COMERICA INC /NEW/
Form 10-Q
April 30, 2010
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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 March 31, 2010

or

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

For the transition period from to

Commission file number 1-10706

Comerica Incorporated

(Exact name of registrant as specified in its charter)

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

Comerica Bank Tower

1717 Main Street, MC 6404

Dallas, Texas 75201

(Address of principal executive offices)

(Zip Code)

(214) 462-6831

(Registrant s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x 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 o 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 definition of accelerated filer, large accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act:

Large accelerated filer x	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 x

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 April 26, 2010: 176,322,103 shares

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COMERICA INCORPORATED AND SUBSIDIARIES

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CONSOLIDATED BALANCE SHEETS

Comerica Incorporated and Subsidiaries

(in millions, except share data)	March 31, 2010 (unaudited)	December 31, 2009	March 31, 2009 (unaudited)
ASSETS			
Cash and due from banks	$ 769	$ 774	$ 952
Interest-bearing deposits with banks	3,860	4,843	2,558
Other short-term investments	165	138	248
Investment securities available-for-sale	7,346	7,416	10,844
Commercial loans	20,756	21,690	26,431
Real estate construction loans	3,202	3,461	4,379
Commercial mortgage loans	10,358	10,457	10,514
Residential mortgage loans	1,631	1,651	1,836
Consumer loans	2,472	2,511	2,577
Lease financing	1,120	1,139	1,232
International loans	1,306	1,252	1,655
Total loans	40,845	42,161	48,624
Less allowance for loan losses	(987)	(985)	(816)
Net loans	39,858	41,176	47,808
Premises and equipment	637	644	676
Customers liability on acceptances outstanding	21	11	10
Accrued income and other assets	4,450	4,247	4,274
Total assets	$ 57,106	$ 59,249	$ 67,370
LIABILITIES AND SHAREHOLDERS EQUITY			
Noninterest-bearing deposits	$ 15,290	$ 15,871	$ 12,645
Money market and NOW deposits	16,009	14,450	12,240
Savings deposits	1,462	1,342	1,328
Customer certificates of deposit	5,979	6,413	8,815
Other time deposits	814	1,047	6,372
Foreign office time deposits	412	542	494
Total interest-bearing deposits	24,676	23,794	29,249
Total deposits	39,966	39,665	41,894
Short-term borrowings	489	462	2,207
Acceptances outstanding	21	11	10
Accrued expenses and other liabilities	1,047	1,022	1,464
Medium- and long-term debt	9,915	11,060	14,612
Total liabilities	51,438	52,220	60,187
Fixed rate cumulative perpetual preferred stock, series F, no par value, $1,000 liquidation value per share:			
Authorized - 2,250,000 shares at 12/31/09 and 3/31/09			
Issued - 2,250,000 shares at 12/31/09 and 3/31/09		2,151	2,134
Common stock - $5 par value:			
Authorized - 325,000,000 shares			

Issued - 203,878,110 shares at 3/31/10 and 178,735,252 shares at 12/31/09 and 3/31/09		1,019		894		894
Capital surplus		1,468		740		727
Accumulated other comprehensive loss		(303)		(336)		(238)
Retained earnings		5,064		5,161		5,252
Less cost of common stock in treasury - 27,575,283 shares at 3/31/10, 27,555,623 shares at 12/31/09 and 27,580,899 shares at 3/31/09		(1,580)		(1,581)		(1,586)
Total shareholders equity		5,668		7,029		7,183
Total liabilities and shareholders equity	$	57,106	$	59,249	$	67,370

See notes to consolidated financial statements.

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CONSOLIDATED STATEMENTS OF INCOME (unaudited)

Comerica Incorporated and Subsidiaries

	Three Months Ended March 31,	
(in millions, except per share data)	**2010**	**2009**
INTEREST INCOME		
Interest and fees on loans	$ 412	$ 452
Interest on investment securities	61	109
Interest on short-term investments	3	2
Total interest income	476	563
INTEREST EXPENSE		
Interest on deposits	35	125
Interest on short-term borrowings		2
Interest on medium- and long-term debt	26	52
Total interest expense	61	179
Net interest income	415	384
Provision for loan losses	175	203
Net interest income after provision for loan losses	240	181
NONINTEREST INCOME		
Service charges on deposit accounts	56	58
Fiduciary income	39	42
Commercial lending fees	22	18
Letter of credit fees	18	16
Card fees	13	12
Foreign exchange income	10	9
Bank-owned life insurance	8	8
Brokerage fees	6	9
Net securities gains	2	13
Other noninterest income	20	38
Total noninterest income	194	223
NONINTEREST EXPENSES		
Salaries	169	171
Employee benefits	44	55
Total salaries and employee benefits	213	226
Net occupancy expense	42	41
Equipment expense	17	16
Outside processing fee expense	23	25
Software expense	22	20
FDIC insurance expense	17	15
Other real estate expense	12	7
Legal fees	9	7
Litigation and operational losses	1	2
Provision for credit losses on lending-related commitments	7	(1)
Other noninterest expenses	41	39
Total noninterest expenses	404	397
Income from continuing operations before income taxes	30	7
Provision (benefit) for income taxes	(5)	(1)
Income from continuing operations	35	8

Income from discontinued operations, net of tax		17		1
NET INCOME		52		9
Preferred stock dividends		123		33
Income allocated to participating securities				
Net loss attributable to common shares	$	(71)	$	(24)
Basic earnings per common share:				
Loss from continuing operations	$	(0.57)	$	(0.17)
Net loss		(0.46)		(0.16)
Diluted earnings per common share:				
Loss from continuing operations		(0.57)		(0.17)
Net loss		(0.46)		(0.16)
Cash dividends declared on common stock		9		7
Cash dividends declared per common share		0.05		0.05

See notes to consolidated financial statements.

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CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY (unaudited)

Comerica Incorporated and Subsidiaries

(in millions, except per share data)	Preferred Stock	Common Stock Shares Outstanding	Common Stock Amount	Capital Surplus	Accumulated Other Comprehensive Loss	Retained Earnings	Treasury Stock	Total Shareholders Equity
BALANCE AT DECEMBER 31, 2008	$ 2,129	150.5	$ 894	$ 722	$ (309)	$ 5,345	$ (1,629)	$ 7,152
Net income						9		9
Other comprehensive income, net of tax					71			71
Total comprehensive income								80
Cash dividends declared on preferred stock						(57)		(57)
Cash dividends declared on common stock ($0.05 per share)						(7)		(7)
Accretion of discount on preferred stock	5					(5)		
Net issuance of common stock under employee stock plans		0.7		(12)		(33)	43	(2)
Share-based compensation				11				11
Other				6				6
BALANCE AT MARCH 31, 2009	$ 2,134	151.2	$ 894	$ 727	$ (238)	$ 5,252	$ (1,586)	$ 7,183
BALANCE AT DECEMBER 31, 2009	$ 2,151	151.2	$ 894	$ 740	$ (336)	$ 5,161	$ (1,581)	$ 7,029
Net income						52		52
Other comprehensive income, net of tax					33			33
Total comprehensive income								85
Cash dividends declared on preferred stock						(38)		(38)
Cash dividends declared on common stock ($0.05 per share)						(9)		(9)
Purchase of common stock							(2)	(2)
Issuance of common stock		25.1	125	724				849
Redemption of preferred stock	(2,250)							(2,250)
Redemption discount accretion on preferred stock	94					(94)		
Accretion of discount on preferred stock	5					(5)		
Net issuance of common stock under employee stock plans						(3)	3	
Share-based compensation				4				4

Other							
BALANCE AT MARCH 31, 2010	$ 176.3	$ 1,019	$ 1,468	$ (303)	$ 5,064	$ (1,580)	$ 5,668

See notes to consolidated financial statements.

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CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

Comerica Incorporated and Subsidiaries

(in millions)	Three Months Ended March 31, 2010	2009
OPERATING ACTIVITIES		
Net income	$ 52	$ 9
Income from discontinued operations, net of tax	17	1
Income from continuing operations, net of tax	35	8
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	175	203
Provision for credit losses on lending-related commitments	7	(1)
Provision for deferred income taxes	3	9
Depreciation and software amortization	32	30
Net gain on early termination of leveraged leases		(24)
Share-based compensation expense	4	11
Net amortization (accretion) of securities	4	(3)
Net securities gains	(2)	(13)
Contribution to qualified pension plan		(100)
Net increase in trading securities	(26)	(87)
Net increase in loans held-for-sale	(1)	(3)
Net decrease in accrued income receivable	5	29
Net decrease in accrued expenses	(16)	(53)
Other, net	72	(256)
Discontinued operations, net	17	1
Net cash provided by operating activities	309	(249)
INVESTING ACTIVITIES		
Proceeds from sales of investment securities available-for-sale	53	233
Proceeds from maturities of investment securities available-for-sale	321	578
Purchases of investment securities available-for-sale	(300)	(2,298)
Sales of Federal Home Loan Bank stock	41	
Net decrease in loans	1,135	1,592
Proceeds from early termination of leveraged leases		102
Net increase in fixed assets	(17)	(19)
Net (increase) decrease in customers liability on acceptances outstanding	(10)	4
Discontinued operations, net		
Net cash provided by investing activities	1,223	192
FINANCING ACTIVITIES		
Net increase in deposits	56	168
Net increase in short-term borrowings	27	458
Net increase (decrease) in acceptances outstanding	10	(4)
Repayments of medium- and long-term debt	(1,000)	(400)
Repurchases of medium- and long-term debt	(165)	
Proceeds from issuance of common stock	849	
Redemption of preferred stock	(2,250)	
Proceeds from issuance of common stock under employee stock plans	1	
Purchase of common stock for treasury	(2)	
Dividends paid on common stock	(8)	(50)
Dividends paid on preferred stock	(38)	(28)
Discontinued operations, net		

Net cash (used in) provided by financing activities		(2,520)		144
Net (decrease) increase in cash and cash equivalents		(988)		87
Cash and cash equivalents at beginning of period		5,617		3,423
Cash and cash equivalents at end of period	$	4,629	$	3,510
Interest paid	$	63	$	171
Income taxes, tax deposits and tax-related interest paid	$	69	$	215
Noncash investing and financing activities:				
Loans transferred to other real estate	$	9	$	32

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

The accompanying unaudited consolidated financial statements were prepared in accordance with 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 three months ended March 31, 2010 are not necessarily indicative of the results that may be expected for the year ending December 31, 2010. 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, 2009.

Consolidation

On January 1, 2010, the Corporation adopted Accounting Standards Update (ASU) No. 2009-17, Improvements in Financial Reporting by Enterprises Involved with Variable Interest Entities, (ASU 2009-17). ASU 2009-17 amends consolidation guidance related to variable interest entities (VIEs) by replacing a quantitative approach for determining which enterprise, if any, is the primary beneficiary and required to consolidate a VIE with a qualitative approach. The qualitative approach is focused on identifying which enterprise has both the power to direct the activities of the VIE that most significantly impact the entity s economic performance and the obligation to absorb losses or the right to receive benefits that could be significant to the VIE. ASU 2009-17 requires reconsideration of the primary beneficiary whenever circumstances change and eliminates the exception for qualifying special-purpose entities from consolidation guidance.

