equity and other non-debt securities (b)	—	—	131	3		131	3	
Total impaired securities	$911	$5	$3,562	$112		$4,473	$117	
December 31, 2013								
Residential mortgage-backed securities (a)	$5,825	$187	$11	$1		$5,836	$188	
State and municipal securities (b)	—	—	22	2		22	2	
Corporate debt securities (b)	—	—	1	—	(c)	1	—	(c)
Equity and other non-debt securities (b)	—	—	148	9		148	9	
Total impaired securities	$5,825	$187	$182	$12		$6,007	$199	

(a)

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

(b) Auction-rate securities.

(c) Unrealized losses less than $0.5 million.

At June 30, 2014, the Corporation had 155 securities in an unrealized loss position with no credit impairment, including 90 residential mortgage-backed securities, 46 equity and other non-debt auction-rate preferred securities, 17 state and municipal auction-rate securities, one corporate auction-rate debt security and one mutual fund. As of June 30, 2014, approximately 89 percent of the aggregate par value of auction-rate securities have been redeemed or sold since acquisition, of which approximately 95 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, 2014.

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

	Six Months Ended June 30,	
(in millions)	2014	2013
Securities gains	$1	$—
Securities losses (a)	—	(2)
Net securities (losses) gains	$1	$(2)

(a) Charges related to a derivative contract tied to the conversion rate of Visa Class B shares.

The following table summarizes the amortized cost and fair values of debt securities by contractual maturity. Securities with multiple maturity dates are classified in the period of final maturity. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

(in millions) June 30, 2014	Amortized Cost	Fair Value
Contractual maturity		
Within one year	$154	$154
After one year through five years	287	289
After five years through ten years	294	306
After ten years	8,538	8,535
Subtotal	9,273	9,284
Equity and other non-debt securities	253	250
Total investment securities available-for-sale	$9,526	$9,534

Included in the contractual maturity distribution in the table above were auction-rate securities with a total amortized cost and fair value of $24 million and $23 million, respectively. Auction-rate securities are long-term, floating rate instruments for which interest rates are reset at periodic auctions. At each successful auction, the Corporation has the option to sell the security at par value. Additionally, the issuers of auction-rate securities generally have the right to redeem or refinance the debt. As a result, the expected life of auction-rate securities may differ significantly from the contractual life. Also included in the table above were residential mortgage-backed securities with total amortized cost and fair value of $9.1 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, 2014, investment securities with a carrying value of $3.3 billion were pledged where permitted or required by law to secure $2.1 billion of liabilities, primarily public and other deposits of state and local government agencies and derivative instruments.

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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 (c)	Total Loans
June 30, 2014							
Business loans:							
Commercial	$12	$26	$—	$38	$72	$30,876	$30,986
Real estate construction:							
Commercial Real Estate business line (a)	—	—	—	—	18	1,583	1,601
Other business lines (b)	25	—	—	25	1	312	338
Total real estate construction	25	—	—	25	19	1,895	1,939
Commercial mortgage:							
Commercial Real Estate business line (a)	5	2	—	7	57	1,712	1,776
Other business lines (b)	19	8	5	32	99	6,840	6,971
Total commercial mortgage	24	10	5	39	156	8,552	8,747
Lease financing	—	—	—	—	—	822	822
International	—	—	1	1	—	1,351	1,352
Total business loans	61	36	6	103	247	43,496	43,846
Retail loans:							
Residential mortgage	9	2	—	11	45	1,719	1,775
Consumer:							
Home equity	7	2	1	10	32	1,532	1,574
Other consumer	1	—	—	1	2	684	687
Total consumer	8	2	1	11	34	2,216	2,261
Total retail loans	17	4	1	22	79	3,935	4,036
Total loans	$78	$40	$7	$125	$326	$47,431	$47,882
December 31, 2013							
Business loans:							
Commercial	$36	$17	$4	$57	$81	$28,677	$28,815
Real estate construction:							
Commercial Real Estate business line (a)	—	—	—	—	20	1,427	1,447
Other business lines (b)	—	—	—	—	1	314	315
Total real estate construction	—	—	—	—	21	1,741	1,762
Commercial mortgage:							
Commercial Real Estate business line (a)	9	1	—	10	51	1,617	1,678
Other business lines (b)	27	6	4	37	105	6,967	7,109
Total commercial mortgage	36	7	4	47	156	8,584	8,787
Lease financing	—	—	—	—	—	845	845
International	—	—	3	3	4	1,320	1,327
Total business loans	72	24	11	107	262	41,167	41,536
Retail loans:							
Residential mortgage	15	3	—	18	53	1,626	1,697

Consumer:							
Home equity	6	2	—	8	33	1,476	1,517
Other consumer	4	1	5	10	2	708	720
Total consumer	10	3	5	18	35	2,184	2,237
Total retail loans	25	6	5	36	88	3,810	3,934
Total loans	$97	$30	$16	$143	$350	$44,977	$45,470

(a) Primarily loans to real estate developers.

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

(c) Included purchased credit-impaired (PCI) loans with a total carrying value of $3 million at June 30, 2014 and $5 million at December 31, 2013.

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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, 2014					
Business loans:					
Commercial	$29,547	$600	$ 767	$ 72	$30,986
Real estate construction:					
Commercial Real Estate business line (e)	1,560	23	—	18	1,601
Other business lines (f)	337	—	—	1	338
Total real estate construction	1,897	23	—	19	1,939
Commercial mortgage:					
Commercial Real Estate business line (e)	1,609	63	47	57	1,776
Other business lines (f)	6,555	129	188	99	6,971
Total commercial mortgage	8,164	192	235	156	8,747
Lease financing	818	2	2	—	822
International	1,334	9	9	—	1,352
Total business loans	41,760	826	1,013	247	43,846
Retail loans:					
Residential mortgage	1,721	3	6	45	1,775
Consumer:					
Home equity	1,532	3	7	32	1,574
Other consumer	681	3	1	2	687
Total consumer	2,213	6	8	34	2,261
Total retail loans	3,934	9	14	79	4,036
Total loans	$45,694	$835	$ 1,027	$ 326	$47,882
December 31, 2013					
Business loans:					
Commercial	$27,470	$590	$ 674	$ 81	$28,815
Real estate construction:					
Commercial Real Estate business line (e)	1,399	13	15	20	1,447
Other business lines (f)	314	—	—	1	315
Total real estate construction	1,713	13	15	21	1,762
Commercial mortgage:					
Commercial Real Estate business line (e)	1,474	92	61	51	1,678
Other business lines (f)	6,596	145	263	105	7,109
Total commercial mortgage	8,070	237	324	156	8,787
Lease financing	841	3	1	—	845
International	1,298	7	18	4	1,327
Total business loans	39,392	850	1,032	262	41,536
Retail loans:					
Residential mortgage	1,635	3	6	53	1,697
Consumer:					
Home equity	1,475	4	5	33	1,517
Other consumer	708	3	7	2	720

Total consumer	2,183	7	12	35	2,237
Total retail loans	3,818	10	18	88	3,934
Total loans	$43,210	$860	$ 1,050	$ 350	$45,470

(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. PCI loans are included in the substandard category. 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 2013 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, 2014	December 31, 2013
Nonaccrual loans	$326	$350
Reduced-rate loans (a)	21	24
Total nonperforming loans	347	374
Foreclosed property	13	9
Total nonperforming assets	$360	$383

(a) Reduced-rate business loans totaled $4 million at both June 30, 2014 and December 31, 2013, and reduced-rate retail loans totaled $17 million and $20 million at June 30, 2014 and December 31, 2013, respectively.

