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

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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,” “m “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

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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

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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

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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)				Percent	
Years Ended December 31	2012	2011	Change	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)				Percent	
Years Ended December 31	2012	2011	Change	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

	2012			2011			2010			2009			2008		
(dollar amounts in millions) December 31	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.

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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.

(dollar amounts in millions)	2012 Number of Borrowers	Balance	2011 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 Loans Outstanding	Percent of Total Loans	2011 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							December 31, 2011		
	Location of Property									
(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:

(in millions)	25 Basis Point 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,” “m “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;
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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	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
Income from continuing operations before income taxes	710	530	315
Provision for income taxes	189	137	55
Income from continuing operations	521	393	260
Income from discontinued operations, net of tax	—	—	17
NET INCOME	521	393	277
Less:			

Preferred stock dividends	—	—	123
Income allocated to participating securities	6	4	1
Net income attributable to common shares	$515	$389	$153
Basic earnings per common share:			
Income from continuing operations	$2.68	$2.11	$0.79
Net income	2.68	2.11	0.90
Diluted earnings per common share:			
Income from continuing operations	2.67	2.09	0.78
Net income	2.67	2.09	0.88
Cash dividends declared on common stock	106	75	44
Cash dividends declared per common share	0.55	0.40	0.25

See notes to consolidated financial statements.

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CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
Comerica Incorporated and Subsidiaries

(in millions) Years Ended December 31	2012	2011	2010
NET INCOME	$521	$393	$277
OTHER COMPREHENSIVE INCOME (LOSS)			
Unrealized gains on investment securities available-for-sale:			
Net unrealized holding gains arising during the period	48	202	12
Less: Reclassification adjustment for net securities gains included in net income	14	21	8
Change in net unrealized gains before income taxes	34	181	4
Net gains (losses) on cash flow hedges:			
Net cash flow hedge gains (losses) arising during the period	—	(2)	2
Less: Reclassification adjustment for net cash flow hedge gains included in net income	—	1	28
Change in net cash flow hedge gains before income taxes	—	(3)	(26)
Defined benefit pension and other postretirement plans adjustment:			
Net loss arising during the period	(192)	(176)	(100)
Less: Adjustments for amounts recognized as components of net periodic benefit cost:			
Amortization of actuarial net loss	(62)	(42)	(30)
Amortization of prior service cost	(3)	(3)	(5)
Amortization of transition obligation	(4)	(4)	(4)
Change in defined benefit pension and other postretirement plans adjustment before income taxes	(123)	(127)	(61)
Total other comprehensive income (loss) before income taxes	(89)	51	(83)
Provision (benefit) for income taxes	(32)	18	(30)
Total other comprehensive income (loss), net of tax	(57)	33	(53)
COMPREHENSIVE INCOME	$464	$426	$224

See notes to consolidated financial statements.

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CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY
Comerica Incorporated and Subsidiaries

(in millions, except per share data)	Nonredeemable Preferred Stock	Common Stock Shares Outstanding	Common Stock Amount	Capital Surplus	Accumulated Other Comprehensive Loss	Retained Earnings	Treasury Stock	Total Shareholders' Equity
BALANCE AT DECEMBER 31, 2009	$ 2,151	151.2	$894	$740	$ (336)	$ 5,161	$(1,581)	$7,029
Net income	—	—	—	—	—	277	—	277
Other comprehensive loss, net of tax	—	—	—	—	(53)	—	—	(53)
Cash dividends declared on preferred stock	—	—	—	—	—	(38)	—	(38)
Cash dividends declared on common stock ($0.25 per share)	—	—	—	—	—	(44)	—	(44)
Purchase of common stock	—	(0.1)	—	—	—	—	(4)	(4)
Issuance of common stock	—	25.1	125	724	—	—	—	849
Redemption of preferred stock	(2,250)	—	—	—	—	—	—	(2,250)
Redemption discount accretion on preferred stock	94	—	—	—	—	(94)	—	—
Accretion of discount on preferred stock	5	—	—	—	—	(5)	—	—
Net issuance of common stock under employee stock plans	—	0.3	—	(11)	—	(10)	19	(2)
Share-based compensation	—	—	—	32	—	—	—	32
Other	—	—	—	(4)	—	—	1	(3)
BALANCE AT DECEMBER 31, 2010	$ —	176.5	$1,019	$1,481	$ (389)	$ 5,247	$(1,565)	$5,793
Net income	—	—	—	—	—	393	—	393
Other comprehensive income, net of tax	—	—	—	—	33	—	—	33
Cash dividends declared on common stock ($0.40 per share)	—	—	—	—	—	(75)	—	(75)
Purchase of common stock	—	(4.3)	—	—	—	—	(116)	(116)
Acquisition of Sterling Bancshares, Inc.	—	24.3	122	681	—	—	—	803
	—	0.8	—	(29)	—	(19)	48	—

