COMERICA INC /NEW/
Form 10-K
February 19, 2013
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K
Annual Report Pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934
For the fiscal year ended
December 31, 2012
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)	(IRS Employer Identification Number)

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)
Securities registered pursuant to Section 12(b) of
the Exchange Act:
Common Stock, $5 par value
Warrants to Purchase Common Stock (expiring November 14, 2018)
These securities are registered on the New York Stock Exchange.
Securities registered pursuant to Section 12(g) of the
Exchange Act:
Warrants to Purchase Common Stock (expiring December 12, 2018)
Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ý No o
Indicate by check mark if registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No ý
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý No o
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No o
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ý
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated	Accelerated	Non-accelerated filer o	Smaller reporting

filer ý	filer o	(Do not check if a smaller reporting company)	company o

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

At June 29, 2012 (the last business day of the registrant's most recently completed second fiscal quarter), the registrant's common stock, $5 par value, held by non-affiliates had an aggregate market value of approximately $5.8 billion based on the closing price on the New York Stock Exchange on that date of $30.71 per share. For purposes of this Form 10-K only, it has been assumed that all common shares held in Comerica's director and employee plans, and all common shares the registrant's directors and executive officers hold, are shares held by affiliates.

At February 13, 2013, the registrant had outstanding 187,668,527 shares of its common stock, $5 par value.

Documents Incorporated by Reference:

Part III:

Items 10-14—Proxy Statement for the Annual Meeting of Shareholders to be held April 23, 2013.

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PART I
Item 1. Business.
GENERAL
Comerica Incorporated ("Comerica") is a financial services company, incorporated under the laws of the State of Delaware, and headquartered in Dallas, Texas. As of December 31, 2012, it was among the 25 largest commercial bank holding companies in the United States ("U.S."), based on total assets. Comerica was formed in 1973 to acquire the outstanding common stock of Comerica Bank, which at such time was a Michigan banking corporation and one of Michigan's oldest banks (formerly Comerica Bank-Detroit). On October 31, 2007, Comerica Bank, a Michigan banking corporation, was merged with and into Comerica Bank, a Texas banking association ("Comerica Bank"). As of December 31, 2012, Comerica owned directly or indirectly all the outstanding common stock of 2 active banking and 49 non-banking subsidiaries. At December 31, 2012, Comerica had total assets of approximately $65.4 billion, total deposits of approximately $52.2 billion, total loans (net of unearned income) of approximately $46.1 billion and shareholders' equity of approximately $6.9 billion.
Acquisition of Sterling Bancshares, Inc.
On July 28, 2011, Comerica acquired all the outstanding common stock of Sterling Bancshares, Inc. ("Sterling"), a bank holding company headquartered in Houston, Texas, in a stock-for-stock transaction. Sterling common shareholders and holders of outstanding Sterling phantom stock units received 0.2365 shares of Comerica's common stock in exchange for each share of Sterling common stock or phantom stock unit. As a result, Comerica issued approximately 24 million common shares with an acquisition date fair value of $793 million, based on Comerica's closing stock price of $32.67 on July 27, 2011. Based on the merger agreement, outstanding and unexercised options to purchase Sterling common stock were converted into fully vested options to purchase common stock of Comerica. In addition, outstanding warrants to purchase Sterling common stock were converted into warrants to purchase common stock of Comerica. Including an insignificant amount of cash paid in lieu of fractional shares, the fair value of total consideration paid was $803 million. The acquisition of Sterling significantly expanded Comerica's presence in Texas, particularly in the Houston and San Antonio areas.
BUSINESS STRATEGY
Comerica has strategically aligned its operations into three major business segments: the Business Bank, the Retail Bank, and Wealth Management. In addition to the three major business segments, Finance is also reported as a segment.
The Business Bank meets the needs of middle market businesses, multinational corporations and governmental entities by offering various products and services, including commercial loans and lines of credit, deposits, cash management, capital market products, international trade finance, letters of credit, foreign exchange management services and loan syndication services.
The Retail Bank includes small business banking and personal financial services, consisting of consumer lending, consumer deposit gathering and mortgage loan origination. In addition to a full range of financial services provided to small business customers, this business segment offers a variety of consumer products, including deposit accounts, installment loans, credit cards, student loans, home equity lines of credit and residential mortgage loans.
Wealth Management offers products and services consisting of fiduciary services, private banking, retirement services, investment management and advisory services, investment banking and brokerage services. This business segment also offers the sale of annuity products, as well as life, disability and long-term care insurance products.
Finance includes Comerica's securities portfolio and asset and liability management activities. This segment is responsible for managing Comerica's funding, liquidity and capital needs, performing interest sensitivity analysis and executing various strategies to manage Comerica's exposure to liquidity, interest rate risk and foreign exchange risk.
Comerica operates in three primary geographic markets: Texas, California and Michigan, as well as in the states of Arizona and Florida, with select businesses operating in several other states, and in Canada and Mexico.
The Texas market consists of operations located in the state of Texas.
The California market consists of the states of California, Colorado and Washington and also consisted of the state of Nevada through the first quarter of 2012. California operations represent the significant majority of this geographic market.

The Michigan market consists of operations located in the states of Michigan and Illinois. Michigan operations represent the significant majority of this geographic market.
Other Markets include Florida, Arizona, the International Finance division, businesses with a national perspective, Comerica's investment management and trust alliance businesses as well as activities in all other markets in which Comerica has operations.

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We provide financial information for our segments and information about our non-U.S. revenues and long-lived assets: (1) under the caption, “Strategic Lines of Business” on pages F-13 through F-16 of the Financial Section of this report; and (2) in Note 22 of the Notes to Consolidated Financial Statements located on pages F-108 through F-112 of the Financial Section of this report.

We provide information about the net interest income and noninterest income we received from our various classes of products and services: (1) under the caption, “Analysis of Net Interest Income-Fully Taxable Equivalent (FTE)” on page F-6 of the Financial Section of this report; (2) under the caption “Net Interest Income” on pages F-7 through F-8 of the Financial Section of this report; and (3) under the caption “Noninterest Income” on pages F-9 through F-10 of the Financial Section of this report.

We provide information on risks attendant to foreign operations: (1) under the caption “Concentration of Credit Risk” on page F-31 of the Financial Section of this report; and (2) under the caption "International Exposure" on page F-35 of the Financial Section of this report.

COMPETITION

The financial services business is highly competitive. Comerica and its subsidiaries mainly compete in their three primary geographic markets of Texas, California and Michigan, as well as in the states of Arizona and Florida. They also compete in broader, national geographic markets, as well as markets in Mexico and Canada. They are subject to competition with respect to various products and services, including, without limitation, loans and lines of credit, deposits, cash management, capital market products, international trade finance, letters of credit, foreign exchange management services, loan syndication services, fiduciary services, private banking, retirement services, investment management and advisory services, investment banking services, brokerage services, the sale of annuity products, and the sale of life, disability and long-term care insurance products.

Comerica believes that the level of competition in all geographic markets will continue to increase in the future. In addition to banks, Comerica's banking subsidiaries also face competition from other financial intermediaries, including savings and loan associations, consumer finance companies, leasing companies, venture capital funds, credit unions, investment banks, insurance companies and securities firms. Competition among providers of financial products and services continues to increase, with consumers having the opportunity to select from a growing variety of traditional and nontraditional alternatives. The ability of non-banking financial institutions to provide services previously limited to commercial banks has intensified competition. Because non-banking financial institutions are not subject to many of the same regulatory restrictions as banks and bank holding companies, they can often operate with greater flexibility and lower cost structures. In addition, the industry continues to consolidate, which affects competition by eliminating some regional and local institutions, while strengthening the franchises of acquirers.

SUPERVISION AND REGULATION

Banks, bank holding companies and financial institutions are highly regulated at both the state and federal level. Comerica is subject to supervision and regulation at the federal level by the Board of Governors of the Federal Reserve System (“FRB”) under the Bank Holding Company Act of 1956, as amended. The Gramm-Leach-Bliley Act expanded the activities in which a bank holding company registered as a financial holding company can engage. The conditions to be a financial holding company include, among others, the requirement that each depository institution subsidiary of the holding company be well capitalized and well managed. Effective July 2011, the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Financial Reform Act”) also requires the well capitalized and well managed standards to be met at the financial holding company level. Comerica became a financial holding company in 2000. As a financial holding company, Comerica may affiliate with securities firms and insurance companies and engage in activities that are financial in nature. Activities that are “financial in nature” include, but are not limited to: securities underwriting; securities dealing and market making; sponsoring mutual funds and investment companies (subject to the prohibitions of the Volcker Rule, once implemented through regulation, described below); insurance underwriting and agency; merchant banking; travel agent services; and activities that the FRB has determined to be financial in nature or incidental or complementary to a financial activity, provided that it does not pose a substantial risk to the safety or soundness of the depository institution or the financial system generally. A bank holding company that is not also a financial holding company is limited to engaging in banking and other activities previously determined by the FRB to be closely related to banking.

Comerica Bank is chartered by the State of Texas and at the state level is supervised and regulated by the Texas Department of Banking under the Texas Finance Code. Comerica Bank has elected to be a member of the Federal Reserve System ("FRS") under the Federal Reserve Act and, consequently, is supervised and regulated by the Federal Reserve Bank of Dallas. Comerica Bank & Trust, National Association is chartered under federal law and is subject to supervision and regulation by the Office of the Comptroller of the Currency ("OCC") under the National Bank Act. Comerica Bank & Trust, National Association, by virtue of being a national bank, is also a member of the FRS. The deposits of Comerica Bank and Comerica Bank & Trust, National Association are insured by the Deposit Insurance Fund ("DIF") of the Federal Deposit Insurance Corporation ("FDIC") to the extent provided by law.

The FRB supervises non-banking activities conducted by companies directly and indirectly owned by Comerica. In addition, Comerica's non-banking subsidiaries are subject to supervision and regulation by various state, federal and self-regulatory

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agencies, including, but not limited to, the Financial Industry Regulatory Authority (in the case of Comerica Securities, Inc.), the Office of Financial and Insurance Regulation of the State of Michigan (in the case of Comerica Securities, Inc. and Comerica Insurance Services, Inc.), and the Securities and Exchange Commission ("SEC") (in the case of Comerica Securities, Inc., World Asset Management, Inc. and Wilson, Kemp & Associates, Inc.).
Described below are the material elements of selected laws and regulations applicable to Comerica and its subsidiaries. The descriptions are not intended to be complete and are qualified in their entirety by reference to the full text of the statutes and regulations described. Changes in applicable law or regulation, and in their application by regulatory agencies, cannot be predicted, but they may have a material effect on the business of Comerica and its subsidiaries.

Requirements for Approval of Acquisitions and Activities

In most cases, no FRB approval is required for Comerica to acquire a company engaged in activities that are financial in nature or incidental to activities that are financial in nature, as determined by the FRB. However, Federal and state laws impose notice and approval requirements for mergers and acquisitions of other depository institutions or bank holding companies. Prior approval is required before Comerica may acquire the beneficial ownership or control of more than 5% of the voting shares or substantially all of the assets of a bank holding company (including a financial holding company) or a bank.

Community Reinvestment Act

The Community Reinvestment Act of 1977 ("CRA") requires U.S. banks to help serve the credit needs of their communities. Comerica Bank's current rating under the "CRA" is "outstanding". If any subsidiary bank of Comerica were to receive a rating under the CRA of less than "satisfactory", Comerica would be prohibited from engaging in certain activities. In addition, Comerica, Comerica Bank and Comerica Bank & Trust, National Association, are each "well capitalized" and "well managed" under FRB standards. If any subsidiary bank of Comerica were to cease being "well capitalized" or "well managed" under applicable regulatory standards, the FRB could place limitations on Comerica's ability to conduct the broader financial activities permissible for financial holding companies or impose limitations or conditions on the conduct or activities of Comerica or its affiliates. If the deficiencies persisted, the FRB could order Comerica to divest any subsidiary bank or to cease engaging in any activities permissible for financial holding companies that are not permissible for bank holding companies, or Comerica could elect to conform its non-banking activities to those permissible for a bank holding company that is not also a financial holding company. Finally, the effectiveness of Comerica and its subsidiaries in complying with anti-money laundering regulations (discussed below) is also taken into account by the FRB when considering applications for approval of acquisitions.

Transactions with Affiliates

Various governmental requirements, including Sections 23A and 23B of the Federal Reserve Act and the FRB's Regulation W, limit borrowings by Comerica and its nonbank subsidiaries from its affiliate insured depository institutions, and also limit various other transactions between Comerica and its nonbank subsidiaries, on the one hand, and Comerica's affiliate insured depository institutions, on the other. For example, Section 23A of the Federal Reserve Act limits the aggregate outstanding amount of any insured depository institution's loans and other "covered transactions" with any particular nonbank affiliate to no more than 10% of the institution's total capital and limits the aggregate outstanding amount of any insured depository institution's covered transactions with all of its nonbank affiliates to no more than 20% of its total capital. "Covered transactions" are defined by statute to include a loan or extension of credit, as well as a purchase of securities issued by an affiliate, a purchase of assets (unless otherwise exempted by the FRB) from the affiliate, the acceptance of securities issued by the affiliate as collateral for a loan, and the issuance of a guarantee, acceptance or letter of credit on behalf of an affiliate. Section 23A of the Federal Reserve Act also generally requires that an insured depository institution's loans to its nonbank affiliates be, at a minimum, 100% secured, and Section 23B of the Federal Reserve Act generally requires that an insured depository institution's transactions with its nonbank affiliates be on terms and under circumstances that are substantially the same or at least as favorable as those prevailing for comparable transactions with nonaffiliates. The Financial Reform Act significantly expanded the coverage and scope of the limitations on affiliate transactions within a banking organization. For example, commencing in July 2012, the Financial Reform Act applies the 10% of capital limit on covered transactions to financial subsidiaries and amends the definition of "covered transaction" to include (i) securities borrowing or lending

transactions with an affiliate, and (ii) all derivatives transactions with an affiliate, to the extent that either causes a bank or its affiliate to have credit exposure to the securities borrowing/lending or derivative counterparty.

Privacy

The privacy provisions of the Gramm-Leach-Bliley Act generally prohibit financial institutions, including Comerica, from disclosing nonpublic personal financial information of consumer customers to third parties for certain purposes (primarily marketing) unless customers have the opportunity to “opt out” of the disclosure. The Fair Credit Reporting Act restricts information sharing among affiliates for marketing purposes.

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Anti-Money Laundering Regulations

The Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act ("USA PATRIOT Act") of 2001 and its implementing regulations substantially broadened the scope of U.S. anti-money laundering laws and regulations by requiring insured depository institutions, broker-dealers, and certain other financial institutions to have policies, procedures, and controls to detect, prevent, and report money laundering and terrorist financing. The USA PATRIOT Act and its regulations also provide for information sharing, subject to conditions, between federal law enforcement agencies and financial institutions, as well as among financial institutions, for counter-terrorism purposes. Federal banking regulators are required, when reviewing bank holding company acquisition and bank merger applications, to take into account the effectiveness of the anti-money laundering activities of the applicants. To comply with these obligations, Comerica and its various operating units have implemented appropriate internal practices, procedures, and controls.

Interstate Banking and Branching

The Interstate Banking and Branching Efficiency Act (the "Interstate Act"), as amended by the Financial Reform Act, permits a bank holding company, with FRB approval, to acquire banking institutions located in states other than the bank holding company's home state without regard to whether the transaction is prohibited under state law, but subject to any state requirement that the bank has been organized and operating for a minimum period of time, not to exceed five years, and the requirement that the bank holding company, prior to and following the proposed acquisition, control no more than 10% of the total amount of deposits of insured depository institutions in the U.S. and no more than 30% of such deposits in that state (or such amount as established by state law if such amount is lower than 30%).

The Interstate Act, as amended, also authorizes banks to operate branch offices outside their home states by merging with out-of-state banks, purchasing branches in other states and by establishing de novo branches in other states, subject to various conditions. In the case of purchasing branches in a state in which it does not already have banking operations, the "host" state must have "opted-in" to the Interstate Act by enacting a law permitting such branch purchases.

The Financial Reform Act expanded the de novo interstate branching authority of banks beyond what had been permitted under the Interstate Act by eliminating the requirement that a state expressly "opt-in" to de novo branching, in favor of a rule that de novo interstate branching is permissible if under the law of the state in which the branch is to be located, a state bank chartered by that state would be permitted to establish the branch. Effective July 21, 2011, the Financial Reform Act also required that a bank holding company or bank be well-capitalized and well-managed (rather than simply adequately capitalized and adequately managed) in order to take advantage of these interstate banking and branching provisions.

Comerica has consolidated most of its banking business into one bank, Comerica Bank, with branches in Texas, Arizona, California, Florida and Michigan.

Dividends

Comerica is a legal entity separate and distinct from its banking and other subsidiaries. Most of Comerica's revenues result from dividends its bank subsidiaries pay it. There are statutory and regulatory requirements applicable to the payment of dividends by subsidiary banks to Comerica, as well as by Comerica to its shareholders. Certain, but not all, of these requirements are discussed below.

Comerica Bank and Comerica Bank & Trust, National Association are required by federal law to obtain the prior approval of the FRB and/or the OCC, as the case may be, for the declaration and payment of dividends, if the total of all dividends declared by the board of directors of such bank in any calendar year will exceed the total of (i) such bank's retained net income (as defined and interpreted by regulation) for that year plus (ii) the retained net income (as defined and interpreted by regulation) for the preceding two years, less any required transfers to surplus or to fund the retirement of preferred stock. At January 1, 2013, Comerica's subsidiary banks could declare aggregate dividends of approximately $277 million from retained net profits of the preceding two years. Comerica's subsidiary banks declared dividends of $497 million in 2012, $292 million in 2011 and $28 million in 2010.

Further, federal regulatory agencies can prohibit a banking institution or bank holding company from engaging in unsafe and unsound banking practices and could prohibit the payment of dividends under circumstances in which such payment could be deemed an unsafe and unsound banking practice. Under the Federal Deposit Insurance Corporation Improvement Act ("FDICIA"), "prompt corrective action" regime discussed below, Comerica Bank and Comerica Bank &

Trust, National Association are specifically prohibited from paying dividends if payment would result in the bank becoming “undercapitalized.” In addition, Comerica Bank is also subject to limitations under Texas state law regarding the amount of earnings that may be paid out as dividends, and requiring prior approval for payments of dividends that exceed certain levels.

Additionally, the payment of dividends is subject to approval by the FRB pursuant to the Capital Plan Review program. For more information, please see “Other Recent Legislative and Regulatory Developments” in this section.

Source of Strength and Cross-Guarantee Requirements

Federal law and FRB regulations require that bank holding companies serve as a source of strength to each subsidiary bank and commit resources to support each subsidiary bank. This support may be required at times when a bank holding company

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may not be able to provide such support without adversely affecting its ability to meet other obligations. Similarly, under the cross-guarantee provisions of the Federal Deposit Insurance Act, in the event of a loss suffered or anticipated by the FDIC (either as a result of the failure of a banking subsidiary or related to FDIC assistance provided to such a subsidiary in danger of failure), the other banking subsidiaries may be assessed for the FDIC's loss, subject to certain exceptions.

Federal Deposit Insurance Corporation Improvement Act

FDICIA requires, among other things, the federal banking agencies to take “prompt corrective action” in respect of depository institutions that do not meet minimum capital requirements. FDICIA establishes five capital tiers: “well capitalized,” “adequately capitalized,” “undercapitalized,” “significantly undercapitalized” and “critically undercapitalized.” A depository institution's capital tier will depend upon where its capital levels are in relation to various relevant capital measures, which, among others, include a Tier 1 and total risk-based capital measure and a leverage ratio capital measure.

Regulations establishing the specific capital tiers provide that, for a depository institution to be well capitalized, it must have a total risk-based capital ratio of at least 10% and a Tier 1 risk-based capital ratio of at least 6%, a Tier 1 leverage ratio of at least 5% and not be subject to any specific capital order or directive. For an institution to be adequately capitalized, it must have a total risk-based capital ratio of at least 8%, a Tier 1 risk-based capital ratio of at least 4%, and a Tier 1 leverage ratio of at least 4% (and in some cases 3%). Under certain circumstances, the appropriate banking agency may treat a well capitalized, adequately capitalized or undercapitalized institution as if the institution were in the next lower capital category.

As of December 31, 2012, Comerica and its banking subsidiaries exceeded the ratios required for an institution to be considered “well capitalized” under these regulations.

FDICIA generally prohibits a depository institution from making any capital distribution (including payment of a dividend) or paying any management fee to its holding company if the depository institution would thereafter be undercapitalized. Undercapitalized depository institutions are subject to limitations on growth and certain activities and are required to submit an acceptable capital restoration plan. The federal banking agencies may not accept a capital plan without determining, among other things, that the plan is based on realistic assumptions and is likely to succeed in restoring the depository institution's capital. In addition, for a capital restoration plan to be acceptable, the institution's parent holding company must guarantee for a specific time period that the institution will comply with such capital restoration plan. The aggregate liability of the parent holding company under the guaranty is limited to the lesser of (i) an amount equal to 5% of the depository institution's total assets at the time it became undercapitalized, or (ii) the amount that is necessary (or would have been necessary) to bring the institution into compliance with all capital standards applicable with respect to such institution as of the time it fails to comply with the plan. If a depository institution fails to submit or implement an acceptable plan, it is treated as if it is significantly undercapitalized.

Significantly undercapitalized depository institutions are subject to a number of requirements and restrictions. Specifically, such a depository institution may be required to do one or more of the following, among other things: sell sufficient voting stock to become adequately capitalized, reduce the interest rates it pays on deposits, reduce its rate of asset growth, dismiss certain senior executive officers or directors, or stop accepting deposits from correspondent banks. Critically undercapitalized institutions are subject to the appointment of a receiver or conservator or such other action as the FDIC and the applicable federal banking agency shall determine appropriate.

As an additional means to identify problems in the financial management of depository institutions, FDICIA requires federal bank regulatory agencies to establish certain non-capital safety and soundness standards for institutions any such agency supervises. The standards relate generally to, among others, earnings, liquidity, operations and management, asset quality, various risk and management exposures (e.g., credit, operational, market, interest rate, etc.) and executive compensation. The agencies are authorized to take action against institutions that fail to meet such standards.

FDICIA also contains a variety of other provisions that may affect the operations of depository institutions including reporting requirements, regulatory standards for real estate lending, “truth in savings” provisions, the requirement that a depository institution give 90 days prior notice to customers and regulatory authorities before closing any branch, and

a prohibition on the acceptance or renewal of brokered deposits by depository institutions that are not well capitalized or are adequately capitalized and have not received a waiver from the FDIC.

Capital Requirements

Comerica and its bank subsidiaries are subject to risk-based capital requirements and guidelines imposed by the FRB and/or the OCC.

For this purpose, a depository institution's or holding company's assets and certain specified off-balance sheet commitments are assigned to four risk categories, each weighted differently based on the level of credit risk that is ascribed to such assets or commitments. A depository institution's or holding company's capital, in turn, is divided into two tiers: core (“Tier 1”) capital, which includes common equity, non-cumulative perpetual preferred stock, a limited amount of cumulative perpetual preferred stock and related surplus (excluding auction rate issues) and minority interests in equity accounts of consolidated

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subsidiaries, less goodwill, certain identifiable intangible assets and certain other assets; and supplementary ("Tier 2") capital, which includes, among other items, perpetual preferred stock not meeting the Tier 1 definition, mandatory convertible securities, subordinated debt, and allowances for loan and lease losses, subject to certain limitations, less certain required deductions. Bank holding companies that engage in trading activities, whose trading activities exceed specified levels, also are required to maintain capital for market risk. Market risk includes changes in the market value of trading account, foreign exchange, and commodity positions, whether resulting from broad market movements (such as changes in the general level of interest rates, equity prices, foreign exchange rates, or commodity prices) or from position specific factors.

Comerica, like other bank holding companies, currently is required to maintain Tier 1 and "total capital" (the sum of Tier 1 and Tier 2 capital) equal to at least 4% and 8% of its total risk-weighted assets (including certain off-balance-sheet items, such as standby letters of credit), respectively. At December 31, 2012, Comerica met both requirements, with Tier 1 and total capital equal to 10.13% and 13.14% of its total risk-weighted assets, respectively. Comerica is also required to maintain a minimum "leverage ratio" (Tier 1 capital to non-risk-adjusted total assets) of 3% to 4%, depending upon criteria defined and assessed by the FRB. Comerica's leverage ratio of 10.52% at December 31, 2012 reflects the nature of Comerica's balance sheet and demonstrates a commitment to capital adequacy. At December 31, 2012, Comerica Bank had Tier 1 and total capital equal to 10.15% and 12.99% of its total risk-weighted assets, respectively, and a leverage ratio of 10.55%. Additional information on the calculation of Comerica and its bank subsidiaries' Tier 1 Capital, total capital and risk-weighted assets is set forth in Note 20 of the Notes to Consolidated Financial Statements located on page F-107 of the Financial Section of this report.

FDIC Insurance Assessments

Comerica's subsidiary banks are subject to FDIC deposit insurance assessments to maintain the DIF. The FDIC imposes a risk-based deposit premium assessment system, which was amended pursuant to the Federal Deposit Insurance Reform Act of 2005 and further amended by the Financial Reform Act. Due to the passage of the Financial Reform Act, the FDIC was required to redefine the deposit insurance assessment base from domestic deposits to average consolidated total assets minus average tangible equity and make changes to assessment rate methodology. The FDIC adopted a final rule on February 7, 2011 that revised the risk-based assessment system for all large insured depository institutions. The first assessment under the new rule was paid in the third quarter of 2011.

In November 2009, the FDIC required insured institutions to prepay their estimated quarterly risk-based assessments for the fourth quarter of 2009 and for all of 2010 through 2012. The prepaid assessments are applied against future quarterly assessments (as they may be so revised) until the prepaid assessment is exhausted or the balance of the prepayment is returned, whichever occurs first. Comerica paid such prepaid assessment of $200 million on December 30, 2009. For 2012, FDIC insurance assessments totaled $38 million. The remaining prepayment at December 31, 2012 was $81 million, against which 2013 DIF assessments will be applied.

Enforcement Powers of Federal Banking Agencies

The FRB and other federal banking agencies have broad enforcement powers, including the power to terminate deposit insurance, impose substantial fines and other civil penalties and appoint a conservator or receiver. Failure to comply with applicable laws or regulations could subject Comerica or its banking subsidiaries, as well as officers and directors of these organizations, to administrative sanctions and potentially substantial civil and criminal penalties.

Capital Purchase Program

On November 14, 2008, Comerica entered the Capital Purchase Program by issuing to the United States Department of the Treasury ("U.S. Treasury"), in exchange for aggregate consideration of $2.25 billion, (1) 2.25 million shares of Fixed Rate Cumulative Perpetual Preferred Stock, Series F, no par value (the "Series F Preferred Stock"), and (2) a warrant to purchase 11,479,592 shares of Comerica's common stock at an exercise price of $29.40 per share (the "Warrant"). Both the Series F Preferred Stock and the Warrant were accounted for as components of Comerica's regulatory Tier 1 capital and contained terms and limitations imposed by the U.S. Treasury. On March 17, 2010, Comerica fully redeemed the Series F Preferred Stock previously issued to the U.S. Treasury, and Comerica exited the Capital Purchase Program. The Warrant was separated into 11,479,592 warrants to purchase one share of Comerica's common stock at an exercise price of $29.40 per share, and such warrants are now listed and traded on the NYSE. As a result of participating in the Capital Purchase Program, Comerica was subject to certain executive compensation and

corporate governance standards promulgated by the U.S. Treasury prior to redemption, which no longer applied to Comerica following the redemption.

For additional details about the Capital Purchase Program, please refer to Note 13 on pages F-94 through F-95 of the Financial Section of this report.

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Temporary Liquidity Guarantee Program

Among other programs and actions taken by the U.S. regulatory agencies during the financial crisis, the FDIC implemented in 2008 the Temporary Liquidity Guarantee Program ("TLGP") to strengthen confidence and encourage liquidity in the banking system. The TLGP was comprised of the Debt Guarantee Program ("DGP") and the Transaction Account Guarantee Program ("TAGP"). The DGP temporarily guaranteed all newly issued senior unsecured debt (e.g., promissory notes, unsubordinated unsecured notes and commercial paper) up to prescribed limits issued by participating entities beginning on October 14, 2008 and continuing through October 31, 2009. For eligible debt issued by that date, the FDIC provided the guarantee coverage until the earlier of the maturity date of the debt or December 31, 2012 (or June 30, 2012 for debt issued prior to April 1, 2009). The TAGP offered a temporary full guarantee for noninterest-bearing transaction accounts held at participating FDIC-insured depository institutions. The unlimited deposit coverage was available beginning October 14, 2008, and was in addition to the $250,000 FDIC deposit insurance coverage per account that was included as part of the Emergency Economic Stabilization Act of 2008. Participation in both the DGP and the TAGP was voluntary.

Comerica, Comerica Bank and Comerica Bank & Trust, National Association, participated in the TLGP. As of December 31, 2012, Comerica had no senior unsecured debt outstanding under the DGP. Comerica Bank and Comerica Bank & Trust, National Association voluntarily participated in the TAGP from October 2008, until they opted out effective July 1, 2010. The TAGP expired as of December 31, 2010. For further discussion of the Financial Reform Act, refer to "The Dodd-Frank Wall Street Reform and Consumer Protection Act" section below in this "Supervisory and Regulation" section.

For additional details about the TGLP, see pages F-20 and F-21 of the Financial Section of this report under the caption "Deposits and Borrowed Funds."

The Dodd-Frank Wall Street Reform and Consumer Protection Act

The recent financial crisis has led to significant changes in the competitive landscape of the financial services industry and an overhaul of the legislative and regulatory landscape with the passage of the Financial Reform Act, which was signed into law on July 21, 2010. The Financial Reform Act provides for, among other matters, increased regulatory supervision and examination of financial institutions, the imposition of more stringent capital requirements on financial institutions and increased regulation of derivatives and hedging transactions. Provided below is an overview of key elements of the Financial Reform Act relevant to Comerica. Most of the provisions contained in the Financial Reform Act became effective immediately upon enactment; however, many have delayed effective dates. Implementation of the Financial Reform Act will require many new mandatory and discretionary rules to be made by federal regulatory agencies over the next several years. The estimates of the impact on Comerica discussed below are based on the limited information currently available and, given the uncertainty of the timing and scope of the impact, are subject to change until final rulemaking is complete.

•The Financial Stability Oversight Council ("FSOC"): Will coordinate efforts of the primary U.S. financial regulatory agencies in establishing regulations to address financial stability concerns and will make recommendations to the FRB as to enhanced prudential standards that must apply to large, interconnected bank holding companies and nonbank financial companies supervised by the FRB under the Financial Reform Act, including capital, leverage, liquidity and risk management requirements. As a bank holding company with total consolidated assets exceeding $50 billion, Comerica will be subject to these enhanced prudential requirements.

•The Consumer Financial Protection Bureau ("CFPB"): Granted broad rule-making authority for a wide range of consumer protection laws that apply to all banks and savings institutions, including the authority to prohibit "unfair, deceptive or abusive" acts and practices. Possesses examination and enforcement authority over all banks and savings institutions with more than $10 billion in assets.

•Interest on Commercial Demand Deposits: Allows interest on commercial demand deposits, which could lead to increased cost of commercial demand deposits, depending on the interplay of interest, deposit credits and service charges.

•Unlimited Deposit Insurance Extension: Provided unlimited deposit insurance on noninterest-bearing accounts from December 31, 2010 to December 31, 2012.

•Deposit Insurance: Changed the definition of assessment base from domestic deposits to net assets (average consolidated total assets less average tangible equity), increased the deposit insurance fund's minimum reserve ratio and permanently increased general deposit insurance coverage from $100,000 to $250,000.
•Derivatives: Created a new framework for the regulation of OTC derivatives activities. Allows continued trading of foreign exchange and interest rate derivatives, but requires banks to shift energy, uncleared commodities and agriculture derivatives to a separately capitalized subsidiary within their holding company.
•Interchange Fee: Limits debit card transaction processing fees that card issuers can charge to merchants to an amount reasonable and proportional to the actual cost of a transaction to the issuer.

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•Trust Preferred Securities: Prohibits bank holding companies with more than $15 billion in assets from including trust preferred securities as Tier 1 capital, and allows for a phase-in period of three years, beginning January 1, 2013. As of December 31, 2012, Comerica had no remaining trust preferred securities outstanding.
•The Volcker Rule: Broadly restricts banking entities from engaging in proprietary trading and private equity fund sponsorship and investment activities and generally requires full compliance with the new restrictions by July 2014.
The Financial Reform Act also:
•Requires that publicly traded companies give stockholders a non-binding vote on executive compensation and “golden parachute” payments;
•Weakens the federal preemption rules that have been applicable for national banks and gives state attorneys general the ability to enforce federal consumer protection laws;
•Requires creation of “living wills” describing the company's strategy for rapid and orderly resolution in bankruptcy during times of financial distress. Comerica's initial resolution plan (living will) must be submitted no later than December 31, 2013; and
•Establishes the Office of Financial Research (“OFR”) to serve the FSOC and the public by improving the quality, transparency, and accessibility of financial data and information, by conducting and sponsoring research related to financial stability, and by promoting best practices in risk management.
The environment in which financial institutions will operate after the recent financial crisis, including legislative and regulatory changes affecting capital, liquidity, supervision, permissible activities, corporate governance and compensation, and changes in fiscal policy may have long-term effects on the business model and profitability of financial institutions that cannot now be foreseen. The Financial Reform Act will have important implications for Comerica and the entire financial services industry. As the Financial Reform Act requires that many studies be conducted and that hundreds of regulations be written in order to fully implement it, the full impact of this legislation on Comerica, its business strategies, and financial performance cannot be known at this time, and may not be known for a number of years.
Other Recent Legislative and Regulatory Developments
Overdraft Fees. On November 12, 2009, the FRB adopted amendments to its Regulation E, effective July 1, 2010, that prohibit financial institutions from charging clients overdraft fees on automated teller machine (“ATM”) and one-time debit card transactions, unless a consumer consents, or opts in, to the overdraft service for those types of transactions. If a consumer does not opt in, overdraft fees on any ATM transaction or one-time debit transaction are prohibited. Overdrafts on the payment of checks and recurring electronic bill payments are not covered by this rule. Before opting in, the consumer must be provided a notice that explains the financial institution's overdraft services, including the fees associated with the service, and the consumer's choices. Financial institutions must provide consumers who do not opt in with the same account terms, conditions and features (including pricing) that they provide to consumers who do opt in.
Financial Crisis Responsibility Fee. On January 14, 2010, the current administration announced a proposal to impose a fee (the “Financial Crisis Responsibility Fee”) on those financial institutions that benefited from recent actions taken by the U.S. government to stabilize the financial system. Calls for that fee have been renewed during the 2013 federal budget discussions. As the proposal is understood, the Financial Crisis Responsibility Fee will be applied to firms with over $50 billion in consolidated assets, and, therefore, by its terms would apply to Comerica. The Financial Crisis Responsibility Fee was not included in the Financial Reform Act.
Incentive-Based Compensation. In June 2010, the FRB, OCC and FDIC issued comprehensive final guidance on incentive compensation policies intended to ensure that the incentive compensation policies of banking organizations do not undermine the safety and soundness of such organizations by encouraging excessive risk-taking. The guidance, which covers senior executives as well as other employees who, either individually or as part of a group, have the ability to expose the banking organization to material amounts of risk, is based upon the key principles that a banking organization's incentive compensation arrangements (1) should provide employees incentives that appropriately balance risk and financial results in a manner that does not encourage employees to expose their organizations to imprudent risk; (2) should be compatible with effective controls and risk-management; and (3) should be supported by strong corporate governance, including active and effective oversight by the organization's board of directors. Banking

organizations are expected to review regularly their incentive compensation arrangements based on these three principles. Where there are deficiencies in the incentive compensation arrangements, they should be promptly addressed. Enforcement actions may be taken against a banking organization if its incentive compensation arrangements, or related risk-management control or governance processes, pose a risk to the organization's safety and soundness, particularly if the organization is not taking prompt and effective measures to correct the deficiencies. Comerica is subject to this final guidance.