In February 2010, the Financial Accounting Standards Board (FASB) issued ASU No. 2010-10, Amendments for Certain Investment Funds, (ASU 2010-10). ASU 2010-10 indefinitely defers the requirements of ASU 2009-17 for certain investment funds with attributes of an investment company specified in the accounting guidance, including, but not limited to, venture capital funds, private equity funds and mutual funds. The deferral is also applicable to a reporting enterprise s interest in an entity that is required to comply with or operates in accordance with requirements similar to those in Rule 2a-7 of the Investment Company Act of 1940 for registered money market funds. For funds that qualify for the deferral, the Corporation will continue to analyze whether such fund should be consolidated under authoritative guidance that existed prior to the issuance of ASU 2009-17.

The Corporation was not required to consolidate any additional VIEs with which the Corporation is involved as a result of implementing the guidance in ASU 2009-17, as amended by ASU 2010-10. See Note 6 for additional information about the Corporation s involvement with VIEs.

Transfers of Financial Assets

On January 1, 2010, the Corporation adopted ASU No. 2009-16, Transfers and Servicing (Topic 860): Accounting for Transfers of Financial Assets, (ASU 2009-16). ASU 2009-16 eliminates the concept of qualifying special-purpose entities and establishes conditions for reporting the transfer of a portion of a financial asset as a sale. If the transfer does not meet these established conditions, the transferor and transferee must account for the transfer as a secured borrowing. An enterprise that continues to transfer portions of a financial asset that do not meet these established conditions is eligible to record a sale only after it has transferred all of its interest in that asset. The adoption of ASU 2009-16 was not material to the Corporation s financial condition and results of operations.

Fair Value Measurements

In the first quarter 2010, the Corporation fully adopted ASU No. 2010-06, Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements, (ASU 2010-06). ASU 2010-06 requires separate disclosures of significant transfers in and out of Level 1 and Level 2 fair value measurements and the reasons for the transfers, clarifies that fair value measurement disclosures should be provided for each class of assets and liabilities, and that disclosures of inputs and valuation techniques should be provided for both recurring and nonrecurring Level 2 and Level 3 fair value measurements, and requires disclosure of purchases, sales, issuances and settlements activity on a gross (rather than net) basis in the Level 3 reconciliation of fair value measurements for assets and liabilities measured at fair value on a recurring basis. For further information concerning fair value measurements, refer to Note 2.

Notes to Consolidated Financial Statements (unaudited)

Comerica Incorporated and Subsidiaries

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. Investment securities available-for-sale, trading securities, 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), indirect private equity and venture capital investments 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 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. These levels are:

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.

Following is a description 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. For financial assets and liabilities recorded at fair value, the description includes 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 securities purchased under agreements to resell, and interest-bearing deposits with banks

The carrying amount of these instruments approximates the estimated fair value.

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Notes to Consolidated Financial Statements (unaudited)

Comerica Incorporated and Subsidiaries

Note 2 Fair Value Measurements (continued)

Trading securities and associated deferred compensation plan liabilities

Securities held for trading purposes and associated deferred compensation plan liabilities are recorded at fair value and included in other short-term investments and accrued expenses and other liabilities, respectively, on the consolidated balance sheets. Level 1 securities held for trading purposes include assets related to employee deferred compensation plans, which are invested in mutual funds 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 mortgage-backed securities issued by U.S. government-sponsored entities and corporate debt securities. Securities classified as Level 3 include securities in less liquid markets and securities not rated by a credit agency. 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. The fair value of loans held-for-sale is based on what secondary markets are currently offering for portfolios with similar characteristics. As such, the Corporation classifies loans held-for-sale subjected to nonrecurring fair value adjustments as Level 2.

Investment securities available-for-sale

Investment securities available-for-sale are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted prices, if available. If quoted prices are not available or the market is deemed to be inactive at the measurement date, an adjustment to the quoted prices may be necessary or the Corporation may conclude that a change in valuation technique or the use of multiple valuation techniques may be appropriate to estimate an instrument s fair value. 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-sponsored enterprises, corporate debt securities and state and municipal 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, of which the substantial majority are auction-rate securities, represent securities in less liquid markets requiring significant management assumptions when determining fair value. Due to the lack of a robust secondary auction-rate securities market with active fair value indicators, fair value at March 31, 2010 and 2009 was determined using an income approach based on a discounted cash flow model utilizing two significant assumptions: discount rate (including a liquidity risk premium) 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 based on observed industry auction-rate securities valuations by third parties. 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 redemption experience.

Loans

The Corporation does not record loans at fair value on a recurring basis. However, periodically, the Corporation records nonrecurring adjustments to the carrying value of loans based on fair value measurements. Loans for which it is probable that payment of interest or principal will not be made in accordance with the contractual terms of the original loan agreement are considered impaired. Impaired loans where an allowance is established based on the fair value of collateral are considered nonrecurring fair value measurements. When the fair value of the collateral is based on an observable market price or a current appraised value, the Corporation classifies the impaired loan as nonrecurring Level 2. 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 nonrecurring Level 3.

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Notes to Consolidated Financial Statements (unaudited)

Comerica Incorporated and Subsidiaries

Note 2 Fair Value Measurements (continued)

Business loans consist of commercial, real estate construction, commercial mortgage, lease financing and international loans. The estimated fair value for variable rate business loans that reprice frequently is based on carrying values adjusted for estimated credit losses and other adjustments that would be expected to be made by a market participant in an active market. The fair value for other business loans, and consumer and residential mortgage loans are estimated using a discounted cash flow model that employs interest rates currently offered on the loans, adjusted by an amount for estimated credit losses and other adjustments that would be expected to be made by a market participant in an active market. The rates take into account the expected yield curve, as well as an adjustment for prepayment risk, when applicable.

Customers liability on acceptances outstanding and acceptances outstanding

The carrying amount of these instruments approximates the estimated fair value.

Derivative assets and derivative liabilities

Derivative assets and derivative liabilities are included in accrued income and other assets and accrued expenses and other liabilities, respectively, on the consolidated balance sheets. Substantially all of the derivative instruments held or issued by the Corporation for risk management or customer-initiated activities are traded in over-the-counter markets where quoted market prices are not readily available. For those derivative instruments, the Corporation measures fair value using internally developed models that use primarily market observable inputs, such as yield curves and option volatilities, and include the value associated with counterparty credit risk. As such, the Corporation classifies those derivative instruments as recurring Level 2. Examples of Level 2 derivative instruments are interest rate swaps and energy derivative and foreign exchange contracts.

The Corporation also holds a portfolio of warrants for generally nonmarketable equity securities. These warrants are primarily from high technology, non-public companies obtained as part of the loan origination process. 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 using a Black-Scholes valuation model with five inputs: risk-free rate, expected life, volatility, exercise price, and the per share market value of the underlying company. The Corporation classifies warrants accounted for as derivatives as recurring Level 3.

Nonmarketable equity securities

The Corporation has a portfolio of indirect (through funds) private equity and venture capital investments. These funds generally cannot be redeemed and the majority are not readily marketable. Distributions from funds are received by the Corporation as the result of 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 15 years. The value of these investments is at risk to changes in equity markets, general economic conditions and a variety of other factors. The investments are accounted for 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. Fair value measurement guidance permits the measurement of investments of this type on the basis of net asset value, provided the net asset value is calculated by the fund in compliance with fair value measurement guidance applicable to investment companies. Where there is not a readily determinable fair value, the Corporation estimates fair value for indirect private equity and venture capital investments based on percentage ownership in the net asset value of the entire fund, 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.

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Notes to Consolidated Financial Statements (unaudited)

Comerica Incorporated and Subsidiaries

Note 2 Fair Value Measurements (continued)

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) 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 positive and negative evidence, including 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 $230 million and $271 million at March 31, 2010 and December 31, 2009, respectively, and its investment in FRB stock totaled $60 million and $59 million at March 31, 2010 and December 31, 2009, respectively. The Corporation believes its investments in FHLB and FRB stock are ultimately recoverable at par.

The Corporation classifies nonmarketable equity securities subjected to nonrecurring fair value adjustments as Level 3.

Other real estate

Other real estate is included in accrued income and other assets on the consolidated balance sheets and includes primarily foreclosed property. Upon transfer from the loan portfolio, foreclosed property is adjusted to and subsequently carried at the lower of carrying value or fair value, less estimated costs to sell. Fair value is based upon independent market prices, appraised value or management s estimation of the value. When the fair value of the collateral is based on an observable market price or a current appraised value, the Corporation classifies the foreclosed property as nonrecurring Level 2. When management determines that the fair value of the foreclosed property requires additional adjustments, either as a result of non-current appraisal value or when there is no observable market price, the Corporation classifies the foreclosed property as nonrecurring Level 3.

Loan servicing rights

Loan servicing rights, included in accrued income and other assets on the consolidated balance sheets, are subject to impairment testing. A valuation model is used for impairment testing, which utilizes a discounted cash flow analysis using interest rates and prepayment speed assumptions currently quoted for comparable instruments and a discount rate determined by management. If the valuation model reflects a value less than the carrying value, loan servicing rights are adjusted to fair value through a valuation allowance as determined by the model. As such, the Corporation classifies loan servicing rights subjected to nonrecurring fair value adjustments as Level 3.

Goodwill

Goodwill, included in accrued income and other assets on the consolidated balance sheets, is subject to impairment testing that requires an estimate of the fair value of the Corporation s reporting units. Estimating the fair value of reporting units is a subjective process involving the use of estimates and judgments, particularly related to future cash flows, discount rates (including market risk premiums) and market multiples. The fair values of the reporting units were determined using a blend of two commonly used valuation techniques, the market approach and the income approach. The Corporation gives consideration to two valuation techniques, as either technique can be an indicator of value. For the market approach, valuations of reporting units were based on an analysis of relevant price multiples in market trades in industries similar to the reporting unit. Market trades do not consider a control premium associated with an acquisition or a sale transaction. For the income approach, estimated future cash flows and terminal value (value at the end of the cash flow period, based on price multiples) were discounted. The discount rate was based on the imputed cost of equity capital. Material assumptions used in the valuation models included the comparable public company price multiples used in the terminal value, future cash flows and the market risk premium component of the discount rate. Due to the general uncertainty and depressed earning capacity in the financial services industry as of the measurement date, the Corporation concluded that the valuation under the income approach more clearly reflected the long-term future earning capacity of the reporting unit than the valuation under the market approach, and thus gave greater weight to the income approach.

If goodwill impairment testing resulted in impairment, the Corporation would classify goodwill subjected to nonrecurring fair value adjustments as Level 3.