Allowance for Credit Losses

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

(in millions)	2014 Business Loans	2014 Retail Loans	2014 Total	2013 Business Loans	2013 Retail Loans	2013 Total
Three Months Ended June 30						
Allowance for loan losses:						
Balance at beginning of period	$530	$64	$594	$544	$73	$617
Loan charge-offs	(24)	(4)	(28)	(30)	(5)	(35)
Recoveries on loans previously charged-off	15	4	19	15	3	18
Net loan charge-offs	(9)	—	(9)	(15)	(2)	(17)
Provision for loan losses	7	(1)	6	13	—	13
Balance at end of period	$528	$63	$591	$542	$71	$613
Six Months Ended June 30						
Allowance for loan losses:						
Balance at beginning of period	$531	$67	$598	$552	$77	$629
Loan charge-offs	(51)	(7)	(58)	(64)	(9)	(73)
Recoveries on loans previously charged-off	31	6	37	27	5	32
Net loan charge-offs	(20)	(1)	(21)	(37)	(4)	(41)
Provision for loan losses	17	(3)	14	27	(2)	25
Balance at end of period	$528	$63	$591	$542	$71	$613
As a percentage of total loans	1.21%	1.55%	1.23%	1.30%	1.91%	1.35%
June 30						
Allowance for loan losses:						
Individually evaluated for impairment	$39	$—	$39	$56	$—	$56
Collectively evaluated for impairment	489	63	552	486	71	557
Total allowance for loan losses	$528	$63	$591	$542	$71	$613
Loans:						
Individually evaluated for impairment	$215	$45	$260	$314	$42	$356

Collectively evaluated for impairment	43,631	3,988	47,619	41,390	3,688	45,078
PCI loans (a)	—	3	3	20	5	25
Total loans evaluated for impairment	$43,846	$4,036	$47,882	$41,724	$3,735	$45,459

(a) No allowance for loan losses was required for PCI loans at June 30, 2014 and 2013.

Changes in the allowance for credit losses on lending-related commitments, included in "accrued expenses and other liabilities" on the consolidated balance sheets, are summarized in the following table.

	Three Months Ended June 30,		Six Months Ended June 30,	
(in millions)	2014	2013	2014	2013
Balance at beginning of period	$37	$36	$36	$32
Provision for credit losses on lending-related commitments	5	—	6	4
Balance at end of period	$42	$36	$42	$36

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Individually Evaluated Impaired Loans

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

	Recorded Investment In:				
(in millions)	Impaired Loans with No Related Allowance	Impaired Loans with Related Allowance	Total Impaired Loans	Unpaid Principal Balance	Related Allowance for Loan Losses
June 30, 2014					
Business loans:					
Commercial	$3	$58	$61	$92	$11
Real estate construction:					
Commercial Real Estate business line (a)	—	18	18	21	2
Other business lines (b)	—	—	—	1	—
Total real estate construction	—	18	18	22	2
Commercial mortgage:					
Commercial Real Estate business line (a)	7	55	62	106	12
Other business lines (b)	2	70	72	96	14
Total commercial mortgage	9	125	134	202	26
International	2	—	2	2	—
Total business loans	14	201	215	318	39
Retail loans:					
Residential mortgage	30	—	30	35	—
Consumer:					
Home equity	10	—	10	15	—
Other consumer	5	—	5	5	—
Total consumer	15	—	15	20	—
Total retail loans (c)	45	—	45	55	—
Total individually evaluated impaired loans	$59	$201	$260	$373	$39
December 31, 2013					
Business loans:					
Commercial	$10	$64	$74	$121	$26
Real estate construction:					
Commercial Real Estate business line (a)	—	20	20	24	3
Other business lines (b)	—	1	1	1	—
Total real estate construction	—	21	21	25	3
Commercial mortgage:					
Commercial Real Estate business line (a)	—	60	60	104	12
Other business lines (b)	1	63	64	90	15
Total commercial mortgage	1	123	124	194	27
International	—	4	4	4	1
Total business loans	11	212	223	344	57
Retail loans:					
Residential mortgage	35	—	35	42	—
Consumer:					
Home equity	12	—	12	17	—
Other consumer	4	—	4	12	—

Total consumer	16	—	16	29	—
Total retail loans (c)	51	—	51	71	—
Total individually evaluated impaired loans	$62	$212	$274	$415	$57

(a) Primarily loans to real estate developers.

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

(c) Individually evaluated retail loans had no related allowance for loan losses, primarily due to policy changes which resulted in direct write-downs of restructured retail loans.

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The following table presents information regarding average individually evaluated impaired loans and the related interest recognized. Interest income recognized for the period primarily related to reduced-rate loans.

	Individually Evaluated Impaired Loans			
	2014		2013	
(in millions)	Average Balance for the Period	Interest Income Recognized for the Period	Average Balance for the Period	Interest Income Recognized for the Period
Three Months Ended June 30				
Business loans:				
Commercial	$56	$—	$103	$1
Real estate construction:				
Commercial Real Estate business line (a)	17	—	26	—
Commercial mortgage:				
Commercial Real Estate business line (a)	63	—	87	—
Other business lines (b)	71	1	119	1
Total commercial mortgage	134	1	206	1
International	2	—	—	—
Total business loans	209	1	335	2
Retail loans:				
Residential mortgage	31	—	33	—
Consumer loans:				
Home equity	12	—	5	—
Other consumer	4	—	4	—
Total consumer	16	—	9	—
Total retail loans	47	—	42	—
Total individually evaluated impaired loans	$256	$1	$377	$2
Six Months Ended June 30				
Business loans:				
Commercial	$62	$—	$108	$2
Real estate construction:				
Commercial Real Estate business line (a)	18	—	26	—
Commercial mortgage:				
Commercial Real Estate business line (a)	62	—	91	—
Other business lines (b)	70	2	120	1
Total commercial mortgage	132	2	211	1
Lease financing	—	—	1	—
International	2	—	—	—
Total business loans	214	2	346	3
Retail loans:				
Residential mortgage	32	—	35	—
Consumer:				
Home equity	12	—	6	—
Other consumer	4	—	4	—
Total consumer	16	—	10	—
Total retail loans	48	—	45	—
	$262	$2	$391	$3

Total individually evaluated impaired loans

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

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Troubled Debt Restructurings
The following tables detail the recorded balance at June 30, 2014 and 2013 of loans considered to be TDRs that were restructured during the three- and six-month periods ended June 30, 2014 and 2013, by type of modification. In cases of loans with more than one type of modification, the loans were categorized based on the most significant modification.

	2014			2013			
	Type of Modification			Type of Modification			
(in millions)	Principal Deferrals (a)	Interest Rate Reductions	Total Modifications	Principal Deferrals (a)	Interest Rate Reductions	AB Note Restructures (b)	Total Modifications
Three Months Ended June 30							
Business loans:							
Commercial	$—	$ —	$ —	$4	$ —	$ 9	$ 13
Commercial mortgage:							
Commercial Real Estate business line (c)	—	—	—	5	—	—	5
Other business lines (d)	—	—	—	5	—	—	5
Total commercial mortgage	—	—	—	10	—	—	10
Total business loans	—	—	—	14	—	9	23
Retail loans:							
Residential mortgage	—	—	—	1 (e)	1	—	2
Consumer:							
Home equity	—	1	1	1 (e)	1	—	2
Total retail loans	—	1	1	2	2	—	4
Total loans	$—	$ 1	$ 1	$16	$ 2	$ 9	$ 27
Six Months Ended June 30							
Business loans:							
Commercial	$1	$ —	$ 1	$11	$ —	$ 9	$ 20
Commercial mortgage:							
Commercial Real Estate business line (c)	—	—	—	21	—	—	21
Other business lines (d)	8	—	8	11	—	10	21
Total commercial mortgage	8	—	8	32	—	10	42
International	1	—	1	—	—	—	—
Total business loans	10	—	10	43	—	19	62
Retail loans:							
Residential mortgage	—	—	—	1 (e)	1	—	2
Consumer:							
Home equity	—	2	2	2 (e)	1	—	3
Other consumer	—	—	—	1 (e)	—	—	1
Total consumer	—	2	2	3	1	—	4
Total retail loans	—	2	2	4	2	—	6
Total loans	$10	$ 2	$ 12	$47	$ 2	$ 19	$ 68

(a) Primarily represents loan balances where terms were extended 90 days or more at or above contractual interest rates.
(b)

Loan restructurings whereby the original loan is restructured into two notes: an "A" note, which generally reflects the portion of the modified loan which is expected to be collected; and a "B" note, which is either fully charged off or exchanged for an equity interest.

(c) Primarily loans to real estate developers.

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

(e) Includes bankruptcy loans for which the court has discharged the borrower's obligation and the borrower has not reaffirmed the debt.

At June 30, 2014 and December 31, 2013, commitments to lend additional funds to borrowers whose terms have been modified in TDRs totaled zero and $4 million, respectively.

The majority of the modifications considered to be TDRs that occurred during the six months ended June 30, 2014 and 2013 were principal deferrals. The Corporation charges interest on principal balances outstanding during deferral periods. Additionally, none of the modifications involved forgiveness of principal. As a result, the current and future financial effects of the recorded balance of loans considered to be TDRs that were restructured during the six months ended June 30, 2014 and 2013 were insignificant.