On April 14, 2011, the FRB, OCC and several other federal financial regulators issued a joint proposed rulemaking to implement Section 956 of the Financial Reform Act. Section 956 directed regulators to jointly prescribe regulations or guidelines

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prohibiting incentive-based payment arrangements, or any feature of any such arrangement, at covered financial institutions that encourage inappropriate risks by providing excessive compensation or that could lead to a material financial loss. This proposal supplements the final guidance issued by the banking agencies in June 2010. Consistent with the Financial Reform Act, the proposed rule would not apply to institutions with total consolidated assets of less than $1 billion, and would impose heightened standards for institutions with $50 billion or more in total consolidated assets, which includes Comerica. For these larger institutions, the proposed rule would require that at least 50 percent of annual incentive-based payments be deferred over a period of at least three years for designated executives. Moreover, boards of directors of these larger institutions would be required to identify employees who individually have the ability to expose the institution to possible losses that are substantial in relation to the institution's size, capital or overall risk tolerance, and to determine that the incentive compensation for these employees appropriately balances risk and rewards according to enumerated standards. Comerica is monitoring the development of this rule.
Basel III: Regulatory Capital and Liquidity Regime. In December 2010, the Basel Committee on Banking Supervision (the “Basel Committee”) issued a framework for strengthening international capital and liquidity regulation (“Basel III”). In June 2012, U.S. banking regulators issued proposed rules for the U.S. adoption of the Basel III regulatory capital framework. The proposed regulatory framework includes a more conservative definition of capital, two new capital buffers (a conservation buffer and a countercyclical buffer), new and more stringent risk weight categories for assets and off-balance sheet items, and a supplemental leverage ratio. Under the proposal, rules were expected to be implemented between 2013 and 2019.
According to the proposed rules, Comerica would be subject to the capital conservation buffer of 2.5 percent to avoid restrictions on capital distributions and discretionary bonuses. However, the rules as proposed would not subject Comerica to the capital countercyclical buffer of up to 2.5 percent or the supplemental leverage ratio.
The Basel III liquidity framework, which was revised by the Basel Committee in January 2013, includes two minimum liquidity measures. The Liquidity Coverage Ratio (the “LCR”) requires a financial institution to hold a buffer of high-quality, liquid assets to fully cover net cash outflows under a 30-day systematic liquidity stress scenario. The revisions announced by the Basel Committee eased several requirements related to the LCR, including certain outflow assumptions. The Net Stable Funding Ratio requires the amount of available longer-term, stable sources of funding to be at least 100 percent of the required amount of longer-term stable funding over a one-year period. Comerica's liquidity position is strong, but if subject to the Basel III liquidity framework as currently proposed, Comerica may decide to consider additional liquidity management initiatives. While uncertainty exists in both the final form of the U.S. rules implementing the Basel III liquidity framework and whether or not Comerica will be subject to the full requirements, Comerica is closely monitoring the development of the rules. We expect to meet the final requirements adopted by U.S. banking regulators within regulatory timelines.
Interchange Fees. On July 20, 2011, the FRB published final rules pursuant to the Financial Reform Act establishing the maximum permissible interchange fee that an issuer may receive for an electronic debit transaction as the sum of 21 cents per transaction and 5 basis points multiplied by the value of the transaction. The restrictions on interchange transaction fees do not apply to issuers with assets of less than $10 billion. Comerica is subject to the final rules.
The Volcker Rule. The federal banking agencies and the SEC published proposed regulations to implement the Volcker Rule on November 7, 2011. The Commodity Futures Trading Commission (“CFTC”) requested comments on a very similar rule on January 11, 2012. The proposal adopts a multi-faceted approach to implementing the Volcker Rule prohibitions that relies on: (i) detailed descriptions of prohibited and permitted activities; (ii) detailed compliance requirements; and (iii) for banking entities with large volumes of trading activity, detailed quantitative analysis and reporting obligations. In addition to rules implementing the core prohibitions and exemptions of the Volcker Rule, the proposal also includes three appendices devoted to recordkeeping and reporting requirements, including numerous quantitative data reporting obligations for banking entities with significant trading activities (Appendix A), detailed guidance regarding trading undertaken in connection with market making activities (Appendix B), and enhanced compliance requirements for banking entities with significant trading or covered fund activities (Appendix C). Pending issuance of the final rules, the FRB issued a policy statement on April 19, 2012, indicating that entities subject to the new rules would be afforded a full two years to implement them. Comerica is closely monitoring the development of the Volcker Rule, and expects to meet the final requirements adopted by regulators within regulatory

timelines.

Annual Capital Plans. On November 22, 2011, the FRB issued a final rule requiring top-tier U.S. bank holding companies with total consolidated assets of $50 billion or more to submit annual capital plans for review, and issued instructions regarding stress testing as part of the 2012 Capital Plan Review program. Under the rule, the FRB will annually evaluate institutions' capital adequacy, internal capital adequacy assessment processes, and their plans to make capital distributions, such as dividend payments or stock repurchases. As required, Comerica submitted its 2012 capital plan to the FRB on January 9, 2012; on March 14, 2012, Comerica announced that the FRB had completed its 2012 capital plan review and did not object to the 2012 capital plan or capital distributions contemplated in such plan. Also as required, Comerica submitted its 2013 capital plan to the FRB on January 7, 2013 and expects to receive the results of the FRB's review of the 2013 plan by mid-March 2013. Comerica is currently subject to the Capital Plan Review (CapPR) program but will be subject to the Comprehensive Capital Assessment and Review (CCAR) program after October 12, 2013.

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Enhanced Prudential Requirements. On December 20, 2011, the FRB issued its proposed regulations to implement the enhanced prudential and supervisory requirements mandated by the Financial Reform Act. The proposed regulations address enhanced risk-based capital and leverage requirements, enhanced liquidity requirements, enhanced risk management and risk committee requirements, single-counterparty credit limits, semiannual stress tests, and a debt-to-equity limit for companies determined to pose a grave threat to financial stability. They are intended to allow regulators to more effectively supervise large bank holding companies and nonbank financial firms whose failure could impact the stability of the US financial system, and generally build on existing US and international regulatory guidance. The proposal also takes a multi-stage or phased approach to many of the requirements (such as the capital and liquidity requirements). Most of these requirements will apply to Comerica because it has consolidated assets of more than $50 billion. However, the proposal defers several key aspects of the new enhanced requirements to future proposals. As a result, the full impact of these enhanced standards on Comerica and its competitors cannot yet be fully assessed.

OFR Assessments. On May 21, 2012, the Department of the Treasury published final regulations to implement, beginning July 20, 2012, a semi-annual assessment scheme for covering expenses of the OFR based on the asset size of each assessed company as of the end of the preceding year.

Resolution (Living Will) Plans. Section 165(d) of the Financial Reform Act requires bank holding companies with total consolidated assets of $50 billion or more ("covered companies") to prepare and submit to the federal banking agencies (e.g., FRB and FDIC) a plan for their rapid and orderly resolution under the U.S. Bankruptcy Code. Covered companies, such as Comerica, with less than $100 billion in total nonbank assets must submit their initial plans by December 31, 2013. In addition, Section 165(d) requires FDIC-insured depository institutions with assets of $50 billion or more to develop, maintain, and periodically submit plans outlining how the FDIC would resolve it through the FDIC's resolution powers under the Federal Deposit Insurance Act. The federal banking agencies have issued rules to implement these requirements.

Section 611 and Title VII of The Dodd-Frank Wall Street Reform and Consumer Protection Act. Section 611 of the Financial Reform Act prohibits a state bank from engaging in derivative transactions unless the lending limit laws of the state in which the bank is chartered takes into consideration exposure to derivatives. Section 611 does not provide how state lending limit laws must factor in derivatives. The Texas Finance Commission has adopted an administrative rule meeting the requirements of Section 611. Accordingly, Comerica Bank may engage in derivative transactions, as permitted by applicable law.

Title VII of the Financial Reform Act establishes a comprehensive framework for over-the-counter ("OTC") derivatives transactions. The structure for derivatives set forth in the Financial Reform Act is intended to promote, among other things, exchange trading and centralized clearing of swaps and security-based swaps, as well as greater transparency in the derivatives markets and enhanced monitoring of the entities that use these markets. In this regard, the CFTC and SEC have issued several regulatory proposals, some of which are now effective or will become effective in 2013.

The SEC and CFTC have jointly adopted rules further defining the terms "swap," "security-based swap," "security-based swap agreement," and have also adopted final joint rules defining the terms "swap dealer," "security-based swap dealer," "major swap participant," and "major security-based swap participant." Comerica has determined that neither it, nor its subsidiaries, are within the definition of "swap dealer" or "major swap participant," but some portions of the Title VII regulations apply nonetheless. One of these regulations centers on limiting certain OTC transactions to "eligible contract participants." This may have an impact on the small business customers of Comerica's banking subsidiaries by making such customers ineligible for swap derivatives as hedging in their loan agreements.

Consumer Finance Regulations. The CFPB has commenced issuing several new rules to implement various provisions of the Financial Reform Act that were specifically identified as being enforced by the CFPB, as well as those specified for supervisory and enforcement authority for very large depository institutions and non-depository (nonbank) entities. Comerica is subject to CFPB foreign remittance rules and home mortgage lending rules, in addition to certain other CFPB rules.

The foreign remittance rules fall under Section 1073 of the Financial Reform Act. The CFPB has issued new rules making changes to Regulation E, which implements the Electronic Fund Transfer Act. These rules are designed to provide protections to consumers who transfer funds to recipients located in another country (remittance transfers). In

general, the rule requires remittance transfer providers, such as Comerica, to disclose to a consumer the exchange rate, fees, and amount to be received by the recipient when the consumer sends a remittance transfer. The effective date of the final rule has been extended and will go into effect on a date yet to be determined.

On January 10, 2013, the CFPB issued three major rules relating to home mortgage loans. The first rule amends Regulation Z to implement amendments made by Sections 1461 and 1462 of the Financial Reform Act. Regulation Z currently requires creditors to establish escrow accounts for higher priced mortgage loans secured by a first lien on a principal dwelling. The rule implements statutory changes that lengthen the period of time for which the mandatory escrow must be maintained and exempts certain transactions from the requirement. The stated effective date of the rule is June 1, 2013.

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The second rule expands the universe of loans subject to the Home Ownership and Equity Protection Act (“HOEPA”). Most types of loans secured a consumer's principal dwelling, including purchase money loans and home equity lines of credit, are potentially subject to the rule. The existing triggers or tests for coverage are revised, and a new prepayment penalty trigger for HOEPA coverage is added. The rule also implements new restrictions and requirements concerning loan terms and origination practices for mortgage loans that are within HOEPA's coverage. The stated effective date is January 10, 2014.

The third rule issued on January 10, 2013 is another amendment to Regulation Z. This rule implements Sections 1411 and 1412 of the Financial Reform Act, which generally require creditors to make a reasonable, good faith determination of a consumer's ability to repay any consumer credit transaction secured by a dwelling (excluding an open-end credit plan, timeshare plan, reverse mortgage, or temporary loan) and establishes certain protections from liability under this requirement for “qualified mortgages.” The rule also implements Section 1414 of the Financial Reform Act, which limits prepayment penalties. Finally, the rule requires creditors to retain evidence of compliance with the rule for three years after a covered loan is consummated. The stated effective date is January 10, 2014.

Future Legislation and Regulatory Measures

Changes to the laws of the states and countries in which Comerica and its subsidiaries do business could affect the operating environment of bank holding companies and their subsidiaries in substantial and unpredictable ways. Moreover, in light of recent events and current conditions in the U.S. financial markets and economy, Congress and regulators have continued to increase their focus on the regulation of the financial services industry. Comerica cannot accurately predict whether legislative changes will occur or, if they occur, the ultimate effect they would have upon the financial condition or results of operations of Comerica.

UNDERWRITING APPROACH

The loan portfolio is a primary source of profitability and risk, so proper loan underwriting is critical to Comerica's long-term financial success. Comerica extends credit to businesses, individuals and public entities based on sound lending principles and consistent with prudent banking practice. During the loan underwriting process, a qualitative and quantitative analysis of potential credit facilities is performed, and the credit risks associated with each relationship are evaluated. Important factors considered as part of the underwriting process for new loans and loan renewals include:

- People: Including the competence, integrity and succession planning of customers;
- Purpose: The legal, logical and productive purposes of the credit facility;
- Payment: Including the source, timing and probability of payment;
- Protection: Including obtaining alternative sources of repayment, securing the loan, as appropriate, with collateral and/or third-party guarantees and ensuring appropriate legal documentation is obtained.
- Perspective: The risk/reward relationship and pricing elements (cost of funds; servicing costs; time value of money; credit risk).

Comerica prices credit facilities to reflect risk, the related costs and the expected return, while maintaining competitiveness with other financial institutions. Loans with variable and fixed rates are underwritten to achieve expected risk-adjusted returns on the credit facilities and for the full relationship including the borrower's ability to repay the principal and interest based on such rates.

Credit Administration

Comerica maintains a Credit Administration Department (“Credit Administration”) which is responsible for the oversight and monitoring of our loan portfolio. Credit Administration assists with underwriting by providing objective financial analysis, including an assessment of the borrower's business model, balance sheet, cash flow and collateral. Each borrower relationship is assigned an internal risk rating by Credit Administration. Further, Credit Administration updates the assigned internal risk rating for every borrower relationship as new information becomes available, either as a result of periodic reviews of the credit quality or as a result of a change in borrower performance. The goal of the internal risk rating framework is to improve Comerica's risk management capability, including its ability to identify and manage changes in the credit risk profile of its portfolio, predict future losses and price the loans appropriately for risk.

Credit Policy

Comerica maintains a comprehensive set of credit policies. Comerica's credit policies provide individual relationship managers, as well as loan committees, approval authorities based on our internal risk rating system and establish maximum exposure limits based on risk ratings and Comerica's legal lending limit. Credit Administration, in conjunction with the businesses units, monitors compliance with the credit policies and modifies the existing policies as necessary. New or modified policies/guidelines

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require approval by the Strategic Credit Committee, chaired by Comerica's Chief Credit Officer and comprising senior credit, market and risk management executives.

Commercial Loan Portfolio

Commercial loans are underwritten using a comprehensive analysis of the borrower's operations. The underwriting process includes an analysis of some or all of the factors listed below:

- The borrower's business model.
- Periodic review of financial statements including financial statements audited by an independent certified public accountant when appropriate.
- The pro-forma financial condition including financial projections.
- The borrower's sources and uses of funds.
- The borrower's debt service capacity.
- The guarantor's financial strength.
- A comprehensive review of the quality and value of collateral, including independent third-party appraisals of machinery and equipment and commercial real estate, as appropriate, to determine the advance rates.
- Physical inspection of collateral and audits of receivables, as appropriate.

Commercial Real Estate (CRE) Loan Portfolio

Comerica's CRE loan portfolio consists of real estate construction and commercial mortgage loans and includes both loans to real estate investors and developers, and loans secured by owner-occupied real estate. Comerica's CRE loan underwriting policies are consistent with the approach described above and provide maximum loan-to-value ratios that limit the size of a loan to a maximum percentage of the value of the real estate collateral securing the loan. The loan-to-value percentage varies by the type of collateral and is limited by advance rates established by our regulators. Our loan-to-value limitations are, in certain cases, more restrictive than those required by regulators and are influenced by other risk factors such as the financial strength of the borrower or guarantor, the equity provided to the project and the viability of the project itself. CRE loans generally require cash equity. CRE loans are normally originated with full recourse or limited recourse to all principals and owners. There are limitations to the size of a single project loan and to the aggregate dollar exposure to a single guarantor.

Consumer and Residential Mortgage Loan Portfolios

Comerica's consumer and residential mortgage loans are originated consistent with the underwriting approach described above, but also includes an assessment of each borrower's personal financial condition, including a review of credit reports and related FICO scores (a type of credit score used to assess an applicant's credit risk) and verification of income and assets. Comerica does not originate subprime loan programs. Although a standard industry definition for subprime loans (including subprime mortgage loans) does not exist, Comerica defines subprime loans as specific product offerings for higher risk borrowers, including individuals with one or a combination of high credit risk factors. These credit factors include low FICO scores, poor patterns of payment history, high debt-to-income ratios and elevated loan-to-value. We generally consider subprime FICO scores to be those below 620 on a secured basis (excluding loans with cash or near-cash collateral and adequate income to make payments) and below 660 for unsecured loans. Residential mortgage loans retained in the portfolio are largely relationship based. The remaining loans are typically eligible to be sold on the secondary market. Adjustable rate loans are limited to standard conventional loan programs.

EMPLOYEES

As of December 31, 2012, Comerica and its subsidiaries had 8,628 full-time and 678 part-time employees.

AVAILABLE INFORMATION

Comerica maintains an Internet website at www.comerica.com where the Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and all amendments to those reports are available without charge, as soon as reasonably practicable after those reports are filed with or furnished to the SEC. The Code of Business Conduct and Ethics for Employees, the Code of Business Conduct and Ethics for Members of the Board of Directors and the Senior Financial Officer Code of Ethics adopted by Comerica are also available on the Internet website and are available in print to any shareholder who requests them. Such requests should be made in writing to the Corporate Secretary at Comerica Incorporated, Comerica Bank Tower, 1717 Main Street, MC 6404, Dallas, Texas

75201.

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Item 1A. Risk Factors.

This report includes forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995. In addition, Comerica may make other written and oral communications from time to time that contain such statements. All statements regarding Comerica's expected financial position, strategies and growth prospects and general economic conditions Comerica expects to exist in the future are forward-looking statements. The words, “anticipates,” “believes,” “feels,” “expects,” “estimates,” “seeks,” “strives,” “plans,” “intends,” “outlook,” “forecast,” “position,” “target,” “r “achievable,” “potential,” “strategy,” “goal,” “aspiration,” "opportunity," "initiative," “outcome,” “continue,” “remain,” “maint course," “trend,” “objective,” "looks forward" and variations of such words and similar expressions, or future or conditional verbs such as “will,” “would,” “should,” “could,” “might,” “can,” “may” or similar expressions, as they relate to Comerica or its management, are intended to identify forward-looking statements.

Comerica cautions that forward-looking statements are subject to numerous assumptions, risks and uncertainties, which change over time. Forward-looking statements speak only as of the date the statement is made, and Comerica does not undertake to update forward-looking statements to reflect facts, circumstances, assumptions or events that occur after the date the forward-looking statements are made. Actual results could differ materially from those anticipated in forward-looking statements and future results could differ materially from historical performance.

In addition to factors mentioned elsewhere in this Report or previously disclosed in Comerica's SEC reports (accessible on the SEC's website at www.sec.gov or on Comerica's website at www.comerica.com), the factors contained below, among others, could cause actual results to differ materially from forward-looking statements, and future results could differ materially from historical performance.

- General political, economic or industry conditions, either domestically or internationally, may be less favorable than expected.

Local, domestic, and international economic, political and industry specific conditions affect the financial services industry, directly and indirectly. Conditions such as or related to inflation, recession, unemployment, volatile interest rates, international conflicts and other factors, such as real estate values, energy costs, fuel prices, state and local municipal budget deficits, the European debt crisis and government spending and the U.S. national debt, outside of our control may, directly and indirectly, adversely affect Comerica. As has been the case with the impact of recent economic conditions, economic downturns could result in the delinquency of outstanding loans, which could have a material adverse impact on Comerica's earnings.

- Governmental monetary and fiscal policies may adversely affect the financial services industry, and therefore impact Comerica's financial condition and results of operations.

Monetary and fiscal policies of various governmental and regulatory agencies, in particular the FRB Board, affect the financial services industry, directly and indirectly. The FRB regulates the supply of money and credit in the U.S. and its monetary and fiscal policies determine in a large part Comerica's cost of funds for lending and investing and the return that can be earned on such loans and investments. Changes in such policies, including changes in interest rates, will influence the origination of loans, the value of investments, the generation of deposits and the rates received on loans and investment securities and paid on deposits. Changes in monetary and fiscal policies are beyond Comerica's control and difficult to predict. Comerica's financial condition and results of operations could be materially adversely impacted by changes in governmental monetary and fiscal policies.

- Volatility and disruptions in global capital and credit markets may adversely impact Comerica's business, financial condition and results of operations.

Global capital and credit markets are sometimes subject to periods of extreme volatility and disruption. Disruptions, uncertainty or volatility in the capital and credit markets may limit Comerica's ability to access capital and manage liquidity, which may adversely affect Comerica's business, financial condition and results of operations. Further, Comerica's customers may be adversely impacted by such conditions, which could have a negative impact on Comerica's business, financial condition and results of operations.

- Any reduction in our credit rating could adversely affect Comerica and/or the holders of its securities.

Rating agencies regularly evaluate Comerica, and their ratings are based on a number of factors, including Comerica's financial strength as well as factors not entirely within its control, including conditions affecting the financial services industry generally. There can be no assurance that Comerica will maintain its current ratings. In March 2012, Moody's

Investors Service downgraded Comerica's long-term and short-term senior credit ratings one notch to A3 and P-2, respectively. In July 2012, Fitch Ratings revised Comerica's outlook to “Negative” from “Stable.” While recent credit rating actions have had little to no detrimental impact on Comerica's profitability, borrowing costs, or ability to access the capital markets, future downgrades to Comerica's or its subsidiaries' credit ratings could adversely affect Comerica's

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profitability, borrowing costs, or ability to access the capital markets or otherwise have a negative effect on Comerica's results of operations or financial condition. If such a reduction placed Comerica's or its subsidiaries' credit ratings below investment grade, it could also create obligations or liabilities under the terms of existing arrangements that could increase Comerica's costs under such arrangements. Additionally, a downgrade of the credit rating of any particular security issued by Comerica or its subsidiaries could negatively affect the ability of the holders of that security to sell the securities and the prices at which any such securities may be sold.

- The soundness of other financial institutions could adversely affect Comerica.

Comerica's ability to engage in routine funding transactions could be adversely affected by the actions and commercial soundness of other financial institutions. Financial services institutions are interrelated as a result of trading, clearing, counterparty or other relationships. Comerica has exposure to many different industries and counterparties, and it routinely executes transactions with counterparties in the financial industry, including brokers and dealers, commercial banks, investment banks, mutual and hedge funds, and other institutional clients. As a result, defaults by, or even rumors or questions about, one or more financial services institutions, or the financial services industry generally, have led, and may further lead, to market-wide liquidity problems and could lead to losses or defaults by us or by other institutions. Many of these transactions could expose Comerica to credit risk in the event of default of its counterparty or client. In addition, Comerica's credit risk may be impacted when the collateral held by it cannot be realized upon or is liquidated at prices not sufficient to recover the full amount of the financial instrument exposure due to Comerica. There is no assurance that any such losses would not adversely affect, possible materially in nature, Comerica.

- Changes in regulation or oversight may have a material adverse impact on Comerica's operations.

Comerica is subject to extensive regulation, supervision and examination by the U.S. Treasury, the Texas Department of Banking, the FDIC, the FRB, the SEC and other regulatory bodies. Such regulation and supervision governs the activities in which Comerica may engage. Regulatory authorities have extensive discretion in their supervisory and enforcement activities, including the imposition of restrictions on Comerica's operations, investigations and limitations related to Comerica's securities, the classification of Comerica's assets and determination of the level of Comerica's allowance for loan losses. Any change in such regulation and oversight, whether in the form of regulatory policy, regulations, legislation or supervisory action, may have a material adverse impact on Comerica's business, financial condition or results of operations.

In particular, Congress and other regulators have recently increased their focus on the regulation of the financial services industry:

During the second quarter of 2009, the FDIC levied an industry-wide special assessment charge on insured financial institutions as part of the agency's efforts to rebuild DIF. In November 2009, the FDIC amended regulations that required insured institutions to prepay their estimated quarterly risk-based assessments for the fourth quarter of 2009 and for all of 2010-2012. The prepaid assessments will be applied against future quarterly assessments (as they may be so revised) until the prepaid assessment is exhausted or the balance of the prepayment is returned, whichever occurs first. The FDIC is not precluded from changing assessment rates or from further revising the risk-based assessment system during the prepayment period or thereafter. Thus, Comerica may also be required to pay significantly higher FDIC insurance assessments premiums in the future because market developments significantly depleted DIF and reduced the ratio of reserves to insured deposits. Additional information on the impact of the FDIC's risk-based deposit premium assessment system is presented in “FDIC Insurance Assessments” in the “Supervisory and Regulation” section.

On January 14, 2010, the current administration announced a proposal to impose a Financial Crisis Responsibility Fee on those financial institutions that benefited from recent actions taken by the U.S. government to stabilize the financial system. As the proposal is understood, the Financial Crisis Responsibility Fee will be applied to firms with over $50 billion in consolidated assets, and, therefore, by its terms would apply to Comerica.

On July 21, 2010, the Financial Reform Act was signed into law. The Financial Reform Act implements a variety of far-reaching changes and has been called the most sweeping reform of the financial services industry since the 1930s. Many of the provisions of the Financial Reform Act will directly affect or have directly affected Comerica's ability to conduct its business. Some of the key provisions of Financial Reform Act include, but are not limited to, the

following:

- •Creation of the FSOC that may recommend to the FRB enhanced prudential standards, including increasingly strict rules for capital, leverage, liquidity, risk management and other requirements as companies grow in size and complexity;
- •Application of the same leverage and risk-based capital requirements that apply to insured depository institutions to most bank holding companies, such as Comerica, which, among other things, will, after a three-year phase-in period which begins January 1, 2013, remove trust preferred securities as a permitted component of a holding company's Tier 1 capital;

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•Increases in the FDIC assessment for depository institutions with assets of $10 billion or more, such as Comerica Bank, and increases the minimum reserve ratio for the FDIC's Deposit Insurance Fund from 1.15% to 1.35%;
•Repeal of the federal prohibitions on the payment of interest on demand deposits, thereby permitting depository institutions to pay interest on business transaction and other accounts;
•Establishment of a CFPB with broad authority to implement new consumer protection regulations and, for bank holding companies with $10 billion or more in assets, to examine and enforce compliance with federal consumer laws;
•Restrictions on banking entities from engaging in proprietary trading and private equity fund sponsorship and investment activities;
•Created a new framework for the regulation of OTC derivatives activities; and
•Enactment of rules limiting debit-card interchange fees.
Additional information on the changes to interchange fees, the Volcker Rule and enhanced prudential requirements is set forth in “Other Recent Legislative and Regulatory Developments” of the “Supervisory and Regulation” section. For more information on the Financial Reform Act, please refer to “The Dodd-Frank Wall Street Reform and Consumer Protection Act” of the “Supervision and Regulation” section above. Many provisions in the Financial Reform Act remain subject to regulatory rule-making and implementation, the effects of which are not yet known.
The BCBS issued the Basel III capital framework in December 2010, which significantly increases regulatory capital requirements. The Basel III capital standards, as well as strict new liquidity requirements adopted by the BCBS, will be phased in over a period of several years and are now subject to individual adoption by member nations, including the U.S. Further information concerning the Basel III framework is set forth in “Other Recent Legislative and Regulatory Developments” of the “Supervisory and Regulation” section.
On November 22, 2011, the FRB issued a final rule requiring top-tier U.S. bank holding companies with total consolidated assets of $50 billion or more to submit annual capital plans for review, and issued instructions regarding stress testing as part of the 2012 Capital Plan Review program. Under the rule, the FRB will annually evaluate institutions' capital adequacy, internal capital adequacy assessment processes, and their plans to make capital distributions, such as dividend payments or stock repurchases. As required, Comerica submitted its 2012 capital plan to the FRB on January 9, 2012; on March 14, 2012, Comerica announced that the FRB had completed its 2012 capital plan review and did not object to the 2012 capital plan or capital distributions contemplated in such plan. Also as required, Comerica submitted its 2013 capital plan to the FRB on January 7, 2013 and expects to receive the results of the FRB's review of the 2013 plan by mid-March 2013.
On May 21, 2012, the Department of the Treasury published final regulations to implement, beginning July 20, 2012, a semi-annual assessment scheme for covering expenses of the OFR based on the asset size of each assessed company as of the end of the preceding year.
The effects of such recently enacted legislation and regulatory actions on Comerica cannot reliably be fully determined at this time. Moreover, as some of the legislation and regulatory actions previously implemented in response to the recent financial crisis expire, the impact of the conclusion of these programs on the financial sector and on the economic recovery is unknown. Any delay in the economic recovery or a worsening of current financial market conditions could adversely affect Comerica. We can neither predict when or whether future regulatory or legislative reforms will be enacted nor what their contents will be. The impact of any future legislation or regulatory actions on Comerica's businesses or operations cannot be reliably determined at this time, and such impact may adversely affect Comerica.
•Unfavorable developments concerning credit quality could adversely affect Comerica's financial results.
Although Comerica regularly reviews credit exposure related to its customers and various industry sectors in which it has business relationships, default risk may arise from events or circumstances that are difficult to detect or foresee. Under such circumstances, Comerica could experience an increase in the level of provision for credit losses, nonperforming assets, net charge-offs and reserve for credit losses, which could adversely affect Comerica's financial results.
•Any future strategic acquisitions or divestitures may present certain risks to Comerica's business and operations.
Difficulties in capitalizing on the opportunities presented by a future acquisition may prevent Comerica from fully achieving the expected benefits from the acquisition, or may cause the achievement of such expectations to take

longer to realize than expected.

Further, the assimilation of the acquired entity's customers and markets could result in higher than expected deposit attrition, loss of key employees, disruption of Comerica's businesses or the businesses of the acquired entity or otherwise

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adversely affect Comerica's ability to maintain relationships with customers and employees or achieve the anticipated benefits of the acquisition. These matters could have an adverse effect on Comerica for an undetermined period. Comerica will be subject to similar risks and difficulties in connection with any future decisions to downsize, sell or close units or otherwise change the business mix of Comerica.

- Compliance with more stringent capital and liquidity requirements may adversely affect Comerica.

As discussed above, the Financial Reform Act creates a FSOC that may recommend to the FRB enhanced capital requirements for financial institutions as they grow in size and complexity and imposes higher risk-based capital and leverage requirements, which, among other things, will, after a three-year phase-in period beginning in January 1, 2013, remove trust preferred securities as a permitted component of Tier 1 capital. Moreover, the capital requirements applicable to Comerica as a bank holding company as well as to Comerica's subsidiary banks are in the process of being substantially revised, in connection with Basel III and the requirements of the Financial Reform Act. These requirements, and any other new regulations, could adversely affect Comerica's ability to pay dividends, or could require Comerica to reduce business levels or to raise capital, including in ways that may adversely affect its results of operations or financial condition and/or existing shareholders. The liquidity requirements applicable to Comerica as a bank holding company as well as to our subsidiary banks also are in the process of being substantially revised, in connection with recently proposed supervisory guidance, Basel III and the requirements of the Financial Reform Act. In light of these new legal and regulatory requirements, Comerica and our subsidiary banks may be required to satisfy additional, more stringent, liquidity standards, including, for the first time, quantitative standards for liquidity management. We cannot fully predict at this time the final form of, or the effects of, these regulations. Additional information on the liquidity requirements applicable to Comerica is set forth in the "Supervision and Regulation" section.

The ultimate impact of the new capital and liquidity standards cannot be determined at this time and will depend on a number of factors, including treatment and implementation by the U.S. banking regulators. However, maintaining higher levels of capital and liquidity may reduce Comerica's profitability and otherwise adversely affect its business, financial condition, or results of operations.

- Declines in the businesses or industries of Comerica's customers could cause increased credit losses, which could adversely affect Comerica.

Comerica's business customer base consists, in part, of customers in volatile businesses and industries such as the energy industry, the automotive production industry and the real estate business. These industries are sensitive to global economic conditions and supply chain factors. Any decline in one of those customers' businesses or industries could cause increased credit losses, which in turn could adversely affect Comerica.

- The introduction, implementation, withdrawal, success and timing of business initiatives and strategies, including, but not limited to, the opening of new banking centers, may be less successful or may be different than anticipated, which could adversely affect Comerica's business.

Comerica makes certain projections and develops plans and strategies for its banking and financial products. If Comerica does not accurately determine demand for its banking and financial product needs, it could result in Comerica incurring significant expenses without the anticipated increases in revenue, which could result in a material adverse effect on its business.

- Comerica may not be able to utilize technology to efficiently and effectively develop, market, and deliver new products and services to its customers.

The financial services industry experiences rapid technological change with regular introductions of new technology-driven products and services. The efficient and effective utilization of technology enables financial institutions to better serve customers and to reduce costs. Comerica's future success depends, in part, upon its ability to address the needs of its customers by using technology to market and deliver products and services that will satisfy customer demands, meet regulatory requirements, and create additional efficiencies in Comerica's operations. Comerica may not be able to effectively develop new technology-driven products and services or be successful in marketing or supporting these products and services to its customers, which could have a material adverse impact on Comerica's financial condition and results of operations.

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Operational difficulties, failure of technology infrastructure or information security incidents could adversely affect Comerica's business and operations.

Comerica is exposed to many types of operational risk, including reputational risk, legal and compliance risk, the risk of fraud or theft by employees or outsiders, failure of Comerica's controls and procedures and unauthorized transactions by employees or operational errors, including clerical or recordkeeping errors or those resulting from computer or

telecommunications systems malfunctions. Given the high volume of transactions at Comerica, certain errors may be repeated or compounded before they are identified and resolved.