Net issuance of common stock under employee stock plans								
Share-based compensation	—	—	—	37	—	—	—	37
BALANCE AT DECEMBER 31, 2011	$ —	197.3	$1,141	$2,170	$ (356)	$5,546	$(1,633)	$6,868
Net income	—	—	—	—	—	521	—	521
Other comprehensive loss, net of tax	—	—	—	—	(57)	—	—	(57)
Cash dividends declared on common stock ($0.55 per share)	—	—	—	—	—	(106)	—	(106)
Purchase of common stock	—	(10.2)	—	—	—	—	(308)	(308)
Net issuance of common stock under employee stock plans	—	1.2	—	(46)	—	(30)	63	(13)
Share-based compensation	—	—	—	37	—	—	—	37
Other	—	—	—	1	—	—	(1)	—
BALANCE AT DECEMBER 31, 2012	$ —	188.3	$1,141	$2,162	$ (413)	$5,931	$(1,879)	$6,942

See notes to consolidated financial statements.

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CONSOLIDATED STATEMENTS OF CASH FLOWS
Comerica Incorporated and Subsidiaries

(in millions) Years Ended December 31	2012	2011	2010
OPERATING ACTIVITIES			
Net income	$521	$393	$277
Income from discontinued operations, net of tax	—	—	17
Income from continuing operations, net of tax	521	393	260
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for credit losses	79	144	478
Provision (benefit) for deferred income taxes	158	79	(202)
Depreciation and amortization	133	122	124
Net periodic defined benefit cost	81	53	37
Share-based compensation expense	37	37	32
Net amortization of securities	48	39	26
Accretion of loan purchase discount	(71)	(53)	—
Net securities gains	(12)	(14)	(3)
Excess tax benefits from share-based compensation arrangements	(1)	(1)	(1)
Net change in:			
Trading securities	1	3	(10)
Accrued income receivable	5	(8)	15
Accrued expenses payable	35	59	57
Other, net	(260)	49	456
Discontinued operations, net	—	—	17
Net cash provided by operating activities	754	902	1,286
INVESTING ACTIVITIES			
Investment securities available-for-sale:			
Maturities and redemptions	3,839	2,779	2,152
Sales	—	784	151
Purchases	(4,032)	(4,453)	(2,410)
Net change in loans	(3,498)	(695)	1,259
Cash and cash equivalents acquired in acquisition of Sterling Bancshares, Inc.	—	721	—
Sales of Federal Home Loan Bank stock	3	36	144
Purchase of Federal Reserve Bank stock	—	(26)	—
Proceeds from sales of indirect private equity and venture capital funds	1	33	—
Other, net	(51)	(134)	(90)
Net cash (used in) provided by investing activities	(3,738)	(955)	1,206
FINANCING ACTIVITIES			
Net change in:			
Deposits	4,520	3,296	771
Short-term borrowings	40	(82)	(332)
Medium- and long-term debt:			
Maturities and redemptions	(193)	(1,517)	(5,290)
Issuances	—	—	298
Common stock:			
Repurchases	(308)	(116)	(4)