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

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The following table presents information regarding the recorded balance at June 30, 2014 and 2013 of loans modified by principal deferral during the twelve months ended June 30, 2014 and 2013, and those principal deferrals which experienced a subsequent default during the three- and six-month periods ended June 30, 2014 and 2013. For principal deferrals, incremental deterioration in the credit quality of the loan, represented by a downgrade in the risk rating of the loan, for example, due to missed interest payments or a reduction of collateral value, is considered a subsequent default.

	2014				2013			
(in millions)	Balance at June 30		Subsequent Default in the Three Months Ended June 30	Subsequent Default in the Six Months Ended June 30	Balance at June 30		Subsequent Default in the Three Months Ended June 30	Subsequent Default in the Six Months Ended June 30
Principal deferrals:								
Business loans:								
Commercial	$12		$—	$2	$14		$11	$12
Real estate construction:								
Commercial Real Estate business line (a)	—		—	—	1		—	—
Commercial mortgage:								
Commercial Real Estate business line (a)	17		—	—	27		—	16
Other business lines (b)	11		—	—	19		4	7
Total commercial mortgage	28		—	—	46		4	23
International	1		—	—	—		—	—
Total business loans	41		—	2	61		15	35
Retail loans:								
Residential mortgage	2	(c)	—	—	5	(c)	—	—
Consumer:								
Home equity	4	(c)	—	—	5	(c)	—	—
Other consumer	1	(c)	—	—	2	(c)	—	—
Total consumer	5		—	—	7		—	—
Total retail loans	7		—	—	12		—	—
Total principal deferrals	$48		$—	$2	$73		$15	$35

(a) Primarily loans to real estate developers.
(b) Primarily loans secured by owner-occupied real estate.
(c) Includes bankruptcy loans for which the court has discharged the borrower's obligation and the borrower has not reaffirmed the debt.

During the twelve months ended June 30, 2014 and 2013, loans with a carrying value of $5 million and $2 million, respectively, were modified by interest rate reduction. During the twelve months ended June 30, 2013, loans with a carrying value of $38 million were restructured into two notes (AB note restructures). For reduced-rate loans and AB note restructures, a subsequent payment default is defined in terms of delinquency, when a principal or interest payment is 90 days past due. There were no subsequent payment defaults of reduced-rate loans or AB note restructures during the three- and six-month periods ended June 30, 2014 and 2013.

Purchased Credit-Impaired Loans

Acquired loans are initially recorded at fair value with no carryover of any allowance for loan losses. Loans acquired with evidence of credit quality deterioration at acquisition for which it was probable that the Corporation would not be able to collect all contractual amounts due were accounted for as PCI loans. The Corporation aggregated the acquired

PCI loans into pools of loans based on common risk characteristics.

No allowance for loan losses was required on the acquired PCI loan pools at both June 30, 2014 and December 31, 2013. The carrying amount of acquired PCI loans included in the consolidated balance sheet and the related outstanding balance at June 30, 2014 and December 31, 2013 were as follows.

(in millions)	June 30, 2014	December 31, 2013
Acquired PCI loans:		
Carrying amount	$3	$5
Outstanding balance (principal and unpaid interest)	18	46

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Changes in the accretable yield for acquired PCI loans for the three- and six-month periods ended June 30, 2014 and 2013 were as follows.

	Three Months Ended June 30,		Six Months Ended June 30,	
(in millions)	2014	2013	2014	2013
Balance at beginning of period	$11	$12	$15	$16
Reclassifications from nonaccretable	4	—	9	—
Accretion	(9)	(2)	(18)	(6)
Balance at end of period	$6	$10	$6	$10

NOTE 5 - DERIVATIVE AND CREDIT-RELATED FINANCIAL INSTRUMENTS

In the normal course of business, the Corporation enters into various transactions involving derivative and credit-related financial instruments to manage exposure to fluctuations in interest rate, foreign currency and other market risks and to meet the financing needs of customers (customer-initiated derivatives). These financial instruments involve, to varying degrees, elements of market and credit risk. Market and credit risk are included in the determination of fair value.

Market risk is the potential loss that may result from movements in interest rates, foreign currency exchange rates or energy commodity prices that cause an unfavorable change in the value of a financial instrument. The Corporation manages this risk by establishing monetary exposure limits and monitoring compliance with those limits. Market risk inherent in interest rate and energy contracts entered into on behalf of customers is mitigated by taking offsetting positions, except in those circumstances when the amount, tenor and/or contract rate level results in negligible economic risk, whereby the cost of purchasing an offsetting contract is not economically justifiable. The Corporation mitigates most of the inherent market risk in foreign exchange contracts entered into on behalf of customers by taking offsetting positions and manages the remainder through individual foreign currency position limits and aggregate value-at-risk limits. These limits are established annually and reviewed quarterly. Market risk inherent in derivative instruments held or issued for risk management purposes is typically offset by changes in the fair value of the assets or liabilities being hedged.

Credit risk is the possible loss that may occur in the event of nonperformance by the counterparty to a financial instrument. The Corporation attempts to minimize credit risk arising from customer-initiated derivatives by evaluating the creditworthiness of each customer, adhering to the same credit approval process used for traditional lending activities and obtaining collateral as deemed necessary. Derivatives with dealer counterparties are either cleared through a clearinghouse or settled directly with a single counterparty. For derivatives settled directly with dealer counterparties, the Corporation utilizes counterparty risk limits and monitoring procedures as well as master netting arrangements and bilateral collateral agreements to facilitate the management of credit risk. Master netting arrangements effectively reduce credit risk by permitting settlement of positive and negative positions and offset cash collateral held with the same counterparty on a net basis. Bilateral collateral agreements require daily exchange of cash or highly rated securities issued by the U.S. Treasury or other U.S. government entities to collateralize amounts due to either party beyond certain risk limits. At June 30, 2014, counterparties with bilateral collateral agreements had pledged $88 million of marketable investment securities and deposited $1 million of cash with the Corporation to secure the fair value of contracts in an unrealized gain position, and the Corporation had pledged $54 million of investment securities and posted $44 million of cash as collateral for contracts in an unrealized loss position. For those counterparties not covered under bilateral collateral agreements, collateral is obtained, if deemed necessary, based on the results of management’s credit evaluation of the counterparty. Collateral varies, but may include cash, investment securities, accounts receivable, equipment or real estate. Included in the fair value of derivative instruments are credit valuation adjustments reflecting counterparty credit risk. These adjustments are determined by applying a credit spread for the counterparty or the Corporation, as appropriate, to the total expected exposure of the derivative.

The aggregate fair value of all derivative instruments with credit-risk-related contingent features that were in a liability position on June 30, 2014 was $17 million, for which the Corporation had pledged collateral of $7 million in the normal course of business. The credit-risk-related contingent features require the Corporation’s debt to maintain an

investment grade credit rating from each of the major credit rating agencies. If the Corporation's debt were to fall below investment grade, the counterparties to the derivative instruments could require additional overnight collateral on derivative instruments in net liability positions. If the credit-risk-related contingent features underlying these agreements had been triggered on June 30, 2014, the Corporation would have been required to assign an additional $10 million of collateral to its counterparties.

Derivative Instruments

Derivative instruments utilized by the Corporation are negotiated over-the-counter and primarily include swaps, caps and floors, forward contracts and options, each of which may relate to interest rates, energy commodity prices or foreign currency exchange rates. Swaps are agreements in which two parties periodically exchange cash payments based on specified indices applied to a specified notional amount until a stated maturity. Caps and floors are agreements which entitle the buyer to receive cash payments based on the difference between a specified reference rate or price and an agreed strike rate or price, applied to a specified

notional amount until a stated maturity. Forward contracts are over-the-counter agreements to buy or sell an asset at a specified future date and price. Options are similar to forward contracts except the purchaser has the right, but not the obligation, to buy or sell the asset during a specified period or at a specified future date.

Over-the-counter contracts are tailored to meet the needs of the counterparties involved and, therefore, contain a greater degree of credit risk and liquidity risk than exchange-traded contracts, which have standardized terms and readily available price information. The Corporation reduces exposure to market and liquidity risks from over-the-counter derivative instruments entered into for risk management purposes, and transactions entered into to mitigate the market risk associated with customer-initiated transactions, by conducting hedging transactions with investment grade domestic and foreign financial institutions and subjecting counterparties to credit approvals, limits and collateral monitoring procedures similar to those used in making other extensions of credit. In addition, certain derivative contracts executed bilaterally with a dealer counterparty in the over-the-counter market are cleared through a clearinghouse, whereby the clearinghouse becomes the counterparty to the transaction.