In particular, Comerica's operations rely on the secure processing, storage and transmission of confidential and other information on its technology systems and networks. Any failure, interruption or breach in security of these systems could result in failures or disruptions in Comerica's customer relationship management, general ledger, deposit, loan and other systems.

Comerica also faces the risk of operational disruption, failure or capacity constraints due to its dependency on third party vendors for components of its business infrastructure. While Comerica has selected these third party vendors carefully, it does not control their operations. As such, any failure on the part of these business partners to perform their various responsibilities could also adversely affect Comerica's business and operations.

Comerica may also be subject to disruptions of its operating systems arising from events that are wholly or partially beyond its control, which may include, for example, computer viruses, cyber attacks, spikes in transaction volume and/or customer activity, electrical or telecommunications outages, or natural disasters. Although Comerica has programs in place related to business continuity, disaster recovery and information security to maintain the confidentiality, integrity, and availability of its systems, business applications and customer information, such disruptions may give rise to interruptions in service to customers and loss or liability to Comerica.

The occurrence of any failure or interruption in Comerica's operations or information systems, or any security breach, could cause reputational damage, jeopardize the confidentiality of customer information, result in a loss of customer business, subject Comerica to regulatory intervention or expose it to civil litigation and financial loss or liability, any of which could have a material adverse effect on Comerica.

- Changes in the financial markets, including fluctuations in interest rates and their impact on deposit pricing, could adversely affect Comerica's net interest income and balance sheet.

The operations of financial institutions such as Comerica are dependent to a large degree on net interest income, which is the difference between interest income from loans and investments and interest expense on deposits and borrowings. Prevailing economic conditions, the trade, fiscal and monetary policies of the federal government and the policies of various regulatory agencies all affect market rates of interest and the availability and cost of credit, which in turn significantly affect financial institutions' net interest income. Volatility in interest rates can also result in disintermediation, which is the flow of funds away from financial institutions into direct investments, such as federal government and corporate securities and other investment vehicles, which, because of the absence of federal insurance premiums and reserve requirements, generally pay higher rates of return than financial institutions. Comerica's financial results could be materially adversely impacted by changes in financial market conditions.

- Competitive product and pricing pressures among financial institutions within Comerica's markets may change.

Comerica operates in a very competitive environment, which is characterized by competition from a number of other financial institutions in each market in which it operates. Comerica competes with large national and regional financial institutions and with smaller financial institutions in terms of products and pricing. If Comerica is unable to compete effectively in products and pricing in its markets, business could decline, which could have a material adverse effect on Comerica's business, financial condition or results of operations.

- Changes in customer behavior may adversely impact Comerica's business, financial condition and results of operations.

Comerica uses a variety of financial tools, models and other methods to anticipate customer behavior as a part of its strategic planning and to meet certain regulatory requirements. Individual, economic, political, industry-specific conditions and other factors outside of Comerica's control, such as fuel prices, energy costs, real estate values or other factors that affect customer income levels, could alter predicted customer borrowing, repayment, investment and deposit practices. Such a change in these practices could materially adversely affect Comerica's ability to anticipate business needs and meet regulatory requirements.

Further, difficult economic conditions may negatively affect consumer confidence levels. A decrease in consumer confidence levels would likely aggravate the adverse effects of these difficult market conditions on Comerica, Comerica's customers and others in the financial institutions industry.

- Management's ability to maintain and expand customer relationships may differ from expectations.

The financial services industry is very competitive. Comerica not only vies for business opportunities with new customers, but also competes to maintain and expand the relationships it has with its existing customers. While management believes that it can continue to grow many of these relationships, Comerica will continue to experience pressures to maintain these

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relationships as its competitors attempt to capture its customers. Failure to create new customer relationships and to maintain and expand existing customer relationships to the extent anticipated may adversely impact Comerica's earnings.

- Management's ability to retain key officers and employees may change.

Comerica's future operating results depend substantially upon the continued service of its executive officers and key personnel. Comerica's future operating results also depend in significant part upon its ability to attract and retain qualified management, financial, technical, marketing, sales and support personnel. Competition for qualified personnel is intense, and Comerica cannot ensure success in attracting or retaining qualified personnel. There may be only a limited number of persons with the requisite skills to serve in these positions, and it may be increasingly difficult for Comerica to hire personnel over time.

Further, Comerica's ability to retain key officers and employees may be impacted by legislation and regulation affecting the financial services industry. On April 14, 2011, FRB, OCC and several other federal financial regulators issued a joint proposed rulemaking to implement Section 956 of the Financial Reform Act. Section 956 requires the regulators to issue regulations that prohibit incentive-based compensation arrangements that encourage inappropriate risk taking by covered financial institutions and are deemed to be excessive, or that may lead to material losses. Consistent with the Financial Reform Act, the proposed rule would not apply to institutions with total consolidated assets of less than $1 billion, and would impose heightened standards for institutions with $50 billion or more in total consolidated assets, which includes Comerica. For these larger institutions, the proposed rule would require that at least 50 percent of incentive-based payments be deferred over a minimum period of three years for designated executives. Moreover, boards of directors of these larger institutions would be required to identify employees who have the ability to expose the institution to possible losses that are substantial in relation to the institution's size, capital or overall risk tolerance, and to determine that the incentive compensation for these employees appropriately balances risk and rewards according to enumerated standards. Accordingly, Comerica may be at a disadvantage to offer competitive compensation as other financial institutions (as referenced above) may not be subject to the same requirements.

Comerica's business, financial condition or results of operations could be materially adversely affected by the loss of any of its key employees, or Comerica's inability to attract and retain skilled employees.

- Legal and regulatory proceedings and related matters with respect to the financial services industry, including those directly involving Comerica and its subsidiaries, could adversely affect Comerica or the financial services industry in general.

Comerica has been, and may in the future be, subject to various legal and regulatory proceedings. It is inherently difficult to assess the outcome of these matters, and there can be no assurance that Comerica will prevail in any proceeding or litigation. Any such matter could result in substantial cost and diversion of Comerica's efforts, which by itself could have a material adverse effect on Comerica's financial condition and operating results. Further, adverse determinations in such matters could result in actions by Comerica's regulators that could materially adversely affect Comerica's business, financial condition or results of operations.

- Methods of reducing risk exposures might not be effective.

Instruments, systems and strategies used to hedge or otherwise manage exposure to various types of credit, market and liquidity, operational, compliance, business risks and enterprise-wide risk could be less effective than anticipated. As a result, Comerica may not be able to effectively mitigate its risk exposures in particular market environments or against particular types of risk, which could have a material adverse impact on Comerica's business, financial condition or results of operations.

- Terrorist activities or other hostilities may adversely affect the general economy, financial and capital markets, specific industries, and Comerica.

Terrorist attacks or other hostilities may disrupt Comerica's operations or those of its customers. In addition, these events have had and may continue to have an adverse impact on the U.S. and world economy in general and consumer confidence and spending in particular, which could harm Comerica's operations. Any of these events could increase volatility in the U.S. and world financial markets, which could harm Comerica's stock price and may limit the capital resources available to Comerica and its customers. This could have a material adverse impact on Comerica's operating

results, revenues and costs and may result in increased volatility in the market price of Comerica's common stock.

- Catastrophic events, including, but not limited to, hurricanes, tornadoes, earthquakes, fires and floods, may adversely affect the general economy, financial and capital markets, specific industries, and Comerica.

Comerica has significant operations and a significant customer base in California, Texas, Florida and other regions where natural and other disasters may occur. These regions are known for being vulnerable to natural disasters and other risks, such as tornadoes, hurricanes, earthquakes, fires and floods. These types of natural catastrophic events at times have

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disrupted the local economy, Comerica's business and customers and have posed physical risks to Comerica's property. In addition, catastrophic events occurring in other regions of the world may have an impact on Comerica's customers and in turn, on Comerica. A significant catastrophic event could materially adversely affect Comerica's operating results.

- Changes in accounting standards could materially impact Comerica's financial statements.

From time to time accounting standards setters change the financial accounting and reporting standards that govern the preparation of Comerica's financial statements. These changes can be difficult to predict and can materially impact how Comerica records and reports its financial condition and results of operations. In some cases, Comerica could be required to apply a new or revised standard retroactively, resulting in changes to previously reported financial results, or a cumulative charge to retained earnings.

- Comerica's accounting policies and processes are critical to the reporting of financial condition and results of operations. They require management to make estimates about matters that are uncertain.

Accounting policies and processes are fundamental to how Comerica records and reports the financial condition and results of operations. Management must exercise judgment in selecting and applying many of these accounting policies and processes so they comply with U.S. GAAP. In some cases, management must select the accounting policy or method to apply from two or more alternatives, any of which may be reasonable under the circumstances, yet may result in the Company reporting materially different results than would have been reported under a different alternative.

Management has identified certain accounting policies as being critical because they require management's judgment to make difficult, subjective or complex judgments about matters that are uncertain. Materially different amounts could be reported under different conditions or using different assumptions or estimates. Comerica has established detailed policies and control procedures that are intended to ensure these critical accounting estimates and judgments are well controlled and applied consistently. In addition, the policies and procedures are intended to ensure that the process for changing methodologies occurs in an appropriate manner. Because of the uncertainty surrounding management's judgments and the estimates pertaining to these matters, Comerica cannot guarantee that it will not be required to adjust accounting policies or restate prior period financial statements. See “Critical Accounting Policies” on pages F-42 through F-47 of the Financial Section of this report and Note 1 of the Notes to Consolidated Financial Statements located on pages F-55 through F-63 of the Financial Section of this report.

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

The executive offices of Comerica are located in the Comerica Bank Tower, 1717 Main Street, Dallas, Texas 75201. Comerica Bank leases five floors of the building, plus an additional 34,238 square feet on the building's lower level, from an unaffiliated third party. The lease for such space used by Comerica and its subsidiaries extends through September 2023. Comerica's Michigan headquarters are located in a 10-story building in the central business district of Detroit, Michigan at 411 W. Lafayette, Detroit, Michigan 48226. Such building is owned by Comerica Bank. Comerica and its subsidiaries also leased 11 floors in the Comerica Tower at One Detroit Center, 500 Woodward Avenue, Detroit, Michigan 48226 through January 2012. As of December 31, 2012, Comerica, through its banking affiliates, operated a total of 637 banking centers, trust services locations, and loan production or other financial services offices, primarily in the States of Texas, Michigan, California, Florida and Arizona. Of these offices, 338 were owned and 299 were leased. As of December 31, 2012, affiliates also operated from leased spaces in Denver, Colorado; Wilmington, Delaware; Oakbrook Terrace, Illinois; Boston and Waltham, Massachusetts; Minneapolis, Minnesota; Morristown, New Jersey; New York, New York; Rocky Mount and Cary, North Carolina; Granville, Ohio; Memphis, Tennessee; Reston, Virginia; Bellevue and Seattle, Washington; Monterrey, Mexico; Toronto, Ontario, Canada and Windsor, Ontario, Canada. Comerica and its subsidiaries own, among other properties, a check processing center in Livonia, Michigan, and three buildings in Auburn Hills, Michigan, used mainly for lending functions and operations.

Item 3. Legal Proceedings.

Comerica and certain of its subsidiaries are subject to various pending or threatened legal proceedings arising out of the normal course of business or operations. Comerica believes it has meritorious defenses to the claims asserted against it in its currently outstanding legal proceedings and, with respect to such legal proceedings, intends to continue to defend itself vigorously, litigating or settling cases according to management’s judgment as to what is in the best interests of Comerica and its shareholders. Settlement may result from Comerica's determination that it may be more prudent financially to settle, rather than litigate, and should not be regarded as an admission of liability. On at least a quarterly basis, Comerica assesses its liabilities and contingencies in connection with outstanding legal proceedings utilizing the latest information available. On a case-by-case basis, reserves are established for those legal claims for which it is probable that a loss will be incurred either as a result of a settlement or judgment, and the amount of such loss can be reasonably estimated. The actual costs of resolving these claims may be substantially higher

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or lower than the amounts reserved. Based on current knowledge, and after consultation with legal counsel, management believes that current reserves are adequate, and the amount of any incremental liability arising from these matters is not expected to have a material adverse effect on Comerica's consolidated financial condition, consolidated results of operations or consolidated cash flows.

For other matters, where a loss is not probable, Comerica has not established legal reserves. In determining whether it is possible to provide an estimate of loss or range of possible loss, Comerica reviews and evaluates its material litigation on an ongoing basis, in conjunction with legal counsel, in light of potentially relevant factual and legal developments. Based on current knowledge, expectation of future earnings, and after consultation with legal counsel, management believes the maximum amount of reasonably possible losses would not have a material adverse effect on Comerica's consolidated financial condition, consolidated results of operations or consolidated cash flows.

The damages alleged by plaintiffs or claimants may be overstated, unsubstantiated by legal theory, unsupported by the facts, and/or bear no relation to the ultimate award that a court, jury or agency might impose. In view of the inherent difficulty of predicting the outcome of such matters, Comerica cannot state with confidence a range of reasonably possible losses, nor what the eventual outcome of these matters will be. However, based on current knowledge and after consultation with legal counsel, management believes the maximum amount of reasonably possible losses would not have a material adverse effect on Comerica's consolidated financial condition, consolidated results of operations or consolidated cash flows.

In the event of unexpected future developments, it is possible that the ultimate resolution of these matters, if unfavorable, may be material to Comerica's consolidated financial condition, consolidated results of operations or consolidated cash flows.

Item 4. Mine Safety Disclosures.

Not applicable.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Market Information and Holders of Common Stock

The common stock of Comerica Incorporated is traded on the New York Stock Exchange (NYSE Trading Symbol: CMA). At February 13, 2013, there were approximately 11,700 record holders of Comerica's common stock.

Sales Prices and Dividends

Quarterly cash dividends were declared during 2012 and 2011 totaling $0.55 and $0.40 per common share per year, respectively. The following table sets forth, for the periods indicated, the high and low sale prices per share of Comerica's common stock as reported on the NYSE Composite Transactions Tape for all quarters of 2012 and 2011, as well as dividend information.

Quarter	High	Low	Dividends Per Share	Dividend Yield*	
2012					
Fourth	$32.14	$27.72	$0.15	2.0	%
Third	33.38	29.32	0.15	1.9	
Second	32.88	27.88	0.15	2.0	
First	34.00	26.25	0.10	1.3	
2011					
Fourth	$27.37	$21.53	$0.10	1.6	%
Third	35.79	21.48	0.10	1.4	
Second	39.00	33.08	0.10	1.1	
First	43.53	36.20	0.10	1.0	

* Dividend yield is calculated by annualizing the quarterly dividend per share and dividing by an average of the high and low price in the quarter.

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Securities Authorized for Issuance Under Equity Compensation Plans
As of December 31, 2012

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column(a)) (c)	
Equity compensation plans approved by security holders (1)	18,154,160	$43.72	4,859,072	(2)(3)
Equity compensation plans not approved by security holders (4)	270,704	34.28	493,438	(5)
Total	18,424,864	$43.58	5,352,510	

(1) Consists of options to acquire shares of common stock, par value $5.00 per share, issued under the Comerica Incorporated Amended and Restated 2006 Long-Term Incentive Plan ("2006 LTIP") and the Amended and Restated 1997 Long-Term Incentive Plan. Does not include 93,642 restricted stock units equivalent to shares of common stock issued under the Comerica Incorporated Amended and Restated Incentive Plan for Non-Employee Directors and outstanding as of December 31, 2012, or 2,479,574 shares of restricted stock and restricted stock units issued under the 2006 LTIP and outstanding as of December 31, 2012. There are no shares available for future issuances under any of these plans other than the Comerica Incorporated Incentive Plan for Non-Employee Directors and the 2006 LTIP. The Comerica Incorporated Incentive Plan for Non-Employee Directors was approved by the shareholders on May 18, 2004. The 2006 LTIP was approved by Comerica's shareholders on May 16, 2006, its amendment and restatement was approved by Comerica's shareholders on April 27, 2010 and its further amendment and restatement was approved by Comerica's Board of Directors on February 22, 2011.

(2) Does not include shares of common stock purchased or available for purchase by employees under the Amended and Restated Employee Stock Purchase Plan, or contributed or available for contribution by Comerica on behalf of the employees. The Amended and Restated Employee Stock Purchase Plan was ratified and approved by the shareholders on May 18, 2004. Five million shares of Comerica's common stock have been registered for sale or awards to employees under the Amended and Restated Employee Stock Purchase Plan. As of December 31, 2012, 2,130,343 shares had been purchased by or contributed on behalf of employees, leaving 2,869,657 shares available for future sale or awards. If these shares available for future sale or awards under the Employee Stock Purchase Plan were included, the number shown in column (c) under "Equity compensation plans approved by security holders" would be 7,728,729 and the number shown in column (c) under "Total" would be 8,222,167.

(3) These shares are available for future issuance under the 2006 LTIP in the form of options, stock appreciation rights, restricted stock, restricted stock units, performance awards and other stock-based awards and under the Incentive Plan for Non-Employee Directors in the form of options, stock appreciation rights, restricted stock, restricted stock units and other equity-based awards. Under the 2006 LTIP, not more than a total of 4.7 million shares may be used for awards other than options and stock appreciation rights and not more than one million shares are available as incentive stock options. Further, no award recipient may receive more than 350,000 shares during any calendar year, and the maximum number of shares underlying awards of options and stock appreciation rights that may be granted to an award recipient in any calendar year is 350,000.

(4) Includes options to acquire shares of common stock, par value $5.00 per share, issued under the Amended and Restated Comerica Incorporated Stock Option Plan for Non-Employee Directors of Comerica Bank and Affiliated Banks (terminated March 2004). Also includes options to purchase 245,704 shares of common stock, par value $5.00 per share, issued under the Amended and Restated Sterling Bancshares, Inc. 2003 Stock Incentive and Compensation Plan (“Sterling LTIP”), of which 222,929 shares were assumed by Comerica in connection with its acquisition of Sterling and 22,775 shares were granted to legacy Sterling employees subsequent to the acquisition.

The weighted-average option price of the options assumed in connection with the acquisition of Sterling was $33.33 at December 31, 2012. Does not include 9,900 shares of restricted stock granted to legacy Sterling employees under the Sterling LTIP subsequent to the acquisition.

(5) These shares are available for future issuance to legacy Sterling employees under the Sterling LTIP in the form of options, restricted stock, performance awards, bonus shares, phantom shares and other stock-based awards. Under the Sterling LTIP, the maximum number of shares underlying awards of options, restricted stock, phantom shares and other stock-based awards that may be granted to an award recipient in any calendar year is 47,300, and the maximum amount of all performance awards that may be granted to an award recipient in any calendar year is $2,000,000. The Sterling LTIP was approved by Sterling's shareholders on April 28, 2003, and its amendment and restatement was approved by Sterling's shareholders on April 30, 2007.

Most of the equity awards made by Comerica during 2012 were granted under the shareholder-approved Amended and Restated 2006 Long-Term Incentive Plan.

Plans not approved by Comerica's shareholders include:

Amended and Restated Comerica Incorporated Stock Option Plan for Non-Employee Directors of Comerica Bank and Affiliated Banks (Terminated March 2004)-Under the plan, Comerica granted options to acquire up to 450,000 shares of common stock, subject to equitable adjustment upon the occurrence of events such as stock splits, stock dividends or recapitalizations. After each annual meeting of shareholders, each member of the Board of Directors of a subsidiary bank of Comerica who was not an employee of Comerica or of any of its subsidiaries nor a director of Comerica (the "Eligible Directors") automatically was granted an option to purchase 2,500 shares of the common stock of Comerica. Option grants under the plan were in addition to annual retainers, meeting fees and other compensation payable to Eligible Directors in connection with their services as directors. The plan is administered by a committee of the Board of Directors. With respect to the automatic grants, the committee does not and

did not have discretion as to matters such as the selection of directors to whom options will be granted, the timing of grants, the number of shares to become subject to each option grant, the exercise price of options, or the periods of time during which any option may be exercised. In addition to the automatic grants, the committee could grant options to the Eligible Directors in its discretion. The exercise price of each option granted was the fair market value of each share of common stock subject to the option on the date the option was granted. The exercise price is payable in full upon exercise of the option and may be paid in cash or by delivery of previously owned shares. The committee may change the option price per share following a corporate reorganization or recapitalization so that the aggregate option price for all shares subject to each outstanding option prior to the change is equivalent to the aggregate option price for all shares or other securities into which option shares have been converted or which have been substituted for option shares. The term of each option cannot be more than ten years. This plan was terminated by the Board of Directors on March 23, 2004. Accordingly, no new options may be granted under this plan.

Amended and Restated Sterling Bancshares, Inc. 2003 Stock Incentive and Compensation Plan. Under the plan, stock awards in the form of options, restricted stock, performance awards, bonus shares, phantom shares and other stock-based awards may be granted to legacy Sterling employees. The maximum number of shares underlying awards of options, restricted stock, phantom shares and other stock-based awards that may be granted to an award recipient in any calendar year is 47,300, and the maximum amount of all performance awards that may be granted to an award recipient in any calendar year is $2,000,000. Awards are generally subject to a vesting schedule specified in the grant documentation. The exercise price of each option granted will be no less than the fair market value of each share of common stock subject to the option on the date the option was granted. The term of each option cannot be more than ten years, and the applicable grant documentation specifies the extent to which options may be exercised during their respective terms, including in the event of an employee's death, disability or termination of employment. To the extent that an award terminates, expires, lapses or is settled in cash, the shares subject to the award may be used again with respect to new grants under the Sterling LTIP. However, shares tendered or withheld to satisfy the grant or exercise price or tax withholding obligations may not be used again for grants under the Sterling LTIP Plan. The Sterling LTIP is administered by the Governance, Compensation and Nominating Committee of Comerica's Board of Directors.

For additional information regarding Comerica's equity compensation plans, please refer to Note 16 on pages F-97 through F-99 of the Notes to Consolidated Financial Statements located in the Financial Section of this report.

Performance Graph

Our performance graph is available under the caption "Performance Graph" on page F-2 of the Financial Section of this report.

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

In November 2010, the Board of Directors of Comerica authorized the repurchase of up to 12.6 million shares of Comerica Incorporated outstanding common stock and authorized the purchase of up to all 11.5 million of Comerica's original outstanding warrants. In April 2012, the Board of Directors authorized the repurchase of an additional 5.7 million shares of Comerica Incorporated outstanding common stock. There is no expiration date for Comerica's share repurchase program. There were no open market repurchases of common stock or warrants in 2010.The following table summarizes Comerica's share repurchase activity for the year ended December 31, 2012.

(shares in thousands)	Total Number of Shares and Warrants Purchased as Part of Publicly Announced Repurchase Plans or Programs	Remaining Repurchase Authorization (a)		Total Number of Shares Purchased (b)	Average Price Paid Per Share	Average Price Paid Per Warrant (c)
Total first quarter 2012	1,125	18,822		1,257	$29.28	$—
Total second quarter 2012	2,884	21,596	(d)	2,908	30.51	—
Total third quarter 2012	2,928	18,668		2,931	30.71	—
October 2012	1,343	17,325		1,346	30.72	—
November 2012	1,274	16,051		1,274	29.09	—
December 2012	500	15,551		500	29.14	—

Total fourth quarter 2012	3,117	15,551	3,120	29.80	—
Total 2012	10,054	15,551	10,216	30.20	—

(a) Maximum number of shares and warrants that may yet be purchased under the publicly announced plans or programs.

(b) Includes approximately 162,000 shares (including 3,000 shares in the quarter ended December 31, 2012) purchased pursuant to deferred compensation plans and shares purchased from employees to pay for taxes related to restricted stock vesting under the terms of an employee share-based compensation plan during the year ended December 31, 2012. These transactions are not considered part of Comerica's repurchase program.

(c) Comerica made no repurchases of warrants under the repurchase program during the year ended December 31, 2012.

(d) Includes the impact of the additional share repurchase authorization approved by the Board on April 24, 2012.

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Item 6. Selected Financial Data.
Reference is made to the caption "Selected Financial Data" on page F-3 of the Financial Section of this report.
Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.
Reference is made to the sections entitled "2012 Overview and Key Corporate Accomplishments," "Results of Operations," "Strategic Lines of Business," "Balance Sheet and Capital Funds Analysis," "Risk Management," "Critical Accounting Policies," "Supplemental Financial Data" and "Forward-Looking Statements" on pages F-4 through F-49 of the Financial Section of this report.
Item 7A. Quantitative and Qualitative Disclosures About Market Risk.
Reference is made to the subheadings entitled "Market and Liquidity Risk," "Operational Risk," "Compliance Risk" and "Business Risk" on pages F-36 through F-41 of the Financial Section of this report.
Item 8. Financial Statements and Supplementary Data.
Reference is made to the sections entitled "Consolidated Balance Sheets," "Consolidated Statements of Income," "Consolidated Statements of Comprehensive Income," "Consolidated Statements of Changes in Stockholders' Equity," "Consolidated Statements of Cash Flows," "Notes to Consolidated Financial Statements," "Report of Management," "Reports of Independent Registered Public Accounting Firm," and "Historical Review" on pages F-50 through F-123 of the Financial Section of this report.
Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.
None.
Item 9A. Controls and Procedures.
Disclosure Controls and Procedures
As required by Rule 13a-15(b) of the Exchange Act, management, including the Chief Executive Officer and Chief Financial Officer, conducted an evaluation as of the end of the period covered by this Annual Report on Form 10-K, of the effectiveness of our disclosure controls and procedures as defined in Exchange Act Rule 13a-15(e). Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that Comerica's disclosure controls and procedures were effective as of the end of the period covered by this Annual Report on Form 10-K.
Internal Control over Financial Reporting
Management's annual report on internal control over financial reporting and the related attestation report of Comerica's registered public accounting firm are included on pages F-118 and F-119 in the Financial Section of this report.
As required by Rule 13a-15(d) of the Exchange Act, management, including the Chief Executive Officer and Chief Financial Officer, conducted an evaluation of our internal control over financial reporting to determine whether any changes occurred during the period covered by this Annual Report on Form 10-K that have materially affected, or are reasonably likely to materially affect, Comerica's internal control over financial reporting. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that there has been no such change during the last quarter of the fiscal year covered by this Annual Report on Form 10-K that has materially affected, or is reasonably likely to materially affect, Comerica's internal control over financial reporting.
Item 9B. Other Information.
None.
PART III
Item 10. Directors, Executive Officers and Corporate Governance.
Comerica has a Senior Financial Officer Code of Ethics that applies to the Chief Executive Officer, the Chief Financial Officer, the Chief Accounting Officer and the Treasurer. The Senior Financial Officer Code of Ethics is available on Comerica's website at www.comerica.com. If any substantive amendments are made to the Senior Financial Officer Code of Ethics or if Comerica grants any waiver, including any implicit waiver, from a provision of the Senior Financial Officer Code of Ethics to the Chief Executive Officer, the Chief Financial Officer, the Chief Accounting Officer or the Treasurer, we will disclose the nature of such amendment or waiver on our website.
The remainder of the response to this item will be included under the sections captioned "Information About Nominees," "Committees and Meetings of Directors," "Committee Assignments," "Executive Officers" and "Section 16(a) Beneficial Ownership Reporting Compliance" of Comerica's definitive Proxy Statement relating to the Annual Meeting

of Shareholders to be held on April 23, 2013, which sections are hereby incorporated by reference.

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Item 11. Executive Compensation.

The response to this item will be included under the sections captioned “Compensation Committee Interlocks and Insider Participation,” “Compensation of Executive Officers,” “Compensation Discussion and Analysis,” “Compensation of Directors,” “Governance, Compensation and Nominating Committee Report,” “2012 Summary Compensation Table,” “2012 Grants of Plan-Based Awards,” “Outstanding Equity Awards at Fiscal Year-End 2012,” “2012 Option Exercises and Stock Vested,” “Pension Benefits at Fiscal Year-End 2012,” “2012 Nonqualified Deferred Compensation,” and “Potential Payments upon Termination or Change of Control at Fiscal Year-End 2012” of Comerica's definitive Proxy Statement relating to the Annual Meeting of Shareholders to be held on April 23, 2013, which sections are hereby incorporated by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

The information called for by this item with respect to securities authorized for issuance under equity compensation plans is included under Part II, Item 5 of this Annual Report on Form 10-K.

The response to the remaining requirements of this item will be included under the sections captioned “Security Ownership of Certain Beneficial Owners” and “Security Ownership of Management” of Comerica's definitive Proxy Statement relating to the Annual Meeting of Shareholders to be held on April 23, 2013, which sections are hereby incorporated by reference.

Item 13. Certain Relationships and Related Transactions, and Director Independence.

The response to this item will be included under the sections captioned “Director Independence and Transactions of Directors with Comerica,” “Transactions of Executive Officers with Comerica,” and “Information about Nominees” of Comerica's definitive Proxy Statement relating to the Annual Meeting of Shareholders to be held on April 23, 2013, which sections are hereby incorporated by reference.

Item 14. Principal Accountant Fees and Services.

The response to this item will be included under the section captioned “Independent Auditors” of Comerica's definitive Proxy Statement relating to the Annual Meeting of Shareholders to be held on April 23, 2013, which section is hereby incorporated by reference.

PART IV

Item 15. Exhibits and Financial Statement Schedules

The following documents are filed as a part of this report:

1. Financial Statements: The financial statements that are filed as part of this report are included in the Financial Section on pages F-50 through F-120.

2. All of the schedules for which provision is made in the applicable accounting regulations of the SEC are either not required under the related instruction, the required information is contained elsewhere in the Form 10-K, or the schedules are inapplicable and therefore have been omitted.

3. Exhibits: The exhibits listed on the Exhibit Index on pages E-1 through E-5 of this Form 10-K are filed with this report or are incorporated herein by reference.

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PERFORMANCE GRAPH

The graph shown below compares the total returns (assuming reinvestment of dividends) of Comerica Incorporated common stock, the S&P 500 Index, and the Keefe Bank Index. The graph assumes $100 invested in Comerica Incorporated common stock (returns based on stock prices per the NYSE) and each of the indices on December 31, 2007 and the reinvestment of all dividends during the periods presented.

The performance shown on the graph is not necessarily indicative of future performance.

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SELECTED FINANCIAL DATA

(dollar amounts in millions, except per share data)

Years Ended December 31	2012	2011	2010	2009	2008
EARNINGS SUMMARY					
Net interest income	$1,728	$1,653	$1,646	$1,567	$1,815
Provision for credit losses	79	144	478	1,082	704
Noninterest income	818	792	789	1,050	893
Noninterest expenses	1,757	1,771	1,642	1,650	1,733
Provision (benefit) for income taxes	189	137	55	(131)	59
Income from continuing operations	521	393	260	16	212
Net income	521	393	277	17	213
Preferred stock dividends	—	—	123	134	17
Net income (loss) attributable to common shares	515	389	153	(118)	192
PER SHARE OF COMMON STOCK					
Diluted earnings per common share:					
Income (loss) from continuing operations	$2.67	$2.09	$0.78	$(0.80)	$1.28
Net income (loss)	2.67	2.09	0.88	(0.79)	1.28
Cash dividends declared	0.55	0.40	0.25	0.20	2.31
Common shareholders’ equity	36.87	34.80	32.82	32.27	33.38
Tangible common equity (a)	33.38	31.42	31.94	31.22	32.30
Market value	30.34	25.80	42.24	29.57	19.85
Average diluted shares (in millions)	192	186	173	149	149
YEAR-END BALANCES					
Total assets	$65,359	$61,008	$53,667	$59,249	$67,548
Total earning assets	59,618	55,506	49,352	54,558	62,374
Total loans	46,057	42,679	40,236	42,161	50,505
Total deposits	52,202	47,755	40,471	39,665	41,955
Total medium- and long-term debt	4,720	4,944	6,138	11,060	15,053
Total common shareholders’ equity	6,942	6,868	5,793	4,878	5,023
Total shareholders’ equity	6,942	6,868	5,793	7,029	7,152
AVERAGE BALANCES					
Total assets	$62,855	$56,917	$55,553	$62,809	$65,185
Total earning assets	57,484	52,121	51,004	58,162	60,422
Total loans	43,306	40,075	40,517	46,162	51,765
Total deposits	49,540	43,762	39,486	40,091	42,003
Total medium- and long-term debt	4,818	5,519	8,684	13,334	12,457
Total common shareholders’ equity	7,012	6,351	5,625	4,959	5,166
Total shareholders’ equity	7,012	6,351	6,068	7,099	5,442
CREDIT QUALITY					
Total allowance for credit losses	$661	$752	$936	$1,022	$808
Total nonperforming loans	541	887	1,123	1,181	917
Foreclosed property	54	94	112	111	66
Total nonperforming assets	595	981	1,235	1,292	983
Net credit-related charge-offs	170	328	564	869	472
Net credit-related charge-offs as a percentage of average total loans	0.39 %	0.82 %	1.39 %	1.88 %	0.91 %
Allowance for loan losses as a percentage of total period-end loans	1.37	1.70	2.24	2.34	1.52
	116	82	80	83	84

Allowance for loan losses as a percentage of total nonperforming loans										
RATIOS										
Net interest margin (fully taxable equivalent)	3.03	%	3.19	%	3.24	%	2.72	%	3.02	%
Return on average assets	0.83		0.69		0.50		0.03		0.33	
Return on average common shareholders' equity	7.43		6.18		2.74		(2.37	)	3.79	
Dividend payout ratio	20.52		18.96		27.78		n/m		179.07	
Average common shareholders' equity as a percentage of average assets	11.16		11.16		10.13		7.90		7.93	
Tier 1 common capital as a percentage of risk-weighted assets (a)	10.13		10.37		10.13		8.18		7.08	
Tier 1 capital as a percentage of risk-weighted assets	10.13		10.41		10.13		12.46		10.66	
Tangible common equity as a percentage of tangible assets (a)	9.71		10.27		10.54		7.99		7.21	

(a) See Supplemental Financial Data section for reconcilements of non-GAAP financial measures.

n/m - not meaningful.

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2012 OVERVIEW AND KEY CORPORATE ACCOMPLISHMENTS

Comerica Incorporated (the Corporation) is a financial holding company headquartered in Dallas, Texas. The Corporation's major business segments are the Business Bank, the Retail Bank and Wealth Management. The core businesses are tailored to each of the Corporation's three primary geographic markets: Michigan, California and Texas.