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Notes to Consolidated Financial Statements (unaudited)

Comerica Incorporated and Subsidiaries

Note 2 Fair Value Measurements (continued)

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.

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.

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. If quoted market values are not available, the estimated fair value is based on the market values of debt with similar characteristics.

Credit-related financial instruments

The estimated fair value of unused commitments to extend credit and standby and commercial letters of credit is represented by the estimated cost to terminate or otherwise settle the obligations with the counterparties. This amount is approximated by the fees currently charged to enter into similar arrangements, considering the remaining terms of the agreements and any changes in the credit quality of counterparties since the agreements were executed. This estimate of fair value does not take into account the significant value of the customer relationships and the future earnings potential involved in such arrangements as the Corporation does not believe that it would be practicable to estimate a representational fair value for these items.

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Notes to Consolidated Financial Statements (unaudited)

Comerica Incorporated and Subsidiaries

Note 2 Fair Value Measurements (continued)

Assets and Liabilities Recorded at Fair Value on a Recurring Basis

The following tables present the recorded amount of assets and liabilities measured at fair value on a recurring basis as of March 31, 2010 and December 31, 2009.

(in millions)	Total	Level 1	Level 2	Level 3
March 31, 2010				
Trading securities:				
Deferred compensation plan assets	$ 86	$ 86	$	$
Government-sponsored enterprise residential mortgage-backed securities	1		1	
Other government sponsored enterprise securities	2		2	
State and municipal securities	45		45	
Total trading securities	134	86	48	
Investment securities available-for-sale:				
U.S. Treasury and other U.S. government agency securities	100	100		
Government-sponsored enterprise residential mortgage-backed securities	6,298		6,298	
State and municipal securities (a)	45			45
Corporate debt securities:				
Auction-rate debt securities	144			144
Other corporate debt securities	26		25	1
Equity and other non-debt securities:				
Auction-rate preferred securities	663			663
Money market and other mutual funds	70	70		
Total investment securities available-for-sale	7,346	170	6,323	853
Derivative assets:				
Interest rate contracts	504		504	
Energy derivative contracts	140		140	
Foreign exchange contracts	42		42	
Warrants	7			7
Total derivative assets	693		686	7
Total assets at fair value	$ 8,173	$ 256	$ 7,057	$ 860
Derivative liabilities:				
Interest rate contracts	$ 236	$	$ 236	$

Energy derivative contracts		140				140	
Foreign exchange contracts		38				38	
Total derivative liabilities		414				414	
Deferred compensation plan liabilities		86		86			
Total liabilities at fair value	$	500	$	86	$	414	$

(a) Primarily auction-rate securities.

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Notes to Consolidated Financial Statements (unaudited)

Comerica Incorporated and Subsidiaries

Note 2 Fair Value Measurements (continued)

(in millions)	Total	Level 1	Level 2	Level 3
December 31, 2009				
Trading securities:				
Deferred compensation plan assets	$ 86	$ 86	$	$
Government-sponsored enterprise residential mortgage-backed securities	3		3	
State and municipal securities	15		15	
Corporate debt securities	3		3	
Total trading securities	107	86	21	
Investment securities available-for-sale:				
U.S. Treasury and other U.S. government agency securities	103	103		
Government-sponsored enterprise residential mortgage-backed securities	6,261		6,261	
State and municipal securities (a)	47		1	46
Corporate debt securities:				
Auction-rate debt securities	150			150
Other corporate debt securities	50		43	7
Equity and other non-debt securities:				
Auction-rate preferred securities	706			706
Money market and other mutual funds	99	99		
Total investment securities available-for-sale	7,416	202	6,305	909
Derivative assets:				
Interest rate contracts	492		492	
Energy derivative contracts	137		137	
Foreign exchange contracts	35		35	
Warrants	7			7
Total derivative assets	671		664	7
Total assets at fair value	$ 8,194	$ 288	$ 6,990	$ 916
Derivative liabilities:				
Interest rate contracts	$ 240	$	$ 240	$
Energy derivative contracts	136		136	
Foreign exchange contracts	34		34	
Total derivative liabilities	410		410	
Deferred compensation plan liabilities	86	86		
Total liabilities at fair value	$ 496	$ 86	$ 410	$

(a) Primarily auction-rate securities.

There were no significant transfers of assets or liabilities recorded at fair value on a recurring basis into or out of Level 1 and Level 2 fair value measurements during the three-month periods ended March 31, 2010 and 2009.

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Notes to Consolidated Financial Statements (unaudited)

Comerica Incorporated and Subsidiaries

Note 2 Fair Value Measurements (continued)

The following table summarizes the changes in Level 3 assets and liabilities measured at fair value on a recurring basis for the three-month periods ended March 31, 2010 and 2009.

		Net Realized/Unrealized Gains (Losses)					
	Balance at Beginning of Period	Recorded in Earnings		Recorded in Other Comprehensive Income (Pre-tax)			Balance at End of Period
(in millions)		**Realized**	**Unrealized**		**Sales**	**Settlements**	
Three Months Ended March 31, 2010							
Investment securities available-for-sale:							
State and municipal securities (a)	$ 46	$	$	$ (1)	$	$	$ 45
Auction-rate debt securities	150			(5)	(1)		144
Other corporate debt securities	7	27				(33)	1
Auction-rate preferred securities	706	2		1	(46)		663
Total investment securities available-for-sale	909	29		(5)	(47)	(33)	853
Derivative assets:							
Warrants	7						7
Three months ended March 31, 2009							
Trading securities:							
State and municipal securities	$ 29	$	$	$	$ (29)	$	$
Corporate debt securities	5				(2)		3
Total trading securities	34				(31)		3
Investment securities available-for-sale:							
State and municipal securities (a)	65			3	(13)		55
Auction-rate debt securities	147				(1)		146
Other corporate debt securities	5		2				7
Auction-rate preferred securities	936	5		33	(86)		888
Total investment securities available-for-sale	1,153	5	2	36	(100)		1,096
Derivative assets:							
Warrants	8						8
Financial guarantees	5					(4)	1

(a) Primarily auction-rate securities

There were no transfers of assets or liabilities recorded at fair value on a recurring basis into or out of Level 3 fair value measurements during the three-month periods ended March 31, 2010 and 2009.

The following table presents the income statement classification of realized and unrealized gains and losses due to changes in fair value recorded in earnings for the three-month periods ended March 31, 2010 and 2009 for recurring Level 3 assets and liabilities, as shown in the previous table.

	Net Securities Gains (Losses)		**Discontinued Operations**		**Total**	
(in millions)	**Realized**	**Unrealized**	**Realized**	**Unrealized**	**Realized**	**Unrealized**
Three months ended March 31, 2010						
Investment securities available-for-sale:						
Other corporate debt securities	$	$	$ 27	$	$ 27	$
Auction-rate preferred securities	2				2	
Total investment securities available-for-sale	$ 2	$	$ 27	$	$ 29	$
Three months ended March 31, 2009						
Investment securities available-for-sale:						
Other corporate debt securities	$	$	$	$ 2	$	$ 2
Auction-rate preferred securities	5				5	
Total investment securities available-for-sale	$ 5	$	$	$ 2	$ 5	$ 2

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Notes to Consolidated Financial Statements (unaudited)

Comerica Incorporated and Subsidiaries

Note 2 Fair Value Measurements (continued)

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. Assets and liabilities recorded at fair value on a nonrecurring basis are presented in the following table.

(in millions)	Total	Level 1	Level 2	Level 3
March 31, 2010				
Loans held-for-sale:				
Residential mortgage	$ 5	$	$ 5	$
Loans:				
Commercial	213			213
Real estate construction	519			519
Commercial mortgage	333			333
Residential mortgage	13			13
Consumer	1			1
Lease financing	11			11
International	6			6
Total loans (a)	1,096			1,096
Nonmarketable equity securities (b)	8			8
Other real estate (c)	94			94
Loan servicing rights	6			6
Total assets at fair value	$ 1,209	$	$ 5	$ 1,204
Total liabilities at fair value	$	$	$	$
December 31, 2009				
Loans held-for-sale:				
Residential mortgage	$ 6	$	$ 6	$
Loans:				
Commercial	239			239
Real estate construction	511			511
Commercial mortgage	326			326
Residential mortgage	13			13
Lease financing	13			13
International	29			29
Total loans (a)	1,131			1,131
Nonmarketable equity securities (b)	8			8
Other real estate (c)	116			116

Loan servicing rights	7			7
Total assets at fair value	$ 1,268	$	$ 6	$ 1,262
Total liabilities at fair value	$	$	$	$

(a) The Corporation recorded $185 million and $189 million in fair value losses on impaired loans (included in provision for loan losses on the consolidated statements of income) during the three months ended March 31, 2010 and 2009, respectively, based on the estimated fair value of the underlying collateral.

(b) The Corporation recorded $1 million and $3 million in fair value losses related to write-downs on nonmarketable equity securities (included in other noninterest income on the consolidated statements of income) during the three months ended March 31, 2010 and 2009, respectively, based on the estimated fair value of the funds. At both March 31, 2010 and December 31, 2009, commitments to fund additional investments in nonmarketable equity securities recorded at fair value on a nonrecurring basis totaled approximately $3 million.

(c) The Corporation recorded $10 million and $3 million in fair value losses related to write-downs of other real estate, based on the estimated fair value of the underlying collateral, and recognized net gains of $2 million and net losses of $1 million on sales of other real estate during the three months ended March 31, 2010 and 2009, respectively (included in other real estate expense on the consolidated statements of income).

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Notes to Consolidated Financial Statements (unaudited)

Comerica Incorporated and Subsidiaries

Note 2 Fair Value Measurements (continued)

Estimated Fair Values of Financial Instruments Not Recorded at Fair Value in their Entirety on a Recurring Basis

Disclosure of the estimated fair values of financial instruments, which differ from carrying values, 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.

The amounts provided herein are estimates 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. The Corporation typically holds the majority of its financial instruments until maturity and thus does not expect to realize many of the estimated 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:

	March 31, 2010		December 31, 2009	
(in millions)	**Carrying Amount**	**Estimated Fair Value**	**Carrying Amount**	**Estimated Fair Value**
Assets				
Cash and due from banks	$ 769	$ 769	$ 774	$ 774
Interest-bearing deposits with banks	3,860	3,860	4,843	4,843
Loans held-for-sale	31	31	30	30
Total loans, net of allowance for loan losses (a)	39,858	39,741	41,176	41,098
Customers liability on acceptances outstanding	21	21	11	11
Nonmarketable equity securities (b)	57	72	57	61
Loan servicing rights	6	6	7	7
Liabilities				

Demand deposits (noninterest-bearing)	15,290	15,290	15,871	15,871
Interest-bearing deposits	24,676	24,692	23,794	23,814
Total deposits	39,966	39,982	39,665	39,685
Short-term borrowings	489	489	462	462
Acceptances outstanding	21	21	11	11
Medium- and long-term debt	9,915	9,678	11,060	10,723
Credit-related financial instruments	(97)	(122)	(90)	(115)

(a) Included $1,096 million and $1,131 million of impaired loans recorded at fair value on a nonrecurring basis at March 31, 2010 and December 31, 2009, respectively.