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The following table presents the composition of the Corporation's derivative instruments held or issued for risk management purposes or in connection with customer-initiated and other activities at June 30, 2014 and December 31, 2013. The table excludes commitments, warrants accounted for as derivatives and a derivative related to the Corporation's 2008 sale of its remaining ownership of Visa shares.

	June 30, 2014			December 31, 2013		
		Fair Value			Fair Value	
(in millions)	Notional/ Contract Amount (a)	Gross Derivative Assets	Gross Derivative Liabilities	Notional/ Contract Amount (a)	Gross Derivative Assets	Gross Derivative Liabilities
Risk management purposes						
Derivatives designated as hedging instruments						
Interest rate contracts:						
Swaps - fair value - receive fixed/pay floating	$1,550	$181	$—	$1,450	$198	$—
Derivatives used as economic hedges						
Foreign exchange contracts:						
Spot, forwards and swaps	535	1	1	253	1	—
Total risk management purposes	2,085	182	1	1,703	199	—
Customer-initiated and other activities						
Interest rate contracts:						
Caps and floors written	275	—	1	277	—	1
Caps and floors purchased	275	1	—	277	1	—
Swaps	11,412	162	114	11,143	181	132
Total interest rate contracts	11,962	163	115	11,697	182	133
Energy contracts:						
Caps and floors written	1,427	4	53	1,325	1	48
Caps and floors purchased	1,427	53	4	1,325	48	1
Swaps	2,724	96	94	2,724	56	53
Total energy contracts	5,578	153	151	5,374	105	102
Foreign exchange contracts:						
Spot, forwards, options and swaps	2,042	19	19	1,764	14	14
Total customer-initiated and other activities	19,582	335	285	18,835	301	249
Total gross derivatives	$21,667	517	286	$20,538	500	249
Amounts offset in the consolidated balance sheets:						
Netting adjustment - Offsetting derivative assets/liabilities		(158)	(158)		(187)	(187)
Netting adjustment - Cash collateral received/posted		(1)	(35)		(2)	(10)
Net derivatives included in the consolidated balance sheets (b)		358	93		311	52
Amounts not offset in the consolidated balance sheets:						
Marketable securities pledged under bilateral collateral agreements		(86)	(52)		(138)	(10)

Net derivatives after deducting amounts not offset in the consolidated balance sheets	$272	$41	$173	$42

(a) Notional or contractual amounts, which represent the extent of involvement in the derivatives market, are used to determine the contractual cash flows required in accordance with the terms of the agreement. These amounts are typically not exchanged, significantly exceed amounts subject to credit or market risk and are not reflected in the consolidated balance sheets.

(b) Net derivative assets are included in "accrued income and other assets" and net derivative liabilities are included in "accrued expenses and other liabilities" on the consolidated balance sheets. Included in the fair value of net derivative assets and net derivative liabilities are credit valuation adjustments reflecting counterparty credit risk and credit risk of the Corporation. The fair value of net derivative assets included credit valuation adjustments for counterparty credit risk totaled $2 million at both June 30, 2014 and December 31, 2013.

Risk Management

As an end-user, the Corporation employs a variety of financial instruments for risk management purposes, including cash instruments, such as investment securities, as well as derivative instruments. Activity related to these instruments is centered predominantly in the interest rate markets and mainly involves interest rate swaps. Various other types of instruments also may

be used to manage exposures to market risks, including interest rate caps and floors, total return swaps, foreign exchange forward contracts and foreign exchange swap agreements.

As part of a fair value hedging strategy, the Corporation entered into interest rate swap agreements for interest rate risk management purposes. These interest rate swap agreements effectively modify the Corporation's exposure to interest rate risk by converting fixed-rate debt to a floating rate. These agreements involve the receipt of fixed-rate interest amounts in exchange for floating-rate interest payments over the life of the agreement, without an exchange of the underlying principal amount. Risk management fair value interest rate swaps generated net interest income of $18 million for both the three-month periods ended June 30, 2014 and 2013 and $36 million for both the six-month periods ended June 30, 2014 and 2013. The Corporation recognized an insignificant amount of net gains (losses) in "other noninterest income" in the consolidated statements of comprehensive income for the ineffective portion of risk management derivative instruments designated as fair value hedges of fixed-rate debt for each of the three- and six-month periods ended June 30, 2014 and 2013.

Foreign exchange rate risk arises from changes in the value of certain assets and liabilities denominated in foreign currencies. The Corporation employs spot and forward contracts in addition to swap contracts to manage exposure to these and other risks. The Corporation recognized an insignificant amount of net gains on risk management derivative instruments used as economic hedges in "other noninterest income" in the consolidated statements of comprehensive income for each of the three- and six-month periods ended June 30, 2014 and 2013.

The following table summarizes the expected weighted average remaining maturity of the notional amount of risk management interest rate swaps and the weighted average interest rates associated with amounts expected to be received or paid on interest rate swap agreements as of June 30, 2014 and December 31, 2013.

(dollar amounts in millions)	Notional Amount	Weighted Average Remaining Maturity (in years)	Receive Rate	Pay Rate (a)
June 30, 2014				
Swaps - fair value - receive fixed/pay floating rate				
Medium- and long-term debt designation	$1,550	3.9	4.66 %	0.37 %
December 31, 2013				
Swaps - fair value - receive fixed/pay floating rate				
Medium- and long-term debt designation	1,450	3.4	5.45	0.38

(a) Variable rates paid on receive fixed swaps are based on six-month LIBOR rates in effect at June 30, 2014 and December 31, 2013.

Management believes these hedging strategies achieve the desired relationship between the rate maturities of assets and funding sources which, in turn, reduce the overall exposure of net interest income to interest rate risk, although there can be no assurance that such strategies will be successful.

Customer-Initiated and Other

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

For customer-initiated foreign exchange contracts where offsetting positions have not been taken, the Corporation manages the remaining inherent market risk through individual foreign currency position limits and aggregate value-at-risk limits. These limits are established annually and reviewed quarterly. For those customer-initiated derivative contracts which were not offset or where the Corporation holds a speculative position within the limits described above, the Corporation recognized an insignificant amount of net gains in "other noninterest income" in the consolidated statements of comprehensive income for each of the three- and six-month periods ended June 30, 2014 and 2013.

Fair values of customer-initiated and other derivative instruments represent the net unrealized gains or losses on such contracts and are recorded in the consolidated balance sheets. Changes in fair value are recognized in the consolidated statements of comprehensive income. The net gains recognized in income on customer-initiated derivative instruments, net of the impact of offsetting positions, were as follows.

		Three Months Ended June 30,		Six Months Ended June 30,	
(in millions)	Location of Gain	2014	2013	2014	2013
Interest rate contracts	Other noninterest income	$4	$6	$8	$9
Energy contracts	Other noninterest income	—	1	—	2
Foreign exchange contracts	Foreign exchange income	11	9	20	18
Total		$15	$16	$28	$29

Credit-Related Financial Instruments

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

(in millions)	June 30, 2014	December 31, 2013
Unused commitments to extend credit:		
Commercial and other	$27,043	$27,728
Bankcard, revolving check credit and home equity loan commitments	2,067	1,889
Total unused commitments to extend credit	$29,110	$29,617
Standby letters of credit	$3,949	$4,297
Commercial letters of credit	85	103
Other credit-related financial instruments	2	2

The Corporation maintains an allowance to cover probable credit losses inherent in lending-related commitments, including unused commitments to extend credit, letters of credit and financial guarantees. At June 30, 2014 and December 31, 2013, the allowance for credit losses on lending-related commitments, included in “accrued expenses and other liabilities” on the consolidated balance sheets, was $42 million and $36 million, respectively.

Unused Commitments to Extend Credit

Commitments to extend credit are legally binding agreements to lend to a customer, provided there is no violation of any condition established in the contract. These commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many commitments expire without being drawn upon, the total contractual amount of commitments does not necessarily represent future cash requirements of the Corporation. Commercial and other unused commitments are primarily variable rate commitments. The allowance for credit losses on lending-related commitments included $28 million at both June 30, 2014 and December 31, 2013, for probable credit losses inherent in the Corporation’s unused commitments to extend credit.