Cash dividends paid	(97)	(73)	(34)
Issuances	—	—	849
Preferred stock:			
Redemption	—	—	(2,250)
Cash dividends paid	—	—	(38)
Excess tax benefits from share-based compensation arrangements	1	1	1
Other, net	(1)	17	3
Net cash provided by (used in) financing activities	3,962	1,526	(6,026)
Net increase (decrease) in cash and cash equivalents	978	1,473	(3,534)
Cash and cash equivalents at beginning of period	3,556	2,083	5,617
Cash and cash equivalents at end of period	$4,534	$3,556	$2,083
Interest paid	$135	$151	$227
Income taxes, tax deposits and tax-related interest paid	46	73	108
Noncash investing and financing activities:			
Loans transferred to other real estate	42	69	104
Net noncash assets acquired in stock acquisition of Sterling Bancshares, Inc.	—	82	—

See notes to consolidated financial statements.

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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Comerica Incorporated (the Corporation) is a registered financial holding company headquartered in Dallas, Texas. The Corporation's major business segments are the Business Bank, the Retail Bank and Wealth Management. The Corporation operates in three primary geographic markets: Michigan, California and Texas. For further discussion of each business segment and primary geographic market, refer to Note 22. The Corporation and its banking subsidiaries are regulated at both the state and federal levels.

The accounting and reporting policies of the Corporation conform to United States (U.S.) generally accepted accounting principles (GAAP). The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect reported amounts and disclosures. Actual results could differ from these estimates.

The following summarizes the significant accounting policies of the Corporation applied in the preparation of the accompanying consolidated financial statements.

Principles of Consolidation

The consolidated financial statements include the accounts of the Corporation and the accounts of those subsidiaries that are majority owned and in which the Corporation has a controlling financial interest. The Corporation consolidates entities not determined to be variable interest entities (VIEs) when it holds a controlling interest in the entity's outstanding voting stock and uses the cost or equity method when it holds less than a controlling interest. In consolidation, all significant intercompany accounts and transactions are eliminated. The results of operations of companies acquired are included from the date of acquisition. Certain amounts in the financial statements for prior years have been reclassified to conform to current financial statement presentation.

The Corporation holds investments in certain legal entities that are considered VIEs. 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 are 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 money interests in an entity that change with fluctuations in the entity's net asset value. The primary beneficiary is required to consolidate the VIE. The primary beneficiary is defined as the party that has both the power to direct the activities of the VIE that most significantly impact the entity's economic performance and the obligation to absorb losses or the right to receive benefits that could be significant to the VIE. The maximum potential exposure to losses relative to investments in VIEs is generally limited to the sum of the outstanding book basis and unfunded commitments for future investments. The Corporation evaluates its investments in VIEs, both at inception and when there is a change in circumstances that requires reconsideration, to determine if the Corporation is the primary beneficiary and consolidation is required. The Corporation accounts for unconsolidated VIEs using either the cost or equity method.

The equity method is used for investments where the Corporation has the ability to exercise significant influence over the entity's operation and financial policies, which is generally presumed to exist if the Corporation owns more than a 20 percent voting interest in the entity. Equity method investments are included in "accrued income and other assets" on the consolidated balance sheets, with income and losses recorded in "other noninterest income" on the consolidated statements of income. Unconsolidated equity investments that do not meet the criteria to be accounted for under the equity method are accounted for under the cost method. Cost method investments are included in "accrued income and other assets" on the consolidated balance sheets, with income (net of write-downs) recorded in "other noninterest income" on the consolidated statements of income.

Assets held in an agency or fiduciary capacity are not assets of the Corporation and are not included in the consolidated financial statements.

See Note 9 for additional information about the Corporation's involvement with VIEs.

Fair Value Measurements

Fair value measurement applies whenever accounting guidance requires or permits assets or liabilities to be measured at fair value. Fair value is defined as the exchange price that would be received to sell an asset or paid to transfer a liability in the principal or most advantageous market for the asset or 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. Fair value is based on the assumptions market participants would use when pricing an asset or liability. Fair value measurements and disclosures guidance establishes a three-level fair value hierarchy based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. The fair value hierarchy gives the highest priority to quoted prices in active markets and the lowest

priority to unobservable data. Fair value measurements are separately disclosed by level within the fair value hierarchy. For assets and liabilities recorded at fair value, it is the Corporation's policy to maximize the use of observable inputs and minimize the use of unobservable inputs when developing fair value measurements.