(b) Included $8 million of indirect private equity and venture capital investments recorded at fair value on a nonrecurring basis at both March 31, 2010 and December 31, 2009.

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Notes to Consolidated Financial Statements (unaudited)

Comerica Incorporated and Subsidiaries

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
March 31, 2010				
U.S. Treasury and other U.S. government agency securities	$ 100	$	$	$ 100
Government-sponsored enterprise residential mortgage-backed securities	6,213	90	5	6,298
State and municipal securities (a)	50		5	45
Corporate debt securities:				
Auction-rate debt securities	155		11	144
Other corporate debt securities	26			26
Equity and other non-debt securities:				
Auction-rate preferred securities	668	6	11	663
Money market and other mutual funds	70			70
Total investment securities available-for-sale	$ 7,282	$ 96	$ 32	$ 7,346
December 31, 2009				
U.S. Treasury and other U.S. government agency securities	$ 103	$	$	$ 103
Government-sponsored enterprise residential mortgage-backed securities	6,228	51	18	6,261
State and municipal securities (a)	51		4	47
Corporate debt securities:				
Auction-rate debt securities	156		6	150
Other corporate debt securities	50			50
Equity and other non-debt securities:				
Auction-rate preferred securities	711	8	13	706
Money market and other mutual funds	99			99
Total investment securities available-for-sale	$ 7,398	$ 59	$ 41	$ 7,416

(a) Primarily auction-rate securities.

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Notes to Consolidated Financial Statements (unaudited)

Comerica Incorporated and Subsidiaries

Note 3 - Investment Securities (continued)

A summary of the Corporation s investment securities available-for-sale in an unrealized loss position as of March 31, 2010 and December 31, 2009 follows:

	Impaired					
	Less than 12 months		12 months or more		Total	
(in millions)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
March 31, 2010						
U.S. Treasury and other U.S. government agency securities	$	$	$	$	$	$
Government-sponsored enterprise residential mortgage-backed securities	998	5			998	5
State and municipal securities (a)			44	5	44	5
Corporate debt securities:						
Auction-rate debt securities	144	11			144	11
Other corporate debt securities						
Equity and other non-debt securities:						
Auction-rate preferred securities	486	11			486	11
Money market and other mutual funds						
Total temporarily impaired securities	$ 1,628	$ 27	$ 44	$ 5	$ 1,672	$ 32
December 31, 2009						
U.S. Treasury and other U.S. government agency securities	$	$	$	$	$	$
Government-sponsored enterprise residential mortgage-backed securities	1,609	18			1,609	18
State and municipal securities (a)			46	4	46	4
Corporate debt securities:						
Auction-rate debt securities	150	6			150	6
Other corporate debt securities						
Equity and other non-debt securities:						
Auction-rate preferred securities	510	13			510	13
Money market and other mutual funds						
	$ 2,269	$ 37	$ 46	$ 4	$ 2,315	$ 41

Total temporarily impaired securities

(a) Primarily auction-rate securities.

Investment securities in an unrealized loss position are reviewed quarterly for possible other-than-temporary impairment (OTTI). If the Corporation intends to sell securities in an unrealized loss position or it is more likely than not that the Corporation will be required to sell the securities prior to recovery of the amortized cost basis, the Corporation would recognize an OTTI impairment loss in net securities gains on the consolidated statements of income for the full difference between the amortized cost and the fair value of those securities. If the Corporation does not intend to sell the securities and it is not more likely than not that it will be required to sell the securities prior to recovery of the amortized cost basis, the Corporation would recognize an OTTI impairment loss if full collection of the carrying amount of the securities is not expected, and only the amount of OTTI impairment associated with credit loss is recognized in income in net securities gains. Amounts relating to all other factors are recorded in other comprehensive income (loss) (OCI). The Corporation does not intend to sell the securities, and it is not more-likely-than-not that the Corporation will be required to sell the securities prior to recovery of amortized cost.

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Notes to Consolidated Financial Statements (unaudited)

Comerica Incorporated and Subsidiaries

Note 3 - Investment Securities (continued)

At March 31, 2010, the Corporation had 456 securities in an unrealized loss position, including 327 auction-rate preferred securities, 78 auction-rate debt securities, 40 state and municipal auction-rate debt securities and nine AAA-rated U.S. government-sponsored enterprise residential mortgage-backed securities (i.e., FMNA, FHLMC). The Corporation does not expect to collect the full carrying amount of certain state and municipal auction-rate debt securities and recognized less than $1 million of credit-related OTTI impairment loss in net securities gains in the consolidated statements of income and less than $0.5 million of OTTI impairment relating to all other factors in OCI in the first quarter 2010 for these securities. For the remaining securities in an unrealized loss position, the unrealized losses resulted from changes in market interest rates and liquidity, not from changes in the probability of collecting the full carrying amount of the securities. The Corporation does not consider these remaining securities to be other-than-temporarily impaired at March 31, 2010.

Sales, calls and write-downs of investment securities available-for-sale resulted in the following realized gains and losses, computed based on the adjusted cost of the specific security.

(in millions)	Three Months Ended March 31 2010		2009	
Securities gains	$	3	$	13
Securities losses		(1)		
Total net securities gains	$	2	$	13

The table below 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) March 31, 2010	Amortized Cost		Fair Value	
Contractual maturity				
Within one year	$	207	$	209
After one year through five years		128		131
After five years through ten years		464		480
After ten years		5,745		5,793
Subtotal		6,544		6,613
Equity and other nondebt securities:				
Auction-rate preferred securities		668		663
Money market and other mutual funds		70		70
Total investment securities available-for-sale	$	7,282	$	7,346

Included in the contractual maturity distribution in the table above were auction-rate securities with a total amortized cost and fair value of $204 million and $188 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 a total amortized cost and fair value of $6,214 million and $6,299 million, respectively. 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 March 31, 2010, investment securities having a carrying value of $4.1 billion were pledged where permitted or required by law to secure $3.9 billion of liabilities, including public and other deposits, FHLB advances and derivative instruments. This included residential mortgage-backed securities of $2.0 billion pledged with the FHLB to secure advances of $2.0 billion at March 31, 2010. The remaining pledged securities of $2.1 billion were primarily with state and local government agencies to secure $1.9 billion of deposits and other liabilities.

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Comerica Incorporated and Subsidiaries

Note 4 - Allowance for Credit Losses

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

(in millions)	Three Months Ended March 31, 2010	2009
Balance at beginning of period	$ 985	$ 770
Loan charge-offs:		
Domestic		
Commercial	49	61
Real estate construction		
Commercial Real Estate business line (a)	71	57
Other business lines (b)	3	
Total real estate construction	74	57
Commercial mortgage		
Commercial Real Estate business line (a)	16	16
Other business lines (b)	28	18
Total commercial mortgage	44	34
Residential mortgage	2	2
Consumer	8	6
Lease financing		
International	7	1
Total loan charge-offs	184	161
Recoveries:		
Domestic		
Commercial	7	3
Real estate construction	1	
Commercial mortgage	3	
Residential mortgage		
Consumer		1
Lease financing		
International		
Total recoveries	11	4
Net loan charge-offs	173	157
Provision for loan losses	175	203
Balance at end of period	$ 987	$ 816

(a) Primarily charge-offs of loans to real estate investors and developers.

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

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.

(in millions)	Three Months Ended March 31, 2010	2009
Balance at beginning of period	$ 37	$ 38
Less: Charge-offs on lending-related commitments (a)		
Add: Provision for credit losses on lending-related commitments	7	(1)
Balance at end of period	$ 44	$ 37

(a) Charge-offs result from the sale of unfunded lending-related commitments.

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Notes to Consolidated Financial Statements (unaudited)

Comerica Incorporated and Subsidiaries

Note 4 - Allowance for Credit Losses (continued)

The following presents the carrying value of impaired loans and the related allowance as of March 31, 2010 and December 31, 2009:

(in millions)	March 31, 2010	December 31, 2009
Total nonaccrual loans	$ 1,145	$ 1,165
Total reduced-rate loans	17	16
Total nonperforming loans	1,162	1,181
Total performing restructured loans	8	11
Total impaired loans	1,170	1,192
Impaired loans excluded from individual evaluation	(58)	(51)
Individually evaluated impaired loans	$ 1,112	$ 1,141
Individually evaluated impaired loans requiring an allowance	$ 1,076	$ 1,080
Allowance on individually evaluated impaired loans	$ 218	$ 196

Individually evaluated impaired loans averaged $1,114 million and $930 million for the three-month periods ended March 31, 2010 and 2009, respectively.

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. These financial instruments involve, to varying degrees, elements of market and credit risk. Derivatives are carried at fair value in the consolidated financial statements. 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 financial instruments by evaluating the creditworthiness of each counterparty, adhering to the same credit approval process used for traditional lending activities. Counterparty risk limits and monitoring procedures also facilitate the management of credit risk.

Bilateral collateral agreements with counterparties reduce credit risk by providing for the daily exchange of cash or highly rated securities issued by the U.S. Treasury or other U.S. government agencies to collateralize amounts due to either party. At March 31, 2010, counterparties had pledged marketable investment securities to secure approximately 80 percent of the fair value of contracts with bilateral collateral agreements in an unrealized gain 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. In addition, at March 31, 2010, master netting arrangements were in place with substantially all interest rate and energy swap counterparties and certain foreign exchange counterparties. These arrangements effectively reduce credit risk by permitting settlement, on a net basis, of contracts entered into with the same counterparty.

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Comerica Incorporated and Subsidiaries

Note 5 - Derivative and Credit-Related Financial Instruments (continued)

The aggregate fair value of all derivative instruments with credit-risk-related contingent features that were in a liability position on March 31, 2010 was $125 million, for which the Corporation had assigned collateral of $118 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 March 31, 2010, the Corporation would have been required to assign an additional $15 million of collateral to its counterparties.

The Corporation had commitments to purchase $100 million of when-issued investment securities for its available-for-sale portfolio at March 31, 2010. Outstanding commitments expose the Corporation to both credit and market risk.

Derivative Instruments

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 March 31, 2010 and December 31, 2009. The table excludes commitments and warrants accounted for as derivatives.