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

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

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

As a financial institution, the Corporation's principal activity is lending to and accepting deposits from businesses and individuals. The primary source of revenue is net interest income, which is principally derived from the difference between interest earned on loans and investment securities and interest paid on deposits and other funding sources. The Corporation also provides other products and services that meet the financial needs of customers and which generate noninterest income, the Corporation's secondary source of revenue. Growth in loans, deposits and noninterest income is affected by many factors, including economic conditions in the markets the Corporation serves, the financial requirements and economic health of customers, and the ability to add new customers and/or increase the number of products used by current customers. Success in providing products and services depends on the financial needs of customers and the types of products desired.

The accounting and reporting policies of the Corporation and its subsidiaries conform to generally accepted accounting principles (GAAP) in the United States (U.S.). The Corporation's consolidated financial statements are prepared based on the application of accounting policies, the most significant of which are described in Note 1 to the consolidated financial statements. The most critical of these significant accounting policies are discussed in the "Critical Accounting Policies" section of this financial review.

OVERVIEW

- Net income was $521 million in 2012, an increase of $128 million, or 33 percent, compared to $393 million in 2011. Net income per diluted common share was $2.67 in 2012, compared to $2.09 in 2011. The most significant items contributing to the increase in net income are described below.
- The provision for credit losses decreased $65 million in 2012, compared to 2011, primarily due to continued improvements in credit quality. Improvements in credit quality included a decline of $1.4 billion in the Corporation's internal watch list loans from December 31, 2011 to December 31, 2012. Reflected in the decline in watch list loans was a decrease in nonaccrual loans of $341 million. Additional indicators of improved credit quality included a $341 million decrease in the inflow to nonaccrual loans (based on an analysis of nonaccrual loans with book balances greater than $2 million) and a $158 million decrease in net credit-related charge-offs in 2012, compared to 2011.
- Average loans were $43.3 billion in 2012, an increase of $3.2 billion, or 8 percent, compared to 2011, in part due to the acquisition of Sterling Bancshares, Inc. (Sterling) on July 28, 2011. The increase in average loans primarily reflected an increase of $4.0 billion, or 18 percent, in commercial loans, partially offset by a decrease of $636 million, or 5 percent, in commercial real estate loans (commercial mortgage and real estate construction loans). The increase in commercial loans primarily reflected increases in Middle Market, Mortgage Banker Finance and Corporate.
- Average deposits increased $5.8 billion, or 13 percent, in 2012, compared to 2011, in part due to the acquisition of Sterling. The increase in average deposits primarily reflected increases of $4.0 billion, or 24 percent, in average noninterest-bearing deposits and $1.5 billion, or 8 percent, in money market and interest-bearing checking deposits.

The increase in noninterest-bearing deposits primarily reflected increases in Middle Market, Small Business and Private Banking.

- Net interest income was $1.7 billion in 2012, an increase of $75 million, or 5 percent, compared to 2011. The increase in net interest income resulted primarily from an increase in average earning assets of $5.4 billion and an $18 million increase in the accretion of the purchase discount on the acquired Sterling loan portfolio, partially offset by decreased yields on loans and mortgage-backed investment securities.
- Noninterest income increased $26 million in 2012, compared to 2011, resulting primarily from increases of $9 million in commercial lending fees, $9 million in customer derivative income, $7 million in fiduciary income and $6 million in service charges on deposit accounts, partially offset by a decrease of $11 million in card fees.

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- Noninterest expenses decreased $14 million in 2012, compared to 2011, resulting primarily from decreases of $40 million in merger and restructuring charges and $13 million in other real estate expense, partially offset by an increase of $43 million in salaries and employee benefits expenses. The increase in salaries and employee benefits expenses was largely driven by an increase in pension expense, the addition of Sterling and the impact of annual merit increases, partially offset by a reduction in staffing levels.

KEY CORPORATE ACCOMPLISHMENTS

- Increased the quarterly dividend by 50 percent, to 15 cents per share, in the second quarter 2012, and further increased the quarterly dividend to 17 cents per share in the first quarter 2013.
- Repurchased 10.1 million shares in 2012 under the share repurchase program, which, combined with dividends, resulted in a total payout to shareholders of 79 percent percent of 2012 net income.
- Offset 2012 financial headwinds, such as higher pension and healthcare expenses, and the revenue impact of regulatory changes, in part due to revenue enhancement and expense reduction initiatives identified as part of the 2012 annual planning process (the "profit improvement plan"). Primary components of the profit improvement plan included:
- Increasing cross-sell referrals, allocating resources to faster-growing businesses, and reviewing fee-based pricing, credit pricing and deposit rates.
- Expense reduction and efficiency improvements such as centralizing, standardizing and consolidating similar functions, reducing discretionary spending, vendor consolidation and increasing utilization of technology.

The financial impact of many of these initiatives, ranging from pricing adjustments and a more aggressive strategy of pursuing referrals to better utilization of resources, cannot be quantified in isolation from 2012 events and the operations of the Corporation. However, the Corporation's 2012 results indicate that the 2012 profit improvement plan objective of offsetting higher pension and healthcare expenses and the revenue impact of regulatory changes was achieved.

2013 Business Outlook

For 2013, management expects the following compared to 2012, assuming a continuation of the current slow growing economic environment:

- Continued growth in average loans at a slower pace, with economic uncertainty impacting demand and a continued focus on maintaining pricing and structure discipline in a competitive environment.
- Lower net interest income, reflecting both a decline of $40 million to $50 million in purchase accounting accretion and the effect of continued low rates. Loan growth should partially offset the impact of low rates on loans and securities.
- Provision for credit losses stable, reflecting loan growth offset by a decline in nonperforming loans and net charge-offs.
- Increase in customer-driven noninterest income, reflecting continued cross-sell initiatives and selective pricing adjustments. (Outlook does not include expectations for non-customer driven income).
- Lower noninterest expenses, reflecting further cost savings due to tight expense control and no restructuring expenses.
- Income tax expense to approximate 36.5 percent of pretax income less approximately $66 million in tax credits.

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RESULTS OF OPERATIONS

The following section provides a comparative discussion of the Corporation's Consolidated Results of Operations for the three-year period ended December 31, 2012. For a discussion of the Critical Accounting Policies that affect the Consolidated Results of Operations, see the "Critical Accounting Policies" section of this Financial Review.

ANALYSIS OF NET INTEREST INCOME - Fully Taxable Equivalent (FTE)

(dollar amounts in millions)

Years Ended December 31	2012			2011			2010		
	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate
Commercial loans	$26,224	$903	3.44 %	$22,208	$819	3.69 %	$21,090	$820	3.89 %
Real estate construction loans	1,390	62	4.44	1,843	80	4.37	2,839	90	3.17
Commercial mortgage loans	9,842	437	4.44	10,025	424	4.23	10,244	421	4.10
Lease financing	864	26	3.01	950	33	3.51	1,086	42	3.88
International loans	1,272	47	3.73	1,191	46	3.83	1,222	48	3.94
Residential mortgage loans	1,505	68	4.55	1,580	83	5.27	1,607	85	5.30
Consumer loans	2,209	76	3.42	2,278	80	3.50	2,429	86	3.54
Business loan swap income (a)	—	—	—	—	1	—	—	28	—
Total loans (b) (c)	43,306	1,619	3.74	40,075	1,566	3.91	40,517	1,620	4.00
Auction-rate securities available-for-sale	275	2	0.79	479	4	0.72	745	8	1.01
Other investment securities available-for-sale	9,640	233	2.48	7,692	231	3.06	6,419	220	3.51
Total investment securities available-for-sale (d)	9,915	235	2.43	8,171	235	2.91	7,164	228	3.24
Federal funds sold	17	—	0.27	5	—	0.32	6	—	0.36
Interest-bearing deposits with banks (e)	4,112	10	0.26	3,741	9	0.24	3,191	8	0.25
Other short-term investments	134	2	1.65	129	3	2.17	126	2	1.58
Total earning assets	57,484	1,866	3.27	52,121	1,813	3.49	51,004	1,858	3.65
Cash and due from banks	983			921			825		
Allowance for loan losses	(693)			(838)			(1,019)		
Accrued income and other assets	5,081			4,713			4,743		
Total assets	$62,855			$56,917			$55,553		
Money market and interest-bearing checking deposits	$20,629	35	0.17	$19,088	47	0.25	$16,355	51	0.31
Savings deposits	1,593	1	0.06	1,550	2	0.11	1,394	1	0.08
Customer certificates of deposit	5,902	31	0.53	5,719	39	0.68	5,875	53	0.90
Foreign office and other time deposits (f)	412	3	0.63	411	2	0.48	768	10	1.40
Total interest-bearing deposits	28,536	70	0.25	26,768	90	0.33	24,392	115	0.47
Short-term borrowings	76	—	0.12	138	—	0.13	216	1	0.25
Medium- and long-term debt (g)	4,818	65	1.36	5,519	66	1.20	8,684	91	1.05
Total interest-bearing sources	33,430	135	0.41	32,425	156	0.48	33,292	207	0.62
Noninterest-bearing deposits	21,004			16,994			15,094		
	1,409			1,147			1,099		

Accrued expenses and other liabilities											
Total shareholders’ equity	7,012				6,351				6,068		
Total liabilities and shareholders’ equity	$62,855				$56,917				$55,553		
Net interest income/rate spread (FTE)		$1,731	2.86			$1,657	3.01			$1,651	3.03
FTE adjustment (h)		$3				$4				$5	
Impact of net noninterest-bearing sources of funds			0.17				0.18				0.21
Net interest margin (as a percentage of average earning assets) (FTE) (b) (d) (e)			3.03	%			3.19	%			3.24 %

(a) The gain or loss attributable to the effective portion of cash flow hedges is shown in "Business loan swap income".

(b) Accretion of the purchase discount on the acquired loan portfolio of $71 million and $53 million increased the net interest margin by 12 basis points and 10 basis points in 2012 and 2011, respectively.

(c) Nonaccrual loans are included in average balances reported and in the calculation of average rates.

(d) Average rate based on average historical cost. Carrying value exceeded average historical cost by $255 million, $111 million and $115 million in 2012, 2011 and 2010, respectively.

(e) Excess liquidity, represented by average balances deposited with the Federal Reserve Bank, reduced the net interest margin by 21 basis points, 22 basis points, and 20 basis points in 2012, 2011 and 2010 respectively.

(f) Includes substantially all deposits by foreign depositors; deposits are primarily in excess of $100,000.

(g) Medium- and long-term debt average balances include the gain attributed to the risk hedged by risk management swaps that qualify as fair value hedges. The gain or loss attributable to the effective portion of fair value hedges of medium- and long-term debt, which totaled a net gain of $69 million, $72 million and $77 million in 2012, 2011 and 2010, respectively, is included in the related expense line item.

(h) The FTE adjustment is computed using a federal tax rate of 35%.

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RATE/VOLUME ANALYSIS - FTE
(in millions)

Years Ended December 31	2012/2011			2011/2010		
	Increase (Decrease) Due to Rate	Increase (Decrease) Due to Volume (a)	Net Increase (Decrease)	Increase (Decrease) Due to Rate	Increase (Decrease) Due to Volume (a)	Net Increase (Decrease)
Interest Income (FTE):						
Commercial loans	$(54)	$138	$84	$(42)	$41	$(1)
Real estate construction loans	1	(19)	(18)	34	(44)	(10)
Commercial mortgage loans	21	(8)	13	12	(9)	3
Lease financing	(4)	(3)	(7)	(4)	(5)	(9)
International loans	(1)	2	1	(1)	(1)	(2)
Residential mortgage loans	(12)	(3)	(15)	—	(2)	(2)
Consumer loans	(2)	(2)	(4)	(1)	(5)	(6)
Business loan swap income	(1)	—	(1)	(27)	—	(27)
Total loans	(52) (b)	105	53 (b)	(29) (b)	(25)	(54) (b)
Auction-rate securities available-for-sale	—	(2)	(2)	(2)	(2)	(4)
Other investment securities available-for-sale	(45)	47	2	(28)	39	11
Investment securities available-for-sale	(45)	45	—	(30)	37	7
Interest-bearing deposits with banks	1	—	1	—	1	1
Other short-term investments	(1)	—	(1)	1	—	1
Total interest income (FTE)	(97)	150	53	(58)	13	(45)
Interest Expense:						
Money market and interest-bearing checking deposits	(15)	3	(12)	(11)	7	(4)
Savings deposits	(1)	—	(1)	1	—	1
Customer certificates of deposit	(9)	1	(8)	(13)	(1)	(14)
Foreign office and other time deposits	1	—	1	(7)	(1)	(8)
Total interest-bearing deposits	(24)	4	(20)	(30)	5	(25)
Short-term borrowings	—	—	—	—	(1)	(1)
Medium- and long-term debt	9	(10)	(1)	13	(38)	(25)
Total interest expense	(15)	(6)	(21)	(17)	(34)	(51)
Net interest income (FTE)	$(82)	$156	$74	$(41)	$47	$6

(a) Rate/volume variances are allocated to variances due to volume.
(b) Reflected increases of $18 million and $53 million in accretion of the purchase discount on the acquired Sterling loan portfolio in 2012 and 2011, respectively.

NET INTEREST INCOME

Net interest income is the difference between interest and yield-related fees earned on assets and interest paid on liabilities. Adjustments are made to the yields on tax-exempt assets in order to present tax-exempt income and fully taxable income on a comparable basis. The FTE adjustment totaled $3 million, $4 million and $5 million in 2012, 2011 and 2010, respectively. Gains and losses related to the effective portion of risk management interest rate swaps that qualify as hedges are included with the interest expense of the hedged item. Net interest income on a FTE basis

comprised 68 percent of total revenues in 2012, 2011 and 2010. The “Analysis of Net Interest Income-Fully Taxable Equivalent” table of this financial review provides an analysis of net interest income for the years ended December 31, 2012, 2011 and 2010. The rate-volume analysis in the table above details the components of the change in net interest income on a FTE basis for 2012 compared to 2011 and 2011 compared to 2010.

Net interest income was $1.7 billion in 2012, an increase of $75 million compared to 2011. The increase in net interest income in 2012, compared to 2011, resulted primarily from a $5.4 billion increase in average earning assets and an $18 million increase in the accretion of the purchase discount on the acquired Sterling loan portfolio, partially offset by a decrease in yields. Average earning assets increased $5.4 billion, or 10 percent, to $57.5 billion in 2012, compared to 2011, in part due to the full-year impact of earning assets acquired from Sterling in 2012, compared to a five-month impact in 2011. The increase in average earning assets primarily reflected increases of $3.2 billion in average loans, $1.7 billion in average investment securities available-for-sale and $371 million in average interest-bearing deposits with banks. The net interest margin (FTE) in 2012 decreased 16 basis points to 3.03 percent, from 3.19 percent in 2011, primarily from decreased yields on loans and mortgage-backed investment securities, partially offset by lower deposit rates and an increase in accretion of the purchase discount on the Sterling acquired loan portfolio. The decrease in loan yields reflected a shift in the average loan portfolio mix, largely due to an increase in lower-yielding average commercial loans as well as a decrease in higher-yielding commercial real estate loans, the maturity of higher-yielding fixed-rate loans and positive credit quality migration throughout the portfolio, partially offset by an increase in interest

recognized on nonaccrual loans. Yields on mortgage-backed investment securities decreased as a result of prepayments on higher-yielding securities and new investments in lower-yielding securities impacted by the lower rate environment. Accretion of the purchase discount on the acquired Sterling loan portfolio increased the net interest margin by 12 basis points in 2012, compared to 10 basis points in 2011, and excess liquidity reduced the net interest margin by approximately 21 basis points in 2012, compared to 22 basis points 2011. Excess liquidity was represented by $4.0 billion and $3.7 billion of average balances deposited with the Federal Reserve Bank (FRB) in 2012 and 2011, respectively, included in “interest-bearing deposits with banks” on the consolidated balance sheets. The increase in net interest income (FTE) of $74 million in 2012, compared to 2011, reflected the benefit from increases in average loans ($105 million) and average investment securities ($45 million), lower deposit rates ($24 million) and an increase in accretion of the purchase discount on the acquired Sterling loan portfolio ($18 million), partially offset by decreased yields on loans ($70 million) and mortgage-backed investment securities ($45 million).

The Corporation utilizes various asset and liability management strategies to manage net interest income exposure to interest rate risk. Refer to the “Market and Liquidity Risk” section of this financial review for additional information regarding the Corporation's asset and liability management policies.

Net interest income was $1.7 billion in 2011, an increase of $7 million compared to 2010. The increase in net interest income in 2011, compared to 2010, resulted primarily from a $1.1 billion increase in average earning assets, partially offset by a decrease in yields. Average earning assets increased $1.1 billion, or 2 percent, to $52.1 billion in 2012, compared to 2011, primarily due to the acquisition of Sterling on July 28, 2011. The increase in average earning assets primarily reflected increases of $1.0 billion in average investment securities available-for-sale and $550 million in average interest-bearing deposits with banks, partially offset by a decrease of $442 million in average loans. The net interest margin (FTE) in 2011 decreased 5 basis points to 3.19 percent, from 3.24 percent in 2010, primarily from decreased yields on loans and mortgage-backed investment securities, partially offset by accretion of the purchase discount on the Sterling acquired loan portfolio and lower deposit costs. The decrease in loan yields was primarily the result of a shift in the average loan portfolio mix toward LIBOR-based portfolios, the maturity of higher-yielding fixed-rate loans, loan repricing and decreases in one-month LIBOR, partially offset by improved credit quality. Accretion of the purchase discount on the acquired Sterling loan portfolio increased the net interest margin by 10 basis points in 2011 and excess liquidity reduced the net interest margin by approximately 22 basis points and 20 basis points in 2011 and 2010, respectively. Excess liquidity was represented by $3.7 billion and $3.1 billion of average balances deposited with the FRB in 2011 and 2010, respectively. The increase in net interest income (FTE) of $6 million in 2011, compared to 2010, reflected the benefits provided by accretion of the purchase discount on the acquired Sterling loan portfolio ($53 million), a decrease in medium- and long-term debt ($38 million), an increase in average investment securities ($37 million) and lower deposit rates ($30 million), partially offset by decreased yields on loans ($55 million) and mortgage-backed investment securities ($30 million), the maturity of interest rate swaps at positive spreads ($27 million) and a decrease in average loans ($25 million).

PROVISION FOR CREDIT LOSSES

The provision for credit losses was $79 million in 2012, compared to $144 million in 2011. The provision for credit losses includes both the provision for loan losses and the provision for credit losses on lending-related commitments. The provision for loan losses is recorded to maintain the allowance for loan losses at the level deemed appropriate by the Corporation to cover probable credit losses inherent in the portfolio. The provision for loan losses was $73 million in 2012, compared to $153 million in 2011 and $480 million in 2010. The decrease of $80 million in the provision for loan losses in 2012, compared to 2011, resulted primarily from continued improvements in credit quality in the loan portfolio, in part reflecting improvements in the U.S. economy. Improvements in credit quality included a decline of $1.4 billion in the Corporation's internal watch list loans from December 31, 2011 to December 31, 2012. The Corporation's internal watch list is generally consistent with loans in the Special Mention, Substandard and Doubtful categories defined by regulatory authorities. Reflected in the decline in watch list loans was a decrease in nonaccrual loans of $341 million from December 31, 2011 to December 31, 2012. The $327 million decrease in the provision for loan losses in 2011, when compared to 2010, resulted primarily from continued improvements in credit quality, including a decrease of $1.1 billion in the Corporation's internal watch list loans and a decrease of $353 million in the inflow to nonaccrual loans.

Net loan charge-offs in 2012 decreased $158 million to $170 million, or 0.39 percent of average total loans, compared to $328 million, or 0.82 percent, in 2011. The $158 million decrease in net loan charge-offs in 2012, compared to 2011, primarily reflected decreases in Middle Market ($74 million), Small Business ($45 million), Private Banking ($17 million) and Commercial Real Estate ($15 million). By geographic market, the decrease in net loan charge-offs in 2012, compared to 2011, primarily reflected decreases in Michigan ($107 million), California ($28 million) and Other Markets ($27 million). Net loan charge-offs in 2011 decreased $236 million compared to $564 million in 2010. The $236 million decrease in net loan charge-offs in 2011, compared to 2010, consisted primarily of decreases in the Commercial Real Estate ($164 million), Middle Market ($58 million) and Private Banking ($12 million) business lines.

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The provision for credit losses on lending-related commitments is recorded to maintain the allowance for credit losses on lending-related commitments at the level deemed appropriate by the Corporation to cover probable credit losses inherent in lending-related commitments. The provision for credit losses increased $15 million to a provision of $6 million in 2012, compared to a benefit of $9 million in 2011 and a benefit of $2 million in 2010. The $15 million increase in the provision for credit losses on lending-related commitments in 2012, compared to 2011, resulted primarily from the establishment of specific reserves in the second quarter 2012 for set aside/bonded stop loss commitments related to residential real estate construction credits in the California market and an increase in the probability of draw applied to all remaining unfunded commitments effective in 2012 as a result of an updated analysis of borrower draw behavior. The $7 million decrease in the provision for credit losses on lending-related commitments in 2011, when compared to 2010, resulted primarily from improved credit quality in unfunded commitments in the Michigan, California and Texas markets. No provision for credit losses was recorded for Sterling lending-related commitments in 2012 and 2011, as the remaining purchase discount recorded for lending-related commitments acquired from Sterling exceeded the required allowance. Lending-related commitment charge-offs were insignificant in 2012, 2011 and 2010.

For further discussion of the allowance for loan losses and the allowance for credit losses on lending-related commitments, including an analysis of the changes in the allowances, refer to the "Credit Risk" and "Critical Accounting Policies" sections of this financial review.

NONINTEREST INCOME

(in millions) Years Ended December 31	2012	2011	2010
Customer-driven income:			
Service charges on deposit accounts	$214	$208	$208
Fiduciary income	158	151	154
Commercial lending fees	96	87	95
Letter of credit fees	71	73	76
Card fees	47	58	58
Foreign exchange income	38	40	39
Brokerage fees	19	22	25
Other customer-driven income (a)	100	83	78
Total customer-driven noninterest income	743	722	733
Noncustomer-driven income:			
Bank-owned life insurance	39	37	40
Net securities gains	12	14	3
Other noncustomer-driven income (a)	24	19	13
Total noninterest income	$818	$792	$789

(a) The table that follows below illustrates further details on certain categories included in other noninterest income.

Noninterest income increased $26 million to $818 million in 2012, compared to $792 million in 2011, and increased $3 million in 2011, compared to $789 million in 2010. An analysis of significant year over year changes by individual line item follows.

Service charges on deposit accounts increased $6 million, or 4 percent, in 2012, compared to 2011, and was unchanged in 2011, compared to 2010. Service charges increased in 2012 primarily due to the full-year impact of Sterling in 2012, compared to a five-month impact from Sterling in 2011. In 2011, an increase in commercial service charges and the benefit from five months of Sterling service charge income offset reduced fees from retail overdrafts, which reflected the impact of overdraft policy changes implemented in the second half of 2010.

Fiduciary income increased $7 million, or 5 percent, to $158 million in 2012, compared to $151 million in 2011, and decreased $3 million, or 2 percent, in 2011, compared to 2010. Personal and institutional trust fees are the two major components of fiduciary income. These fees are based on services provided and assets managed. Fluctuations in the market values of the underlying assets managed, which include both equity and fixed income securities, impact fiduciary income. The increase in 2012 was primarily due to an increase in personal trust fees, primarily driven by an

increase in the volume of fiduciary services sold, the favorable impact on fees of market value increases and an increase in service fees collected on estate administration services. The decrease in 2011 resulted from a decrease in institutional trust fees, primarily due to a decrease in yields on short-term funds and reduced pension service fees, partially offset by an increase in personal trust fees, primarily due to market value increases.

Commercial lending fees increased $9 million, or 10 percent, to $96 million in 2012, compared to $87 million in 2011, and decreased $8 million, or 9 percent, in 2011, compared to 2010. The increase in 2012 was primarily due to an increase in syndication agent fees, reflecting a higher volume of activity in 2012. The decrease in 2011 was primarily due to decreased syndication agent fees due to lower volume and decreased commercial loan service charges.

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Letter of credit fees decreased $2 million, or 3 percent, to $71 million in 2012, compared to $73 million in 2011, and decreased $3 million, or 3 percent, in 2011, compared to 2010. The decrease in 2012 was primarily due to decreased volume. The decrease in 2011 was primarily due to decreased volume and competitive pricing.

Card fees, which consist primarily of interchange fees earned on debit cards and commercial cards, decreased $11 million, or 20 percent, to $47 million in 2012, compared to $58 million in 2011, and were unchanged in 2011, compared to 2010. The decrease in 2012 primarily reflected the impact of regulatory limits on debit card transaction processing fees implemented in the fourth quarter 2011. Card fees were unchanged in 2011, as the benefit from increased card activity and the addition of Sterling offset the impact of the regulatory limits as discussed above.

Bank-owned life insurance income increased $2 million, or 6 percent, to $39 million in 2012, compared to $37 million in 2011, and decreased $3 million, or 8 percent, in 2011, compared to 2010. The increase in 2012 was primarily due to increases in earnings and death benefits received. The decrease in 2011 resulted primarily from a decrease in death benefits received, partially offset by an increase in earnings, in part due to the addition of Sterling.

Brokerage fees decreased $3 million, or 14 percent, to $19 million in 2012, compared to $22 million in 2011, and decreased $3 million, or 10 percent, in 2011, compared to 2010. Brokerage fees include commissions from retail brokerage transactions and mutual fund sales and are subject to changes in the level of market activity. The decreases in both 2012 and 2011 were primarily due to the compression of short-term interest rates and a decline in the transaction volume.

Net securities gains decreased $2 million to $12 million in 2012, compared to 2011, and increased $11 million to $14 million in 2011, compared to 2010. Net securities gains in 2012 reflected $14 million of gains on the redemption of auction-rate securities, partially offset by $2 million of charges related to a derivative contract tied to the conversion rate of Visa Class B shares. In 2011, the Corporation recognized net gains on sales of Sterling legacy securities of $12 million and net gains on sales and redemptions of auction-rate securities of $10 million, partially offset by charges related to Visa Class B shares of $7 million. For further information about the derivative contract tied to the conversion rate of Visa Class B shares, refer to Note 2 to the consolidated financial statements.

Other noninterest income increased $22 million, or 21 percent, to $124 million in 2012, compared to $102 million in 2011, and increased $11 million, or 12 percent, in 2011, compared to 2010. The following table illustrates certain categories included in "other noninterest income" on the consolidated statements of income.

(in millions)

Years Ended December 31	2012	2011	2010
Other customer-driven income:			
Customer derivative income	$25	$16	$8
Investment banking fees	20	13	17
All other customer-driven income	55	54	53
Total other customer-driven income	100	83	78
Other noncustomer-driven income:			
Securities trading income	19	14	16
Income from principal investing and warrants	8	15	3
Deferred compensation asset returns (a)	7	2	5
Incentive bonus from third-party credit card provider	5	—	—
Amortization of low income housing investments	(57)	(52)	(51)
All other noncustomer-driven income	42	40	40
Total other noncustomer-driven income	24	19	13
Total other noninterest income	$124	$102	$91

(a) Compensation deferred by the Corporation's officers is invested based on investment selections of the officers. Income earned on these assets is reported in noninterest income and the offsetting increase in liability is reported in salaries expense.

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NONINTEREST EXPENSES
(in millions)

Years Ended December 31	2012	2011	2010
Salaries	$778	$770	$740
Employee benefits	240	205	179
Total salaries and employee benefits	1,018	975	919
Net occupancy expense	163	169	162
Equipment expense	65	66	63
Outside processing fee expense	107	101	96
Software expense	90	88	89
Merger and restructuring charges	35	75	—
FDIC insurance expense	38	43	62
Advertising expense	27	28	30
Other real estate expense	9	22	29
Other noninterest expenses	205	204	192
Total noninterest expenses	$1,757	$1,771	$1,642

Noninterest expenses decreased $14 million, or 1 percent, to $1.8 billion in 2012, compared to 2011, and increased $129 million, or 8 percent, in 2011, compared to 2010. An analysis of increases and decreases by individual line item is presented below.

Salaries expense increased $8 million, or 1 percent, to $778 million in 2012, compared to $770 million in 2011, and increased $30 million, or 4 percent, in 2011, compared to 2010. The increase in salaries expense in 2012 was primarily due to the full-year impact of Sterling in 2012, compared to a five-month impact in 2011, and annual merit increases, partially offset by a reduction in staffing levels and lower executive incentive compensation. The Corporation's incentive programs are designed to reward performance and provide market competitive total compensation. Business unit incentives are tied to new business and business unit profitability, while executive incentives are tied to the Corporation's overall performance and peer-based comparisons of results. The increase in salaries expense in 2011 was primarily due to the addition of Sterling and increases in incentive compensation, reflecting overall performance, including the Corporation's performance relative to its peers.

Employee benefits expense increased $35 million, or 17 percent, to $240 million in 2012, compared to $205 million in 2011, and increased $26 million, or 14 percent in 2011, compared to 2010. The increase in 2012 resulted primarily from a $28 million increase in defined benefit pension expense, largely driven by declines in the discount rate and the expected long-term rate of return on plan assets. The remaining increase in employee benefits expense was primarily the result of the full-year impact of Sterling in 2012, compared to a five-month impact in 2011. The increase in 2011 resulted primarily from a $17 million increase in pension expense, reflecting declines in the discount rate and the expected long-term rate of return on plan assets, as well as the addition of Sterling.

Net occupancy and equipment expense decreased $7 million, or 3 percent, to $228 million in 2012, compared to $235 million in 2011, and increased $10 million, or 4 percent, in 2011, compared to 2010. The decrease in 2012 was primarily due to optimizing real estate usage in the Michigan market early in the first quarter 2012, lower maintenance and repair costs, as well as the receipt of property tax refunds related to settlements of tax appeals, partially offset by the full-year impact of the addition of Sterling banking centers, compared to a five-month impact in 2011. The increase in 2011 was primarily due to the addition of Sterling banking centers.

Outside processing fee expense increased $6 million, or 6 percent, to $107 million in 2012, compared to $101 million in 2011, and increased $5 million, or 5 percent, in 2011, compared to 2010. The increase in 2012 was primarily due to higher volumes in activity-based processing charges and increased fees related to the Corporation's outsourcing of lockbox services. The increase in 2011 was primarily due to the Corporation's conversion to an enhanced brokerage platform and higher volumes in activity-based processing charges, primarily driven by expanded card products.

The Corporation recognized merger and restructuring charges of $35 million in 2012 and $75 million in 2011 in connection with the acquisition of Sterling in 2011. Merger and restructuring charges include facilities and contract termination charges, systems integration and related charges, severance and other employee-related charges and

transaction-related costs. The restructuring plan was completed in 2012 and resulted in cumulative costs of $110 million. For additional information regarding merger and restructuring charges, refer to Note 23 to the consolidated financial statements.

FDIC insurance expense decreased $5 million, or 12 percent, to $38 million in 2012, compared to $43 million in 2011, and decreased $19 million, or 30 percent, in 2011, compared to 2010. The decrease in 2012 was primarily the result of lower assessment rates, as well as the full-year impact of the implementation of changes to the deposit insurance assessments system which were effective April 1, 2011. The decrease in 2011, compared to 2010, was primarily due to the 2011 implementation of changes to the deposit insurance assessment system.

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Other real estate expense decreased $13 million to $9 million in 2012, from $22 million in 2011, and decreased $7 million in 2011, compared to 2010. Other real estate expense includes write-downs, net gains (losses) on sales and carrying costs related primarily to foreclosed property. The decrease in 2012 was primarily due to decreases in write-downs and losses on sales of foreclosed property. The decrease in 2011 was primarily due to decreases in write-downs, losses on sales of foreclosed property and carrying costs, compared to 2010.

Other noninterest expenses increased $1 million, to $205 million in 2012, from $204 million in 2011, and increased $12 million in 2011, compared to 2010. The increase in 2012 primarily reflected an $8 million increase in operational losses, and a $13 million increase in litigation-related expenses, resulting primarily from developments in certain litigation claims in 2012, partially offset by a $12 million decrease in legal fees and a $10 million increase in net gains recognized on sales of assets. The increase in 2011 primarily reflected increases of $8 million in legal fees and $8 million in litigation-related expenses, partially offset by a $2 million decrease in operational losses. The increase in legal fees in 2011 was primarily due to increased litigation expense, primarily related to the favorable resolution of a long-standing matter, and the acquisition of Sterling. The increase in litigation-related expenses in 2011 reflected an increase in estimated probable litigation losses, as certain litigation contingencies progressed close to resolution and accruals were made for certain litigation arising during the year. Operational losses include traditionally defined operating losses, such as fraud and processing losses, as well as uninsured losses.

INCOME TAXES AND TAX-RELATED ITEMS

The provision for income taxes in 2012 was $189 million, compared to $137 million in 2011 and $55 million in 2010. The $52 million increase in the provision for income taxes in 2012, compared to 2011, was due primarily to an increase in pretax income during the same period. In addition, the provision for income taxes for 2011 included a $19 million charge related to a final settlement agreement with the Internal Revenue Service (IRS) involving the repatriation of foreign earnings on a structured investment transaction, partially offset by the release of tax reserves of $7 million due to the Corporation's participation in a state of California voluntary compliance initiative.

Net deferred tax assets were $254 million at December 31, 2012, compared to $395 million at December 31, 2011. The decrease of $141 million resulted primarily from a decrease in the allowance for loan losses, accretion of the purchase discount on the acquired Sterling loan portfolio, a decrease in deferred tax assets related to defined benefit plans, primarily resulting from a 2012 contribution to the defined benefit pension plan, the utilization of tax credits and an increase in net unrealized gains on investment securities available-for-sale, partially offset by a decrease in deferred tax liabilities related to lease financing transactions. Included in net deferred tax assets at December 31, 2012 were deferred tax assets of $609 million. Deferred tax assets were evaluated for realization and it was determined that no valuation allowance was needed at both December 31, 2012 and December 31, 2011. This conclusion was based on available evidence of loss carryback capacity, projected future reversals of existing taxable temporary differences and assumptions made regarding future events.

PREFERRED STOCK DIVIDENDS

There were no preferred stock dividends in 2012 and 2011. Preferred stock dividends totaled $123 million in 2010. In 2010, the Corporation fully redeemed $2.25 billion of preferred stock issued in 2008 in connection with the U.S. Department of 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. Preferred stock dividends in 2010 included a one-time redemption charge of $94 million, reflecting the accelerated accretion of the remaining discount, cash dividends of $24 million and non-cash discount accretion of $5 million. Preferred stock dividends reduced diluted earnings per common share by $0.71 in 2010.