Fair value measurements for assets and liabilities where limited or no observable market data exists are based primarily upon estimates, often calculated based on the economic and competitive environment, the characteristics of the asset or liability and other factors. Therefore, the results cannot be determined with precision and may not be realized in an actual sale or immediate settlement of the asset or liability. Additionally, there may be inherent weaknesses in any calculation technique, and changes in the underlying assumptions used, including discount rates and estimates of future cash flows, could significantly affect the results of current or future values.

In the first quarter 2012, the Corporation adopted an amendment to GAAP which generally aligns the principles of fair value measurements with International Financial Reporting Standards (IFRS) and requires expanded disclosures. The adoption of the amendment had no impact on the Corporation's financial condition or results of operations.

For further information about fair value measurements, including the expanded disclosures required by the amendment noted above, refer to Note 2.

Other Short-Term Investments

Other short-term investments include trading securities and loans held-for-sale.

Trading securities are carried at fair value. Realized and unrealized gains or losses on trading securities are included in "other noninterest income" on the consolidated statements of income.

Loans held-for-sale, typically residential mortgages originated with the intent to sell, are carried at the lower of cost or fair value. Fair value is determined in the aggregate for each portfolio. Changes in fair value are included in "other noninterest income" on the consolidated statements of income.

Investment Securities

Securities that are not held for trading purposes are accounted for as securities available-for-sale and recorded at fair value, with unrealized gains and losses, net of income taxes, reported as a separate component of other comprehensive income (loss) (OCI).

Investment securities are reviewed quarterly for possible other-than-temporary impairment (OTTI). In determining whether OTTI exists for debt securities in an unrealized loss position, the Corporation assesses the likelihood of selling the security prior to the recovery of its amortized cost basis. If the Corporation intends to sell the debt security or it is more likely than not that the Corporation will be required to sell the debt security prior to the recovery of its amortized cost basis, the debt security is written down to fair value, and the full amount of any impairment charge is recorded as a loss in "net securities gains" in the consolidated statements of income. If the Corporation does not intend to sell the debt security and it is more likely than not that the Corporation will not be required to sell the debt security prior to recovery of its amortized cost basis, only the credit component of any impairment of a debt security is recognized as a loss in "net securities gains" on the consolidated statements of income, with the remaining impairment recorded in OCI.

The OTTI review for equity securities includes an analysis of the facts and circumstances of each individual investment and focuses on the severity of loss, the length of time the fair value has been below cost, the expectation for that security's performance, the financial condition and near-term prospects of the issuer, and management's intent and ability to hold the security to recovery. A decline in value of an equity security that is considered to be other-than-temporary is recorded as a loss in "net securities gains" on the consolidated statements of income.

Gains or losses on the sale of securities are computed based on the adjusted cost of the specific security sold.

For further information on investment securities, refer to Note 3.

Loans

Loans and leases originated and held for investment are recorded at the principal balance outstanding, net of unearned income, charge-offs and unamortized deferred fees and costs. Interest income is recognized on loans and leases using the interest method.

Loans and leases acquired in business combinations are initially recorded at fair value with no carryover of any existing allowance for loan losses. Acquired loans with evidence of credit quality deterioration at acquisition are reviewed to determine if it is probable that the Corporation will not be able to collect all contractual amounts due, including both principal and interest.