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Note 5 - Derivative and Credit-Related Financial Instruments (continued)

(in millions)	March 31, 2010 Notional/ Contract Amount (b)	March 31, 2010 Fair Value (a) Asset Derivatives (Unrealized Gains) (c)	March 31, 2010 Fair Value (a) Liability Derivatives (Unrealized Losses)	December 31, 2009 Notional/ Contract Amount (b)	December 31, 2009 Fair Value (a) Asset Derivatives (Unrealized Gains) (c)	December 31, 2009 Fair Value (a) Liability Derivatives (Unrealized Losses)
Risk management purposes						
Derivatives designated as hedging instruments						
Interest rate contracts:						
Swaps - cash flow - receive fixed/pay floating	$ 1,700	$ 24	$	$ 1,700	$ 30	$
Swaps - fair value - receive fixed/pay floating	1,600	216		1,600	194	
Total risk management interest rate swaps designated as hedging instruments	3,300	240		3,300	224	
Derivatives used as economic hedges						
Foreign exchange contracts:						
Spot and forwards	333	1	1	252		1
Swaps				1		
Total risk management foreign exchange contracts used as economic hedges	333	1	1	253		1
Total risk management purposes	$ 3,633	$ 241	$ 1	$ 3,553	$ 224	$ 1
Customer-initiated and other activities						
Interest rate contracts:						
Caps and floors written	$ 992	$	$ 8	$ 1,176	$	$ 10
Caps and floors purchased	992	8		1,176	10	
Swaps	9,544	256	228	9,744	258	230
Total interest rate contracts	11,528	264	236	12,096	268	240
Energy derivative contracts:						
Caps and floors written	881		62	869		70
Caps and floors purchased	881	62		869	70	
Swaps	547	78	78	599	67	66
Total energy derivative contracts	2,309	140	140	2,337	137	136
Foreign exchange contracts:						
Spot, forwards, futures and options	2,606	41	37	2,000	34	32
Swaps	22			23	1	1
Total foreign exchange contracts	2,628	41	37	2,023	35	33
Total customer-initiated and other activities	$ 16,465	$ 445	$ 413	$ 16,456	$ 440	$ 409

Total derivatives	$	20,098	$	686	$	414	$	20,009	$	664	$	410

(a) Asset derivatives are included in accrued income and other assets and liability derivatives are included in accrued expenses and other liabilities in the consolidated balance sheets.

(b) Notional or contract 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.

(c) Unrealized gains represent receivables from derivative counterparties and, therefore, expose the Corporation to credit risk. Credit risk, which excludes the effects of any collateral or netting arrangements, is measured as the cost to replace contracts in a profitable position at current market rates. The fair value of unrealized gains were net of credit-related adjustments totaling $3 million and $4 million at March 31, 2010 and December 31, 2009, respectively.

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Notes to Consolidated Financial Statements (unaudited)

Comerica Incorporated and Subsidiaries

Note 5 - Derivative and Credit-Related Financial Instruments (continued)

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 $19 million and $12 million for the three-month periods ended March 31, 2010 and 2009, respectively.

The net gains (losses) recognized in other noninterest income (i.e., the ineffective portion) in the consolidated statements of income on risk management derivatives designated as fair value hedges of fixed-rate debt was as follows.

	Three months ended March 31,	
(in millions)	**2010**	**2009**
Interest rate swaps	$ (1)	$ (1)

As part of a cash flow hedging strategy, the Corporation entered into predominantly two-year interest rate swap agreements (weighted-average original maturity of 2.2 years) that effectively convert a portion of existing and forecasted floating-rate loans to a fixed-rate basis, thus reducing the impact of interest rate changes on future interest income over the life of the agreements (currently over the next 12 months). Approximately four percent ($1.7 billion) of the Corporation s outstanding loans were designated as hedged items to interest rate swap agreements at March 31, 2010. If interest rates, interest yield curves and notional amounts remain at current levels, the Corporation expects to reclassify $13 million of net gains, net of tax, on derivative instruments designated as cash flow hedges from accumulated other comprehensive income (loss) to earnings during the next twelve months due to receipt of variable interest associated with existing and forecasted floating-rate loans.

The net gains (losses) recognized in income and OCI on risk management derivatives designated as cash flow hedges of loans for the three-month periods ended March 31, 2010 and 2009 are displayed in the table below.

	Three months ended March 31,	
(in millions)	**2010**	**2009**
Interest rate swaps		
Gain recognized in OCI (effective portion)	$ 6	$ 6
Gain (loss) recognized in other noninterest income (ineffective portion)	(3)	1
Gain reclassified from accumulated OCI into interest and fees on loans (effective portion)	8	8

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.

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Notes to Consolidated Financial Statements (unaudited)

Comerica Incorporated and Subsidiaries

Note 5 - Derivative and Credit-Related Financial Instruments (continued)

The net gains (losses) recognized in other noninterest income in the consolidated statements of income on risk management derivative instruments used as economic hedges were as follows.

(in millions)	Three Months Ended March 31, 2010		2009	
Foreign exchange contracts	$		$	(1)

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 March 31, 2010 and December 31, 2009.

(dollar amounts in millions)		Notional Amount	Remaining Maturity (in years)	Weighted Average Receive Rate	Pay Rate (a)
March 31, 2010					
Swaps - cash flow - receive fixed/pay floating rate:					
Variable rate loan designation	$	1,700	0.7	5.22%	3.25%
Swaps - fair value - receive fixed/pay floating rate:					
Medium- and long-term debt designation		1,600	7.8	5.73	0.84
Total risk management interest rate swaps	$	3,300			
December 31, 2009					
Swaps - cash flow - receive fixed/pay floating rate:					
Variable rate loan designation	$	1,700	0.9	5.22%	3.25%
Swaps - fair value - receive fixed/pay floating rate:					
Medium- and long-term debt designation		1,600	8.1	5.73	1.01
Total risk management interest rate swaps	$	3,300			

(a) Variable rates paid on receive fixed swaps are based on prime and LIBOR (with various maturities) rates in effect at March 31, 2010.

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

Fee income is earned from entering into various transactions at the request of customers (customer-initiated contracts), principally foreign exchange contracts, interest rate contracts and energy derivative contracts. For customer-initiated foreign exchange contracts, the Corporation mitigates most of the inherent market risk 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.

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 in other noninterest income in the consolidated statements of income net gains of less than $0.5 million in both the three-month periods ended March 31, 2010 and 2009.

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Notes to Consolidated Financial Statements (unaudited)

Comerica Incorporated and Subsidiaries

Note 5 - Derivative and Credit-Related Financial Instruments (continued)

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 income. The net gains recognized in income on customer-initiated derivative instruments, after the impact of offsetting positions, were as follows.

(in millions)	Location of Gain	Three Months Ended March 31, 2010	2009
Interest rate contracts	Other noninterest income	$ 3	$ 4
Energy derivative contracts	Other noninterest income		
Foreign exchange contracts	Foreign exchange income	9	9
Total		$ 12	$ 13

Additional information regarding the nature, terms and associated risks of derivative instruments can be found in the Corporation s 2009 Annual Report on page 54 and in Notes 1 and 10 to the consolidated financial statements.

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)	March 31, 2010	December 31, 2009
Unused commitments to extend credit:		
Commercial and other	$ 22,702	$ 22,451
Bankcard, revolving check credit and home equity loan commitments	1,893	1,917
Total unused commitments to extend credit	$ 24,595	$ 24,368
Standby letters of credit	$ 5,733	$ 5,652
Commercial letters of credit	89	104
Other financial guarantees	18	18

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 March 31, 2010 and December 31, 2009, the allowance for credit losses on lending-related commitments, included in accrued expenses and other liabilities on the consolidated balance sheets, was $44 million and $37 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.

Standby and Commercial Letters of Credit and Financial Guarantees

Standby and commercial 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 and are short-term in nature. These contracts expire in decreasing amounts through the year 2019. 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 $387 million of the $5.8 billion standby and commercial letters of credit outstanding at March 31, 2010.

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Notes to Consolidated Financial Statements (unaudited)

Comerica Incorporated and Subsidiaries

Note 5 - Derivative and Credit-Related Financial Instruments (continued)

Financial guarantees at March 31, 2010 consisted of credit risk participation agreements, where the Corporation, primarily as part of a syndicated lending arrangement, guaranteed a portion of the credit risk on an interest rate swap agreement between the lead bank in the syndicate and a customer. In the event of default by a customer, the Corporation would be required to pay the portion of the unpaid amount guaranteed by the Corporation to the lead bank. At March 31, 2010, the estimated fair value of the Corporation s credit risk participation agreements where the Corporation was the guarantor was $18 million, and the estimated credit exposure was $27 million. The estimated credit exposure includes the estimated credit risk as of March 31, 2010, in addition to an estimate for potential future risk for changes in interest rates in each remaining year of the contract until maturity. In addition, the estimated credit exposure assumes the lead bank would be unable to liquidate assets of the customers. In the event of default, the lead bank has the ability to liquidate the assets of the customer, in which case the lead bank would be required to return a percentage of recouped assets to the participating banks. These credit risk participation agreements expire in decreasing amounts through the year 2016, with a weighted average remaining maturity for outstanding agreements of 2.2 years.

At March 31, 2010, the carrying value of the Corporation s standby and commercial letters of credit and financial guarantees, included in accrued expenses and other liabilities on the consolidated balance sheet, totaled $77 million.

The following table presents a summary of total internally classified watch list standby and commercial letters of credit and financial guarantees (generally consistent with regulatory defined special mention, substandard and doubtful) at March 31, 2010 and December 31, 2009. 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)	**March 31, 2010**	**December 31, 2009**
Total watch list standby and commercial letters of credit	$ 413	$ 432
As a percentage of total outstanding standby and commercial letters of credit	7.1%	7.5%
Total watch list financial guarantees	$ 1	$ 1
As a percentage of total outstanding financial guarantees	6.9%	5.8%

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 require a reconsideration. The following provides a summary of the VIEs in which the Corporation has an interest.

The Corporation has a limited partnership interest in 137 low income housing tax credit/historic rehabilitation tax credit partnerships. These entities meet the definition of a VIE; however, the Corporation is not the primary beneficiary of the entities as the general partner 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 agreements allow the limited partners, through a majority vote, to remove the general partner, this right is not deemed to be substantive as the general partner can only be removed for cause. The Corporation accounts for its interest in these partnerships on the cost or equity method. Exposure to loss as a result of the Corporation s involvement with these entities at March 31, 2010 was limited to the book basis of the Corporation s investment of approximately $326 million, which includes unused commitments for future investments.

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Notes to Consolidated Financial Statements (unaudited)

Comerica Incorporated and Subsidiaries

Note 6 Variable Interest Entities (VIEs) (continued)

As a limited partner, the Corporation obtains income tax credits and deductions from the operating losses of these low income housing tax credit/historic rehabilitation tax credit partnerships, which are recorded as a reduction of income tax expense (or an increase to income tax benefit) and a reduction of federal income taxes payable. These income tax credits and deductions are allocated to the funds investors based on their ownership percentages. Investment balances, including all legally binding commitments to fund future investments, are included in accrued income and other assets on the consolidated balance sheets, with amortization and other write-downs of investments recorded in other noninterest income on the consolidated statements of income. In addition, a liability is recognized in accrued expenses and other liabilities on the consolidated balance sheets for all legally binding unfunded commitments to fund low income housing partnerships ($53 million at March 31, 2010).