Standby and Commercial Letters of Credit

Standby letters of credit represent conditional obligations of the Corporation which guarantee the performance of a customer to a third party. Standby letters of credit are primarily issued to support public and private borrowing arrangements, including commercial paper, bond financing and similar transactions. Commercial letters of credit are issued to finance foreign or domestic trade transactions. These contracts expire in decreasing amounts through the year 2022. The Corporation may enter into participation arrangements with third parties that effectively reduce the maximum amount of future payments which may be required under standby and commercial letters of credit. These risk participations covered $261 million and $259 million, respectively, of the $4.0 billion and $4.4 billion standby and commercial letters of credit outstanding at June 30, 2014 and December 31, 2013, respectively.

The carrying value of the Corporation’s standby and commercial letters of credit, included in “accrued expenses and other liabilities” on the consolidated balance sheets, totaled $64 million at June 30, 2014, including $50 million in deferred fees and $14 million in the allowance for credit losses on lending-related commitments. At December 31,

2013, the comparable amounts were $59 million, $51 million and $8 million, respectively.
The following table presents a summary of criticized standby and commercial letters of credit at June 30, 2014 and December 31, 2013. The Corporation's criticized list is generally consistent with the Special mention, Substandard and Doubtful

categories defined by regulatory authorities. The Corporation manages credit risk through underwriting, periodically reviewing and approving its credit exposures using Board committee approved credit policies and guidelines.

(dollar amounts in millions)	June 30, 2014		December 31, 2013	
Total criticized standby and commercial letters of credit	$85		$69	
As a percentage of total outstanding standby and commercial letters of credit	2.1	%	1.6	%

Other Credit-Related Financial Instruments

The Corporation enters into credit risk participation agreements, under which the Corporation assumes credit exposure associated with a borrower's performance related to certain interest rate derivative contracts. The Corporation is not a party to the interest rate derivative contracts and only enters into these credit risk participation agreements in instances in which the Corporation is also a party to the related loan participation agreement for such borrowers. The Corporation manages its credit risk on the credit risk participation agreements by monitoring the creditworthiness of the borrowers, which is based on the normal credit review process had it entered into the derivative instruments directly with the borrower. The notional amount of such credit risk participation agreement reflects the pro-rata share of the derivative instrument, consistent with its share of the related participated loan. As of June 30, 2014 and December 31, 2013, the total notional amount of the credit risk participation agreements was approximately $549 million and $614 million, respectively, and the fair value, included in customer-initiated interest rate contracts recorded in "accrued expenses and other liabilities" on the consolidated balance sheets, was insignificant for each period. The maximum estimated exposure to these agreements, as measured by projecting a maximum value of the guaranteed derivative instruments, assuming 100 percent default by all obligors on the maximum values, was approximately $7 million at both June 30, 2014 and December 31, 2013. In the event of default, the lead bank has the ability to liquidate the assets of the borrower, in which case the lead bank would be required to return a percentage of the recouped assets to the participating banks. As of June 30, 2014, the weighted average remaining maturity of outstanding credit risk participation agreements was 2.8 years.

In 2008, the Corporation sold its remaining ownership of Visa Class B shares and entered into a derivative contract. Under the terms of the derivative contract, the Corporation will compensate the counterparty primarily for dilutive adjustments made to the conversion factor of the Visa Class B shares to Class A shares based on the ultimate outcome of litigation involving Visa. Conversely, the Corporation will be compensated by the counterparty for any increase in the conversion factor from anti-dilutive adjustments. The notional amount of the derivative contract was equivalent to approximately 780,000 Visa Class B shares. The fair value of the derivative liability, included in "accrued expenses and other liabilities" on the consolidated balance sheets, was $2 million at both June 30, 2014 and December 31, 2013.

NOTE 6 - VARIABLE INTEREST ENTITIES (VIEs)

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

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

The Corporation accounts for its interests in LIHTC entities using the proportional amortization method. Exposure to loss as a result of the Corporation's involvement with LIHTC entities at June 30, 2014 was limited to approximately $375 million. Ownership interests in other community development projects which generate similar tax credits to

investors (other tax credit entities) are accounted for under either the cost or equity method. Exposure to loss as a result of the Corporation's involvement in other tax credit entities at June 30, 2014 was limited to approximately $12 million.

Investment balances, including all legally binding commitments to fund future investments, are included in “accrued income and other assets” on the consolidated balance sheets. A liability is recognized in “accrued expenses and other liabilities” on the consolidated balance sheets for all legally binding unfunded commitments to fund tax credit entities ($128 million at June 30, 2014). Amortization and other write-downs of LIHTC investments are presented on a net basis as a component of the "provision

for income taxes" on the consolidated statements of comprehensive income, while amortization and write-downs of other tax credit investments are recorded in “other noninterest income." The income tax credits and deductions are recorded as a reduction of income tax expense and a reduction of federal income taxes payable.

The Corporation provided no financial or other support that was not contractually required to any of the above VIEs during the six months ended June 30, 2014 and 2013.

The following table summarizes the impact of these tax credit entities on line items on the Corporation’s consolidated statements of comprehensive income.

	Three Months Ended June 30,		Six Months Ended June 30,	
(in millions)	2014	2013	2014	2013
Other noninterest income:				
Amortization of other tax credit investments	$(1)	$1	$(3)	$—
Provision for income taxes:				
Amortization of LIHTC investments	14	14	28	27
Low income housing tax credits	(14)	(14)	(28)	(28)
Other tax benefits related to tax credit entities	(7)	(5)	(13)	(10)
Total provision for income taxes	$(7)	$(5)	(13)	(11)

For further information on the Corporation’s consolidation policy, see Note 1 to these unaudited consolidated financial statements and Note 1 to the consolidated financial statements in the Corporation's 2013 Annual Report.

NOTE 7 - MEDIUM- AND LONG-TERM DEBT

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

(in millions)	June 30, 2014	December 31, 2013
Parent company		
Subordinated notes:		
4.80% subordinated notes due 2015 (a)	$311	$318
Medium-term notes:		
3.00% notes due 2015	300	299
2.125% notes due 2019 (a)	349	—
Total parent company	960	617
Subsidiaries		
Subordinated notes:		
5.70% subordinated notes due 2014 (a)	—	255
8.375% subordinated notes due 2014	182	183
5.75% subordinated notes due 2016 (a)	676	681
5.20% subordinated notes due 2017 (a)	559	566
7.875% subordinated notes due 2026 (a)	221	213
Total subordinated notes	1,638	1,898
Federal Home Loan Bank advance:		
Floating-rate based on LIBOR indices due 2014	—	1,000
Other notes:		
6.0% - 6.4% fixed-rate notes due 2020	22	28
Total subsidiaries	1,660	2,926
Total medium- and long-term debt	$2,620	$3,543

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

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

Comerica Bank (the Bank) is a member of the FHLB, which provides short- and long-term funding to its members through advances collateralized by real estate-related assets. Actual borrowing capacity is contingent on the amount of

collateral available to be pledged to the FHLB. At June 30, 2014, $14 billion of real estate-related loans were pledged to the FHLB as blanket collateral for potential future borrowings.

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In the second quarter 2014, the Corporation issued $350 million of 2.125% senior notes due 2019, which were swapped to a floating rate based on six-month LIBOR. Proceeds will be used for general corporate purposes. The Corporation also announced the intention to call, at their par value of $150 million, the 8.375% subordinated notes, originally due in 2024, on July 15, 2014.
For additional information about medium- and long-term debt, refer to Note 14 - Subsequent Events.
NOTE 8 - ACCUMULATED OTHER COMPREHENSIVE LOSS
The following table presents a reconciliation of the changes in the components of accumulated other comprehensive loss and details the components of other comprehensive income (loss) for the six months ended June 30, 2014 and 2013, including the amount of income tax expense (benefit) allocated to each component of other comprehensive income (loss).