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When both conditions exist, such loans are accounted for as purchased credit-impaired (PCI) loans. The Corporation generally aggregates PCI loans into pools of loans based on common risk characteristics.
The Corporation estimates the total cash flows expected to be collected from the pools of acquired PCI loans, which include undiscounted expected principal and interest, using credit risk, interest rate and prepayment risk models that incorporate management's best estimate of current key assumptions such as default rates, loss severity and payment speeds. The excess of the undiscounted total cash flows expected to be collected over the fair value of the related PCI loans represents the accretable yield, which is recognized as interest income on a level-yield basis over the life of the related loan pools. The difference between the undiscounted contractual principal and interest and the undiscounted total cash flows expected to be collected is the nonaccretable difference, which reflects the impact of estimated credit losses and other factors. Subsequent increases in expected cash flows will result in a recovery of any previously recorded allowance for loan losses, to the extent applicable, and a reclassification from nonaccretable difference to accretable yield, which is recognized prospectively over the then remaining lives of the loan pools. Subsequent decreases in expected cash flows will result in an impairment charge to the provision for loan losses, resulting in an addition to the allowance for loan losses, and a reclassification from accretable yield to nonaccretable difference. A loan disposal, which may include a loan sale, receipt of payment in full from the borrower or foreclosure, results in removal of the loan from the acquired PCI loan pool at its allocated carrying amount. Refinanced or restructured loans remain within the acquired PCI loan pools.
For acquired loans not deemed credit-impaired at acquisition, the difference between the initial fair value and the unpaid principal balance is recognized as interest income on a level-yield basis over the lives of the related loans.
The Corporation assesses all loan modifications to determine whether a restructuring constitutes a troubled debt restructuring (TDR). A restructuring is considered a TDR when a borrower is experiencing financial difficulty and the Corporation grants a concession to the borrower. TDRs on accrual status at the original contractual rate of interest are considered performing. Nonperforming TDRs include TDRs on nonaccrual status and loans which have been renegotiated to less than the original contractual rates (reduced-rate loans). All TDRs are considered impaired loans.
Loan Origination Fees and Costs
Substantially all loan origination fees and costs are deferred and amortized to net interest income of over the life of the related loan or over the commitment period as a yield adjustment. Net deferred income on originated loans, including unearned income and unamortized costs, fees, premiums and discounts, totaled $310 million and $334 million at December 31, 2012 and 2011, respectively.
Loan fees on unused commitments and net origination fees related to loans sold are recognized in noninterest income.
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 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 information on the Allowance for Credit Losses, refer to Note 4.
Allowance for Loan Losses
The allowance for loan losses represents management’s assessment of probable, estimable losses inherent in the Corporation’s loan portfolio. 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. A loan is considered impaired when it is probable that interest or principal payments will not be made in accordance with the contractual terms of the loan agreement. 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.

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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 increased frequency. 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 thus 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. 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 errors. This additional allowance is calculated 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. 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 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 any subsequently 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.

The total allowance for loan losses is sufficient to absorb incurred losses inherent in the total portfolio. Unanticipated economic events, including political, economic and regulatory instability in countries where the Corporation has loans, could cause changes in the credit characteristics of the portfolio and result in an unanticipated increase in the allowance. Significant increases in current portfolio exposures, as well as the inclusion of additional industry-specific portfolio exposures in the allowance, 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 credit losses in order to maintain an allowance that complies with credit risk and accounting policies.

Loans deemed uncollectible are charged off and deducted from the allowance. The provision for loan losses and recoveries on loans previously charged off are added to the allowance.

Allowance for Credit Losses on Lending-Related Commitments

The allowance for credit losses on lending-related commitments provides for probable losses inherent in lending-related commitments, including unused commitments to extend credit and letters of credit. 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. The allowance for credit losses on lending-related commitments is included in “accrued expenses and other liabilities” on the consolidated balance sheets, with the corresponding charge reflected in the “provision for credit losses” on the consolidated statements of income.

Nonperforming Assets

Nonperforming assets consist of nonaccrual loans, including loans held-for-sale, reduced-rate loans and foreclosed property.

Business loans are generally placed on nonaccrual status when management determines full collection of principal or interest is unlikely or when principal or interest payments are 90 days past due, unless the loan is fully collateralized and in the process of collection. There is no past-due status threshold in the determination of when a business loan should be charged-off. Business loans typically require individual evaluation and management judgment to determine the timing and amount of principal charge-offs. The past-due status of a business loan is one of many indicative factors considered in determining the collectibility of the credit. The primary driver of when the principal amount of a business loan should be fully or partially charged-off is based on a qualitative assessment of the recoverability of the principal amount from collateral and other cash flow sources.

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.