The Corporation provided no financial or other support that was not contractually required to any of the above VIEs during the three-month period ended March 31, 2010.

The following table summarizes the impact of these VIEs on line items on the Corporation s consolidated statements of income.

(in millions) Classification in Earnings	Three Months Ended March 31, 2010	Three Months Ended March 31, 2009
Other noninterest income	$ (12)	$ (12)
Provision (benefit) for income taxes (a)	(12)	(11)

(a) Income tax credits from low income housing tax credit/historic rehabilitation tax credit partnerships.

Additional information regarding the Corporation s consolidation policy can be found in Note 1 to these consolidated financial statements (unaudited) and Note 1 to the consolidated financial statements in the Corporation s 2009 Annual Report.

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Notes to Consolidated Financial Statements (unaudited)

Comerica Incorporated and Subsidiaries

Note 7 - Medium- and Long-Term Debt

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

(in millions)	March 31, 2010	December 31, 2009
Parent company		
Subordinated notes:		
4.80% subordinated note due 2015	$ 329	$ 325
6.576% subordinated notes due 2037	510	511
Total subordinated notes	839	836
Medium-term notes:		
Floating-rate based on LIBOR indices due 2010	150	150
Total parent company	989	986
Subsidiaries		
Subordinated notes:		
7.125% subordinated note due 2010		152
5.70% subordinated note due 2014	277	275
5.75% subordinated notes due 2016	683	678
5.20% subordinated notes due 2017	551	543
8.375% subordinated note due 2024	189	187
7.875% subordinated note due 2026	206	204
Total subordinated notes	1,906	2,039
Medium-term notes:		
Floating-rate based on LIBOR indices due 2010 to 2012	1,967	1,982
Federal Home Loan Bank advances:		
Floating-rate based on LIBOR indices due 2010 to 2014	5,000	6,000
Other notes:		
6.0% - 6.4% fixed-rate notes due 2020	53	53
Total subsidiaries	8,926	10,074
Total medium- and long-term debt	$ 9,915	$ 11,060

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

Comerica Bank (the Bank), a subsidiary of the Corporation, is a member of the FHLB, which provides short- and long-term funding collateralized by mortgage-related assets to its members. FHLB advances bear interest at variable rates based on LIBOR and were secured by $3 billion of real estate-related loans and $2 billion of mortgage-backed investment securities at March 31, 2010.

In the first quarter 2010, the Bank exercised its option to redeem, at par, a $150 million, 7.125% subordinated note, which had an original maturity date of 2013, and recognized a pre-tax gain of $2 million resulting from the previous termination of a related interest rate swap. In addition, the Bank repurchased, at a discount, $15 million of floating rate medium-term notes maturing in 2011 in the first quarter 2010.

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Notes to Consolidated Financial Statements (unaudited)

Comerica Incorporated and Subsidiaries

Note 8 - Accumulated Other Comprehensive Income (Loss)

Other comprehensive income (loss) includes the change in net unrealized gains and losses on investment securities available-for-sale, the change in accumulated net gains and losses on cash flow hedges and the change in the accumulated defined benefit and other postretirement plans adjustment. Total comprehensive income was $85 million and $80 million for the three months ended March 31, 2010 and 2009, respectively. The $5 million increase in total comprehensive income for the three months ended March 31, 2010, when compared to the same period in the prior year, resulted primarily from a $43 million increase in net income, partially offset by a $34 million after-tax decrease in net unrealized gains on investment securities available-for-sale. The following table presents reconciliations of the components of the accumulated other comprehensive income (loss) for the three months ended March 31, 2010 and 2009.

	Three Months Ended March 31			
(in millions)	**2010**		**2009**	
Accumulated net unrealized gains on investment securities available-for-sale:				
Balance at beginning of period, net of tax	$	11	$	131
Net unrealized holding gains arising during the period		48		112
Less: Reclassification adjustment for net gains included in net income		2		13
Change in net unrealized gains before income taxes		46		99
Less: Provision for income taxes		17		36
Change in net unrealized gains on investment securities available-for-sale, net of tax		29		63
Balance at end of period, net of tax	$	40	$	194
Accumulated net gains on cash flow hedges:				
Balance at beginning of period, net of tax	$	18	$	30
Net cash flow hedge gains arising during the period		6		6
Less: Reclassification adjustment for net gains included in net income		8		8
Change in net cash flow hedge gains before income taxes		(2)		(2)
Less: Provision for income taxes		(1)		(1)
Change in net cash flow hedge gains, net of tax		(1)		(1)
Balance at end of period, net of tax	$	17	$	29
Accumulated defined benefit pension and other postretirement plans adjustment:				
Balance at beginning of period, net of tax	$	(365)	$	(470)
Net defined benefit pension and other postretirement adjustment arising during the period				
Less: Adjustment for amounts recognized as components of net periodic benefit cost during the period		(8)		(14)
Change in defined benefit and other postretirement plans adjustment before income taxes		8		14
Less: Provision for income taxes		3		5
Change in defined benefit and other postretirement plans adjustment, net of tax		5		9
Balance at end of period, net of tax	$	(360)	$	(461)
Total accumulated other comprehensive loss at end of period, net of tax	$	(303)	$	(238)

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Comerica Incorporated and Subsidiaries

Note 9 Net Income (Loss) per Common Share

Basic and diluted income (loss) from continuing operations per common share and net income (loss) per common share for the three months ended March 31, 2010 and 2009 were computed as follows:

(in millions, except per share data)	**Three Months Ended March 31,**			
	2010		**2009**	
Basic and diluted				
Income from continuing operations	$	35	$	8
Less:				
Preferred stock dividends		29		33
Redemption discount accretion on preferred stock		94		
Income allocated to participating securities				
Loss from continuing operations attributable to common shares	$	(88)	$	(25)
Net income	$	52	$	9
Less:				
Preferred stock dividends		29		33
Redemption discount accretion on preferred stock		94		
Income allocated to participating securities				
Net loss attributable to common shares	$	(71)	$	(24)
Basic average common shares		155		149
Basic loss from continuing operations per common share	$	(0.57)	$	(0.17)
Basic net loss per common share	$	(0.46)	$	(0.16)
Basic average common shares		155		149
Common stock equivalents:				
Net effect of the assumed exercise of stock options				
Net effect of the assumed exercise of warrant				
Diluted average common shares		155		149
Diluted loss from continuing operations per common share	$	(0.57)	$	(0.17)
Diluted net loss per common share	$	(0.46)	$	(0.16)

Basic income (loss) from continuing operations per common share and net income (loss) per common share are calculated using the two-class method. The two-class method is an earnings allocation formula that determines earnings per share for each share of common stock and participating securities according to dividends declared (distributed earnings) and participation rights in undistributed earnings. Distributed and undistributed earnings are allocated between common and participating security shareholders based on their respective rights to receive dividends. Unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents are considered participating securities (i.e., nonvested restricted stock). Undistributed net losses are not allocated to nonvested restricted shareholders, as these shareholders do not have a contractual obligation to fund the losses incurred by the Corporation. Income (loss) from continuing operations attributable to common shares and net income (loss) attributable to common shares are then divided by the weighted-average number of common shares outstanding during the period, net of nonvested restricted shares.

Diluted income (loss) from continuing operations per common share and net income (loss) per common share consider common stock issuable under the assumed exercise of stock options granted under the Corporation s stock plans and a warrant. Diluted income (loss) from continuing operations attributable to common shares and net income (loss) attributable to common shares are then divided by the total of weighted-average number of common shares and common stock equivalents outstanding during the period, net of nonvested restricted shares.

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Notes to Consolidated Financial Statements (unaudited)

Comerica Incorporated and Subsidiaries

Note 9 Net Income (Loss) per Common Share (continued)

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

	Three Months Ended March 31,	
(shares in millions)	**2010**	**2009**
Average shares related to outstanding options and warrant	16.7	31.7
Range of exercise prices	$36.24 - $64.50	$17.32 - $66.81

Due to the net loss attributable to common shares reported for the three months ended March 31, 2010, less than 0.5 million common stock equivalents for options to purchase 3.1 million shares and 2 million of common stock equivalents for a warrant to purchase 11.5 million shares were excluded from the computation of diluted net loss per share, as their inclusion would have been anti-dilutive.

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Comerica Incorporated and Subsidiaries

Note 10 Employee Benefit Plans

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

Qualified Defined Benefit Pension Plan

(in millions)	Three Months Ended March 31, 2010	2009
Service cost	$ 7	$ 7
Interest cost	17	17
Expected return on plan assets	(29)	(26)
Amortization of unrecognized prior service cost	2	2
Amortization of unrecognized net loss	4	10
Net periodic benefit cost	$ 1	$ 10

Non-Qualified Defined Benefit Pension Plan

(in millions)	Three Months Ended March 31, 2010	2009
Service cost	$ 1	$ 1
Interest cost	2	2
Amortization of unrecognized net loss	1	1
Net periodic benefit cost	$ 4	$ 4

Postretirement Benefit Plan

(in millions)	Three Months Ended March 31, 2010	2009
Interest cost	$ 1	$ 1
Expected return on plan assets	(1)	(1)
Amortization of unrecognized transition obligation	1	1
Net periodic benefit cost	$ 1	$ 1

Due to the net loss attributable to common shares reported for the three months ended March 31, 2010, less than 0

For further information on the Corporation s employee benefit plans, refer to Note 19 to the consolidated financial statements in the Corporation s 2009 Annual Report.

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Comerica Incorporated and Subsidiaries

Note 11 - Income Taxes and Tax-Related Items

The provision (benefit) for federal income taxes is computed by applying the statutory federal income tax rate to income (loss) before income taxes as reported in the consolidated financial statements after deducting non-taxable items, principally income on bank-owned life insurance, and deducting tax credits related to investments in low income housing partnerships. Tax interest, state and foreign taxes are then added to the federal tax provision.

In first quarter 2009, the Corporation applied an estimated annual effective tax rate to interim period pre-tax income (loss) to calculate the income tax provision (benefit) for the quarter, in accordance with the principal method prescribed by the accounting requirements established for computing income taxes in interim periods. The requirements allow for an alternative method to calculate the effective tax rate when an entity is unable to make a reliable estimate of pre-tax income (loss) for the fiscal year. Under the alternative method, interim period federal income taxes are based on each discrete quarter s pre-tax income (loss). In light of the volatility and uncertainty in the economic market, the Corporation applied the alternative method to compute the income tax benefit beginning in the second quarter 2009.