	Six Months Ended June 30,	
(in millions)	2014	2013
Accumulated net unrealized gains (losses) on investment securities available-for-sale:		
Balance at beginning of period, net of tax	$(68)	$150
Net unrealized holding gains (losses) arising during the period	116	(242)
Less: Provision (benefit) for income taxes	41	(89)
Net unrealized holding gains (losses) arising during the period, net of tax	75	(153)
Less:		
Net realized gains included in net securities gains	1	—
Less: Provision for income taxes	—	—
Reclassification adjustment for net securities gains included in net income, net of tax	1	—
Change in net unrealized gains (losses) on investment securities available-for-sale, net of tax	74	(153)
Balance at end of period, net of tax	$6	$(3)
Accumulated defined benefit pension and other postretirement plans adjustment:		
Balance at beginning of period, net of tax	$(323)	$(563)
Amortization of actuarial net loss	18	44
Amortization of prior service cost	1	1
Amounts recognized in salaries and benefits expense	19	45
Less: Provision for income taxes	6	17
Change in defined benefit pension and other postretirement plans adjustment, net of tax	13	28
Balance at end of period, net of tax	$(310)	$(535)
Total accumulated other comprehensive loss at end of period, net of tax	$(304)	$(538)

NOTE 9 - NET INCOME PER COMMON SHARE

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(in millions, except per share data)	2014	2013	2014	2013
Basic and diluted				
Net income	$151	$143	$290	$277
Less:				
Income allocated to participating securities	2	2	4	4
Net income attributable to common shares	$149	$141	$286	$273
Basic average common shares	179	183	180	184
Basic net income per common share	$0.83	$0.77	$1.59	$1.48
Basic average common shares	179	183	180	184
Dilutive common stock equivalents:				
Net effect of the assumed exercise of stock options	2	1	2	1
Net effect of the assumed exercise of warrants	5	3	4	2
Diluted average common shares	186	187	186	187
Diluted net income per common share	$0.80	$0.76	$1.54	$1.46

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(shares in millions)	2014	2013	2014	2013
Average outstanding options	7.2	12.2	7.9	13.6
Range of exercise prices	$49.22 - $60.82	$37.45 - $61.94	$48.17 - $61.94	$34.78 - $61.94

NOTE 10 - EMPLOYEE BENEFIT PLANS

Net periodic benefit costs are charged to "employee benefits expense" on the consolidated statements of comprehensive 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	Three Months Ended June 30,		Six Months Ended June 30,	
(in millions)	2014	2013	2014	2013
Service cost	$8	$10	$15	$19
Interest cost	22	20	44	39
Expected return on plan assets	(33)	(33)	(66)	(66)
Amortization of prior service cost	2	1	3	2
Amortization of net loss	7	19	15	38
Net periodic defined benefit cost	$6	$17	$11	$32

Non-Qualified Defined Benefit Pension Plan	Three Months Ended June 30,		Six Months Ended June 30,	
(in millions)	2014	2013	2014	2013
Service cost	$1	$1	$2	$2
Interest cost	3	2	5	5
Amortization of prior service cost (credit)	(1)	(1)	(2)	(1)
Amortization of net loss	1	3	3	5
Net periodic defined benefit cost	$4	$5	$8	$11

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Postretirement Benefit Plan	Three Months Ended June 30,		Six Months Ended June 30,	
(in millions)	2014	2013	2014	2013
Interest cost	$1	$1	$2	$2
Expected return on plan assets	(1)	(1)	(2)	(2)
Amortization of net loss	—	1	—	1
Net periodic postretirement benefit cost	$—	$1	$—	$1

For further information on the Corporation's employee benefit plans, refer to Note 17 to the consolidated financial statements in the Corporation's 2013 Annual Report.

NOTE 11 - INCOME TAXES AND TAX-RELATED ITEMS

Net unrecognized tax benefits were $11 million at both June 30, 2014 and December 31, 2013. The Corporation anticipates that it is reasonably possible that final settlement of federal and state tax issues will result in a decrease in net unrecognized tax benefits of $7 million within the next twelve months. Included in "accrued expense and other liabilities" on the consolidated balance sheets was a $2 million liability for tax-related interest and penalties at both June 30, 2014 and December 31, 2013.

Net deferred tax assets were $212 million at June 30, 2014, compared to $256 million at December 31, 2013. The decrease of $44 million in net deferred tax assets resulted primarily from a decrease in unrealized losses on investment securities available-for-sale recognized in other comprehensive income. Deferred tax assets were evaluated for realization and it was determined that no valuation allowance was needed at both June 30, 2014 and December 31, 2013. This conclusion was based on available evidence of loss carryback capacity, projected future reversals of existing taxable temporary differences and assumptions made regarding future events.

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) may review and/or challenge specific interpretive tax positions taken by the Corporation with respect to those transactions. 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 IRS, an administrative authority or a court, if presented with the transactions, could disagree with the Corporation’s interpretation of the tax law.

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

NOTE 12 - CONTINGENT LIABILITIES

Legal Proceedings

Comerica Bank, a wholly owned subsidiary of the Corporation, was sued in November 2011 as a third-party defendant in Butte Local Development v. Masters Group v. Comerica Bank (“the case”), for lender liability. The case was tried in January 2014, in the Montana Second District Judicial Court for Silver Bow County in Butte, Montana ("the court"). On January 17, 2014, a jury awarded Masters $52 million against the Bank. Following the jury’s decision on the case, the Corporation increased its reserve for litigation-related expense, effective as of December 31, 2013, to $52 million. The Corporation increased its reserve related to the case to $54 million in March 2014, to include additional attorney's fees and costs awarded by the court.

The Corporation believes that it has meritorious defenses and appellate issues for this litigation and has appealed to the Montana Supreme Court, the sole appellate court for the state of Montana. Oral arguments are scheduled for late September 2014.

The Corporation and certain of its subsidiaries are subject to various other pending or threatened legal proceedings arising out of the normal course of business or operations. The Corporation believes it has meritorious defenses to the claims asserted against it in its other currently outstanding legal proceedings and, with respect to such legal proceedings, intends to continue to defend itself vigorously, litigating or settling cases according to management’s judgment as to what is in the best interests of the Corporation and its shareholders. Settlement may result from the

Corporation's determination that it may be more prudent financially to settle, rather than litigate, and should not be regarded as an admission of liability. On at least a quarterly basis, the Corporation assesses its potential liabilities and contingencies in connection with outstanding legal proceedings utilizing the latest information available. On a case-by-case basis, reserves are established for those legal claims for which it is probable that a loss will be incurred either as a result of a settlement or judgment, and the amount of such loss can be reasonably estimated. The actual costs of resolving these claims may be substantially higher or lower than the amounts reserved. Based on current knowledge, and after consultation with legal counsel, management believes that current reserves are adequate, and the amount of any incremental liability arising from these matters is not expected to have a material adverse effect on the Corporation’s consolidated financial condition,

consolidated results of operations or consolidated cash flows. Legal fees of $5 million and $7 million were included in "other noninterest expenses" on the consolidated statements of income for the three-month periods ended June 30, 2014 and 2013, respectively, and $10 million and $14 million for the six-month periods ended June 30, 2014 and 2013, respectively. For matters where a loss is not probable, the Corporation has not established legal reserves. The Corporation believes the estimate of the aggregate range of reasonably possible losses, in excess of reserves established, for all legal proceedings in which it is involved is from zero to approximately $43 million at June 30, 2014. This estimated aggregate range of reasonably possible losses is based upon currently available information for those proceedings in which the Corporation is involved, taking into account the Corporation's best estimate of such losses for those cases for which such estimate can be made. For certain cases, the Corporation does not believe that an estimate can currently be made. The Corporation's estimate involves significant judgment, given the varying stages of the proceedings (including the fact that many are currently in preliminary stages), the existence in certain proceedings of multiple defendants (including the Corporation) whose share of liability has yet to be determined, the numerous yet-unresolved issues in many of the proceedings (including issues regarding class certification and the scope of many of the claims) and the attendant uncertainty of the various potential outcomes of such proceedings. Accordingly, the Corporation's estimate will change from time to time, and actual losses may be more or less than the current estimate. In the event of unexpected future developments, it is possible that the ultimate resolution of these matters, if unfavorable, may be material to the Corporation's consolidated financial condition, consolidated results of operations or consolidated cash flows.

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

NOTE 13 - BUSINESS SEGMENT INFORMATION

The Corporation has strategically aligned its operations into three major business segments: the Business Bank, the Retail Bank and Wealth Management. These business segments are differentiated based on the type of customer and the related products and services provided. In addition to the three major business segments, the Finance Division is also reported as a segment. Business segment results are produced by the Corporation's internal management accounting system. This system measures financial results based on the internal business unit structure of the Corporation. The performance of the business segments is not comparable with the Corporation's consolidated results and is not necessarily comparable with similar information for any other financial institution. Additionally, because of the interrelationships of the various segments, the information presented is not indicative of how the segments would perform if they operated as independent entities. The management accounting system assigns balance sheet and income statement items to each business segment using certain methodologies, which are regularly reviewed and refined. These methodologies may be modified as the management accounting system is enhanced and changes occur in the organizational structure and/or product lines. For comparability purposes, amounts in all periods are based on business segments and methodologies in effect at June 30, 2014.