All other consumer loans are generally not placed on nonaccrual status and are charged off at no later than 120 days past due, earlier if deemed uncollectible. At the time a loan is placed on nonaccrual status, interest previously accrued but not collected is charged against current income. Income on such loans is then recognized only to the extent that cash is received and future collection of principal is probable. Generally, a loan or debt security may be returned to accrual status when all delinquent principal and interest have been received and the Corporation expects repayment of the remaining contractual principal and interest, or when the loan or debt security is both well secured and in the process of collection.

PCI loans are recorded at fair value at acquisition date. Although the PCI loans may be contractually delinquent, the Corporation does not classify these loans as past due or nonperforming as the loans were written down to fair value at the acquisition date and the accretable yield is recognized in interest income over the remaining life of the loan.

Foreclosed property (primarily real estate) is initially recorded at at fair value, less costs to sell, at the date of foreclosure and subsequently carried at the lower of cost or fair value, less estimated costs to sell. Independent appraisals are obtained to substantiate the fair value of foreclosed property at the time of foreclosure and updated at least annually or upon evidence of deterioration in the property’s value. At the time of foreclosure, any excess of the related loan balance over fair value (less estimated costs to sell) of the property acquired is charged to the allowance for loan losses. Subsequent write-downs, operating expenses and losses upon sale, if any, are charged to noninterest expenses. Foreclosed property is included in “accrued income and other assets” on the consolidated balance sheets.

Premises and Equipment

Premises and equipment are stated at cost, less accumulated depreciation and amortization. Depreciation, computed on the straight-line method, is charged to operations over the estimated useful lives of the assets. Estimated useful lives are generally 3 years to 33 years for premises that the Corporation owns and 3 years to 8 years for furniture and equipment. Leasehold improvements are generally amortized over the terms of their respective leases or 10 years, whichever is shorter.

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Software
Capitalized software is stated at cost, less accumulated amortization. Capitalized software includes purchased software and capitalizable application development costs associated with internally-developed software. Amortization, computed on the straight-line method, is charged to operations over 5 years, the estimated useful life of the software. Capitalized software is included in “accrued income and other assets” on the consolidated balance sheets.
Goodwill and Core Deposit Intangibles
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.
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 would be 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.
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. 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 Corporation may choose to perform a qualitative assessment to determine whether the first step of the impairment test should be performed in future periods if certain factors indicate that impairment is unlikely. Factors which could be considered in the assessment of the likelihood of impairment include macroeconomic conditions, industry and market considerations, stock performance of the Corporation and its peers, financial performance, events affecting the Corporation as a whole or its reporting units individually and previous results of goodwill impairment tests.
Core deposit intangibles are amortized on an accelerated basis, based on the estimated period the economic benefits are expected to be received. Core deposit intangibles are reviewed for impairment when events or changes in

circumstances indicate that their carrying amounts may not be recoverable. Impairment for a finite-lived intangible asset exists if the sum of the undiscounted cash flows expected to result from the use of the asset exceeds its carrying value.

Additional information regarding goodwill and core deposit intangibles can be found in Note 7.

Nonmarketable Equity Securities

The Corporation has certain investments that are not readily marketable. These investments include a portfolio of investments in indirect private equity and venture capital funds and restricted equity investments, which are securities the Corporation is required to hold for various reasons, primarily Federal Home Loan Bank of Dallas (FHLB) and Federal Reserve

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Bank (FRB) stock. These investments are accounted for on the cost or equity method and are included in “accrued income and other assets” on the consolidated balance sheets. The investments are individually reviewed for impairment on a quarterly basis. Indirect private equity and venture capital funds are evaluated by comparing the carrying value to the estimated fair value. The amount by which the carrying value exceeds the fair value that is determined to be other-than-temporary impairment is charged to current earnings and the carrying value of the investment is written down accordingly. Restricted equity securities are recorded at cost (par value) and evaluated for impairment based on the ultimate recoverability of the par value. If the Corporation does not expect to recover the full par value, the amount by which the par value exceeds the ultimately recoverable value would be charged to current earnings and the carrying value of the investment would be written down accordingly.