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STRATEGIC LINES OF BUSINESS

BUSINESS SEGMENTS

The Corporation's operations are strategically aligned into three major business segments: the Business Bank, the Retail Bank and Wealth Management. These business segments are differentiated based upon the products and services provided. In addition to the three major business segments, Finance is also reported as a segment. The Other category includes discontinued operations and items not directly associated with these business segments or the Finance segment. The performance of the business segments is not comparable with the Corporation's consolidated results and is not necessarily comparable with similar information for any other financial institution. Additionally, because of the interrelationships of the various segments, the information presented is not indicative of how the segments would perform if they operated as independent entities. Note 22 to the consolidated financial statements describes the business activities of each business segment and presents financial results of these business segments for the years ended December 31, 2012, 2011 and 2010.

Segment Reporting Methodology

Net interest income for each business segment is the total of interest income generated by earning assets less interest expense on interest-bearing liabilities plus the net impact from associated internal funds transfer pricing (FTP) funding credits and charges. The FTP methodology provides the business segments credits for deposits and other funds provided and charges the business segments for loans and other assets utilizing funds. This credit or charge is based on matching stated or implied maturities for these assets and liabilities. The FTP credit provided for deposits reflects the long-term value of deposits generated based on their implied maturity. The FTP charge for funding assets reflects a matched cost of funds based on the pricing and term characteristics of the assets. For acquired loans and deposits, matched maturity funding is determined based on origination date. Accordingly, the FTP process reflects the transfer of interest rate risk exposures to the Treasury group within the Finance segment, where such exposures are centrally managed. The provision for loan losses is assigned based on the amount necessary to maintain an allowance for loan losses appropriate for each business segment, based on the methodology used to estimate the consolidated allowance for loan losses described in Note 1 to the consolidated financial statements. Noninterest income and expenses directly attributable to a line of business are assigned to that business segment. Direct expenses incurred by areas whose services support the overall Corporation are allocated to the business segments as follows: product processing expenditures are allocated based on standard unit costs applied to actual volume measurements; administrative expenses are allocated based on estimated time expended; and corporate overhead is assigned 50 percent based on the ratio of the business segment’s noninterest expenses to total noninterest expenses incurred by all business segments and 50 percent based on the ratio of the business segment’s attributed equity to total attributed equity of all business segments. Equity is attributed based on credit, operational and interest rate risks. Most of the equity attributed relates to credit risk, which is determined based on the credit score and expected remaining life of each loan, letter of credit and unused commitment recorded in the business segments. Operational risk is allocated based on loans and letters of credit, deposit balances, non-earning assets, trust assets under management, certain noninterest income items, and the nature and extent of expenses incurred by business units. Virtually all interest rate risk is assigned to Finance, as are the Corporation’s hedging activities.

The following table presents net income (loss) by business segment.

(dollar amounts in millions)

Years Ended December 31	2012		2011		2010	
Business Bank	$840	88 %	$723	92 %	$529	107 %
Retail Bank	50	5	23	3	(31)	(6)
Wealth Management	66	7	42	5	(3)	(1)
	956	100 %	788	100 %	495	100 %
Finance	(396)		(346)		(236)	
Other (a)	(39)		(49)		18	
Total	$521		$393		$277	

(a) Includes discontinued operations in 2010 and items not directly associated with the three major business segments or the Finance Division.

The Business Bank's net income of $840 million in 2012 increased $117 million, compared to $723 million in 2011. Net interest income (FTE) of $1.5 billion increased $114 million in 2012, primarily due to the benefit provided by an increase of $3.4 billion in average loans, an increase in accretion of the purchase discount on the acquired Sterling loan portfolio of $14 million, an increase in net FTP credits, primarily due to the benefit provided by an increase of $3.4 billion in average deposits, and lower deposit rates, partially offset by lower loan yields. The provision for credit losses increased $7 million, to $36 million in 2012, compared to 2011, primarily reflecting increases in Commercial Real Estate and Mortgage Banker Finance, partially offset by a decrease in Corporate. Net credit-related charge-offs of $107 million decreased $92 million in 2012, compared to 2011, primarily due to a decrease in net charge-offs in Middle Market. Noninterest income of $319 million in 2012 increased $13 million from 2011, primarily due to increases in commercial lending fees ($10 million), customer derivative income ($6 million) and card fees ($4 million), partially offset by a decrease in warrant income ($5 million). Noninterest expenses of $602 million in 2012 decreased

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$48 million from 2011, primarily due to decreases in corporate overhead expense ($25 million), other real estate expense ($12 million) and legal fees ($11 million).

Net income for the Retail Bank of $50 million in 2012 increased $27 million, compared to $23 million in 2011. Net interest income (FTE) of $645 million increased $15 million in 2012, primarily due to an increase in net FTP credits, primarily due to the benefit provided by an increase of $1.7 billion in average deposits, an increase in accretion of the purchase discount on the acquired Sterling loan portfolio of $4 million and lower deposit rates, partially offset by lower loan yields. The provision for credit losses of $21 million in 2012 decreased $56 million from 2011, primarily reflecting decreases in Small Business and Personal Banking, both primarily in the Michigan and California markets. Net credit-related charge-offs of $40 million in 2012 decreased $49 million from 2011, primarily due to decreases in Small Business in the Michigan and California markets. Noninterest income of $173 million in 2012 increased $4 million from 2011, primarily due to a $6 million increase in service charges on deposit accounts, a $5 million annual incentive bonus received in 2012 from Comerica's third party credit card provider and smaller increases in several other noninterest income categories, partially offset by a $16 million decrease in card fees. In addition, net securities gains increased $5 million, reflecting a decrease in charges related to Visa Class B shares. Noninterest expenses of $723 million in 2012 increased $40 million from 2011, primarily due to increases in salaries and benefit expense ($20 million), processing charges ($10 million) and core deposit intangible amortization ($4 million), partially offset by a decreases in corporate overhead expense ($8 million). The increases in processing charges and salaries and benefit expense were primarily due to the full-year impact of Sterling.

Wealth Management's net income of $66 million in 2012 increased $24 million, compared to $42 million in 2011. Net interest income (FTE) of $187 million in 2012 increased $3 million, compared to 2011. Average deposits increased $584 million, reflecting increases in all major markets, while average loans decreased $181 million, primarily due to declines in Michigan, California and Other Markets. The provision for credit losses of $21 million in 2012 decreased $19 million and net credit-related charge-offs of $23 million in 2012 decreased $17 million from 2011, with both decreases primarily in the California and Michigan markets. Noninterest income of $258 million increased $19 million from 2011, primarily due to increases in investment banking fees ($7 million), fiduciary income ($7 million) and securities trading income ($5 million). Noninterest expenses of $320 million in 2012 increased $5 million from 2011, primarily due to an $11 million increase in salaries and employee benefits expense, partially offset by a $6 million decrease in corporate overhead expense and smaller decreases in several other noninterest expense categories.

The net loss in the Finance segment was $396 million in 2012, compared to a net loss of $346 million in 2011. Net interest expense (FTE) of $680 million in 2012 increased $60 million, compared to 2011, primarily as a result of the Corporation's internal FTP methodology as described above. The Finance Division pays the three major business segments for the long-term value of deposits based on their implied lives. The three major business segments pay the Finance Division for funding based on the pricing and term characteristics of their loans. The increase in net interest expense (FTE) was primarily due to an increase in average deposits in the three major business segments and a decrease in average loans in Wealth Management. Noninterest income of $60 million decreased $14 million, primarily reflecting one-time gains of $12 million from sales of Sterling legacy securities recognized in 2011. Noninterest expenses of $12 million in 2012 increased $1 million from 2011.

The net loss in the Other category of $39 million in 2012 decreased $10 million, compared to $49 million in 2011. The decrease in net loss primarily reflected a $12 million decrease in noninterest expenses, partially offset by a decrease of $5 million in the benefit for income taxes (FTE). The decrease in noninterest expenses primarily reflected a $40 million decrease in merger and restructuring charges related to Sterling and an increase of $7 million in net gains recognized on sales of assets, partially offset by a $13 million increase in litigation-related expenses and operational losses.

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MARKET SEGMENTS

The geographic market segments were realigned in the fourth quarter 2012 to reflect the Corporation's three largest geographic markets: Michigan, California and Texas. Other Markets includes Florida, Arizona, the International Finance division and businesses that have a significant presence outside the three primary geographic markets. The Finance & Other category includes the Finance segment and the Other category as previously described in the "Business Segments" section of this financial review. The table and narrative below present the market results, including prior periods, based on the structure and methodologies in effect at December 31. 2012. Note 22 to these consolidated financial statements presents a description of each of these market segments as well as the financial results for the years ended December 31, 2012, 2011 and 2010.

The following table presents net income (loss) by market segment.

(dollar amounts in millions) Years Ended December 31	2012			2011			2010		
Michigan	$288	30	%	$227	29	%	$167	34	%
California	273	29		230	29		131	26	
Texas	190	20		181	23		70	14	
Other Markets	205	21		150	19		127	26	
	956	100	%	788	100	%	495	100	%
Finance & Other (a)	(435	)		(395	)		(218	)	
Total	$521			$393			$277		

(a) Includes discontinued operations in 2010 and items not directly associated with the market segments.

The Michigan market's net income of $288 million in 2012 increased $61 million, compared to $227 million in 2011. Net interest income (FTE) of $780 million in 2012 decreased $28 million from 2011, primarily due to a decrease in loan yields and the impact of a $319 million decrease in average loans, partially offset by lower deposit rates and a decrease in net FTP funding costs, reflecting the benefit provided by a $1.0 billion increase in average deposits. The provision for credit losses of $4 million in 2012 decreased $80 million from 2011, primarily reflecting decreases in Small Business, Corporate, Personal Banking and Private Banking, partially offset by an increase in Middle Market. Net credit-related charge-offs of $41 million in 2012 decreased $107 million from 2011, primarily due to decreases in Middle Market and Small Business. Noninterest income of $387 million in 2012 increased $6 million from 2011, primarily due to a $7 million increase in investment banking income and smaller increases in several other noninterest income categories, partially offset by a $6 million decrease in card fees. Noninterest expenses of $716 million in 2012 decreased $29 million from 2011, primarily due to decreases in corporate overhead expense ($20 million), other real estate expense ($11 million) and smaller decreases in several other noninterest expense categories, partially offset by an increase in litigation-related expenses and operational losses ($6 million).

The California market's net income of $273 million increased $43 million in 2012, compared to $230 million in 2011. Net interest income (FTE) of $701 million in 2012 increased $47 million from 2011, primarily due to the benefit provided by a $917 million increase in average loans, an increase in FTP funding credits, reflecting the benefit provided by a $1.9 billion increase in average deposits, a decrease in FTP funding costs and lower deposit rates, partially offset by lower loan yields. The provision for credit losses of $3 million in 2012 decreased $18 million from 2011, primarily reflecting decreases in Middle Market and Small Business, partially offset by increases in Commercial Real Estate and Corporate. Net credit-related charge-offs of $47 million in 2012 decreased $28 million from 2011, primarily due to decreases in Small Business, Private Banking and Commercial Real Estate. Noninterest income of $136 million in 2012 was unchanged from 2011, as a $4 million increase in customer derivative income and smaller increases in several other noninterest income categories were offset by decreases of $3 million in warrant income and $3 million in card fees. Noninterest expenses of $394 million in 2012 decreased $11 million from 2011, primarily due to decreases in corporate overhead expense ($14 million) and legal fees ($9 million), partially offset by an increase in litigation-related expenses and operational losses ($5 million).

The Texas market's net income increased $9 million to $190 million in 2012, compared to $181 million in 2011. Net interest income (FTE) of $570 million in 2012 increased $93 million from 2011, primarily due to an increase in accretion of the purchase discount on the acquired Sterling loan portfolio of $18 million, the benefit provided by a $1.8 billion increase in average loans and an increase in net FTP funding credits, primarily due to the benefit provided by an increase of $2.2 billion in average deposits. The increases in average loans and average deposits reflected the full-year impact of Sterling in 2012, compared to a five-month impact in 2011. The provision for credit losses increased $38 million from 2011, to $40 million in 2012, primarily reflecting increases in Commercial Real Estate and Middle Market (primarily Energy, reflecting a $947 million increase in average loans). Net credit-related charge-offs of $22 million in 2012 increased $5 million from 2011, primarily due to an increase in Commercial Real Estate, partially offset by a decrease in Middle Market. Noninterest income of $124 million in 2012 increased $21 million from 2011, in part due to the impact of Sterling, primarily reflecting increases of $8 million in service charges on deposit accounts, $8 million in commercial lending fees, $4 million in customer derivative income and smaller increases in most other noninterest income categories, partially offset by a $3 million decrease in card fees. Noninterest expenses of $360 million

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in 2012 increased $66 million from 2011, largely due to the impact of Sterling, and primarily reflecting increases in salaries and benefits expense ($21 million), processing charges ($10 million), core deposit intangible amortization ($4 million), corporate overhead expense ($3 million) and smaller increases in most other noninterest expense categories.
Net income in Other Markets of $205 million in 2012 increased $55 million compared to $150 million in 2011. Net interest income (FTE) of $322 million in 2012 increased $20 million from 2011, primarily the result of the benefits provided by increases of $786 million in average loans and $565 million in average deposits, partially offset by lower loan yields. The provision for credit losses decreased $8 million in 2012, primarily due to a decrease in Middle Market, partially offset by increases in Mortgage Banker Finance and Private Banking. Net credit-related charge-offs of $60 million in 2012 decreased $28 million from 2011, primarily due to a decrease in Middle Market. Noninterest income of $103 million in 2012 increased $9 million from 2011, primarily due to a $6 million increase in fiduciary income and a $5 million annual incentive bonus received in the second quarter 2012 from Comerica's third party credit card provider. Noninterest expenses of $175 million in 2012 decreased $29 million from 2011, primarily due to decreases in corporate overhead expense ($8 million), other real estate expenses ($5 million) and smaller decreases in several other noninterest expense categories, partially offset by an increase in salaries and benefits expense ($9 million).

The net loss for the Finance & Other category was $435 million in 2012, compared to a net loss of $395 million in 2011. The $40 million increase in net loss resulted from the same reasons noted in the Finance segment and Other category discussions under the “Business Segments” heading above.

The following table lists the Corporation's banking centers by geographic market segment.

December 31	2012	2011	2010
Michigan	216	218	217
Texas	139	142	95
California	105	104	103
Other Markets:			
Arizona	18	18	17
Florida	10	11	11
International	1	1	1
Total Other Markets	29	30	29
Total	489	494	444

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BALANCE SHEET AND CAPITAL FUNDS ANALYSIS

Total assets were $65.4 billion at December 31, 2012, an increase of $4.4 billion from $61.0 billion at December 31, 2011, primarily reflecting increases of $3.4 billion in total loans, $465 million in interest-bearing deposits with banks, $413 million in cash and due from banks and $193 million in investment securities available-for-sale. On an average basis, total assets increased $5.9 billion to $62.9 billion in 2012, compared to 2011, reflecting the full-year impact of Sterling in 2012 compared to a five-month impact in 2011, resulting primarily from increases of $3.2 billion in average loans, $1.7 billion in average investment securities available-for-sale and $371 million in average interest-bearing deposits with banks. Total liabilities increased $4.3 billion to $58.4 billion at December 31, 2012, compared to December 31, 2011, primarily due to an increase of $4.4 billion in total deposits, partially offset by a decrease of $224 million in medium- and long-term debt. On an average basis, total liabilities increased $5.3 billion in 2012, compared to 2011, primarily due to an increase of $5.8 billion in average deposits.

ANALYSIS OF INVESTMENT SECURITIES AND LOANS

(in millions)

December 31	2012	2011	2010	2009	2008
U.S. Treasury and other U.S. government agency securities	$20	$20	$131	$103	$79
Residential mortgage-backed securities	9,935	9,512	6,709	6,261	7,861
State and municipal securities (a)	23	24	39	47	66
Corporate debt securities:					
Auction-rate debt securities	1	1	1	150	147
Other corporate debt securities	57	46	26	50	42
Equity and other non-debt securities:					
Auction-rate preferred securities	156	408	570	706	936
Money market and other mutual funds	105	93	84	99	70
Total investment securities available-for-sale	$10,297	$10,104	$7,560	$7,416	$9,201
Commercial loans	$29,513	$24,996	$22,145	$21,690	$27,999
Real estate construction loans:					
Commercial Real Estate business line (b)	1,049	1,103	1,826	3,002	3,844
Other business lines (c)	191	430	427	459	633
Total real estate construction loans	1,240	1,533	2,253	3,461	4,477
Commercial mortgage loans:					
Commercial Real Estate business line (b)	1,873	2,507	1,937	1,889	1,725
Other business lines (c)	7,599	7,757	7,830	8,568	8,764
Total commercial mortgage loans	9,472	10,264	9,767	10,457	10,489
Lease financing	859	905	1,009	1,139	1,343
International loans:					
Banks and other financial institutions	2	18	2	1	7
Commercial and industrial	1,291	1,152	1,130	1,251	1,746
Total international loans	1,293	1,170	1,132	1,252	1,753
Residential mortgage loans	1,527	1,526	1,619	1,651	1,852
Consumer loans:					
Home equity	1,537	1,655	1,704	1,817	1,796
Other consumer	616	630	607	694	796
Total consumer loans	2,153	2,285	2,311	2,511	2,592
Total loans	$46,057	$42,679	$40,236	$42,161	$50,505

(a) Primarily auction-rate securities.

(b) Primarily loans to real estate investors and developers.

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

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EARNING ASSETS

Total earning assets increased $4.1 billion, or 7 percent, to $59.6 billion at December 31, 2012, from $55.5 billion at December 31, 2011. Average earning asset balances are provided in the "Analysis of Net Interest Income - Fully Taxable Equivalent" table in the "Results of Operations" section of this financial review.

Loans

The following tables provide information about the change in the Corporation's average loan portfolio in 2012, compared to 2011.

(dollar amounts in millions) Years Ended December 31	2012	2011	Change	Percent Change
Average Loans:				
Commercial loans by business line:				
General Middle Market	$9,508	$9,086	$422	5 %
National Dealer Services	2,792	2,027	765	38
Energy	2,538	1,603	935	58
Technology and Life Sciences	1,667	1,255	412	33
Environmental Services	612	486	126	26
Entertainment	612	491	121	25
Total Middle Market	17,729	14,948	2,781	19
Corporate	3,408	3,101	307	10
Mortgage Banker Finance	1,767	911	856	94
Commercial Real Estate	771	687	84	12
Total Business Bank commercial loans	23,675	19,647	4,028	21
Total Retail Bank commercial loans	1,180	1,160	20	2
Total Wealth Management commercial loans	1,369	1,401	(32)	(2)
Total commercial loans	26,224	22,208	4,016	18
Real estate construction loans:				
Commercial Real Estate business line (a)	1,031	1,429	(398)	(28)
Other business lines (b)	359	414	(55)	(13)
Real estate construction loans	1,390	1,843	(453)	(25)
Commercial mortgage loans:				
Commercial Real Estate business line (a)	2,259	2,217	42	2
Other business lines (b)	7,583	7,808	(225)	(3)
Commercial mortgage loans	9,842	10,025	(183)	(2)
Lease financing	864	950	(86)	(9)
International loans	1,272	1,191	81	7
Residential mortgage loans	1,505	1,580	(75)	(5)
Consumer loans:				
Home equity	1,591	1,666	(75)	(5)
Other consumer	618	612	6	1
Total consumer loans	2,209	2,278	(69)	(3)
Total loans	$43,306	$40,075	$3,231	8 %
Average Loans By Geographic Market:				
Michigan	$13,618	$13,937	$(319)	(2)%
California	12,736	11,819	917	8
Texas	9,552	7,705	1,847	24
Other Markets	7,400	6,614	786	12
Total loans	$43,306	$40,075	$3,231	8 %

(a) Primarily loans to real estate investors and developers.

(b) Primarily loans to secure owner-occupied real estate.

In the third quarter 2012, the Corporation completed a review of the revenue size of the customer base within certain business lines. In general, Middle Market serves customers with annual revenue between $20 million and $500 million; while Corporate serves customers with revenue over $500 million, and Small Business serves customers with revenue under $20 million.

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Based on this criteria, Middle Market now includes several former "specialty businesses" in addition to general middle market customers, as reflected in the table above. Prior period information has been restated to conform to the current presentation.

Total loans were $46.1 billion at December 31, 2012, an increase of $3.4 billion from December 31, 2011, primarily reflecting core growth in commercial loans. The increase in total loans included an increase of $4.5 billion, or 18 percent, in commercial loans, partially offset by a decrease of $1.1 billion, or 9 percent, in commercial real estate loans. The increase in commercial loans was primarily driven by increases in Middle Market, Mortgage Banker Finance and Corporate. The increase in Middle Market primarily reflected increases in National Dealer Services ($1.3 billion), general Middle Market ($785 million), Energy ($691 million) and Technology and Life Sciences ($412 million). Average loans increased $3.2 billion, or 8 percent, to $43.3 billion in 2012, compared to 2011, primarily reflecting an increase of $4.0 billion, or 18 percent, in commercial loans, partially offset by a decrease of $636 million, or 5 percent, in commercial real estate loans. Changes in average total loans by geographic market is provided in the table above. The $4.0 billion increase in average commercial loans primarily reflected increases in Middle Market ($2.8 billion), Mortgage Banker Finance ($856 million) and Corporate ($307 million). The increase in Middle Market primarily reflected increases in Energy ($935 million) and National Dealer Services ($765 million), as well as increases in the remaining Middle Market categories as outlined in the table above.

The $636 million decrease in average commercial real estate loans primarily reflected payments on existing loans and properties being refinanced in the end-market faster than new commitments were being drawn, as well as the expected runoff of former Sterling real estate loans. Commercial mortgage loans are loans where the primary collateral is a lien on any real property. Real property is generally considered primary collateral if the value of that collateral represents more than 50 percent of the commitment at loan approval. Average loans to borrowers in the Commercial Real Estate business line, which primarily includes loans to real estate investors and developers, represented $3.3 billion, or 29 percent of average total commercial real estate loans, in 2012, compared to $3.6 billion, or 31 percent of average total commercial real estate loans, in 2011. The remaining $7.9 billion and $8.2 billion of average commercial real estate loans in other business lines in 2012 and 2011, respectively, were primarily loans secured by owner-occupied real estate.

For more information on real estate loans, refer to “Commercial and Residential Real Estate Lending” in the “Risk Management” section of this financial review.

ANALYSIS OF INVESTMENT SECURITIES PORTFOLIO (FTE)

(dollar amounts in millions)	Maturity (a) Within 1 Year		1 - 5 Years		5 - 10 Years		After 10 Years		Total		Weighted Average Maturity
December 31, 2012	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Yrs./Mos.
U.S. Treasury and other U.S. government agency securities	$20	0.21 %	$—	— %	$—	— %	$—	— %	$20	0.21 %	0/5
Residential mortgage-backed securities (b)	9	3.14	557	1.94	109	1.83	9,260	2.38	9,935	2.35	14/2
State and municipal securities (c)	—	—	—	—	15	0.75	8	0.75	23	0.95	11/10
Corporate debt securities:											
Auction-rate debt securities	—	—	—	—	—	—	1	0.67	1	0.67	24/6
Other corporate debt securities	57	1.10	—	—	—	—	—	—	57	1.10	0/1
Equity and other non-debt securities:											
Auction-rate preferred securities (d)	—	—	—	—	—	—	156	0.47	156	0.47	—
Money market and other mutual funds (e)	—	—	—	—	—	—	105	—	105	—	—

Total investment securities available-for-sale	$86	1.11%	$557	1.95 %	$124	1.70%	$9,530	2.38%	$10,297	2.31 %	14/1

(a)Based on final contractual maturity.
(b)Residential mortgage-backed securities issued and/or guaranteed by U.S. government agencies or U.S. government-sponsored enterprises.
(c)Primarily auction-rate securities.
(d)Auction-rate preferred securities have no contractual maturity; balances are excluded from the calculation of total weighted average maturity.
(e)Balances are excluded from the calculation of total yield and weighted average maturity.

Investment Securities Available-for-Sale

Investment securities available-for-sale increased $193 million to $10.3 billion at December 31, 2012, from $10.1 billion at December 31, 2011, primarily reflecting an increase of $423 million in residential mortgage-backed securities issued by U.S. government agencies or U.S. government-sponsored enterprises, partially offset by a $253 million decrease in auction-rate securities. The proceeds from prepayments on residential mortgage-backed securities are generally reinvested in similar securities. At December 31, 2012, the weighted-average expected life of the Corporation's residential mortgage-backed securities portfolio was approximately 3 years. On an average basis, investment securities available-for-sale increased $1.7 billion to $9.9 billion in 2012, compared to $8.2 billion in 2011, in part reflecting the full-year impact of Sterling in 2012, compared to a five-month impact in 2011.

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Auction-rate securities were purchased in 2008 as a result of the Corporation's September 2008 offer to repurchase, at par, auction-rate securities held by certain retail and institutional clients that were sold through Comerica Securities, a broker/dealer subsidiary of Comerica Bank (the Bank). As of December 31, 2012, the Corporation's auction-rate securities portfolio was carried at an estimated fair value of $180 million, compared to $433 million at December 31, 2011. During 2012, auction-rate securities with a par value of $276 million were redeemed or sold, resulting in net securities gains of $14 million. As of December 31, 2012, approximately 85 percent of the aggregate auction-rate securities par value had been redeemed or sold since acquisition for a cumulative net gain of $51 million. For additional information on the repurchase of auction-rate securities, refer to the "Critical Accounting Policies" section of this financial review and Note 3 to the consolidated financial statements.

Short-Term Investments

Short-term investments include federal funds sold, interest-bearing deposits with banks and other short-term investments. Federal funds sold offer supplemental earnings opportunities and serve correspondent banks. Interest-bearing deposits with banks primarily include deposits with the FRB and also include deposits with banks in developed countries or international banking facilities of foreign banks located in the United States. Other short-term investments include trading securities and loans held-for-sale. Short-term investments increased $541 million to $3.3 billion at December 31, 2012, compared to $2.7 billion at December 31, 2011. On an average basis, short-term investments increased $388 million to $4.3 billion in 2012, compared to $3.9 billion in 2011. Average interest-bearing deposits with banks increased $371 million to $4.1 billion in 2012, compared to 2011, reflecting an increase in average deposits with the FRB due to an increase in excess liquidity. Average interest-bearing deposits with the FRB totaled $4.0 billion in 2012, compared to $3.7 billion in 2011. Loans held-for-sale typically represent residential mortgage loans and, through September 30, 2012, Small Business Administration loans, originated with management's intention to sell. Average other short-term investments increased $5 million to $134 million in 2012, compared to 2011. Short-term investments, other than trading securities and loans held-for-sale, provide a range of maturities of less than one year and are mostly used to manage liquidity requirements of the Corporation.

DEPOSITS AND BORROWED FUNDS

The Corporation's average deposits and borrowed funds balances are detailed in the following table.

(dollar amounts in millions) Years Ended December 31	2012	2011	Change	Percent Change
Noninterest-bearing deposits	$21,004	$16,994	$4,010	24 %
Money market and interest-bearing checking deposits	20,629	19,088	1,541	8
Savings deposits	1,593	1,550	43	3
Customer certificates of deposit	5,902	5,719	183	3
Foreign office and other time deposits	412	411	1	—
Total deposits	$49,540	$43,762	$5,778	13 %
Short-term borrowings	$76	$138	$(62)	(45)%
Medium- and long-term debt	4,818	5,519	(701)	(13)
Total borrowed funds	$4,894	$5,657	$(763)	(13)%

At December 31, 2012, total deposits were at a record high of $52.2 billion, an increase of $4.4 billion, or 9 percent, compared to $47.8 billion at December 31, 2011. Noninterest-bearing deposits reached a record $23.3 billion at December 31, 2012, an increase of $3.5 billion, or 18 percent, compared to $19.8 billion at December 31, 2011. Average deposits were $49.5 billion in 2012, an increase of $5.8 billion, or 13 percent, from 2011. Average deposits increased in all business lines from 2011 to 2012, with the largest increases in Middle Market ($3.0 billion), Small Business ($874 million), Personal Banking ($837 million) and Private Banking ($603 million). Average deposits increased in all geographic markets from 2011 to 2012, primarily reflecting increases in the Texas ($2.2 billion), California ($1.9 billion) and Michigan ($1.0 billion) markets. The increase in average deposits was primarily due to an increased level of savings by customers during the uncertain economic conditions throughout 2012 and the full-year impact of Sterling in 2012, compared to a five-month impact in 2011.

The Corporation participated in the Transaction Account Guarantee Program (TAGP) from its inception in October 2008 through June 30, 2010. During that time, the Federal Deposit Insurance Corporation (FDIC) provided unlimited deposit insurance protection on noninterest-bearing transaction accounts (as defined by the FDIC). The Corporation and its subsidiary banks elected to opt-out of the FDIC's TAGP extension through December 31, 2010, effective July 1, 2010. On July 1, 2010, deposit insurance reverted back to the statutory coverage limit of $250,000 per depositor. The Dodd-Frank Wall Street Reform and Consumer Protection Act (The Financial Reform Act) reinstated, for all financial institutions, unlimited deposit insurance protection for the period December 31, 2010 through December 31, 2012 for traditional noninterest-bearing demand deposit accounts and interest-bearing lawyers' trust accounts. The reinstated program expired on December 31, 2012. For more information regarding the Financial Reform Act, refer to the Supervision and Regulation section of Part I. Item 1. Business.

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Short-term borrowings primarily include federal funds purchased, securities sold under agreements to repurchase and treasury tax and loan notes. Average short-term borrowings decreased $62 million, to $76 million in 2012, compared to $138 million in 2011, primarily reflecting a decrease in securities sold under agreements to repurchase.
The Corporation uses medium- and long-term debt to provide funding to support earning assets. Medium- and long-term debt decreased $224 million in 2012, to $4.7 billion at December 31, 2012, compared to December 31, 2011, resulting primarily from the maturity of $158 million of medium-term notes and the redemption of $30 million of subordinated notes acquired from Sterling related to trust preferred securities issued by unconsolidated subsidiaries. On an average basis, medium- and long-term debt decreased $701 million, or 13 percent in 2012, compared to 2011. Further information on medium- and long-term debt is provided in Note 12 to the consolidated financial statements.
Capital
Total shareholders' equity increased $74 million to $6.9 billion at December 31, 2012, compared to December 31, 2011, primarily due to the retention of $111 million of earnings, after dividends of $106 million and open market share repurchases of $304 million (10.1 million shares). The Corporation's 2012 capital plan provided for up to $375 million in share repurchases for the five-quarter period ending March 31, 2013. The 2013 capital plan was submitted to the Federal Reserve for review in January 2013 and a response is expected by mid-March 2013.
The Corporation declared common dividends in 2012 totaling $106 million, or $0.55 per share, on net income of $521 million, compared to common dividends totaling $0.40 per share in 2011. The dividend payout ratio, calculated on a per share basis, was 21 percent in 2012, compared to 19 percent in 2011. Including share repurchases, the total payout to shareholders was 79 percent percent in 2012, compared to 47 percent in 2011. In January 2013, the Corporation declared a quarterly cash dividend of $0.17 per share, an increase of 13 percent from the fourth quarter 2012 quarterly dividend of $0.15 per share. The first quarter 2013 dividend increase was contemplated in the Corporation's 2012 capital plan.
Refer to Note 13 to the consolidated financial statements for additional information on the Corporation's share repurchase program.
The following table presents a summary of changes in total shareholders' equity in 2012.

(in millions)		
Balance at January 1, 2012		$6,868
Net income		521
Cash dividends declared on common stock		(106)
Purchase of common stock		(308)
Other comprehensive income (loss):		
Investment securities available-for-sale	$21	
Defined benefit and other postretirement plans	(78)	
Total other comprehensive loss		(57)
Issuance of common stock under employee stock plans		(13)
Share-based compensation		37
Balance at December 31, 2012		$6,942

Further information about other comprehensive income (loss) is provided in the consolidated statements of comprehensive income and Note 14 to the consolidated financial statements.
The Corporation assesses capital adequacy against the risk inherent in the balance sheet, recognizing that unexpected loss is the common denominator of risk and that common equity has the greatest capacity to absorb unexpected loss. At December 31, 2012, the Corporation and its U.S. banking subsidiaries exceeded the capital ratios required for an institution to be considered “well capitalized” by the standards developed under the Federal Deposit Insurance Corporation Improvement Act of 1991. Refer to Note 20 to the consolidated financial statements for further discussion of regulatory capital requirements and capital ratio calculations.
The Corporation has a forecasting process to periodically conduct stress tests to evaluate potential impacts to the Corporation under various economic scenarios. These stress tests are a regular part of the Corporation's overall risk management and capital planning process. The same forecasting process is also used by the Corporation to conduct the stress test that was part of the Federal Reserve's Capital Plan Review. For additional information about risk

management processes, refer to the "Risk Management" section of this financial review.

In December 2010, the Basel Committee on Banking Supervision (the Basel Committee) issued a framework for strengthening international capital and liquidity regulation (Basel III). In June 2012, U.S. banking regulators issued proposed rules for the U.S. adoption of the Basel III regulatory capital framework. The proposed regulatory framework includes a more conservative definition of capital, two new capital buffers - a conservation buffer and a countercyclical buffer, new and more stringent risk

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weight categories for assets and off-balance sheet items, and a supplemental leverage ratio. Under the proposal, rules are expected to be implemented between 2013 and 2019.

According to the proposed rules, the Corporation will be subject to the capital conservation buffer of 2.5 percent to avoid restrictions on capital distributions and discretionary bonuses. However, the rules as proposed would not subject the Corporation to the capital countercyclical buffer of up to 2.5 percent or the supplemental leverage ratio. The Corporation currently estimates that its December 31, 2012 capital ratios would be in compliance with the fully phased-in Basel III capital rules as proposed. Under the proposed rules, the Corporation estimates the December 31, 2012 Tier 1 risk-based ratio would be 9.1 percent if calculated under the proposed rules. For a reconcilement of this non-GAAP financial measure, refer to the "Supplemental Financial Data" section of this financial review.

The Basel III liquidity framework, which was revised by the Basel Committee in January 2013, includes two minimum liquidity measures. Rules are expected to be implemented between 2015 and 2019. Adoption in the U.S. is expected to occur over a similar timeframe, but the final form of the U.S. rules is not yet known. The Liquidity Coverage Ratio (LCR) requires a financial institution to hold a buffer of high-quality, liquid assets to fully cover net cash outflows under a 30-day systematic liquidity stress scenario. The revisions announced by the Basel Committee in January 2013 eased several requirements related to the LCR, including certain outflow assumptions. The Net Stable Funding Ratio requires the amount of available longer-term, stable sources of funding to be at least 100 percent of the required amount of longer-term stable funding over a one-year period. The Corporation's liquidity position is strong, but if subject to the Basel III liquidity framework as currently proposed, the Corporation may decide to consider additional liquidity management initiatives. While uncertainty exists in the final form and timing of the U.S. rules implementing the Basel III liquidity framework and whether or not the Corporation will be subject to the full requirements, the Corporation is closely monitoring the development of the rules. We expect to meet the final requirements adopted by U.S. banking regulators within regulatory timelines.