In the second quarter 2014, the Corporation enhanced the approach used to determine the standard reserve factors used in estimating the allowance for credit losses, which had the effect of capturing certain elements in the standard reserve component that had formerly been included in the qualitative assessment. The impact of the change was largely neutral to the total allowance for loan losses at June 30, 2014. However, because standard reserves are allocated to the segments at the loan level, while qualitative reserves are allocated at the portfolio level, the impact of the methodology change on the allowance of each segment reflected the characteristics of the individual loans within each segment's portfolio, causing segment reserves to increase or decrease accordingly. As a result, the current year provision for credit losses within each segment is not comparable to prior period amounts.

The following discussion provides information about the activities of each business segment. A discussion of the financial results and the factors impacting performance can be found in the section entitled "Business Segments" in the financial review.

The Business Bank meets the needs of middle market businesses, multinational corporations and governmental entities by offering various products and services, including commercial loans and lines of credit, deposits, cash management, capital market products, international trade finance, letters of credit, foreign exchange management

services and loan syndication services.

The Retail Bank includes small business banking and personal financial services, consisting of consumer lending, consumer deposit gathering and mortgage loan origination. In addition to a full range of financial services provided to small business customers, this business segment offers a variety of consumer products, including deposit accounts, installment loans, credit cards, student loans, home equity lines of credit and residential mortgage loans.

Wealth Management offers products and services consisting of fiduciary services, private banking, retirement services, investment management and advisory services, investment banking and brokerage services. This business segment also offers the sale of annuity products, as well as life, disability and long-term care insurance products.

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The Finance segment includes the Corporation's securities portfolio and asset and liability management activities. This segment is responsible for managing the Corporation's funding, liquidity and capital needs, performing interest sensitivity analysis and executing various strategies to manage the Corporation's exposure to liquidity, interest rate risk and foreign exchange risk.
The Other category includes discontinued operations, the income and expense impact of equity and cash, tax benefits not assigned to specific business segments, charges of an unusual or infrequent nature that are not reflective of the normal operations of the business segments and miscellaneous other expenses of a corporate nature.
For further information on the methodologies which form the basis for these results refer to Note 22 to the consolidated financial statements in the Corporation's 2013 Annual Report.
Business segment financial results are as follows:

(dollar amounts in millions) Six Months Ended June 30, 2014	Business Bank	Retail Bank	Wealth Management	Finance	Other	Total
Earnings summary:						
Net interest income (expense) (FTE)	$747	$295	$92	$(318)	$12	$828
Provision for credit losses	48	(2)	(17)	—	(9)	20
Noninterest income	181	82	132	29	4	428
Noninterest expenses	289	342	157	5	17	810
Provision (benefit) for income taxes (FTE)	198	13	30	(111)	6	136
Net income (loss)	$393	$24	$54	$(183)	$2	$290
Net credit-related charge-offs (recoveries)	$18	$7	$(4)	$—	$—	$21
Selected average balances:						
Assets	$36,686	$6,051	$4,968	$11,092	$5,997	$64,794
Loans	35,732	5,384	4,789	—	—	45,905
Deposits	27,204	21,505	3,822	305	243	53,079
Statistical data:						
Return on average assets (a)	2.14 %	0.22 %	2.19 %	N/M	N/M	0.90 %
Efficiency ratio (b)	31.18	90.71	70.47	N/M	N/M	64.55

(dollar amounts in millions) Six Months Ended June 30, 2013	Business Bank	Retail Bank	Wealth Management	Finance	Other	Total
Earnings summary:						
Net interest income (expense) (FTE)	$748	$309	$92	$(333)	$15	$831
Provision for credit losses	31	11	(10)	—	(3)	29
Noninterest income	184	86	130	29	6	435
Noninterest expenses	293	352	157	5	25	832
Provision (benefit) for income taxes (FTE)	203	11	26	(112)	—	128
Net income (loss)	$405	$21	$49	$(197)	$(1)	$277
Net credit-related charge-offs	$28	$11	$2	$—	$—	$41
Selected average balances:						
Assets	$35,896	$5,967	$4,783	$11,786	$5,301	$63,733
Loans	34,854	5,274	4,628	—	—	44,756
Deposits	25,752	21,145	3,691	303	204	51,095

Statistical data:						
Return on average assets (a)	2.26 %	0.19 %	2.06 %	N/M	N/M	0.87 %
Efficiency ratio (b)	31.43	88.66	70.48	N/M	N/M	65.59

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

(b) Noninterest expenses as a percentage of the sum of net interest income (FTE) and noninterest income excluding net securities gains.

FTE – Fully Taxable Equivalent

N/M – not meaningful

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The Corporation operates in three primary markets - Texas, California, and Michigan, as well as in Arizona and Florida, with select businesses operating in several other states, and in Canada and Mexico. The Corporation produces market segment results for the Corporation's three primary geographic markets as well as Other Markets. Other Markets includes Florida, Arizona, the International Finance division and businesses with a national perspective. The Finance & Other category includes the Finance segment and the Other category as previously described. Market segment results are provided as supplemental information to the business segment results and may not meet all operating segment criteria as set forth in GAAP. For comparability purposes, amounts in all periods are based on market segments and methodologies in effect at June 30, 2014.
A discussion of the financial results and the factors impacting performance can be found in the section entitled "Market Segments" in the financial review.
Market segment financial results are as follows:

(dollar amounts in millions) Six Months Ended June 30, 2014	Michigan	California	Texas	Other Markets	Finance & Other	Total
Earnings summary:						
Net interest income (expense) (FTE)	$364	$349	$273	$148	$(306)	$828
Provision for credit losses	(5)	25	29	(20)	(9)	20
Noninterest income	182	72	62	79	33	428
Noninterest expenses	320	197	178	93	22	810
Provision (benefit) for income taxes (FTE)	82	74	46	39	(105)	136
Net income (loss)	$149	$125	$82	$115	$(181)	$290
Net credit-related charge-offs (recoveries)	$10	$15	$8	$(12)	$—	$21
Selected average balances:						
Assets	$13,835	$15,429	$11,367	$7,074	$17,089	$64,794
Loans	13,478	15,133	10,667	6,627	—	45,905
Deposits	20,668	15,078	10,799	5,986	548	53,079
Statistical data:						
Return on average assets (a)	1.37 %	1.56 %	1.37 %	3.25 %	N/M	0.90 %
Efficiency ratio (b)	58.69	46.75	53.22	41.11	N/M	64.55

(dollar amounts in millions) Six Months Ended June 30, 2013	Michigan	California	Texas	Other Markets	Finance & Other	Total
Earnings summary:						
Net interest income (expense) (FTE)	$378	$344	$266	$161	$(318)	$831
Provision for credit losses	(4)	24	13	(1)	(3)	29
Noninterest income	180	71	65	84	35	435
Noninterest expenses	329	197	180	96	30	832
Provision (benefit) for income taxes (FTE)	82	71	48	39	(112)	128
Net income (loss)	$151	$123	$90	$111	$(198)	$277
Net credit-related charge-offs	$9	$22	$3	$7	$—	$41
Selected average balances:						
Assets	$14,033	$13,976	$10,841	$7,796	$17,087	$63,733
Loans	13,626	13,728	10,125	7,277	—	44,756

Deposits	20,206	14,514	10,074	5,794	507	51,095
Statistical data:						
Return on average assets (a)	1.42 %	1.59 %	1.59 %	2.85 %	N/M	0.87 %
Efficiency ratio (b)	58.85	47.39	54.19	39.34	N/M	65.59

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

(b) Noninterest expenses as a percentage of the sum of net interest income (FTE) and noninterest income excluding net securities gains.

FTE – Fully Taxable Equivalent

N/M – not meaningful

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NOTE 14 - SUBSEQUENT EVENTS

On July 15, 2014, the Corporation exercised its option to redeem, at par, $150 million of 8.375% subordinated notes. The notes were recorded at a carrying value of $182 million at June 30, 2014, which will result in a pretax gain in the third quarter 2014 of approximately $32 million, primarily from the recognition of the unamortized value of a related, previously terminated interest rate swap.

On July 22, 2014, the Corporation issued $250 million of 3.80% subordinated notes due July 22, 2026. The notes are not redeemable prior to maturity. Proceeds will be used for general corporate purposes.