At March 31, 2010, the Corporation had net unrecognized tax benefits of less than $0.5 million, compared to net unrecognized tax benefits of $72 million at March 31, 2009. Accrued interest was $14 million and $86 million at March 31, 2010 and 2009, respectively. The decrease in unrecognized tax benefits of $72 million for the three months ended March 31, 2010, when compared to the same period in the prior year, was primarily the result of the recognition of certain anticipated refunds due from the Internal Revenue Service (IRS), the agreement of certain tax matters with the IRS and the amending of certain state income tax returns. The decrease in accrued interest of $72 million for the three months ended March 31, 2010, when compared to the same period in the prior year, was primarily the result of the closing of the IRS examination of years 2001 2004, the settlement of agreed items for certain years related to structured leasing transactions, the amending of certain state income tax returns and the recognition of certain anticipated tax refunds from the IRS. The amount of interest accrued at March 31, 2010 included interest for unrecognized tax benefits and interest payable to the IRS for tax positions that were settled, but not yet paid. The Corporation anticipates that it is reasonably possible that settlements of federal and state tax issues will result in a net unrecognized tax benefit of zero within the next twelve months.

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

The Corporation had a net deferred tax asset of approximately $265 million at March 31, 2010. A valuation allowance is provided when it is more-likely-than-not that some portion of the deferred tax asset will not be realized. The valuation allowance of $1 million for certain state deferred tax assets was unchanged at March 31, 2010, compared to March 31, 2009. The Corporation determined that a valuation allowance was not needed against the federal deferred tax assets. Management s determination was based on taxable income in the carry-back period, existing taxable temporary differences and anticipated future events.

Note 12 Contingent Liabilities

The Corporation and certain of its subsidiaries are subject to various pending or threatened legal proceedings arising out of the normal course of business or operations. In view of the inherent difficulty of predicting the outcome of such matters, the Corporation cannot state what the eventual outcome of these matters will be. However, 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. For information regarding income tax contingencies, refer to Note 11.

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Comerica Incorporated and Subsidiaries

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 & Institutional 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. 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 and miscellaneous other expenses of a corporate nature. 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. Information presented is not necessarily comparable with similar information for any other financial institution. The management accounting system assigns balance sheet and income statement items to each business segment using certain methodologies, which are regularly reviewed and refined. For comparability purposes, amounts in all periods are based on business segments and methodologies in effect at March 31, 2010. These methodologies may be modified as the management accounting system is enhanced and changes occur in the organizational structure and/or product lines.

For a description of the business activities of each business segment and further information on the methodologies, which form the basis for these results, refer to Note 24 to the consolidated financial statements in the Corporation s 2009 Annual Report.

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Comerica Incorporated and Subsidiaries

Note 13 Business Segment Information (continued)

Business segment financial results for the three months ended March 31, 2010 and 2009 are shown in the table below.

(dollar amounts in millions) Three Months Ended March 31, 2010	Business Bank	Retail Bank	Wealth & Institutional Management	Finance	Other	Total
Earnings summary:						
Net interest income (expense) (FTE)	$ 341	$ 130	$ 42	$ (105)	$ 8	$ 416
Provision for loan losses	137	31	12		(5)	175
Noninterest income	76	44	60	12	2	194
Noninterest expenses	162	154	73	2	13	404
Provision (benefit) for income taxes (FTE)	29	(4)	6	(36)	1	(4)
Income from discontinued operations, net of tax					17	17
Net income (loss)	$ 89	$ (7)	$ 11	$ (59)	$ 18	$ 52
Net credit-related charge-offs	$ 137	$ 26	$ 10	$	$	$ 173
Selected average balances:						
Assets	$ 31,293	$ 6,106	$ 4,862	$ 9,416	$ 5,842	$ 57,519
Loans	30,918	5,599	4,789	9	(2)	41,313
Deposits	17,750	16,718	2,791	1,218	94	38,571
Liabilities	17,711	16,678	2,777	12,601	888	50,655
Attributed equity	3,159	589	357	919	1,840	6,864
Statistical data:						
Return on average assets (a)	1.13%	(0.17)%	0.92%	N/M	N/M	0.36%
Return on average attributed equity	11.24	(4.86)	12.50	N/M	N/M	(5.61)
Net interest margin (b)	4.48	3.18	3.53	N/M	N/M	3.18
Efficiency ratio	38.72	88.44	73.18	N/M	N/M	66.45

Three Months Ended March 31, 2009	Business Bank	Retail Bank	Wealth & Institutional Management	Finance	Other	Total
Earnings summary:						
Net interest income (expense) (FTE)	$ 312	$ 126	$ 36	$ (99)	$ 11	$ 386
Provision for loan losses	177	23	10		(7)	203
Noninterest income	93	46	70	20	(6)	223

Noninterest expenses	157	161	75	4		397
Provision (benefit) for income taxes (FTE)	15	(5)	8	(33)	16	1
Loss from discontinued operations, net of tax					1	1
Net income (loss)	$ 56	$ (7)	$ 13	$ (50)	$ (3)	$ 9
Net credit-related charge-offs	$ 123	$ 26	$ 8	$	$	$ 157
Selected average balances:						
Assets	$ 39,505	$ 6,875	$ 4,870	$ 12,703	$ 2,784	$ 66,737
Loans	38,527	6,284	4,750	(4)	(1)	49,556
Deposits	14,040	17,391	2,429	6,786	136	40,782
Liabilities	14,372	17,367	2,418	24,914	511	59,582
Attributed equity	3,345	658	340	1,177	1,635	7,155
Statistical data:						
Return on average assets (a)	0.57%	(0.16)%	1.10%	N/M	N/M	0.06%
Return on average attributed equity	6.78	(4.48)	15.80	N/M	N/M	(1.90)
Net interest margin (b)	3.28	2.93	3.11	N/M	N/M	2.53
Efficiency ratio	38.55	94.01	74.09	N/M	N/M	66.61

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

(b) Net interest margin is calculated based on the greater of average earning assets or average deposits and purchased funds.

FTE - Fully Taxable Equivalent

N/M - Not Meaningful

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Notes to Consolidated Financial Statements (unaudited)

Comerica Incorporated and Subsidiaries

Note 13 - Business Segment Information (continued)

The Corporation s management accounting system also produces market segment results for the Corporation s four primary geographic markets: Midwest, Western, Texas and Florida. In addition to the four primary geographic markets, Other Markets and International are also reported as market segments. Market segment results are provided as supplemental information to the business segment results and may not meet all operating segment criteria. For comparability purposes, amounts in all periods are based on market segments and methodologies in effect at March 31, 2010.

The Midwest market consists of operations located in the states of Michigan, Ohio and Illinois. Currently, Michigan operations represent the significant majority of the Midwest market.

The Western market consists of the states of California, Arizona, Nevada, Colorado and Washington. Currently, California operations represent the significant majority of the Western market.

The Texas and Florida markets consist of operations located in the states of Texas and Florida, respectively.

Other Markets include businesses with a national perspective, the Corporation s investment management and trust alliance businesses as well as activities in all other markets in which the Corporation has operations, except for the International market, as described below.

The International market represents the activity of the Corporation s international finance division, which provides banking services primarily to foreign-owned, North American-based companies and secondarily to international operations of North American-based companies.

The Finance & Other Businesses segment includes the Corporation s securities portfolio, asset and liability management activities, discontinued operations, the income and expense impact of equity and cash not assigned to specific business/market segments, tax benefits not assigned to specific business/market segments and miscellaneous other expenses of a corporate nature. This segment includes responsibility 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.

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Notes to Consolidated Financial Statements (unaudited)

Comerica Incorporated and Subsidiaries

Note 13 - Business Segment Information (continued)

Market segment financial results for the three months ended March 31, 2010 and 2009 are shown in the table below.

(dollar amounts in millions) Three Months Ended March 31, 2010	**Midwest**	**Western**	**Texas**	**Florida**	**Other Markets**	**International**	**Finance & Other Businesses**	**Total**
Earnings summary:								
Net interest income (expense) (FTE)	$ 205	$ 161	$ 79	$ 10	$ 40	$ 18	$ (97)	$ 416
Provision for loan losses	81	59	17	3	23	(3)	(5)	175
Noninterest income	102	36	20	3	10	9	14	194
Noninterest expenses	186	105	60	9	21	8	15	404
Provision (benefit) for income taxes (FTE)	14	11	8		(10)	8	(35)	(4)
Income from discontinued operations, net of tax							17	17
Net income (loss)	$ 26	$ 22	$ 14	$ 1	$ 16	$ 14	$ (41)	$ 52
Net credit-related charge-offs	$ 55	$ 64	$ 25	$ 10	$ 14	$ 5	$	$ 173
Selected average balances:								
Assets	$ 15,573	$ 13,175	$ 6,892	$ 1,576	$ 3,417	$ 1,628	$ 15,258	$ 57,519
Loans	15,332	12,980	6,704	1,576	3,126	1,588	7	41,313
Deposits	17,068	11,927	4,957	361	1,973	973	1,312	38,571
Liabilities	17,044	11,846	4,941	347	2,010	978	13,489	50,655
Attributed equity	1,446	1,315	670	164	352	158	2,759	6,864
Statistical data:								
Return on average assets (a)	0.55%	0.67%	0.84%	0.17%	1.85%	3.50%	N/M	0.36%
Return on average attributed equity	7.09	6.68	8.66	1.60	17.97	36.09	N/M	(5.61)
Net interest margin (b)	4.86	5.04	4.79	2.54	5.23	4.64	N/M	3.18
Efficiency ratio	60.64	53.08	60.36	72.04	43.87	29.12	N/M	66.45

Three Months Ended March 31, 2009	**Midwest**	**Western**	**Texas**	**Florida**	**Other Markets**	**International**	**Finance & Other Businesses**	**Total**
Earnings summary:								
Net interest income (expense) (FTE)	$ 194	$ 146	$ 70	$ 11	$ 39	$ 14	$ (88)	$ 386
Provision for loan losses	83	88	9	15	15		(7)	203
Noninterest income	127	36	21	3	14	8	14	223

Noninterest expenses	194	104	58	8	21	8	4	397
Provision (benefit) for income taxes (FTE)	15	(3)	9	(3)	(5)	5	(17)	1
Income from discontinued operations, net of tax							1	1
Net income (loss)	$ 29	$ (7)	$ 15	$ (6)	$ 22	$ 9	$ (53)	$ 9
Net credit-related charge-offs	$ 54	$ 76	$ 8	$ 12	$ 6	$ 1	$	$ 157
Selected average balances:								
Assets	$ 19,139	$ 15,443	$ 8,069	$ 1,869	$ 4,553	$ 2,177	$ 15,487	$ 66,737
Loans	18,267	15,253	7,847	1,878	4,246	2,070	(5)	49,556
Deposits	16,697	10,640	4,198	253	1,359	713	6,922	40,782
Liabilities	17,012	10,571	4,212	245	1,415	702	25,425	59,582
Attributed equity	1,604	1,375	679	152	383	150	2,812	7,155
Statistical data:								
Return on average assets (a)	0.62%	(0.18)%	0.72%	(1.29)%	1.93%	1.69%	N/M	0.06%
Return on average attributed equity	7.45	(1.98)	8.53	(15.87)	22.97	24.55	N/M	(1.90)
Net interest margin (b)	4.30	3.91	3.62	2.31	3.65	2.74	N/M	2.53
Efficiency ratio	60.06	57.17	64.43	61.06	43.82	33.86	N/M	66.61

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

(b) Net interest margin is calculated based on the greater of average earning assets or average deposits and purchased funds.