Derivative Instruments and Hedging Activities

Derivative instruments are carried at fair value in either “accrued income and other assets” or “accrued expenses and other liabilities” on the consolidated balance sheets. The accounting for changes in the fair value (i.e., gains or losses) of a derivative instrument is determined by whether it has been designated and qualifies as part of a hedging relationship and, further, by the type of hedging relationship. For derivative instruments designated and qualifying as fair value hedges (i.e., hedging the exposure to changes in the fair value of an asset or a liability or an identified portion thereof that is attributable to a particular risk), the gain or loss on the derivative instrument, as well as the offsetting loss or gain on the hedged item attributable to the hedged risk, are recognized in current earnings during the period of the change in fair values. For derivative instruments that are designated and qualify as cash flow hedges (i.e., hedging the exposure to variability in expected future cash flows that is attributable to a particular risk), the effective portion of the gain or loss on the derivative instrument is reported as a component of other comprehensive income and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. The remaining gain or loss on the derivative instrument in excess of the cumulative change in the present value of future cash flows of the hedged item (i.e., the ineffective portion), if any, is recognized in current earnings during the period of change. For derivative instruments not designated as hedging instruments, the gain or loss is recognized in current earnings during the period of change.

For derivatives designated as hedging instruments at inception, the Corporation uses either the short-cut method or applies statistical regression analysis to assess effectiveness. The short-cut method is used for certain fair value hedges of medium and long-term debt issued prior to 2006. This method allows for the assumption of zero hedge ineffectiveness and eliminates the requirement to further assess hedge effectiveness on these transactions. For hedge relationships to which the Corporation does not apply the short-cut method, statistical regression analysis is used at inception and for each reporting period thereafter to assess whether the derivative used has been and is expected to be highly effective in offsetting changes in the fair value or cash flows of the hedged item. All components of each derivative instrument’s gain or loss are included in the assessment of hedge effectiveness. Net hedge ineffectiveness is recorded in “other noninterest income” on the consolidated statements of income.

Further information on the Corporation’s derivative instruments and hedging activities is included in Note 8.

Short-Term Borrowings

Securities sold under agreements to repurchase are treated as collateralized borrowings and are recorded at amounts equal to the cash received. The contractual terms of the agreements to repurchase may require the Corporation to provide additional collateral if the fair value of the securities underlying the borrowings declines during the term of the agreement.

Financial Guarantees

Certain guarantee contracts or indemnification agreements that contingently require the Corporation, as guarantor, to make payments to the guaranteed party are initially measured at fair value and included in “accrued expenses and other liabilities” on the consolidated balance sheets. The subsequent accounting for the liability depends on the nature of the underlying guarantee. The release from risk is accounted for under a particular guarantee when the guarantee expires or is settled, or by a systematic and rational amortization method.

Further information on the Corporation’s obligations under guarantees is included in Note 8.

Share-Based Compensation

The Corporation recognizes share-based compensation expense using the straight-line method over the requisite service period for all stock awards, including those with graded vesting. The requisite service period is the period an employee is required to provide service in order to vest in the award, which cannot extend beyond the date at which the employee is no longer required to perform any service to receive the share-based compensation (the retirement-eligible date).

Further information on the Corporation's share-based compensation plans is included in Note 16.