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RISK MANAGEMENT

The Corporation assumes various types of risk in the normal course of business. Management classifies risk exposures into six areas: (1) credit, (2) market, (3) liquidity, (4) operational, (5) compliance and (6) business risks. Of these, the Corporation considers credit risk as the most significant risk.

The Corporation continuously enhances its risk management capabilities with additional processes, tools and systems designed to not only provide management with deeper insight into the Corporation's various risks and assess its appetite for risk, but also enhance the Corporation's ability to control those risks and ensure that appropriate return is received for the risks taken.

Specialized risk managers, along with the risk management committees in credit, market, liquidity, operational and compliance are responsible for the day-to-day management of those respective risks. The Enterprise-Wide Risk Management Committee has been established by the Enterprise Risk Committee of the Corporation's Board of Directors (the Board) and charged with responsibility for establishing the governance over the risk management process, providing oversight in managing the Corporation's aggregate risk position and reporting on the comprehensive portfolio of risks and the potential impact these risks can have on the Corporation's risk profile and resulting capital level. The Enterprise-Wide Risk Management Committee is principally composed of senior officers representing the different risk areas and business units who are appointed by the Chairman and Chief Executive Officer of the Corporation.

The Board's Enterprise Risk Committee meets quarterly and is chartered to assist the Board in promoting the best interest of the Corporation by overseeing policies, procedures and risk practices relating to enterprise-wide risk and compliance with bank regulatory obligations. Members of the Enterprise Risk Committee are selected such that the committee comprises individuals whose experiences and qualifications can lead to broad and informed views on risk matters facing the Corporation and the financial services industry, including, but not limited to, risk matters that address credit, market, liquidity, operational, compliance and general business conditions. A comprehensive risk report is submitted to the Enterprise Risk Committee each quarter providing management's view of the Corporation's risk position.

CREDIT RISK

Credit risk represents the risk of loss due to failure of a customer or counterparty to meet its financial obligations in accordance with contractual terms. The governance structure is administered through the Strategic Credit Committee. The Strategic Credit Committee is chaired by the Chief Credit Officer and approves recommendations to address credit risk matters through credit policy, credit risk management practices, and required credit risk actions. In order to facilitate the corporate credit risk management process, various other corporate functions provide the resources for the Strategic Credit Committee to carry out its responsibilities. The Corporation manages credit risk through underwriting, periodically reviewing and approving its credit exposures using approved credit policies and guidelines. Additionally, the Corporation manages credit risk through loan portfolio diversification, limiting exposure to any single industry, customer or guarantor, and selling participations and/or syndicating to third parties credit exposures above those levels it deems prudent.

Credit Administration provides the resources to manage the line of business transactional credit risk, assuring that all exposure is risk rated according to the requirements of the credit risk rating policy and providing business segment reporting support as necessary.

Portfolio Risk Analytics provides comprehensive reporting on portfolio credit risks, continuous assessment and verification of risk rating models, quarterly calculation of the allowance for loan losses and the allowance for credit losses on lending-related commitments and calculation of economic credit risk capital.

The Special Assets Group is responsible for managing the recovery process on distressed or defaulted loans and loan sales.

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ANALYSIS OF THE ALLOWANCE FOR LOAN LOSSES
(dollar amounts in millions)

Years Ended December 31	2012	2011	2010	2009	2008
Balance at beginning of year	$726	$901	$985	$770	$557
Loan charge-offs:					
Commercial	112	192	195	375	183
Real estate construction:					
Commercial Real Estate business line (a)	7	35	175	234	184
Other business lines (b)	1	2	4	1	1
Total real estate construction	8	37	179	235	185
Commercial mortgage:					
Commercial Real Estate business line (a)	46	46	53	90	72
Other business lines (b)	43	93	138	81	28
Total commercial mortgage	89	139	191	171	100
Lease financing	—	—	1	36	1
International	3	7	8	23	2
Residential mortgage	13	15	14	21	7
Consumer	20	33	39	34	22
Total loan charge-offs	245	423	627	895	500
Recoveries:					
Commercial	39	33	25	18	17
Real estate construction	6	14	11	1	3
Commercial mortgage	18	26	16	3	4
Lease financing	—	11	5	1	1
International	2	5	1	2	1
Residential mortgage	2	2	1	—	—
Consumer	8	4	4	2	3
Total recoveries	75	95	63	27	29
Net loan charge-offs	170	328	564	868	471
Provision for loan losses	73	153	480	1,082	686
Foreign currency translation adjustment	—	—	—	1	(2)
Balance at end of year	$629	$726	$901	$985	$770
Net loan charge-offs during the year as a percentage of average loans outstanding during the year	0.39 %	0.82 %	1.39 %	1.88 %	0.91 %

(a) Primarily charge-offs of loans to real estate investors and developers.
(b) Primarily charge-offs of loans secured by owner-occupied real estate.

Allowance for Credit Losses

The allowance for credit losses includes both the allowance for loan losses and the allowance for credit losses on lending-related commitments. The allowance for loan losses represents management's assessment of probable, estimable losses inherent in the Corporation's loan portfolio. The allowance for credit losses on lending-related commitments, included in "accrued expenses and other liabilities" on the consolidated balance sheets, provides for probable losses inherent in lending-related commitments, including unused commitments to extend credit and standby letters of credit.

The Corporation disaggregates the loan portfolio into segments for purposes of determining the allowance for credit losses. These segments are based on the level at which the Corporation develops, documents and applies a systematic methodology to determine the allowance for credit losses. The Corporation's portfolio segments are business loans and retail loans. Business loans are defined as those belonging to the commercial, real estate construction, commercial mortgage, lease financing and international loan portfolios. Retail loans consist of traditional residential mortgage,

home equity and other consumer loans.

The allowance for loan losses includes specific allowances, based on individual evaluations of certain loans, and allowances for homogeneous pools of loans with similar risk characteristics. The allowance for business loans not individually evaluated is determined quantitatively by applying standard reserve factors to the pool of business loans within each internal risk rating, including incremental reserves to cover losses in industries and/or portfolios experiencing elevated loss levels. The allowance also may include a qualitative adjustment, which is determined based on an established framework. The determination of the appropriate adjustment is based on management's analysis of observable macroeconomic metrics, including consideration of regional metrics within the Corporation's footprint, internal credit risk movement and a qualitative assessment of the lending environment, including underwriting standards, current economic and political conditions, and other factors affecting credit quality. The framework enables management to develop a view of the uncertainties that exist but are not yet reflected in the standard reserve factors.

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In 2012, the Corporation implemented enhancements to the methodology used for determining standard reserve factors for business loans not individually evaluated. The enhancements, which resulted in an incremental increase to the allowance for loan losses of $25 million in the first quarter 2012, included (a) estimating probability of default and loss given default from a national perspective, in addition to a market-by-market basis, and (b) expanding the time horizon of historical, migration-based probability of default and loss given default experience used to develop the standard reserve factors for each internal risk rating. By expanding the horizon on migration and loss history, the Corporation is better able to capture the inherent losses in the core business loan portfolio, as the improving charge-off rates from recent periods may not be reflective of future trends given the environment of continued economic uncertainty as described below, and the expanded horizon reflects both earlier periods in the cycle that include peak periods of credit losses, as well as the more recent improvement in credit quality trends. Estimating probability of default and loss given default from a national perspective provides a deeper data pool, unites the markets on a single platform, promoting enhanced consistency across the organization, and reflects the Corporation's view that borrower performance is impacted by changes in national economic conditions in addition to changes in the local economy.
Real gross domestic product (GDP) growth increased in third quarter 2012 to a 3.1 percent annual growth rate from a 1.3 percent rate in second quarter. The increase in real GDP growth in the third quarter 2012 was due to a favorable combination of factors, including an unexpected surge in federal government spending, not likely to be repeated in subsequent quarters. Through the second half 2012 there was increasing evidence that business investment was being held back due to concern about the combination of federal tax increases and spending cuts known as the “Fiscal Cliff.” Fourth quarter 2012 real GDP contracted slightly to a negative 0.1 percent annual rate, primarily due to a contraction in federal defense spending and inventories. Weak business investment plus a drag to consumer spending from higher federal taxes is expected to keep real GDP growth modest in early 2013, at approximately 1.5 percent for the first two quarters of the year. Real GDP growth is expected to accelerate in the second half of 2013, driven by a strengthening household sector and improving global conditions. Although personal tax rates for 2013 are now set, uncertainty remains regarding both short- and long-term federal spending. Fiscal tightening is expected to stunt economic growth in the first half of 2013, but should not push the economy back into recession. However, the potential for a recession in 2013 remains elevated. The Federal Reserve ended its program of buying long-term Treasury bonds and selling short-term bonds, known as "Operation Twist," at the end of 2012, but increased long-bond purchases in its ongoing program of quantitative easing, known as "QE3." The Federal Reserve also linked its commitment to keep the fed funds rate near zero to the unemployment rate. Near-zero fed funds rate policy will remain in place for at least as long as the unemployment rate remains above 6.5 percent. This threshold is expected to be crossed in late 2015. The opposing forces of easing monetary policy and tightening fiscal policy in early 2013 contribute to an environment of heightened economic uncertainty. There is increasing evidence of improving real estate markets across the Corporation's footprint. This is strengthening the household sector and suggests more activity in the commercial sector in the second half of 2013. The Texas economy continues to be a growth leader. Oil drilling activity remains strong. However, natural gas drilling declined through 2012 in response to low natural gas prices. The Michigan economy is being supported by gains in U.S. automotive sales. December 2012 U.S. automotive sales decreased slightly to a 15.4 million unit annual rate after a surge in November to a 15.5 million unit rate due to replacement demand from storm-damaged vehicles along the East Coast. California is showing more momentum, boosted by strengthening economic activity in Northern California.
An analysis of the coverage of the allowance for loan losses is provided in the following table.

Years Ended December 31	2012		2011		2010	
Allowance for loan losses as a percentage of total loans at end of year	1.37	%	1.70	%	2.24	%
Allowance for loan losses as a percentage of total nonperforming loans at end of year	116	%	82	%	80	%
Allowance for loan losses as a multiple of total net loan charge-offs for the year	3.7x		2.2x		1.6x	

The allowance for loan losses was $629 million at December 31, 2012, compared to $726 million at December 31, 2011, a decrease of $97 million, or 13 percent. The decrease resulted primarily from improvements in credit quality as evidenced by declines in internal watch list loans, net charge-offs and inflows to nonaccrual, in part reflecting

improvements in the U.S. economy as discussed above; partially offset by increased loan volumes and increases in the allowance for loan losses resulting from the methodology enhancements described above and an increase in qualitative factors that indicate overall economic uncertainty. Improvements in credit quality included a decline of $1.4 billion in the Corporation's internal watch list loans from December 31, 2011 to December 31, 2012, a decrease in the inflow to nonaccrual (based on an analysis of nonaccrual loans with balances greater than $2 million) of $341 million and a decrease in net credit-related charge-offs of $158 million for 2012, compared to 2011. The $97 million decrease in the allowance for loan losses primarily reflected decreases in Commercial Real Estate, Middle Market and Small Business. Nonperforming loans of $541 million at December 31, 2012 decreased $346 million, compared to December 31, 2011. The allowance coverage ratio improved to 116 percent at December 31, 2012, compared to 82 percent at December 31, 2011, due to the $346 million decline in nonperforming loans. Loan charge-offs are taken as amounts are determined to be uncollectible. A measure of the level of charge-offs already taken on nonaccrual loans is the current book balance as a percentage of the contractual amount owed. At December 31, 2012 and 2011, nonaccrual loans were charged-off to approximately 55 percent and 60 percent of the contractual amount, respectively. This level of write-downs is consistent with actual losses experienced on loan defaults in 2012 and in recent years.

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Loans acquired from Sterling were initially recorded at fair value, which included an estimate of credit losses expected to be realized over the remaining lives of the loans, and therefore no corresponding allowance for loan losses was recorded for these loans at acquisition. Methods utilized to estimate the required allowance for loan losses for acquired loans not deemed credit-impaired at acquisition are similar to originated loans; however, the estimate of loss is based on the unpaid principal balance less the remaining purchase discount, either on an individually evaluated basis or based on the pool of acquired loans not deemed credit-impaired at acquisition within each risk rating, as applicable. At December 31, 2012, the allowance for loan losses on loans acquired from Sterling was $3 million, and $41 million of purchase discount remained, compared to no allowance for loan losses and $96 million of remaining purchase discount at December 31, 2011. Purchased credit impaired (PCI) loans are not considered nonperforming loans.

The total allowance for loan losses is sufficient to absorb incurred losses inherent in the total loan portfolio. Unanticipated economic events, including political, economic and regulatory instability could cause changes in the credit characteristics of the portfolio and result in an unanticipated increase in the allowance. Inclusion of other industry-specific portfolio exposures in the allowance, as well as significant increases in the current portfolio exposures, could also increase the amount of the allowance. Any of these events, or some combination thereof, may result in the need for additional provision for loan losses in order to maintain an allowance that complies with credit risk and accounting policies.

ALLOCATION OF THE ALLOWANCE FOR LOAN LOSSES

(dollar amounts in millions) December 31	2012			2011		2010		2009		2008	
	Allocated Allowance	Allowance Ratio (a)	% (b)	Allocated Allowance	% (b)	Allocated Allowance	% (b)	Allocated Allowance	% (b)	Allocated Allowance	% (b)
Business loans											
Commercial	$297	1.01 %	63 %	$303	58 %	$422	54 %	$456	51 %	$380	55 %
Real estate construction	16	1.32	3	48	4	102	6	194	8	194	9
Commercial mortgage	227	2.39	21	281	24	272	24	219	25	147	21
Lease financing	4	0.51	2	7	2	8	3	13	3	6	3
International	8	0.59	3	9	3	20	3	33	3	12	3
Total business loans	552	1.30	92	648	91	824	90	915	90	739	91
Retail loans											
Residential mortgage	20	1.34	3	21	4	29	4	32	4	4	4
Consumer	57	2.64	5	57	5	48	6	38	6	27	5
Total retail loans	77	2.10	8	78	9	77	10	70	10	31	9
Total loans	$629	1.37 %	100 %	$726	100 %	$901	100 %	$985	100 %	$770	100 %

(a) Allocated allowance as a percentage of related loans outstanding.

(b) Loans outstanding as a percentage of total loans.

The allowance for credit losses on lending-related commitments includes specific allowances, based on individual evaluations of certain letters of credit in a manner consistent with business loans, and allowances based on the pool of the remaining letters of credit and all unused commitments to extend credit within each internal risk rating.

The allowance for credit losses on lending-related commitments was $32 million at December 31, 2012, an increase of $6 million from $26 million at December 31, 2011. The $6 million increase in the allowance for credit losses on lending-related commitments resulted primarily from the establishment of specific reserves in the second quarter 2012 for set aside/bonded stop loss commitments related to residential real estate construction credits in the California market and an increase in the probability of draw applied to all remaining unfunded commitments in 2012 as a result of an updated analysis of borrower draw behavior. An allowance for credit losses will be recorded on Sterling

lending-related commitments only to the extent that the required allowance exceeds the remaining purchase discount. The purchase discount remaining for lending-related commitments acquired from Sterling was $2 million and $3 million at December 31, 2012 and December 31, 2011 respectively. No allowance was recorded on lending-related commitments acquired from Sterling in 2012 and 2011. An analysis of the changes in the allowance for credit losses on lending-related commitments is presented below.

(dollar amounts in millions)

Years Ended December 31	2012	2011	2010	2009	2008
Balance at beginning of year	$26	$35	$37	$38	$21
Less: Charge-offs on lending-related commitments (a)	—	—	—	1	1
Add: Provision for credit losses on lending-related commitments	6	(9)	(2)	—	18
Balance at end of year	$32	$26	$35	$37	$38

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

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For additional information regarding the allowance for credit losses, refer to the "Critical Accounting Policies" section of this financial review and Note 4 to the consolidated financial statements.

Nonperforming Assets

Nonperforming assets include loans on nonaccrual status, troubled debt restructured loans (TDRs) which have been renegotiated to less than the original contractual rates (reduced-rate loans) and foreclosed property. TDRs include performing and nonperforming loans. Nonperforming TDRs are either on nonaccrual or reduced-rate status. Nonperforming assets do not include PCI loans.

SUMMARY OF NONPERFORMING ASSETS AND PAST DUE LOANS
(dollar amounts in millions)

December 31	2012	2011	2010	2009	2008
Nonaccrual loans:					
Business loans:					
Commercial	$103	$237	$252	$238	$205
Real estate construction:					
Commercial Real Estate business line (a)	30	93	259	507	429
Other business lines (b)	3	8	4	4	5
Total real estate construction	33	101	263	511	434
Commercial mortgage:					
Commercial Real Estate business line (a)	94	159	181	127	132
Other business lines (b)	181	268	302	192	130
Total commercial mortgage	275	427	483	319	262
Lease financing	3	5	7	13	1
International	—	8	2	22	2
Total nonaccrual business loans	414	778	1,007	1,103	904
Retail loans:					
Residential mortgage	70	71	55	50	7
Consumer:					
Home equity	31	5	5	8	3
Other consumer	4	6	13	4	3
Total consumer	35	11	18	12	6
Total nonaccrual retail loans	105	82	73	62	13
Total nonaccrual loans	519	860	1,080	1,165	917
Reduced-rate loans	22	27	43	16	—
Total nonperforming loans	541	887	1,123	1,181	917
Foreclosed property	54	94	112	111	66
Total nonperforming assets	$595	$981	$1,235	$1,292	$983
Gross interest income that would have been recorded had the nonaccrual and reduced-rate loans performed in accordance with original terms	$62	$74	$87	$109	$98
Interest income recognized	5	11	18	21	24
Nonperforming loans as a percentage of total loans	1.17 %	2.08 %	2.79 %	2.80 %	1.82 %
Nonperforming assets as a percentage of total loans and foreclosed property	1.29	2.29	3.06	3.06	1.94
Loans past due 90 days or more and still accruing	$23	$58	$62	$101	$125
Loans past due 90 days or more and still accruing as a percentage of total loans	0.05 %	0.14 %	0.15 %	0.24 %	0.25 %

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

Nonperforming assets decreased $386 million to $595 million at December 31, 2012, from $981 million at December 31, 2011. The decrease in nonperforming assets primarily reflected decreases in nonaccrual commercial mortgage loans ($152 million), nonaccrual commercial loans ($134 million), nonaccrual real estate construction loans ($68 million) (primarily residential real estate developments) and foreclosed property ($40 million), partially offset by an increase of $26 million in nonaccrual home equity loans. The increase in nonaccrual home equity loans reflects nonaccrual policy changes implemented in 2012. The changes in policy are described in detail later in this section and in Note 1 to the consolidated financial statements. Nonperforming assets as a percentage of total loans and foreclosed property was 1.29 percent at December 31, 2012, compared to 2.29 percent at December 31, 2011.

The following table presents a summary of changes in nonaccrual loans.

(in millions)		
Years Ended December 31	2012	2011
Balance at beginning of period	$860	$1,080
Loans transferred to nonaccrual (a)	187	528
Nonaccrual business loan gross charge-offs (b)	(211)	(372)
Loans transferred to accrual status (a)	(41)	(19)
Nonaccrual business loans sold (c)	(91)	(110)
Payments/Other (d)	(185)	(247)
Balance at end of period	$519	$860
(a) Based on an analysis of nonaccrual loans with book balances greater than $2 million.		
(b) Analysis of gross loan charge-offs:		
Nonaccrual business loans	$211	$372
Performing watch list loans	1	3
Retail loans	33	48
Total gross loan charge-offs	$245	$423
(c) Analysis of loans sold:		
Nonaccrual business loans	$91	$110
Performing watch list loans	84	57
Total loans sold	$175	$167

(d) Includes net changes related to nonaccrual loans with balances less than $2 million, payments on nonaccrual loans with book balances greater than $2 million, transfers of nonaccrual loans to foreclosed property and retail loan gross charge-offs. Excludes business loan gross charge-offs and nonaccrual business loans sold.

The following table presents the composition of nonaccrual loans by balance and the related number of borrowers at December 31, 2012 and December 31, 2011. At December 31, 2012 there were 1,659 borrowers with nonaccrual loan balances, an increase of 568 borrowers compared to December 31, 2011. The increase in the number of borrowers with nonaccrual loan balances was due to an increase in the number of borrowers with nonaccrual loan balances under $2 million, which resulted from modifications made to the Corporation's residential mortgage and home equity nonaccrual policies as discussed later in this section.

	2012		2011	
(dollar amounts in millions)	Number of Borrowers	Balance	Number of Borrowers	Balance
Under $2 million	1,609	$277	996	$271
$2 million - $5 million	35	112	56	170
$5 million - $10 million	11	82	22	154
$10 million - $25 million	4	48	16	237
Greater than $25 million	—	—	1	28
Total at December 31	1,659	$519	1,091	$860

There were 36 borrowers with balances greater than $2 million, totaling $187 million, transferred to nonaccrual status in 2012, a decrease of $341 million when compared to $528 million in 2011. Of the transfers to nonaccrual greater than $2 million in 2012, $92 million were from Middle Market (primarily reflecting $49 million and $34 million from the Michigan and California markets, respectively), $49 million were from Private Banking (primarily reflecting $32 million from Florida in Other Markets), $28 million were from Commercial Real Estate and $13 million were from Corporate. There were 5 borrowers with balances greater than $10 million, totaling $67 million, transferred to nonaccrual in 2012, of which $46 million were from Middle Market.

In 2012, the Corporation sold $91 million of nonaccrual business loans at prices approximating carrying value net of reserves, which were primarily from Middle Market, Commercial Real Estate and Corporate.

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The following table presents a summary of nonaccrual loans at December 31, 2012 and loans transferred to nonaccrual and net loan charge-offs for the year ended December 31, 2012, based primarily on Standard Industrial Classification (SIC) industry categories.

(dollar amounts in millions)	December 31, 2012		Year Ended December 31, 2012			
Industry Category	Nonaccrual Loans		Loans Transferred to Nonaccrual (a)		Net Loan Charge-Offs (Recoveries)	
Real Estate	$141	28 %	$21	11 %	$41	23 %
Services	84	16	26	14	24	13
Residential Mortgage	70	13	11	6	11	8
Holding & Other Investment Companies	47	9	19	10	11	7
Hotels	34	7	20	11	8	5
Retail Trade	29	6	3	2	12	7
Manufacturing	24	5	49	26	15	9
Utilities	21	4	23	12	19	11
Wholesale Trade	18	3	7	4	1	—
Natural Resources	7	1	—	—	17	10
Contractors	7	1	—	—	(4)	(2)
Transportation & Warehousing	5	1	6	3	—	—
Finance	4	1	—	—	5	3
Information	—	—	2	1	(1)	—
Entertainment	—	—	—	—	(1)	(1)
Other (b)	28	5	—	—	12	7
Total	$519	100 %	$187	100 %	$170	100 %

(a) Based on an analysis of nonaccrual loans with book balances greater than $2 million.

(b) Consumer, excluding residential mortgage and certain personal purpose nonaccrual loans and net charge-offs, are included in the "Other" category.

In 2012, the Corporation modified its residential mortgage and home equity nonaccrual policies. Under the new policies, residential mortgage and home equity loans are generally placed on nonaccrual status once they become 90 days past due (previously no later than 180 days past due) and charged off to current appraised values less costs to sell no later than 180 days past due. In addition, junior lien home equity loans less than 90 days past due are placed on nonaccrual status if they have underlying risk characteristics that place full collection of the loan in doubt, such as when the related senior lien position is seriously delinquent.

In connection with regulatory guidance issued during 2012, the Corporation further modified its nonaccrual and charge-off policy regarding residential mortgage and consumer loans in bankruptcy for which the court has discharged the borrower's obligation and the borrower has not reaffirmed the debt. Such loans are placed on nonaccrual status and written down to estimated collateral value, without regard to the actual payment status of the loan, and are classified as TDRs.

The following table presents a summary of TDRs at December 31, 2012 and 2011.

(in millions)	2012	2011
Nonperforming TDRs:		
Nonaccrual TDRs	$118	$206
Reduced-rate TDRs	22	27
Total nonperforming TDRs	140	233
Performing TDRs (a)	92	98
Total TDRs	$232	$331

(a) TDRs that do not include a reduction in the original contractual interest rate which are performing in accordance with their modified terms.

Performing TDRs included $47 million of commercial mortgage loans (primarily Commercial Real Estate and Middle Market) and $45 million of commercial loans (primarily Middle Market and Corporate) at December 31, 2012. The $99 million decrease in total TDRs was primarily the result of payment and payoff activity, as well as loan sales, and primarily reflected decreases in Middle Market and Commercial Real Estate.

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Loans past due 90 days or more and still accruing are summarized in the following table.

(in millions) December 31	2012	2011
Business loans:		
Commercial	$5	$8
Real estate construction	—	1
Commercial mortgage	8	32
International	3	—
Total business loans	16	41
Retail loans:		
Residential mortgage	2	6
Home equity	—	6
Other consumer	5	5
Total retail loans	7	17
Total loans past due 90 days or more and still accruing	$23	$58

Loans past due 30-89 days decreased $117 million to $158 million at December 31, 2012, compared to $275 million at December 31, 2011. Loans past due 90 days or more and still accruing interest generally represent loans that are well collateralized and in a continuing process of collection. The decrease in residential mortgage and consumer loans past due 90 days or more and still accruing interest from December 31, 2011 to December 31, 2012 was primarily due to the change in nonaccrual policy discussed previously.

The following table presents a summary of total internal watch list loans at December 31, 2012 and 2011. Watch list loans with balances of $2 million or more on nonaccrual status or whose terms have been modified in a TDR are individually subjected to quarterly credit quality reviews, and the Corporation may establish specific allowances for such loans. The $1.4 billion decrease in total watch list loans, compared to December 31, 2011, is reflected in the decrease in the allowance for loan losses in the same period.

(dollar amounts in millions)	2012	2011
Total watch list loans	$3,088	$4,467
As a percentage of total loans	6.7 %	10.5 %

The following table presents a summary of foreclosed property by property type at December 31, 2012 and 2011.

(in millions) December 31	2012	2011
Construction, land development and other land	$16	$32
Single family residential properties	19	14
Other non-land, nonresidential properties	12	48
Other assets	7	—
Total foreclosed property	$54	$94

At December 31, 2012, foreclosed property totaled $54 million and consisted of approximately 149 properties, compared to $94 million and approximately 223 properties at December 31, 2011.

The following table presents a summary of changes in foreclosed property.

(in millions) Years Ended December 31	2012	2011
Balance at beginning of period	$94	$112
Acquired in foreclosure	42	69
Acquired in acquisition of Sterling	—	32
Write-downs	(10)	(17)
Foreclosed property sold (a)	(72)	(102)
Balance at end of period	$54	$94
(a) Net gain on foreclosed property sold	$10	$4

At December 31, 2012, there were 6 foreclosed properties each with a carrying value greater than $2 million, totaling $27 million, compared to 8 foreclosed properties totaling $44 million at December 31, 2011. At December 31, 2012, there were no foreclosed properties with a carrying value greater than $10 million, compared to one foreclosed property with a carrying value of $18 million at December 31, 2011.

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For further information regarding the Corporation's nonperforming assets policies and impaired loans, refer to Note 1 and Note 4 to the consolidated financial statements.

Concentration of Credit Risk

Concentrations of credit risk may exist when a number of borrowers are engaged in similar activities, or activities in the same geographic region, and have similar economic characteristics that would cause them to be similarly impacted by changes in economic or other conditions. The Corporation has a concentration of credit risk with the automotive industry. All other industry concentrations, as defined by management, individually represented less than 10 percent of total loans at December 31, 2012.

Loans to automotive dealers and to borrowers involved with automotive production are reported as automotive, as management believes these loans have similar economic characteristics that might cause them to react similarly to changes in economic conditions. This aggregation involves the exercise of judgment. Included in automotive production are: (a) original equipment manufacturers and Tier 1 and Tier 2 suppliers that produce components used in vehicles and whose primary revenue source is automotive-related (“primary” defined as greater than 50%) and (b) other manufacturers that produce components used in vehicles and whose primary revenue source is automotive-related. Loans less than $1 million and loans recorded in the Small Business business line are excluded from the definition. Foreign ownership consists of North American affiliates of foreign automakers and suppliers.

The following table presents a summary of loans outstanding to companies related to the automotive industry.

(in millions)

December 31	2012			2011		
	Loans Outstanding	Percent of Total Loans		Loans Outstanding	Percent of Total Loans	
Production:						
Domestic	$881			$724		
Foreign	367			207		
Total production	1,248	2.7	%	931	2.2	%
Dealer:						
Floor plan	2,939			1,822		
Other	2,259			2,067		
Total dealer	5,198	11.3	%	3,889	9.1	%
Total automotive	$6,446	14.0	%	$4,820	11.3	%

Substantially all dealer loans are in the National Dealer Services business line. Loans in the National Dealer Services business line include floor plan financing and other loans to automotive dealerships. Floor plan loans, included in “commercial loans” in the consolidated balance sheets, totaled $2.9 billion at December 31, 2012, an increase of $1.1 billion compared to $1.8 billion at December 31, 2012, primarily reflecting increased inventory levels held in response to increased sales volumes and supply chain restocking related to the 2011 Japanese earthquake and tsunami. At December 31, 2012 other loans to automotive dealers in the National Dealer Services business line totaled $2.3 billion, including $1.5 billion of owner-occupied commercial real estate mortgage loans, compared to $1.9 billion, including $1.4 billion of owner-occupied commercial real estate mortgage loans, at December 31, 2011. Automotive lending also includes loans to borrowers involved with automotive production, primarily Tier 1 and Tier 2 suppliers. Loans to borrowers involved with automotive production totaled approximately $1.2 billion at December 31, 2012, compared to $931 million at December 31, 2011.

At December 31, 2012, dealer loans, as shown in the table above, totaled $5.2 billion, of which approximately $3.2 billion, or 62 percent, were to foreign franchises, and $1.4 billion, or 27 percent, were to domestic franchises. Other dealer loans, totaling $586 million, or 11 percent, at December 31, 2012, include obligations where a primary franchise was indeterminable, such as loans to large public dealership consolidators and rental car, leasing, heavy truck and recreation vehicle companies.

Nonaccrual loans to automotive borrowers totaled $15 million, or 3 percent of total nonaccrual loans at December 31, 2012. Total automotive net loan charge-offs were $1 million in 2012 (primarily domestic dealer charge-offs) and were insignificant in 2011.

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Commercial and Residential Real Estate Lending

The following table summarizes the Corporation's commercial real estate loan portfolio by loan category as of December 31, 2012 and 2011.

(in millions)

December 31	2012	2011
Real estate construction loans:		
Commercial Real Estate business line (a)	$1,049	$1,103
Other business lines (b)	191	430
Total real estate construction loans	$1,240	$1,533
Commercial mortgage loans:		
Commercial Real Estate business line (a)	$1,873	$2,507
Other business lines (b)	7,599	7,757
Total commercial mortgage loans	$9,472	$10,264

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

The Corporation limits risk inherent in its commercial real estate lending activities by limiting exposure to those borrowers directly involved in the commercial real estate markets and adhering to conservative policies on loan-to-value ratios for such loans. Commercial real estate loans, consisting of real estate construction and commercial mortgage loans, totaled $10.7 billion at December 31, 2012, of which $2.9 billion, or 27 percent, were to borrowers in the Commercial Real Estate business line, which includes loans to real estate investors and developers. The remaining $7.8 billion, or 73 percent, of commercial real estate loans in other business lines consisted primarily of owner-occupied commercial mortgages which bear credit characteristics similar to non-commercial real estate business loans.

The real estate construction loan portfolio totaled $1.2 billion at December 31, 2012. The real estate construction loan portfolio primarily contains loans made to long-time customers with satisfactory completion experience. Of the $1.0 billion of real estate construction loans in the Commercial Real Estate business line, $30 million were on nonaccrual status at December 31, 2012. Real estate construction loan net charge-offs in the Commercial Real Estate business line totaled $2 million for 2012. In other business lines, $3 million of real estate construction loans were on nonaccrual status at December 31, 2012 and net charge-offs were insignificant for 2012.

When the Corporation enters into a loan agreement with a borrower for a real estate construction loan, an interest reserve is often included in the amount of the loan commitment. An interest reserve allows the borrower to add interest charges to the outstanding loan balance during the construction period. Interest reserves are established on substantially all real estate construction loans in the Corporation's Commercial Real Estate business line. Interest reserves provide an effective means to address the cash flow characteristics of a real estate construction loan. Loan agreements containing an interest reserve generally require more equity to be contributed by the borrower to the construction project at inception. Interest that has been added to the balance of a real estate construction loan through the use of an interest reserve is recognized as income only if the Corporation expects full collection of the remaining contractual principal and interest payments. If a real estate construction loan with interest reserves is in default and deemed uncollectible, interest is no longer funded through the interest reserve. Interest previously recognized from interest reserves generally is not reversed against current income when a construction loan with interest reserves is placed on nonaccrual status. All real estate construction loans are closely monitored through physical inspections, reconciliation of draw requests, review of rent rolls and operating statements and quarterly portfolio reviews performed by the Corporation's senior management. When appropriate, extensions, renewals and restructurings of real estate construction loans are approved after giving consideration to the project's status, the borrower's financial condition, and the collateral protection based on current market conditions, and typically strengthen the Corporation's position by adding additional collateral and controls and/or requiring amortization on the existing debt.

The commercial mortgage loan portfolio totaled $9.5 billion at December 31, 2012 and included $1.9 billion in the Commercial Real Estate business line and $7.6 billion in other business lines. Loans in the commercial mortgage portfolio generally mature within three to five years. Of the $1.9 billion of commercial mortgage loans in the

Commercial Real Estate business line, $94 million were on nonaccrual status at December 31, 2012. Commercial mortgage loan net charge-offs in the Commercial Real Estate business line totaled $32 million for 2012. In other business lines, $181 million of commercial mortgage loans were on nonaccrual status at December 31, 2012, and net charge-offs totaled $39 million for 2012.

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The geographic distribution and project type of commercial real estate loans are important factors in diversifying credit risk within the portfolio. The following table reflects real estate construction and commercial mortgage loans to borrowers in the Commercial Real Estate business line by project type and location of property.