FTE - Fully Taxable Equivalent

N/M - Not Meaningful

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Notes to Consolidated Financial Statements (unaudited)

Comerica Incorporated and Subsidiaries

Note 14   Discontinued Operations

In December 2006, the Corporation sold its ownership interest in Munder Capital Management (Munder), an investment advisory subsidiary, to an investor group. As part of the sale agreement, the Corporation received an interest-bearing contingent note with an initial principal amount of $70 million, which could increase to a maximum of $80 million or decrease to as low as zero, depending on the level of revenues earned by Munder from the Corporation s clients in the five years following the closing of the transaction (2007-2011). Principal payments on the note were scheduled to begin in December 2012.

In the first quarter 2010, the Corporation and the investor group that acquired Munder negotiated a cash settlement of the note receivable for $35 million, which resulted in a $27 million gain ($17 million, after tax), recorded in income from discontinued operations, net of tax on the consolidated statements of income. The settlement paid the note in full and concluded the Corporation s financial arrangements with Munder.

The components of net income from discontinued operations for the three months ended March 31, 2010 and 2009 were as follows:

	Three months ended March 31,			
(in millions, except per share data)	**2010**		**2009**	
Income from discontinued operations before income taxes	$	27	$	2
Provision for income taxes		10		1
Net income from discontinued operations	$	17	$	1
Earnings per common share from discontinued operations:				
Basic	$	0.11	$	0.01
Diluted		0.11		0.01

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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. Any statements in this report that are not historical facts are forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995. Words such as anticipates, believes, feels, expects, estimates, seeks, strives, plans, intends, outlook, forecast, position, target, m potential, strategy, goal, aspiration, outcome, continue, remain, maintain, trend, objective and variations of such words and si or future or conditional verbs such as will, would, should, could, might, can, may or similar expressions, as they relate to the Corporat 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 further economic downturns, changes in the pace of an economic recovery and related changes in employment levels, changes in real estate values, fuel prices, energy costs or other events that could affect customer income levels or general economic conditions, the effects of recently enacted legislation, actions taken by or proposed by the U.S. Department of Treasury, the Board of Governors of the Federal Reserve System, the Texas Department of Banking and the Federal Deposit Insurance Corporation, legislation enacted in the future, and the impact and expiration of such legislation and regulatory actions, the effects of war and other armed conflicts or acts of terrorism, the effects of natural disasters including, but not limited to, hurricanes, tornadoes, earthquakes, fires, droughts and floods, the disruption of private or public utilities, the implementation of the Corporation s strategies and business models, management s ability to maintain and expand customer relationships, changes in customer borrowing, repayment, investment and deposit practices, management s ability to retain key officers and employees, changes in the accounting treatment of any particular item, the impact of regulatory examinations, declines or other changes in the businesses or industries in which the Corporation has a concentration of loans, including, but not limited to, the automotive production industry and the real estate business lines, the anticipated performance of any new banking centers, the entry of new competitors in the Corporation s markets, changes in the level of fee income, changes in applicable laws and regulations, including those concerning taxes, banking, securities and insurance, changes in trade, monetary and fiscal policies, including the interest rate policies of the Board of Governors of the Federal Reserve System, fluctuations in inflation or interest rates, changes in general economic, political or industry conditions and related credit and market conditions, the interdependence of financial service companies and adverse conditions in the stock market. 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 11 of the Corporation s Annual Report on Form 10-K for the year ended December 31, 2009 and Item 1A. Risk Factors beginning on page 67 of the Corporation s Quarterly Report on Form 10-Q for the quarter ended March 31, 2010. 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, 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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Common Stock Offering and Redemption of Preferred Stock

In the first quarter 2010, the Corporation fully redeemed $2.25 billion of Fixed Rate Cumulative Perpetual Preferred Stock (preferred stock) issued in connection with the U.S. Department of Treasury (U.S. Treasury) Capital Purchase Program. The redemption was funded by the net proceeds from an $880 million common stock offering completed in the first quarter 2010 and from excess liquidity at the parent company. At March 31, 2010, after the redemption, the Corporation held $3.8 billion of interest-bearing deposits with the Federal Reserve Bank (FRB), representing excess liquidity, which included $665 million of parent company liquid assets. The redemption resulted in a one-time, non-cash redemption charge of $94 million, reflecting the accelerated accretion of the remaining discount, which reduced first quarter 2010 diluted earnings per common share by $0.61. The total impact of the preferred stock, including the redemption charge, cash dividends of $24 million and non-cash discount accretion of $5 million, was a reduction to first quarter 2010 diluted earnings per common share of $0.79. The only significant non-financial impact of the redemption was the removal of executive compensation rules by the U.S. Treasury. The executive and legislative branches of the federal government, as well as our primary regulators, may continue to request supplementary reporting.

Subsequent to the redemption, the Corporation announced its election not to repurchase a related warrant for 11.5 million shares of common stock issued to the U.S. Treasury. On April 12, 2010, the U.S. Treasury announced its intention to sell such warrant pursuant to a public offering process during the second quarter 2010.

Results of Operations

Net income for the three months ended March 31, 2010 was $52 million, an increase of $43 million from $9 million reported for the three months ended March 31, 2009. The increase in net income in the first quarter 2010 compared to the same period in 2009 was primarily due to a $31 million increase in net interest income, a decrease of $28 million in the provision for loan losses and a $27 million gain ($17 million after-tax) from the cash settlement of a note receivable held by the Corporation related to the 2006 sale of an investment advisory subsidiary, recorded in income from discontinued operations, net of tax on the consolidated statements of income, partially offset by a $24 million gain in the first quarter 2009 on the termination of certain structured lease transactions. The net loss attributable to common stock was $71 million for the first quarter 2010, compared to $24 million in the same period a year ago. Included in the net loss attributable to common stock were preferred dividends of $123 million and $33 million in the first three months of 2010 and 2009, respectively. Included in the preferred dividends of $123 million, or $0.79 per share, for the first three months of 2010 was the $94 million non-cash redemption charge described above. The diluted net loss per common share was $0.46 in the first quarter 2010, which included the non-cash redemption charge, compared to a diluted net loss per common share of $0.16 for the same period a year ago.

Full-Year 2010 Outlook

For full-year 2010, management expects the following, based on a modestly improving economic environment.

- Management expects low single-digit loan growth from period-end March 31, 2010 to period-end December 31, 2010, based on an increase in unfunded loans in the underwriting process and the timing of increasing loan demand consistent with previous post-recessionary economies. Investment securities are expected to remain at a level similar to March 31, 2010.

- Based on no increase in the Federal Funds rate, management expects an average net interest margin between 3.25 percent and 3.35 percent for full-year 2010, reflecting the benefit, compared to 2009, from improved loan pricing, lower funding costs and a lower level of excess liquidity.

- Management expects net credit-related charge-offs between $675 million and $725 million for full-year 2010. The provision for credit losses is expected to be consistent with net credit-related charge-offs.

- Management expects flat to low single-digit decline in noninterest income compared to 2009, after excluding $243 million of 2009 net securities gains. Included in the outlook is an estimated five percent negative impact on service charge income, beginning in the third quarter 2010, from overdraft policy changes consistent with new regulations issued by the FRB.

- Management expects a low single-digit decrease in noninterest expenses compared to 2009.

- Management expects income tax expense to approximate 35 percent of income before income taxes less approximately $60 million of permanent differences related to low-income housing and bank-owned life insurance.

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Net Interest Income

Net interest income was $415 million for the three months ended March 31, 2010, an increase of $31 million compared to $384 million for the same period in 2009. The increase in net interest income in the first quarter 2010, compared to the same period in 2009, resulted primarily from improved loan spreads, changes in the funding mix, including a continued shift in funding sources toward lower-cost funds, and maturities of higher-cost medium- and long-term debt. The rate-volume analysis in Table I of this financial review details the components of the change in net interest income on a fully taxable equivalent (FTE) basis for the three months ended March 31, 2010, compared to the same period in the prior year. On a FTE basis, net interest income increased $30 million to $416 million for the three months ended March 31, 2010, from $386 million for the comparable period in 2009. Average earning assets decreased $8.8 billion, or 14 percent, to $52.9 billion in the first quarter 2010, compared to the first quarter 2009, primarily due to an $8.2 billion, or 17 percent, decrease in average loans to $41.3 billion, partially offset by an increase of $2.3 billion in average interest-bearing deposits with the FRB. The net interest margin (FTE) for the three months ended March 31, 2010 increased 65 basis points to 3.18 percent, from 2.53 percent for the comparable period in 2009, primarily due to the reasons cited for the increase in net interest income discussed above. The net interest margin was reduced by approximately 24 basis points and seven basis points in the first quarter 2010 and first quarter 2009, respectively, from excess liquidity. Excess liquidity was represented by $4.1 billion and $1.8 billion of average balances deposited with the FRB in the first quarter 2010 and first quarter 2009, respectively. The excess liquidity resulted from strong core deposit growth at a time when loan demand remained weak. Refer to the Supplemental Financial Data section of this financial review for reconcilements of non-GAAP financial measures.

For further discussion of the effects of market rates on net interest income, refer to Item 3. Quantitative and Qualitative Disclosures about Market Risk in Part I of this financial review.

Based on no increase in the Federal Funds rate, management expects an average net interest margin between 3.25 percent and 3.35 percent for full-year 2010, reflecting the benefit, compared to 2009, from improved loan pricing, lower funding costs and a lower level of excess liquidity.

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

	Three Months Ended					
	March 31, 2010			March 31, 2009		
(dollar amounts in millions)	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate
Commercial loans	$ 21,015	$ 205	3.96%	$ 27,180	$ 228	3.39%
Real estate construction loans	3,386	25	2.95	4,510	33	2.99
Commercial mortgage loans	10,387	107	4.18	10,431	109	4.22
Residential mortgage loans	1,632	22	5.41	1,846	26	5.66
Consumer loans	2,481	22	3.58	2,574	24	3.79
Lease financing	1,130	11	3.75	1,300	9	2.82
International loans	1,282	12	3.93	1,715	16	3.85
Business loan swap income		8			8	
Total loans	41,313	412	4.04	49,556	453	3.70
Auction-rate securities available-for-sale	879	2	0.93	1,108	5	1.71
Other investment securities available-for-sale	6,503	60	3.72	9,018	105	4.82
Total investment securities available-for-sale	7,382	62	3.38	10,126	110	4.46
Federal funds sold and securities purchased under agreements to resell				57	&#	