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ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

FORWARD-LOOKING STATEMENTS

This report includes forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995. In addition, the Corporation may make other written and oral communications from time to time that contain such statements. All statements regarding the Corporation's expected financial position, strategies and growth prospects and general economic conditions expected to exist in the future are forward-looking statements. The words, "anticipates," "believes," "contemplates," "feels," "expects," "estimates," "seeks," "strives," "plans," "intends," "outlook," "forecast," "position," "target," "mission," "assume," "achievable," "potential," "strategy," "goal," "aspiration," "opportunity," "initiative," "outcome," "continue," "remain," "maintain," "on course," "trend," "objective," "looks forward," "projects," "models," and variations of such words and similar expressions, or future or conditional verbs such as "will," "would," "should," "could," "might," "can," "may" or similar expressions, as they relate to the Corporation or its management, are intended to identify forward-looking statements. These forward-looking statements are predicated on the beliefs and assumptions of the Corporation's management based on information known to the Corporation's management as of the date of this report and do not purport to speak as of any other date. Forward-looking statements may include descriptions of plans and objectives of the Corporation's management for future or past operations, products or services, and forecasts of the Corporation's revenue, earnings or other measures of economic performance, including statements of profitability, business segments and subsidiaries, estimates of credit trends and global stability. Such statements reflect the view of the Corporation's management as of this date with respect to future events and are subject to risks and uncertainties. Should one or more of these risks materialize or should underlying beliefs or assumptions prove incorrect, the Corporation's actual results could differ materially from those discussed. Factors that could cause or contribute to such differences are changes in general economic, political or industry conditions; changes in monetary and fiscal policies, including changes in interest rates; volatility and disruptions in global capital and credit markets; changes in the Corporation's credit rating; the interdependence of financial service companies; changes in regulation or oversight; unfavorable developments concerning credit quality; the effects of more stringent capital or liquidity requirements; declines or other changes in the businesses or industries of the Corporation's customers; operational difficulties, failure of technology infrastructure or information security incidents; the implementation of the Corporation's strategies and business initiatives; the Corporation's ability to utilize technology to efficiently and effectively develop, market and deliver new products and services; changes in the financial markets, including fluctuations in interest rates and their impact on deposit pricing; competitive product and pricing pressures among financial institutions within the Corporation's markets; changes in customer behavior; any future strategic acquisitions or divestitures; management's ability to maintain and expand customer relationships; management's ability to retain key officers and employees; the impact of legal and regulatory proceedings or determinations; the effectiveness of methods of reducing risk exposures; the effects of terrorist activities and other hostilities; the effects of catastrophic events including, but not limited to, hurricanes, tornadoes, earthquakes, fires and floods; changes in accounting standards and the critical nature of the Corporation's accounting policies. The Corporation cautions that the foregoing list of factors is not exclusive. For discussion of factors that may cause actual results to differ from expectations, please refer to our filings with the Securities and Exchange Commission. In particular, please refer to “Item 1A. Risk Factors” beginning on page 12 of Comerica's Annual Report on Form 10-K for the year ended December 31, 2013. Forward-looking statements speak only as of the date they are made. The Corporation does not undertake to update forward-looking statements to reflect facts, circumstances, assumptions or events that occur after the date the forward-looking statements are made. For any forward-looking statements made in this report or in any documents, the Corporation claims the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995.

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RESULTS OF OPERATIONS

Net income for the three months ended June 30, 2014 was $151 million, an increase of $8 million from $143 million reported for the three months ended June 30, 2013. This increase was primarily the result of a $12 million decrease in noninterest expenses, a $2 million increase in net interest income and a $2 million decrease in the provision for credit losses, partially offset by a $2 million decrease in noninterest income. Net income per diluted common share was $0.80 for the three months ended June 30, 2014, compared to $0.76 for the same period one year ago. Average diluted common shares were 186 million and 187 million for the three-month periods ended June 30, 2014 and 2013, respectively.

Net income for the six months ended June 30, 2014 was $290 million, an increase of $13 million from $277 million reported for the six months ended June 30, 2013. The increase in net income was primarily the result of a $22 million decrease in noninterest expenses and a $9 million decrease in the provision for credit losses, partially offset by decreases of $7 million in noninterest income and $4 million in net interest income. Net income per diluted common share was $1.54 for the six months ended June 30, 2014, compared to $1.46 for the same period one year ago. Average diluted common shares were 186 million and 187 million for the six-month periods ended June 30, 2014 and 2013, respectively.

Full-Year 2014 Outlook Compared to Full-Year 2013

Management expectations for full-year 2014 compared to 2013 assume a continuation of the current economic and low-rate environment and excludes the approximately $32 million gain on the July 15, 2014 early redemption of debt, which is viewed as non-core.

- Moderate growth of 4 percent to 6 percent in average loans. The range reflects growth in the first six months of 2014 along with possible outcomes in the second half of 2014 in both seasonal declines in National Dealer Services and Mortgage Banker Finance as well as growth in the Corporation's remaining business lines, which slowed throughout the second quarter.
- Net interest income modestly lower, reflecting a decline in purchase accounting accretion, to $25 million to $30 million, and the effect of continued pressure from the low-rate environment, approximately offset by loan growth.
- Provision for credit losses and net charge-offs stable. Increases to the allowance for credit losses due to loan growth offset by continued strong credit quality.
- Noninterest income modestly lower, reflecting stable customer-driven fee income and lower noncustomer-driven income.
- Noninterest expenses lower, reflecting lower litigation-related expenses and a more than 50 percent decrease in pension expense, to about $39 million.
- Income tax expense to approximate 32 percent of pretax income.

The Corporation early adopted an amendment to U.S. generally accepted accounting principles in the first quarter 2014 related to the accounting for affordable housing projects that qualify for the low-income housing tax credit. Amortization of the initial investment cost of qualifying projects is now recorded in the provision for income taxes together with the tax credits and benefits received. Previously, the amortization was recorded as a reduction to other noninterest income. All prior period amounts in this financial review have been restated to reflect the adoption of the amendment, which resulted in offsetting increases to other noninterest income and the provision for income taxes of $14 million and $27 million for the three- and six-month periods ended June 30, 2013, respectively ($56 million for full-year 2013). The adoption had no impact on net income for any period presented.

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Net Interest Income

Quarterly Analysis of Net Interest Income & Rate/Volume - Fully Taxable Equivalent (FTE)

	Three Months Ended					
	June 30, 2014			June 30, 2013		
(dollar amounts in millions)	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate
Commercial loans	$29,890	$231	3.10 %	$28,393	$233	3.29 %
Real estate construction loans	1,913	16	3.44	1,453	15	4.04
Commercial mortgage loans	8,749	85	3.88	9,192	88	3.86
Lease financing	850	7	3.26	855	7	3.22
International loans	1,328	12	3.64	1,262	12	3.81
Residential mortgage loans	1,773	17	3.82	1,602	16	4.04
Consumer loans	2,222	18	3.22	2,136	18	3.30
Total loans (a)	46,725	386	3.31	44,893	389	3.47
Mortgage-backed securities available-for-sale	8,996	53	2.35	9,415	51	2.22
Other investment securities available-for-sale	368	—	0.46	378	1	0.52
Total investment securities available-for-sale	9,364	53	2.28	9,793	52	2.15
Interest-bearing deposits with banks (b)	3,949	3	0.25	4,125	3	0.26
Other short-term investments	110	—	0.61	117	—	1.05
Total earning assets	60,148	442	2.95	58,928	444	3.02
Cash and due from banks	921			972		
Allowance for loan losses	(602)			(625)		
Accrued income and other assets	4,412			4,431		
Total assets	$64,879			$63,706		
Money market and interest-bearing checking deposits	$22,296	6	0.10	$21,544	8	0.13
Savings deposits	1,742	—	0.03	1,658	—	0.03
Customer certificates of deposit	5,041	5	0.36	5,685	6	0.43
Foreign office time deposits	294	—	0.68	485	1	0.60
Total interest-bearing deposits	29,373	11	0.15	29,372	15	0.19
Short-term borrowings	210	—	0.03	193	—	0.07
Medium- and long-term debt	2,999	14	1.77	4,044	14	1.43
Total interest-bearing sources	32,582	25	0.30	33,609	29	0.34
Noninterest-bearing deposits	24,011			22,076		
Accrued expenses and other liabilities	955			1,042		
Total shareholders' equity	7,331			6,979		
Total liabilities and shareholders' equity	$64,879			$63,706		
Net interest income/rate spread (FTE)		$417	2.65		$415	2.68