	December 31, 2012											
	Location of Property								December 31, 2011			
(dollar amounts in millions) Project Type:	California	Michigan	Texas	Florida	Other	Total	% of Total		Total	% of Total		
Real estate construction loans:												
Commercial Real Estate business line:												
Residential:												
Single family	$87	$4	$28	$9	$28	$156	15	%	$114	10	%
Land development	31	5	7	—	1	44	4		76	7	
Total residential	118	9	35	9	29	200	19		190	17	
Other construction:											
Multi-family	163	—	201	18	24	406	39		287	25	
Retail	59	38	84	1	—	182	17		264	24	
Multi-use	—	8	33	—	2	43	4		118	11	
Office	103	—	18	—	—	121	12		133	12	
Commercial	16	4	17	—	3	40	4		17	2	
Land development	9	8	7	—	1	25	2		22	2	
Other	4	—	—	2	—	6	1		8	1	
Other Sterling real estate construction loans (a)	—	—	26	—	—	26	2		64	6	
Total	$472	$67	$421	$30	$59	$1,049	100	%	$1,103	100	%
Commercial mortgage loans:											
Commercial Real Estate business line:											
Residential:											
Single family	$26	$3	$9	$1	$9	$48	2	%	$64	3	%
Land carry	60	27	21	22	13	143	8		142	5	
Total residential	86	30	30	23	22	191	10		206	8	
Other commercial mortgage:											
Multi-family	127	45	96	105	3	376	20		534	22	
Retail	120	70	50	63	65	368	20		471	18	
Multi-use	106	17	29	—	9	161	9		217	9	
Land carry	55	13	33	8	13	122	6		198	8	
Office	81	38	46	—	28	193	10		224	8	
Commercial	88	30	19	1	29	167	9		213	8	
Other	24	3	32	—	10	69	4		101	3	
Other Sterling commercial mortgage loans (a)	22	1	199	4	—	226	12		343	16	
Total	$709	$247	$534	$204	$179	$1,873	100	%	$2,507	100	%

(a) Acquired loans for which complete information related to project type is not available. Prior period balances have been reclassified related to loans for which information related to project type has become available in the current period.

The following table summarizes the Corporation's residential mortgage and home equity loan portfolio by geographic market as of December 31, 2012.

	December 31, 2012				December 31, 2011			
	Residential	% of	Home	% of	Residential	% of	Home	% of

(dollar amounts in millions)	Mortgage Loans	Total		Equity Loans	Total		Mortgage Loans	Total		Equity Loans	Total	
Geographic market:												
Michigan	$433	28	%	$871	57	%	$489	32	%	$950	57	%
California	523	35		404	26		462	30		433	27	
Texas	320	21		212	14		320	21		220	13	
Other Markets	251	16		50	3		255	17		52	3	
Total	$1,527	100	%	$1,537	100	%	$1,526	100	%	$1,655	100	%

Residential real estate loans, which consist of traditional residential mortgages and home equity loans and lines of credit, totaled $3.1 billion at December 31, 2012. Residential mortgages totaled $1.5 billion at December 31, 2012, and were primarily larger, variable-rate mortgages originated and retained for certain private banking relationship customers. Of the $1.5 billion of residential mortgage loans outstanding, $70 million were on nonaccrual status at December 31, 2012. The home equity portfolio totaled $1.5 billion at December 31, 2012, of which $1.4 billion was outstanding under primarily variable-rate, interest-only home

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equity lines of credit and $150 million were closed-end home equity loans. Of the $1.5 billion of home equity loans outstanding, $31 million were on nonaccrual status at December 31, 2012. A majority of the home equity portfolio was secured by junior liens at December 31, 2012. The residential real estate portfolio is principally located within the Corporation's primary geographic markets. The economic recession and significant declines in home values following the financial market turmoil beginning in the fall of 2008 adversely impacted the residential real estate portfolio. As of December 31, 2012, substantially all residential real estate loans past due 90 days or more were placed on nonaccrual status, and substantially all junior lien home equity loans that were current or less than 90 days past due were placed on nonaccrual status if full collection of the senior position was in doubt. Such loans are charged off to current appraised values less costs to sell no later than 180 days past due.

Since 2008, the Corporation has used a third party to originate, document and underwrite conforming residential mortgage loans on behalf of the Corporation. A significant majority of these residential mortgage originations are sold in the secondary market. The third party assumes repurchase liability for the loans it originates. The Corporation has repurchase liability exposure for residential mortgage loans originated prior to 2008, however based on historical experience, the Corporation believes such exposure, which could be triggered by underwriting discrepancies, is minimal. The Corporation rarely originates residential real estate loans with loan-to-value ratios above 100 percent at origination, has no sub-prime mortgage programs and does not originate payment-option adjustable-rate mortgages or other nontraditional mortgages that allow negative amortization.

Shared National Credits

Shared National Credit (SNC) loans are facilities greater than $20 million shared by three or more federally supervised financial institutions that are reviewed annually by regulatory authorities at the agent bank level. The Corporation generally seeks to obtain ancillary business at the origination of a SNC relationship. Loans classified as SNC loans (886 borrowers at December 31, 2012) increased $1.0 billion to $9.4 billion at December 31, 2012, compared to $8.4 billion at December 31, 2011, primarily reflecting an increase in Middle Market. SNC net loan charge-offs totaled $28 million and $21 million for the years ended December 31, 2012 and 2011, respectively. Nonaccrual SNC loans decreased $169 million to $24 million at December 31, 2012, compared to $193 million at December 31, 2011. SNC loans, diversified by both business line and geographic market, comprised approximately 20 percent of total loans at both December 31, 2012 and 2011, respectively. SNC loans are held to the same credit underwriting and pricing standards as the remainder of the loan portfolio.

Energy Lending

The Corporation has a portfolio of energy-related loans that are included primarily in "commercial loans" in the consolidated balance sheets. The Corporation has over 30 years of experience in energy lending, with a focus on middle market companies. Average loans in the Middle Market - Energy business line for the year ended December 31, 2012 were $2.5 billion, or 6 percent of total average loans, compared to $1.6 billion, or 4 percent of total average loans, for the year ended December 31, 2011. Nonaccrual Middle Market - Energy loans totaled $3 million and $6 million at December 31, 2012 and 2011, respectively. Middle Market - Energy net loan charge-offs totaled $3 million and $2 million for the years ended December 31, 2012 and 2011, respectively. Energy loans are diverse in nature, with outstanding balances by customer market segment distributed approximately as follows: 70 percent exploration and production (comprised of approximately 50 percent oil, 30 percent mixed and 20 percent natural gas), 20 percent midstream and 10 percent energy services.

State and Local Municipalities

In the normal course of business, the Corporation serves the needs of state and local municipalities in multiple capacities, including traditional banking products such as deposit services, loans and letters of credit, investment banking services such as bond underwriting and private placements, and by investing in municipal securities.

The following table summarizes the Corporation's direct exposure to state and local municipalities as of December 31, 2012 and 2011.

(in millions)

December 31	2012	2011
Loans outstanding	$53	$46
Lease financing	359	397

Investment securities available-for-sale	23	24
Trading account securities	19	12
Standby letters of credit	108	158
Unused commitments to extend credit	24	15
Total direct exposure to state and local municipalities	$586	$652

Indirect exposure comprised $127 million in auction-rate preferred securities collateralized by municipal securities at December 31, 2012, compared to $320 million at December 31, 2011. Additionally, the Corporation is exposed to Automated Clearing House (ACH) transaction risk for those municipalities utilizing this electronic payment and/or deposit method and similar products in their cash flow management. The Corporation sets limits on ACH activity during the underwriting process.

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Extensions of credit to state and local municipalities are subjected to the same underwriting standards as other business loans. At December 31, 2012 and 2011, all outstanding municipal loans and leases were performing according to contractual terms and none were included in the Corporation's internal watch list. Municipal leases are secured by the underlying equipment, and a substantial majority of the leases are fully defeased with AAA-rated U.S. government securities. Substantially all municipal investment securities available-for sale are auction-rate securities. All auction-rate securities are reviewed quarterly for other-than-temporary impairment. All auction-rate municipal securities were rated investment grade, and all auction-rate preferred securities collateralized by municipal securities were rated investment grade and were adequately collateralized at both December 31, 2012 and 2011. Municipal securities are held in the trading account for resale to customers. In addition, Comerica Securities, a broker-dealer subsidiary of Comerica Bank, underwrites bonds issued by municipalities. All bonds underwritten by Comerica Securities are sold to third party investors.

International Exposure

International assets are subject to general risks inherent in the conduct of business in foreign countries, including economic uncertainties and each foreign government's regulations. Risk management practices minimize the risk inherent in international lending arrangements. These practices include structuring bilateral agreements or participating in bank facilities, which secure repayment from sources external to the borrower's country. Accordingly, such international outstandings are excluded from the cross-border risk of that country.

Mexico, with cross-border outstandings of $569 million, or 0.87 percent of total assets, and $594, or 0.97 percent of total assets, at December 31, 2012 and 2011, was the only country with outstandings between 0.75 and 1.00 percent of total assets at year-end 2012 and 2011. There were no countries with cross-border outstandings exceeding 1.00 percent of total assets at year-end 2012 and 2011. Mexico was the only country with cross-border outstandings exceeding 1.00 percent of total assets at year-end 2010, with commercial and industrial cross-border outstandings of $645 million. There were no countries with cross-border outstandings between 0.75 and 1.00 percent of total assets at year-end 2010.

The Corporation does not hold any sovereign exposure to Europe. The Corporation's international strategy as it pertains to Europe is to focus on European companies doing business in North America, with an emphasis on the Corporation's primary geographic markets. The following table summarizes cross-border exposure to entities domiciled in European countries at December 31, 2012 and 2011.

	Outstanding (a)				
(in millions)	Commercial and Industrial	Banks and Other Financial Institutions	Total Outstanding	Unfunded Commitments and Guarantees	Total Exposure
December 31, 2012					
United Kingdom	$110	$10	$120	$149	$269
Netherlands	61	—	61	72	133
Germany	2	3	5	49	54
Ireland	18	—	18	12	30
Switzerland	13	7	20	2	22
Luxembourg	1	—	1	19	20
Sweden	9	—	9	10	19
Belgium	2	—	2	15	17
Italy	6	1	7	—	7
Spain	2	—	2	—	2
France	—	3	3	—	3
Total Europe	$224	$24	$248	$328	$576
December 31, 2011					
United Kingdom	$72	$4	$76	$135	$211
Switzerland	—	39	39	64	103
Netherlands	46	—	46	46	92

Germany	4	5	9	39	48
Ireland	20	—	20	14	34
Sweden	10	—	10	8	18
Italy	5	1	6	—	6
Belgium	1	—	1	5	6
Spain	—	—	—	3	3
Finland	—	2	2	—	2
France	—	—	—	1	1
Total Europe	$158	$51	$209	$315	$524

(a) Includes funded loans, bankers acceptances and net counterparty derivative exposure.

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MARKET AND LIQUIDITY RISK

Market risk represents the risk of loss due to adverse movements in market rates or prices, including interest rates, foreign exchange rates, and commodity and equity prices. Liquidity risk represents the failure to meet financial obligations coming due resulting from an inability to liquidate assets or obtain adequate funding, and the inability to easily unwind or offset specific exposures without significant changes in pricing, due to inadequate market depth or market disruptions.

The Asset and Liability Policy Committee (ALCO) of the Corporation establishes and monitors compliance with the policies and risk limits pertaining to market and liquidity risk management activities. ALCO meets regularly to discuss and review market and liquidity risk management strategies, and consists of executive and senior management from various areas of the Corporation, including treasury, finance, economics, lending, deposit gathering and risk management.

The Corporation's Treasury Department supports ALCO in measuring, monitoring and managing interest rate, liquidity and coordination of all other market risks. The area's key activities encompass: (i) providing information and analysis of the Corporation's balance sheet structure and measurement of interest rate, liquidity and all other market risks; (ii) monitoring and reporting of the Corporation's positions relative to established policy limits and guidelines; (iii) development and presentation of analysis and strategies to adjust risk positions; (iv) review and presentation of policies and authorizations for approval; (v) monitoring of industry trends and analytical tools to be used in the management of interest rate, liquidity and all other market risks; (vi) developing and monitoring the interest rate risk economic capital estimate; and (vii) monitoring of capital adequacy in accordance with the Capital Management Policy.

Interest Rate Risk

Net interest income is the primary source of revenue for the Corporation. Interest rate risk arises primarily through the Corporation's core business activities of extending loans and accepting deposits. The Corporation's balance sheet is predominantly characterized by floating-rate loans funded by a combination of core deposits and wholesale borrowings. Approximately 85 percent of the Corporation's loans were floating at December 31, 2012, of which approximately 75 percent were based on LIBOR and 25 percent were based on Prime. This creates a natural imbalance between the floating-rate loan portfolio and the more slowly repricing deposit products. The result is that growth and/or contraction in the Corporation's core businesses may lead to sensitivity to interest rate movements in the absence of mitigating actions. Examples of such actions are purchasing investment securities, primarily fixed-rate, which provide liquidity to the balance sheet and act to mitigate the inherent interest sensitivity, and hedging the sensitivity with interest rate swaps. The Corporation actively manages its exposure to interest rate risk, with the principal objective of optimizing net interest income and the economic value of equity while operating within acceptable limits established for interest rate risk and maintaining adequate levels of funding and liquidity.

Interest Rate Sensitivity

Interest rate risk arises in the normal course of business due to differences in the repricing and cash flow characteristics of assets and liabilities. Since no single measurement system satisfies all management objectives, a combination of techniques is used to manage interest rate risk. These techniques examine earnings at risk and the economic value of equity utilizing multiple simulation analyses.

The Corporation frequently evaluates net interest income under various balance sheet and interest rate scenarios, looking at a 12-month time horizon, using simulation modeling analysis as its principal risk management evaluation technique. The results of this analysis provides the information needed to assess the balance sheet structure. Changes in economic activity, whether domestic or international, different from the changes management included in its simulation analysis could translate into a materially different interest rate environment than currently expected. Management evaluates a base case net interest income under an unchanged interest rate environment and what is believed to be the most likely balance sheet structure. This base case net interest income is then evaluated against non-parallel interest rate scenarios that increase and decrease 200 basis points in a linear fashion from the base case over 12 months, resulting in an average change in interest rates of 100 basis points over the period. Due to the current low level of interest rates, the analysis reflects a declining interest rate scenario of a 25 basis point drop, to zero percent. In addition, consistent with each interest rate scenario, adjustments are made to assumptions regarding asset

prepayment levels, yield curves, and overall balance sheet mix and growth. These assumptions are inherently uncertain and, as a result, the model may not precisely predict the impact of higher or lower interest rates on net interest income. Actual results may differ from simulated results due to timing, magnitude and frequency of changes in interest rates, market conditions and management strategies, among other factors. However, the model can indicate the likely direction of change. Existing derivative instruments entered into for risk management purposes are included in the analysis, but no additional hedging is forecasted.

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The table below, as of December 31, 2012 and 2011, displays the estimated impact on net interest income during the next 12 months by relating the base case scenario results to those from the rising and declining rate scenarios described above.

Sensitivity of Net Interest Income to Changes in Interest Rates

(in millions)	2012		2011	
December 31	Amount	%	Amount	%
Change in Interest Rates:				
+200 basis points	$178	11 %	$156	9 %
-25 basis points (to zero percent)	(23)	(1)	(20)	(1)

Corporate policy limits adverse change to no more than four percent of management's most likely net interest income forecast, and the Corporation was within this policy guideline at December 31, 2012. The sensitivity from December 31, 2011 to December 31, 2012 increased primarily due to growth in core deposits, though risk to declining interest rates is limited by the current low level of rates. Interest rate risk is actively managed principally through the use of either on-balance sheet financial instruments or interest rate swaps to achieve the desired risk profile.

In addition to the simulation analysis, an economic value of equity analysis is performed for a longer term view of the interest rate risk position. The economic value of equity analysis begins with an estimate of the economic value of the financial assets, liabilities and off-balance sheet instruments on the Corporation's balance sheet, derived through discounting cash flows based on actual rates at the end of the period. Next, the estimated impact of rate movements is applied to the economic value of assets, liabilities and off-balance sheet instruments. The economic value of equity is then calculated as the difference between the estimated market value of assets and liabilities net of the impact of off-balance sheet instruments. As with net interest income simulation analysis, a variety of alternative scenarios are performed to measure the impact on economic value of equity, including changes in the level, slope and shape of the yield curve.

The table below, as of December 31, 2012 and 2011, displays the estimated impact on the economic value of equity from a 200 basis point immediate parallel increase or decrease in interest rates. Similar to the simulation analysis above, due to the current low level of interest rates, the economic value of equity analyses below reflect an interest rate scenario of an immediate 25 basis point drop, to zero percent, while the rising interest rate scenario reflects an immediate 200 basis point rise.

Sensitivity of Economic Value of Equity to Changes in Interest Rates

(in millions)	2012		2011	
December 31	Amount	%	Amount	%
Change in Interest Rates:				
+200 basis points	$1,031	10 %	$719	7 %
-25 basis points (to zero percent)	(192)	(2)	(147)	(1)

Corporate policy limits adverse change in the estimated market value change in the economic value of equity to 15 percent of the base economic value of equity. The Corporation was within this policy parameter at December 31, 2012. The change in the sensitivity of the economic value of equity to a 200 basis point parallel increase in rates between December 31, 2011 and December 31, 2012 was primarily driven by changes in market interest rates, increases in noninterest-bearing and lower cost deposits, and forecasted prepayments on the Corporation's mortgage-backed securities portfolio.

LOAN MATURITIES AND INTEREST RATE SENSITIVITY

(in millions)	Loans Maturing			
December 31, 2012	Within One Year (a)	After One But Within Five Years	After Five Years	Total
Commercial loans	$13,533	$15,129	$851	$29,513
Real estate construction loans	422	772	46	1,240
Commercial mortgage loans (b)	2,717	5,084	1,641	9,442
International loans	548	686	59	1,293

Total (b)	$17,220	$21,671	$2,597	$41,488
Sensitivity of loans to changes in interest rates:				
Predetermined (fixed) interest rates	$1,653	$3,156	$988	$5,797
Floating interest rates	15,567	18,515	1,609	35,691
Total	$17,220	$21,671	$2,597	$41,488

(a) Includes demand loans, loans having no stated repayment schedule or maturity and overdrafts.
(b) Excludes PCI loans with a carrying value of $30 million.

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The Corporation uses investment securities and derivative instruments as asset and liability management tools with the overall objective of managing the volatility of net interest income from changes in interest rates. These tools assist management in achieving the desired interest rate risk management objectives. Activity related to derivative instruments mainly involves interest rate swaps effectively converting fixed-rate medium- and long-term debt to floating rate.

Risk Management Derivative Instruments

(in millions) Risk Management Notional Activity	Interest Rate Contracts	Foreign Exchange Contracts	Totals
Balance at January 1, 2011	$2,400	$220	$2,620
Additions	—	16,609	16,609
Maturities/amortizations	(800)	(16,600)	(17,400)
Terminations	$(150)	$—	$(150)
Balance at December 31, 2011	$1,450	$229	$1,679
Additions	—	16,872	16,872
Maturities/amortizations	—	(16,626)	(16,626)
Balance at December 31, 2012	$1,450	$475	$1,925

The notional amount of risk management interest rate swaps totaled $1.5 billion at December 31, 2012, and 2011, all under fair value hedging strategies. The fair value of risk management interest rate swaps was a net unrealized gain of $290 million at December 31, 2012, compared to a net unrealized gain of $317 million at December 31, 2011. For the year ended December 31, 2012, risk management interest rate swaps generated $69 million of net interest income, compared to $72 million of net interest income for the year ended December 31, 2011. The decrease in swap income for 2012, compared to 2011, was primarily due to maturities of interest rate swaps.

In addition to interest rate swaps, the Corporation employs various other types of derivative instruments as offsetting positions to mitigate exposures to foreign currency risks associated with specific assets and liabilities (e.g., customer loans or deposits denominated in foreign currencies). Such instruments may include foreign exchange forward contracts and foreign exchange swap agreements. The aggregate notional amounts of these risk management derivative instruments at December 31, 2012 and 2011 were $475 million and $229 million, respectively.

Further information regarding risk management derivative instruments is provided in Note 8 to the consolidated financial statements.

Customer-Initiated and Other Derivative Instruments

(in millions) Customer-Initiated and Other Notional Activity	Interest Rate Contracts	Energy Derivative Contracts	Foreign Exchange Contracts	Totals
Balance at January 1, 2011	$10,520	$2,623	$2,497	$15,640
Additions	3,286	2,093	79,886	85,265
Maturities/amortizations	(2,555)	(1,923)	(79,541)	(84,019)
Terminations	(710)	(132)	—	(842)
Balance at December 31, 2011	$10,541	$2,661	$2,842	$16,044
Additions	4,286	5,295	75,883	85,464
Maturities/amortizations	(2,219)	(2,333)	(76,470)	(81,022)
Terminations	(566)	(62)	(2)	(630)
Balance at December 31, 2012	$12,042	$5,561	$2,253	$19,856

The Corporation writes and purchases interest rate caps and floors and enters into foreign exchange contracts, interest rate swaps and energy derivative contracts to accommodate the needs of customers requesting such services. Changes in the fair value of customer-initiated and other derivatives are recognized in earnings as they occur. To limit the market risk of these activities, the Corporation generally takes offsetting positions with dealers. The notional amounts of offsetting positions are included in the table above. Customer-initiated and other notional activity represented 91 percent of total interest rate, energy and foreign exchange contracts at December 31, 2012 and 2011.

Further information regarding customer-initiated and other derivative instruments is provided in Note 8 to the consolidated financial statements.

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Liquidity Risk and Off-Balance Sheet Arrangements

Liquidity is the ability to meet financial obligations through the maturity or sale of existing assets or the acquisition of additional funds. Various financial obligations, including contractual obligations and commercial commitments, may require future cash payments by the Corporation. The following contractual obligations table summarizes the Corporation's noncancelable contractual obligations and future required minimum payments. Refer to Notes 6, 9, 10, 11, 12, and 18 to the consolidated financial statements for further information regarding these contractual obligations.

Contractual Obligations

(in millions)	Minimum Payments Due by Period				
December 31, 2012	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
Deposits without a stated maturity (a)	$46,169	$46,169	$—	$—	$—
Certificates of deposit and other deposits with a stated maturity (a)	6,033	4,941	855	99	138
Short-term borrowings (a)	110	110	—	—	—
Medium- and long-term debt (a)	4,408	1,055	1,862	1,150	341
Operating leases	534	72	129	97	236
Commitments to fund low income housing partnerships	123	72	46	3	2
Other long-term obligations (b)	286	86	68	16	116
Total contractual obligations	$57,663	$52,505	$2,960	$1,365	$833
Medium- and long-term debt (a) (parent company only)	$600	$—	$600	$—	$—

(a) Deposits and borrowings exclude accrued interest.

(b) Includes unrecognized tax benefits.

In addition to contractual obligations, other commercial commitments of the Corporation impact liquidity. These include commitments to fund indirect private equity and venture capital investments, unused commitments to extend credit, standby letters of credit and financial guarantees, and commercial letters of credit. The following table summarizes the Corporation's commercial commitments and expected expiration dates by period.

Commercial Commitments

(in millions)	Expected Expiration Dates by Period				
December 31, 2012	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
Commitments to fund indirect private equity and venture capital investments	$7	$1	$—	$—	$6
Unused commitments to extend credit	27,340	8,034	9,225	8,821	1,260
Standby letters of credit and financial guarantees	4,986	3,112	1,192	623	59
Commercial letters of credit	78	76	2	—	—
Total commercial commitments	$32,411	$11,223	$10,419	$9,444	$1,325

Since many of these commitments expire without being drawn upon, the total amount of these commercial commitments does not necessarily represent the future cash requirements of the Corporation. Refer to the "Other Market Risks" section below and Note 8 to the consolidated financial statements for a further discussion of these commercial commitments.

Wholesale Funding

The Corporation may access the purchased funds market when necessary, which includes foreign office time deposits and short-term borrowings. Capacity for incremental purchased funds at December 31, 2012 included the ability to purchase federal funds, sell securities under agreements to repurchase, as well as issue deposits to institutional investors and issue certificates of deposit through brokers. Purchased funds totaled $612 million at December 31, 2012, compared to $418 million and $562 million at December 31, 2011 and 2010, respectively.

The Corporation is a member of the Federal Home Loan Bank of Dallas, Texas (FHLB), which provides short- and long-term funding to its members through advances collateralized by real estate-related assets. Actual borrowing capacity is contingent on the amount of collateral available to be pledged to the FHLB. At December 31, 2012, $14

billion of real estate-related loans were pledged to the FHLB as blanket collateral for current and potential future borrowings. As of December 31, 2012, the Corporation had $2.0 billion of outstanding borrowings from the FHLB with maturities ranging from May 2013 to May 2014.

Additionally, the Bank had the ability to issue up to $15.0 billion of debt at December 31, 2012 under an existing $15 billion medium-term senior note program which allows the issuance of debt with maturities between three months and 30 years. The Corporation also maintains a shelf registration statement with the Securities and Exchange Commission from which it may issue debt and/or equity securities.

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The ability of the Corporation and the Bank to raise funds at competitive rates is impacted by rating agencies' views of the credit quality, liquidity, capital and earnings of the Corporation and the Bank. As of December 31, 2012, the four major rating agencies had assigned the following ratings to long-term senior unsecured obligations of the Corporation and the Bank. A security rating is not a recommendation to buy, sell, or hold securities and may be subject to revision or withdrawal at any time by the assigning rating agency. Each rating should be evaluated independently of any other rating.

	Comerica Incorporated		Comerica Bank	
December 31, 2012	Rating	Outlook	Rating	Outlook
Standard and Poor’s	A-	Stable	A	Stable
Moody’s Investors Service	A3	Stable	A2	Stable
Fitch Ratings	A	Negative	A	Negative
DBRS	A	Stable	A (High)	Stable

The parent company held $431 million of short-term investments with its principal banking subsidiary at December 31, 2012. A primary source of liquidity for the parent company is dividends from its subsidiaries. As discussed in Note 20 to the consolidated financial statements, banking subsidiaries are subject to regulation and may be limited in their ability to pay dividends or transfer funds to the parent company. During 2013, the banking subsidiaries can pay dividends up to approximately $277 million plus 2013 net profits, with prior regulatory approval. A measure of current parent company liquidity is investment in subsidiaries as a percentage of shareholders' equity (the double leverage ratio). A double leverage ratio over 100 percent represents the reliance on subsidiary dividends to repay liabilities. As of December 31, 2012, the ratio was 101 percent. Refer to the “Contractual Obligations” table in this financial review for information on parent company future minimum payments on medium- and long-term debt.

The Corporation satisfies liquidity requirements with either liquid assets or various funding sources. Liquid assets, which totaled $12.1 billion at December 31, 2012, compared to $11.2 billion at December 31, 2011, provide a reservoir of liquidity. Liquid assets include cash and due from banks, federal funds sold, interest-bearing deposits with banks, other short-term investments and unencumbered investment securities available-for-sale. At December 31, 2012, the Corporation held excess liquidity, represented by $2.9 billion deposited with the FRB, compared to $2.5 billion and $1.3 billion at December 31, 2011 and 2010, respectively. Deposit growth outpaced loan growth and continued to generate excess liquidity in 2012. The Corporation utilized excess liquidity in 2012 to fund $158 million of 2012 debt maturities, purchase approximately $400 million of mortgage-backed investment securities available-for-sale, repurchase 10.1 million shares of common stock under the publicly announced share repurchase program for a total of $304 million, redeem $30 million of trust preferred securities assumed from Sterling and contribute $300 million to the qualified defined benefit pension plan. At December 31, 2012, the Corporation's qualified defined benefit pension plan was fully funded.

The Corporation regularly evaluates its ability to meet funding needs in unanticipated, stressed environments. In conjunction with the quarterly 200 basis point interest rate simulation analyses, discussed in the “Interest Rate Sensitivity” section of this financial review, liquidity ratios and potential funding availability are examined. Each quarter, the Corporation also evaluates its ability to meet liquidity needs under a series of broad events, distinguished in terms of duration and severity. The evaluation as of December 31, 2012 projected that sufficient sources of liquidity were available under each series of events.

Variable Interest Entities

The Corporation holds interests in certain unconsolidated variable interest entities (VIEs). These unconsolidated VIEs are principally funds (limited partnerships or limited liability companies) which invest in low income housing projects. In general, a VIE is an entity that either (1) has an insufficient amount of equity to carry out its principal activities without additional subordinated financial support, (2) has a group of equity owners that are unable to make significant decisions about its activities, or (3) has a group of equity owners that do not have the obligation to absorb losses or the right to receive returns generated by its operations. If any of these characteristics is present, the entity is subject to a variable interests consolidation model, and consolidation is based on variable interests, not on ownership of the entity's outstanding voting stock. Variable interests are defined as contractual, ownership, or other monetary interests in an entity that change with fluctuations in the entity's net asset value. The Corporation is not deemed the

primary beneficiary of these VIEs and, accordingly, the Corporation does not consolidate these VIEs. Refer to the "Principles of Consolidation" section in Note 1 to the consolidated financial statements for a summary of the Corporation's consolidation policy as it relates to VIEs. Also, refer to Note 9 to the consolidated financial statements for a discussion of the Corporation's involvement in VIEs, including those in which the Corporation holds a significant interest but for which it is not the primary beneficiary.

Other Market Risks

Market risk related to the Corporation's trading instruments is not significant, as trading activities are limited. Certain components of the Corporation's noninterest income, primarily fiduciary income, are at risk to fluctuations in the market values of underlying assets, particularly equity and debt securities. Other components of noninterest income, primarily brokerage fees, are at risk to changes in the volume of market activity.

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Share-based compensation expense recognized by the Corporation is dependent upon the fair value of stock options and restricted stock at the date of grant. The fair value of both stock options and restricted stock is impacted by the market price of the Corporation's stock on the date of grant and is at risk to changes in equity markets, general economic conditions and other factors. For further information regarding the valuation of stock options and restricted stock, refer to the “Critical Accounting Policies” section of this financial review.

OPERATIONAL RISK

Operational risk represents the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. The definition includes legal risk, which is the risk of loss resulting from failure to comply with laws and regulations as well as prudent ethical standards and contractual obligations. It also includes the exposure to litigation from all aspects of an institution's activities. The definition does not include strategic or reputational risks. Although operational losses are experienced by all companies and are routinely incurred in business operations, the Corporation recognizes the need to identify and control operational losses and seeks to limit losses to a level deemed appropriate by management after considering the nature of the Corporation's business and the environment in which it operates. Operational risk is mitigated through a system of internal controls that are designed to keep operating risks at appropriate levels. The Operational Risk Management Committee monitors risk management techniques and systems. The Corporation has developed a framework that includes a centralized operational risk management function and business/support unit risk coordinators responsible for managing operational risk specific to the respective business lines.

In addition, internal audit and financial staff monitor and assess the overall effectiveness of the system of internal controls on an ongoing basis. Internal Audit reports the results of reviews on the controls and systems to management and the Audit Committee of the Board. The internal audit staff independently supports the Audit Committee oversight process. The Audit Committee serves as an independent extension of the Board.

COMPLIANCE RISK

Compliance risk represents the risk of regulatory sanctions, reputational impact or financial loss resulting from the Corporation's failure to comply with regulations and standards of good banking practice. Activities which may expose the Corporation to compliance risk include, but are not limited to, those dealing with the prevention of money laundering, privacy and data protection, community reinvestment initiatives, fair lending challenges resulting from the Corporation's expansion of its banking center network and employment and tax matters.

The Enterprise-Wide Compliance Committee, comprised of senior business unit managers, as well as managers responsible for compliance, audit and overall risk, oversees compliance risk. This enterprise-wide approach provides a consistent view of compliance across the organization. The Enterprise-Wide Compliance Committee also ensures that appropriate actions are implemented in business units to mitigate risk to an acceptable level.

BUSINESS RISK

Business risk represents the risk of loss due to impairment of reputation, failure to fully develop and execute business plans, failure to assess current and new opportunities in business, markets and products, and any other event not identified in the defined risk categories of credit, market, operational or compliance risks. Mitigation of the various risk elements that represent business risk is achieved through initiatives to help the Corporation better understand and report on the various risks.

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CRITICAL ACCOUNTING POLICIES

The Corporation's consolidated financial statements are prepared based on the application of accounting policies, the most significant of which are described in Note 1. These policies require numerous estimates and strategic or economic assumptions, which may prove inaccurate or subject to variations. Changes in underlying factors, assumptions or estimates could have a material impact on the Corporation's future financial condition and results of operations. At December 31, 2012, the most critical of these significant accounting policies were the policies related to the allowance for credit losses, valuation methodologies, goodwill, pension plan accounting and income taxes. These policies were reviewed with the Audit Committee of the Corporation's Board of Directors and are discussed more fully below.

ALLOWANCE FOR CREDIT LOSSES

The allowance for credit losses, which includes both the allowance for loan losses and the allowance for credit losses on lending-related commitments, is calculated with the objective of maintaining a reserve sufficient to absorb estimated probable losses. Management's determination of the appropriateness of the allowance is based on periodic evaluations of the loan portfolio, lending-related commitments, and other relevant factors. This evaluation is inherently subjective as it may require estimates of the loss content for internal risk ratings, collateral values, the amounts and timing of expected future cash flows, and for lending-related commitments, estimates of the probability of draw on unused commitments.

The Corporation disaggregates the loan portfolio into segments for purposes of determining the allowance for credit losses. These segments are based on the level at which the Corporation develops, documents and applies a systematic methodology to determine the allowance for credit losses. The Corporation's portfolio segments are business loans and retail loans. Business loans are defined as those belonging to the commercial, real estate construction, commercial mortgage, lease financing and international loan portfolios. Retail loans consist of traditional residential mortgage, home equity and other consumer loans.

For further discussion of the methodology used in the determination of the allowance for credit losses, refer to the "Allowance for Credit Losses" section in this financial review and Note 1 to the consolidated financial statements. To the extent actual outcomes differ from management estimates, additional provision for credit losses may be required that would adversely impact earnings in future periods. A substantial majority of the allowance is assigned to business segments. Any earnings impact resulting from actual outcomes differing from management estimates would primarily affect the Business Bank segment.

Allowance for Loan Losses

The allowance for loan losses includes specific allowances, based on individual evaluations of certain loans, and allowances for homogeneous pools of loans with similar risk characteristics.

The Corporation individually evaluates certain impaired loans on a quarterly basis and establishes specific allowances for such loans, if required. Loans for which it is probable that payment of interest and principal will not be made in accordance with the contractual terms of the loan agreement are considered impaired. Consistent with this definition, all loans for which the accrual of interest has been discontinued (nonaccrual loans) are considered impaired. The Corporation individually evaluates nonaccrual loans with book balances of $2 million or more and accruing loans whose terms have been modified in a TDR. The threshold for individual evaluation is revised on an infrequent basis, generally when economic circumstances change significantly. Specific allowances for impaired loans are estimated using one of several methods, including the estimated fair value of underlying collateral, observable market value of similar debt or discounted expected future cash flows. While the determination of specific allowances involves estimates, each estimate is unique to the individual loan, and none is individually significant.

Collateral values supporting individually evaluated impaired loans are evaluated quarterly. Either appraisals are obtained or appraisal assumptions are updated at least annually unless conditions dictate the need for increased frequency. Collateral value is generally based on independent third-party appraisals, less estimated costs to sell. Management generally adjusts the appraised value to consider the current market conditions, such as estimated length of time to sell. Appraisals on impaired construction loans are generally based on "as-is" collateral values. In certain circumstances, the Corporation may believe that the highest and best use of the collateral, and therefore the most advantageous exit strategy, requires completion of the construction project. In these situations, the Corporation uses

an “as-developed” appraisal to evaluate alternatives. However, the “as-developed” collateral value is appropriately adjusted to reflect the cost to complete the construction project and to prepare the property for sale. Between appraisals, the Corporation may reduce the collateral value based upon the age of the appraisal and adverse developments in market conditions.

Loans which do not meet the criteria to be evaluated individually are evaluated in homogeneous pools of loans with similar risk characteristics. The allowance for business loans not individually evaluated is determined by applying standard reserve factors to the pool of business loans within each internal risk rating. Internal risk ratings are assigned to each business loan at the time of approval and are subjected to subsequent periodic reviews by the Corporation's senior management, generally at least annually or more frequently upon the occurrence of a circumstance that affects the credit risk of the loan. The Corporation considers the inherent imprecision in the risk rating system resulting from inaccuracy in assigning and/or entering risk ratings in the loan accounting system. An additional allowance is established to capture the probable losses which could result from such risk rating

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errors. This additional allowance is based on the results of risk rating accuracy assessments performed on samples of business loans conducted by the Corporation's asset quality review function, a function independent of the lending and credit groups responsible for assigning the initial internal risk rating at the time of approval. Standard reserve factors for the loans within each risk rating are updated quarterly and are based on estimated probabilities of default and loss given default, incorporating factors such as borrower rating migration experience and trends, recent charge-off experience, current economic conditions and trends, changes in collateral values of properties securing loans, and trends with respect to past due and nonaccrual amounts.

In 2012, the Corporation implemented enhancements to the methodology used for determining standard reserve factors for business loans not individually evaluated, which resulted in a $25 million increase to the allowance for loan losses. The enhancements included (a) estimating probability of default and loss given default from a national perspective, in addition to a market-by-market basis, and (b) expanding the time horizon of historical, migration-based probability of default and loss given default experience used to develop the standard reserve factors for each internal risk rating. By expanding the horizon on migration and loss history, the Corporation is better able to capture the inherent losses in the core business loan portfolio, as the improving charge-off rates from recent periods may not be reflective of future trends given the environment of continued economic uncertainty, and the expanded horizon reflects both earlier periods in the cycle that include peak periods of credit losses, as well as the more recent improvement in credit quality trends. Estimating probability of default and loss given default from a national perspective provides a deeper data pool, unites the markets on a single platform, promoting enhanced consistency across the organization, and reflects the Corporation's view that borrower performance is impacted by changes in national economic conditions in addition to changes in the local economy. Incremental reserves may be established to cover losses in industries and/or portfolios experiencing elevated loss levels.

The allowance for business loans not individually evaluated also may include a qualitative adjustment, which is determined based on an established framework. The determination of the appropriate adjustment is based on management's analysis of observable macroeconomic metrics, including consideration of regional metrics within the Corporation's footprint, internal credit risk movement and a qualitative assessment of the lending environment, including underwriting standards, current economic and political conditions, and other factors affecting credit quality. The framework enables management to develop a view of the uncertainties that exist but are not yet reflected in the standard reserve factors. The application of standard reserve factors, identified industry-specific risks, the qualitative adjustment and the adjustment for inherent imprecision in the risk rating system may not capture all probable losses inherent in the loan portfolio, therefore actual losses experienced in the future may vary from those estimated.

The allowance for retail loans not individually evaluated is determined by applying estimated loss rates to various pools of loans within the portfolios with similar risk characteristics. Estimated loss rates for all pools are updated quarterly, incorporating factors such as recent charge-off experience, current economic conditions and trends, changes in collateral values of properties securing loans (using index-based estimates), and trends with respect to past due and nonaccrual amounts.

Loans acquired in business combinations are initially recorded at fair value, which includes an estimate of credit losses expected to be realized over the remaining lives of the loans, and therefore no corresponding allowance for loan losses is recorded for these loans at acquisition. Methods utilized to estimate the required allowance for loan losses for acquired loans not deemed credit-impaired at acquisition are similar to originated loans; however, the estimate of loss is based on the unpaid principal balance less any remaining purchase discount.

Since loss ratios are applied to large pools of loans, even minor changes in estimated loss content could significantly affect the Corporation's determination of the appropriateness of the allowance for loan losses. To illustrate, if recent loss experience dictated that the estimated loss ratios would be changed by five percent (of the estimate) across all risk ratings, the allowance for loan losses as of December 31, 2012 would change by approximately $16 million.

Allowance for Credit Losses on Lending-Related Commitments

The allowance for credit losses on lending-related commitments includes specific allowances, based on individual evaluations of certain letters of credit in a manner consistent with business loans, and allowances based on the pool of the remaining letters of credit and all unused commitments to extend credit within each internal risk rating. A probability of draw estimate is applied to the commitment amount, and the result is multiplied by standard reserve

factors consistent with business loans. In general, the probability of draw for letters of credit is considered certain for all letters of credit supporting loans and for letters of credit assigned an internal risk rating generally consistent with regulatory defined substandard or doubtful. Other letters of credit and all unfunded commitments have a lower probability of draw.

VALUATION METHODOLOGIES

Fair Value Measurement of Level 3 Financial Instruments

Fair value measurement applies whenever accounting guidance requires or permits assets or liabilities to be measured at fair value. Fair value is an estimate of the exchange price that would be received to sell an asset or paid to transfer a liability in an orderly transaction (i.e., not a forced transaction, such as a liquidation or distressed sale) between market participants at the measurement date and is based on the assumptions market participants would use when pricing an asset or liability.

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Fair value measurement and disclosure guidance establishes a three-level hierarchy for disclosure of assets and liabilities recorded at fair value. The classification of assets and liabilities within the hierarchy is based on the markets in which the assets and liabilities are traded and whether the inputs used for measurement are observable or unobservable. Observable inputs reflect market-derived or market-based information obtained from independent sources, while unobservable inputs reflect management's estimates about market data. Level 1 valuations are based on quoted prices for identical instruments traded in active markets. Level 2 valuations are based on 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 valuations are generated from model-based techniques that use at least one significant assumption not observable in the market. These unobservable assumptions reflect estimates of assumptions market participants would use in pricing the asset or liability. Valuation techniques include the use of option pricing models, discounted cash flow models and similar techniques. Fair value measurements for assets and liabilities where limited or no observable market data exists are based primarily upon estimates which cannot be determined with precision and in many cases may not reflect amounts exchanged in a current sale of the financial instrument.

Fair value measurement and disclosure guidance differentiates between those assets and liabilities required to be carried at fair value at every reporting period (“recurring”) and those assets and liabilities that are only required to be adjusted to fair value under certain circumstances (“nonrecurring”). Level 3 financial instruments recorded at fair value on a recurring basis included primarily auction-rate securities at December 31, 2012. Additionally, from time to time, the Corporation may be required to record at fair value other financial assets or liabilities on a nonrecurring basis. Note 2 to the consolidated financial statements includes information about the extent to which fair value is used to measure assets and liabilities and the valuation methodologies and key inputs used.

For assets and liabilities recorded at fair value, the Corporation's policy is to maximize the use of observable inputs and minimize the use of unobservable inputs when developing fair value measurements. In certain cases, when market observable inputs for model-based valuation techniques may not be readily available, the Corporation is required to make judgments about assumptions market participants would use in estimating the fair value of the financial instrument. The models used to determine fair value adjustments are periodically evaluated by management for relevance under current facts and circumstances.

Changes in market conditions may reduce the availability of quoted prices or observable data. For example, reduced liquidity in the capital markets or changes in secondary market activities could result in observable market inputs becoming unavailable. Therefore, when market data is not available, the Corporation would use valuation techniques requiring more management judgment to estimate the appropriate fair value.

At December 31, 2012, Level 3 financial assets recorded at fair value on a recurring basis totaled $183 million, or less than one percent of total assets, and consisted primarily of auction-rate securities. At December 31, 2012, Level 3 financial liabilities recorded at fair value on a recurring basis totaled $1 million, or less than one percent of total liabilities.

At December 31, 2012, Level 3 financial assets recorded at fair value on a nonrecurring basis totaled $242 million, or less than one percent of total assets, and consisted primarily of impaired loans and foreclosed property. At December 31, 2012, there were no financial liabilities recorded at fair value on a nonrecurring basis.

See Note 2 to the consolidated financial statements for a complete discussion on the Corporation's use of fair value and the related measurement techniques.

Auction-Rate Securities

The Corporation holds a portfolio of auction-rate securities at a fair value of $180 million at December 31, 2012, recorded as investment securities available-for-sale , with unrealized gains and losses, net of income taxes, reported as a separate component of other comprehensive income (loss), and reviewed quarterly for possible other-than-temporary impairment. Due to the lack of a robust secondary auction-rate securities market with active fair value indications, fair value at December 31, 2012 was determined using an income approach based on a discounted cash flow model utilizing two significant assumptions in the model: 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 derived from the rate at which various types of auction-rate

securities had been redeemed or sold. The workout period was based on an assessment of publicly available information on efforts to re-establish functioning markets for these securities and the Corporation's redemption experience.
The fair value of auction-rate securities recorded on the Corporation's consolidated balance sheets represents management's best estimate of the fair value of these instruments within the framework of existing accounting standards. Changes in the above material assumptions could result in different valuations. For example, an increase or decrease in the liquidity premium of 100 basis points changes the fair value by $6 million at December 31, 2012.
The inherent uncertainty in the process of valuing auction-rate securities for which a ready market is unavailable may cause estimated values of these auction-rate securities assets to differ from the values that would have been derived had a ready market for the auction-rate securities existed, and those differences could be significant. The use of an alternative valuation

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methodology or alternative approaches used to calculate material assumptions could result in significantly different estimated values for these assets. In addition, the value of auction-rate securities is at risk to changes in equity markets, general economic conditions and other factors.

Share-based Compensation

The fair value of share-based compensation as of the date of grant is recognized as compensation expense on a straight-line basis over the vesting period, taking into consideration the effect of retirement-eligible status on the vesting period. In 2012, the Corporation recognized total share-based compensation expense of $37 million. The option valuation model requires several inputs, including the risk-free interest rate, the expected dividend yield, expected volatility factors of the market price of the Corporation's common stock and the expected option life. For further discussion on the valuation model inputs, see Note 16 to the consolidated financial statements. Changes in input assumptions can materially affect the fair value estimates. The option valuation model is sensitive to the market price of the Corporation's stock at the grant date, which affects the fair value estimates and, therefore, the amount of expense recorded on future grants. Using the number of stock options granted in 2012 and the Corporation's stock price at December 31, 2012, a $5.00 per share increase in stock price would result in an increase in pretax expense of approximately $3 million, from the assumed base, over the options' vesting periods for future grants. The fair value of restricted stock is based on the market price of the Corporation's stock at the grant date. Using the number of restricted stock awards issued in 2012, a $5.00 per share increase in stock price would result in an increase in pretax expense of approximately $4 million, from the assumed base, over the awards' vesting periods for future grants. Refer to Notes 1 and 16 to the consolidated financial statements for further discussion of share-based compensation expense.

GOODWILL

Goodwill is initially recorded as the excess of the purchase price over the fair value of net assets acquired in a business combination and is subsequently evaluated at least annually for impairment. Goodwill impairment testing is performed at the reporting unit level, equivalent to a business segment or one level below. The Corporation has three reporting units: the Business Bank, the Retail Bank and Wealth Management. At December 31, 2012 and 2011, goodwill totaled $635 million, including $380 million allocated to the Business Bank, $194 million allocated to the Retail Bank and $61 million allocated to Wealth Management.

The Corporation performs its annual evaluation of goodwill impairment in the third quarter of each year and on an interim basis if events or changes in circumstances between annual tests suggest additional testing may be warranted to determine if goodwill might be impaired. The goodwill impairment test is a two-step test. The first step of the goodwill impairment test compares the estimated fair value of identified reporting units with their carrying amount, including goodwill. If the estimated fair value of the reporting unit is less than the carrying value, the second step must be performed to determine the implied fair value of the reporting unit's goodwill and the amount of goodwill impairment, if any. The implied fair value of goodwill is determined as if the reporting unit were being acquired in a business combination. If the implied fair value of goodwill exceeds the goodwill assigned to the reporting unit, there is no impairment. If the goodwill assigned to a reporting unit exceeds the implied fair value of goodwill, an impairment charge is recorded for the excess.

In performing the annual impairment test, the carrying value of each reporting unit is the greater of economic or regulatory capital. The Corporation assigns economic capital using internal management methodologies on the basis of each reporting unit's credit, operational and interest rate risks, as well as goodwill. To determine regulatory capital, each reporting unit is assigned sufficient capital such that their respective Tier 1 ratio, based on allocated risk-weighted assets, is the same as that of the Corporation. Using this two-pronged approach, the Corporation's equity is fully allocated to its reporting units except for capital held primarily for the risk associated with the securities portfolio which is assigned to the Finance segment of the Corporation.

Determining the fair value of reporting units is a subjective process involving the use of estimates and judgments related to the selection of inputs such as future cash flows, discount rates, comparable public company multiples, applicable control premiums and economic expectations used in determining the interest rate environment. The estimated fair values of the reporting units are determined using a blend of two commonly used valuation techniques: the market approach and the income approach. For the market approach, valuations of reporting units consider a combination of earnings, equity and other multiples from companies with characteristics similar to the reporting unit.

Since the fair values determined under the market approach are representative of noncontrolling interests, the valuations accordingly incorporate a control premium. For the income approach, estimated future cash flows and terminal value are discounted. Estimated future cash flows are derived from internal forecasts and economic expectations for each reporting unit which incorporate uncertainty factors inherent to long-term projections. The applicable discount rate is based on the imputed cost of equity capital appropriate for each reporting unit, which incorporates the risk-free rate of return, the level of non-diversified risk associated with companies with characteristics similar to the reporting unit, an entity-specific risk premium and a market equity risk premium.

In January 2012, the Federal Reserve announced their expectation for the Federal Funds target rate to remain at currently low levels through late 2014. Given the potential for a continued low interest rate environment, the Corporation determined that an interim goodwill impairment test should be performed in the first quarter 2012. As part of the impairment analysis, the Corporation incorporated the Federal Reserve's expectation of the low Federal Fund target rate level through 2014 in its forecasts. In the first quarter 2012, the Corporation engaged an independent valuation specialist to review its valuation models and assumptions. Based

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on the results of this review and in light of the current rate environment, the Corporation updated its assumptions, discount factors and control premiums. The updated assumptions included maintaining the low Federal funds target rate through the end of 2014. For the years after 2014, the Corporation developed rate assumptions based on the expectation of modest increases in the Federal Funds target rate, eventually reaching a normal interest rate environment. Increases to the fair value of the reporting units were in part a result of the improvement in the stock price of the Corporation as well as the stock prices of the guideline companies used in the market approach. The first step of the interim goodwill impairment test performed in the first quarter 2012 indicated that the estimated fair values of each of the reporting units substantially exceeded their carrying values, including goodwill. The results of the goodwill impairment test for each reporting unit were subjected to stress testing as appropriate.

The annual test of goodwill impairment was performed as of the beginning of the third quarter 2012. The Corporation's assumptions included maintaining the low Federal funds target rate through the end of 2014 with modest increases thereafter until eventually reaching a normal interest rate environment. In September 2012, the Federal Reserve updated their expectation for the Federal Funds target rate to remain at currently low levels through mid-2015. This announcement by the Federal Reserve did not significantly impact the results of the annual goodwill impairment test. Increases to the estimated fair value of the Retail Bank were in part a result of lower imputed cost of equity capital, due particularly to improvements to the level of non-diversified risk, and continued improvement in the stock price of the Corporation as well as the stock prices of the guideline companies used in the market approach. At the conclusion of the first step of the annual goodwill impairment tests performed in the third quarter 2012, the estimated fair values of all reporting units substantially exceeded their carrying amounts, including goodwill. The results of the annual test of the goodwill impairment test for each reporting unit were subjected to stress testing as appropriate.

Economic conditions impact the assumptions related to interest and growth rates, loss rates and imputed cost of equity capital. The fair value estimates for each reporting unit incorporated current economic and market conditions, including the recent Federal Reserve announcements and the impact of legislative and regulatory changes, to the extent known and as described above. However, further weakening in the economic environment, such as adverse changes in interest rates, a decline in the performance of the reporting units or other factors could cause the fair value of one or more of the reporting units to fall below their carrying value, resulting in a goodwill impairment charge. Additionally, new legislative or regulatory changes not anticipated in management's expectations may cause the fair value of one or more of the reporting units to fall below the carrying value, resulting in a goodwill impairment charge. Any impairment charge would not affect the Corporation's regulatory capital ratios, tangible common equity ratio or liquidity position.

PENSION PLAN ACCOUNTING

The Corporation has defined benefit pension plans in effect for substantially all full-time employees hired before January 1, 2007. Benefits under the plans are based on years of service, age and compensation. Assumptions are made concerning future events that will determine the amount and timing of required benefit payments, funding requirements and defined benefit pension expense. The three major assumptions are the discount rate used in determining the current benefit obligation, the long-term rate of return expected on plan assets and the rate of compensation increase. The assumed discount rate is determined by matching the expected cash flows of the pension plans to a portfolio of high quality corporate bonds as of the measurement date, December 31. The long-term rate of return expected on plan assets is set after considering both long-term returns in the general market and long-term returns experienced by the assets in the plan. The current target asset allocation model for the plans is detailed in Note 17 to the consolidated financial statements. The expected returns on these various asset categories are blended to derive one long-term return assumption. The assets are invested in certain collective investment and mutual funds, common stocks, U.S. Treasury and other U.S. government agency securities, and corporate and municipal bonds and notes. The rate of compensation increase is based on reviewing recent annual pension-eligible compensation increases as well as the expectation of future increases. The Corporation reviews its pension plan assumptions on an annual basis with its actuarial consultants to determine if the assumptions are reasonable and adjusts the assumptions to reflect changes in future expectations.

The assumptions used to calculate 2013 expense for the defined benefit pension plans were a discount rate of 4.20 percent, a long-term rate of return on plan assets of 7.25 percent and a rate of compensation increase of 4.00 percent. Defined benefit pension expense in 2013 is expected to be approximately $84 million, an increase of $9 million from the $75 million recorded in 2012, primarily driven by declines in the discount rate and the expected long-term rate of return on plan assets. The increase in pension expense is expected to be partially offset by a $4 million decrease in postretirement benefit expense, resulting in a net increase of $5 million in retirement-related benefits expense in 2013. Changing the 2013 key actuarial assumptions discussed above by 25 basis points would have the following impact on defined benefit pension expense in 2013:

	25 Basis Point	
(in millions)	Increase	Decrease
Key Actuarial Assumption:		
Discount rate	$(9.2)	$9.2
Long-term rate of return	(4.6)	4.6
Rate of compensation increase	3.1	(3.1)

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If the assumed long-term return on plan assets differs from the actual return on plan assets, the asset gains or losses are incorporated in the market-related value of plan assets, which is used to determine the expected return on assets. The market-related value of plan assets is determined by amortizing the current year's investment gains and losses (the actual investment return net of the expected investment return) over five years. The amortization adjustment may not exceed 10 percent of the fair value of assets.

The expected return on plan assets is calculated based on the market-related value of the assets at the assumed long-term rate of return plus the impact of any contributions made during the year.

The market-related value method is a commonly used method of spreading investment gains and losses over a five year period. The method reduces annual volatility, and the cumulative effect will ultimately be the same as using the actual fair market value of plan assets over the long term. The Employee Benefits Committee, which consists of executive and senior managers from various areas of the Corporation, provides broad asset allocation guidelines to the asset managers, who report results and investment strategy quarterly to the Employee Benefits Committee. Actual asset allocations are compared to target allocations by asset category and investment returns for each class of investment are compared to expected results based on broad market indices.

The net funded status of the qualified and non-qualified defined benefit pension plans were an asset of $58 million and a liability of $245 million, respectively, at December 31, 2012. Due to the long-term nature of pension plan assumptions, actual results may differ significantly from the actuarial-based estimates. Differences between estimates and experience not recovered in the market or by future assumption changes are required to be recorded in shareholders' equity as part of accumulated other comprehensive income (loss) and amortized to defined benefit pension expense in future years. For further information, refer to Note 1 to the consolidated financial statements.

Actuarial net losses recognized in other comprehensive income (loss) for the year ended December 31, 2012 were $160 million for the qualified defined benefit pension plan and $30 million for the non-qualified defined benefit pension plan. In 2012, the actual return on plan assets in the qualified defined benefit pension plan was $199 million, compared to an expected return on plan assets of $114 million. In 2011, the actual return on plan assets was $92 million, compared to an expected return on plan assets of $115 million. The Corporation made a contribution to the qualified defined benefit plan of $300 million in the fourth quarter 2012 to mitigate the impact of the actuarial losses on future years. No contributions were made to the plan in 2011. There were no assets in the non-qualified defined benefit pension plan at December 31, 2012, and 2011.

Defined benefit pension expense is recorded in “employee benefits” expense on the consolidated statements of income and is allocated to business segments based on the segment's share of salaries expense. Accordingly, defined benefit pension expense was allocated approximately 40 percent, 29 percent, 25 percent and 6 percent to the Retail Bank, Business Bank, Wealth Management and Finance segments, respectively, in 2012.

INCOME TAXES

The calculation of the Corporation's income tax provision (benefit) and tax-related accruals is complex and requires the use of estimates and judgments. The provision for income taxes is the sum of income taxes due for the current year and deferred taxes. Deferred taxes arise from temporary differences between the income tax basis and financial accounting basis of assets and liabilities. Accrued taxes represent the net estimated amount due to or to be received from taxing jurisdictions, currently or in the future, and are included in “accrued income and other assets” or “accrued expenses and other liabilities” on the consolidated balance sheets. The Corporation assesses the relative risks and merits of tax positions for various transactions after considering statutes, regulations, judicial precedent and other available information and maintains tax accruals consistent with these assessments. The Corporation is subject to audit by taxing authorities that could question and/or challenge the tax positions taken by the Corporation.

Included in net deferred taxes are deferred tax assets. Deferred tax assets are evaluated for realization based on available evidence of loss carryback capacity, projected future reversals of existing taxable temporary differences and assumptions made regarding future events. A valuation allowance is provided when it is more-likely-than-not that some portion of the deferred tax asset will not be realized.

Changes in the estimate of accrued taxes occur due to changes in tax law, interpretations of existing tax laws, new judicial or regulatory guidance, and the status of examinations conducted by taxing authorities that impact the relative risks and merits of tax positions taken by the Corporation. These changes, when they occur, impact the estimate of

accrued taxes and could be significant to the operating results of the Corporation. For further information on tax accruals and related risks, see Note 18 to the consolidated financial statements.

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SUPPLEMENTAL FINANCIAL DATA

The following table provides a reconciliation of non-GAAP financial measures used in this financial review with financial measures defined by GAAP.

(dollar amounts in millions)	2012		2011		2010		2009		2008	
Tier 1 Common Capital Ratio:										
Tier 1 capital (a)	$6,705		$6,582		$6,027		$7,704		$7,805	
Less:										
Fixed rate cumulative perpetual preferred stock	—		—		—		2,151		2,129	
Trust preferred securities	—		25		—		495		495	
Tier 1 common capital	$6,705		$6,557		$6,027		$5,058		$5,181	
Risk-weighted assets (a)	$66,188		$63,244		$59,506		$61,815		$73,207	
Tier 1 risk-based capital ratio	10.13	%	10.41	%	10.13	%	12.46	%	10.66	%
Tier 1 common capital ratio	10.13		10.37		10.13	%	8.18	%	7.08	%
Basel III Tier 1 Common Capital Ratio (estimated):										
Tier 1 common capital	$6,705									
Basel III proposed adjustments (b)	(452	)								
Basel III Tier 1 common capital (b)	$6,253									
Risk-weighted assets (a)	$66,188									
Basel III proposed adjustments (b)	2,402									
Basel III risk-weighted assets (b)	$68,590									
Tier 1 common capital ratio	10.1	%								
Basel III Tier 1 common capital ratio (estimated)	9.1	%								
Tangible Common Equity Ratio:										
Total shareholder's equity	$6,942		$6,868		$5,793		$7,029		$7,152	
Less:										
Fixed rate cumulative perpetual preferred stock	—		—		—		2,151		2,129	
Common shareholders' equity	6,942		6,868		5,793		4,878		5,023	
Less:										
Goodwill	635		635		150		150		150	
Other intangible assets	22		32		6		8		12	
Tangible common equity	$6,285		$6,201		$5,637		$4,720		$4,861	
Total assets	$65,359		$61,008		$53,667		$59,249		$67,548	
Less:										
Goodwill	635		635		150		150		150	
Other intangible assets	22		32		6		8		12	
Tangible assets	$64,702		$60,341		$53,511		$59,091		$67,386	
Common equity ratio	10.62	%	11.26	%	10.80	%	8.23	%	7.44	%
Tangible common equity ratio	9.71		10.27		10.54	%	7.99	%	7.21	%
Tangible Common Equity per Share of Common Stock:										
Common shareholders' equity	$6,942		$6,868		$5,793		$4,878		$5,023	
Tangible common equity	6,285		6,201		5,637		4,720		4,861	
Shares of common stock outstanding (in millions)	188		197		177		151		150	
Common shareholders' equity per share of common stock	$36.87		$34.80		$32.82		$32.27		$33.38	
Tangible common equity per share of common stock	33.38		31.42		31.94		31.22		32.30	

(a) Tier 1 capital and risk-weighted assets as defined by regulation.

(b) December 31, 2012 Basel III Tier 1 common capital and risk-weighted assets are estimated based on the proposed rules for the U.S. adoption of the Basel III regulatory capital framework issued in June 2012, as fully phased in on January 1, 2019.

The Tier 1 common capital ratio removes qualifying trust preferred securities from Tier 1 capital as defined by and calculated in conformity with bank regulations. The Basel III Tier 1 common capital ratio further adjusts Tier 1 common capital and risk-weighted assets to account for the rules proposed by U.S. banking regulators in June 2012 for the U.S. adoption of the Basel III regulatory capital framework. The tangible common equity ratio removes preferred stock and the effect of intangible assets from capital and the effect of intangible assets from total assets and tangible common equity per share of common stock removes the effect of intangible assets from common shareholders' equity per share of common stock. The Corporation believes these measurements are meaningful measures of capital adequacy used by investors, regulators, management and others to evaluate the adequacy of common equity and to compare against other companies in the industry.

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FORWARD-LOOKING STATEMENTS

This report includes forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995. In addition, the Corporation may make other written and oral communications from time to time that contain such statements. All statements regarding the Corporation's expected financial position, strategies and growth prospects and general economic conditions expected to exist in the future are forward-looking statements. The words, “anticipates,” “believes,” “feels,” “expects,” “estimates,” “seeks,” “strives,” “plans,” “intends,” “outlook,” “forecast,” “position,” “target,” “r “achievable,” “potential,” “strategy,” “goal,” “aspiration,” “opportunity,” “initiative,” “outcome,” “continue,” “remain,” “main course," “trend,” “objective,” “looks forward” and variations of such words and similar expressions, or future or conditional verbs such as “will,” “would,” “should,” “could,” “might,” “can,” “may” or similar expressions, as they relate to the Corporatio its management, are intended to identify forward-looking statements. The Corporation cautions that forward-looking statements are subject to numerous assumptions, risks and uncertainties, which change over time. Forward-looking statements speak only as of the date the statement is made, and the Corporation does not undertake to update forward-looking statements to reflect facts, circumstances, assumptions or events that occur after the date the forward-looking statements are made. Actual results could differ materially from those anticipated in forward-looking statements and future results could differ materially from historical performance.

In addition to factors mentioned elsewhere in this report or previously disclosed in the Corporation's SEC reports (accessible on the SEC's website at www.sec.gov or on the Corporation's website at www.comerica.com), actual results could differ materially from forward-looking statements and future results could differ materially from historical performance due to a variety of reasons, including but not limited to, the following factors:

- general political, economic or industry conditions, either domestically or internationally, may be less favorable than expected;
- governmental monetary and fiscal policies may adversely affect the financial services industry, and therefore impact the Corporation's financial condition and results of operations;
- volatility and disruptions in global capital and credit markets may adversely impact the Corporation's business, financial condition and results of operations;
- any reduction in the Corporation's credit rating could adversely affect the Corporation and/or the holders of its securities;
- the soundness of other financial institutions could adversely affect the Corporation;
- changes in regulation or oversight may have a material adverse impact on the Corporation's operations;
- unfavorable developments concerning credit quality could adversely impact the Corporation's financial results;
- any future strategic acquisitions or divestitures may present certain risks to the Corporation's business and operations;
- compliance with more stringent capital and liquidity requirements may adversely affect the Corporation;
- declines in the businesses or industries of the Corporation's customers could cause increased credit losses, which could adversely affect the Corporation;
- the introduction, implementation, withdrawal, success and timing of business initiatives and strategies, including, but not limited to, the opening of new banking centers, may be less successful or may be different than anticipated, which could adversely affect the Corporation's business;
- the Corporation may not be able to utilize technology to efficiently and effectively develop, market and deliver new products and services to its customers;
- operational difficulties, failure of technology infrastructure or information security incidents could adversely affect the Corporation's business and operations;
- changes in the financial markets, including fluctuations in interest rates and their impact on deposit pricing, could adversely affect the Corporation's net interest income and balance sheet;
- competitive product and pricing pressures among financial institutions within the Corporation's markets may change;
- changes in customer behavior may adversely impact the Corporation's business, financial condition and results of operations;
- management's ability to maintain and expand customer relationships may differ from expectations;
- management's ability to retain key officers and employees may change;
-

legal and regulatory proceedings and related matters with respect to the financial services industry, including those directly involving the Corporation and its subsidiaries, could adversely affect the Corporation or the financial services industry in general;

- methods of reducing risk exposures might not be effective;
- terrorist activities or other hostilities may adversely affect the general economy, financial and capital markets, specific industries, and the Corporation;
- catastrophic events, including, but not limited to, hurricanes, tornadoes, earthquakes, fires and floods, may adversely affect the general economy, financial and capital markets, specific industries, and the Corporation;
- changes in accounting standards could materially impact the Corporation's financial statements; and
- the Corporation's accounting policies and processes are critical to the reporting of financial condition and results of operations. They require management to make estimates about matters that are uncertain.

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CONSOLIDATED BALANCE SHEETS
Comerica Incorporated and Subsidiaries

(in millions, except share data) December 31	2012	2011
ASSETS		
Cash and due from banks	$1,395	$982
Federal funds sold	100	—
Interest-bearing deposits with banks	3,039	2,574
Other short-term investments	125	149
Investment securities available-for-sale	10,297	10,104
Commercial loans	29,513	24,996
Real estate construction loans	1,240	1,533
Commercial mortgage loans	9,472	10,264
Lease financing	859	905
International loans	1,293	1,170
Residential mortgage loans	1,527	1,526
Consumer loans	2,153	2,285
Total loans	46,057	42,679
Less allowance for loan losses	(629)	(726)
Net loans	45,428	41,953
Premises and equipment	622	675
Accrued income and other assets	4,353	4,571
Total assets	$65,359	$61,008
LIABILITIES AND SHAREHOLDERS' EQUITY		
Noninterest-bearing deposits	$23,279	$19,764
Money market and interest-bearing checking deposits	21,284	20,311
Savings deposits	1,606	1,524
Customer certificates of deposit	5,531	5,808
Foreign office time deposits	502	348
Total interest-bearing deposits	28,923	27,991
Total deposits	52,202	47,755
Short-term borrowings	110	70
Accrued expenses and other liabilities	1,385	1,371
Medium- and long-term debt	4,720	4,944
Total liabilities	58,417	54,140
Common stock - $5 par value:		
Authorized - 325,000,000 shares		
Issued - 228,164,824 shares	1,141	1,141
Capital surplus	2,162	2,170
Accumulated other comprehensive loss	(413)	(356)
Retained earnings	5,931	5,546
	(1,879)	(1,633)

Less cost of common stock in treasury - 39,889,610 shares at 12/31/12 and 30,831,076 shares at 12/31/11		
Total shareholders' equity	6,942	6,868
Total liabilities and shareholders' equity	$65,359	$61,008

See notes to consolidated financial statements.

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CONSOLIDATED STATEMENTS OF INCOME

Comerica Incorporated and Subsidiaries

(in millions, except per share data) Years Ended December 31	2012	2011	2010
INTEREST INCOME			
Interest and fees on loans	$1,617	$1,564	$1,617
Interest on investment securities	234	233	226
Interest on short-term investments	12	12	10
Total interest income	1,863	1,809	1,853
INTEREST EXPENSE			
Interest on deposits	70	90	115
Interest on short-term borrowings	—	—	1
Interest on medium- and long-term debt	65	66	91
Total interest expense	135	156	207
Net interest income	1,728	1,653	1,646
Provision for credit losses	79	144	478
Net interest income after provision for credit losses	1,649	1,509	1,168
NONINTEREST INCOME			
Service charges on deposit accounts	214	208	208
Fiduciary income	158	151	154
Commercial lending fees	96	87	95
Letter of credit fees	71	73	76
Card fees	47	58	58
Foreign exchange income	38	40	39
Bank-owned life insurance	39	37	40
Brokerage fees	19	22	25
Net securities gains	12	14	3
Other noninterest income	124	102	91
Total noninterest income	818	792	789
NONINTEREST EXPENSES			
Salaries	778	770	740
Employee benefits	240	205	179
Total salaries and employee benefits	1,018	975	919
Net occupancy expense	163	169	162
Equipment expense	65	66	63
Outside processing fee expense	107	101	96
Software expense	90	88	89
Merger and restructuring charges	35	75	—
FDIC insurance expense	38	43	62
Advertising expense			