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Defined Benefit Pension and Other Postretirement Costs
Defined benefit pension costs are charged to “employee benefits” expense on the consolidated statements of income and are funded consistent with the requirements of federal laws and regulations. Inherent in the determination of defined benefit pension costs are assumptions concerning future events that will affect the amount and timing of required benefit payments under the plans. These assumptions include demographic assumptions such as retirement age and mortality, a compensation rate increase, a discount rate used to determine the current benefit obligation and a long-term expected rate of return on plan assets. Net periodic defined benefit pension expense includes service cost, interest cost based on the assumed discount rate, an expected return on plan assets based on an actuarially derived market-related value of assets, amortization of prior service cost and amortization of net actuarial gains or losses. 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 5 years. The amortization adjustment cannot exceed 10 percent of the fair value of assets. Prior service costs include the impact of plan amendments on the liabilities and are amortized over the future service periods of active employees expected to receive benefits under the plan. Actuarial gains and losses result from experience different from that assumed and from changes in assumptions (excluding asset gains and losses not yet reflected in market-related value). Amortization of actuarial gains and losses is included as a component of net periodic defined benefit pension cost for a year if the actuarial net gain or loss exceeds 10 percent of the greater of the projected benefit obligation or the market-related value of plan assets. If amortization is required, the excess is amortized over the average remaining service period of participating employees expected to receive benefits under the plan.
Postretirement benefits are recognized in “employee benefits” expense on the consolidated statements of income during the average remaining service period of participating employees expected to receive benefits under the plan or the average remaining future lifetime of retired participants currently receiving benefits under the plan.
For further information regarding the Corporation’s defined benefit pension and other postretirement plans, refer to Note 17.
Income Taxes
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. Deferred tax assets are evaluated for realization based on available evidence of loss carry-back capacity, 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. The provision for income taxes assigned to discontinued operations is based on statutory rates, adjusted for permanent differences generated by those operations.
The Corporation classifies interest and penalties on income tax liabilities in the “provision for income taxes” on the consolidated statements of income.
Discontinued Operations
Components of the Corporation that have been or will be disposed of by sale, where the Corporation does not have a significant continuing involvement in the operations after the disposal, are accounted for as discontinued operations in all periods presented if significant to the consolidated financial statements. For further information on discontinued operations, refer to Note 25.
Earnings Per Share
Basic income from continuing operations per common share and net income per common share are calculated using the two-class method. The two-class method is an earnings allocation formula that determines earnings per share for each share of common stock and participating securities according to dividends declared (distributed earnings) and participation rights in undistributed earnings. Distributed and undistributed earnings are allocated between common and participating security shareholders based on their respective rights to receive dividends. Unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents are considered participating securities (i.e., nonvested restricted stock). Undistributed net losses are not allocated to nonvested restricted

shareholders, as these shareholders do not have a contractual obligation to fund the losses incurred by the Corporation. Income from continuing operations attributable to common shares and net income attributable to common shares are then divided by the weighted-average number of common shares outstanding during the period.

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

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Statements of Cash Flows
Cash and cash equivalents are defined as those amounts included in “cash and due from banks”, “federal funds sold” and “interest-bearing deposits with banks” on the consolidated balance sheets. Cash flows from discontinued operations are reported as separate line items within cash flows from operating, investing and financing activities in the consolidated statements of cash flows.
Comprehensive Income (Loss)
In the first quarter 2012, the Corporation adopted amendments to GAAP which revise the presentation of comprehensive income in the financial statements. As a result, the Corporation presents on an interim basis the components of net income and a total for comprehensive income in one continuous consolidated statement of comprehensive income and presents on an annual basis the components of net income and other comprehensive income in two separate, but consecutive statements. In the fourth quarter 2012, the Corporation early adopted further amendments to GAAP which require enhanced disclosures about the amounts reclassified out of accumulated other comprehensive income and the corresponding line items impacted on the consolidated statements of income. The enhanced disclosures are provided in Note 14.
Pending Accounting Pronouncements
In December 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2011-11, “Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities,” (ASU 2011-11), which requires enhanced disclosures about the nature and effect or potential effect of an entity's rights of setoff associated with its financial and derivative instruments. In January 2013, the FASB issued ASU No. 2013-01, “Balance Sheet (Topic 210): Clarifying the Scope of Disclosure about Offsetting Assets and Liabilities,” (ASU 2013-01), which narrowed the scope of the financial instruments for which the enhanced disclosures are applicable The Corporation will adopt ASU 2011-11 and ASU 2013-01 in the first quarter 2013. While the provisions of ASU 2011-11 and ASU 2013-01 will expand the Corporation's financial and derivative instruments disclosures, the Corporation does not expect the adoption to have any effect on the Corporation's financial condition and results of operations.
NOTE 2 – FAIR VALUE MEASUREMENTS
The Corporation utilizes fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. The determination of fair values of financial instruments often requires the use of estimates. In cases where quoted market values in an active market are not available, the Corporation uses present value techniques and other valuation methods to estimate the fair values of its financial instruments. These valuation methods require considerable judgment and the resulting estimates of fair value can be significantly affected by the assumptions made and methods used.
Fair value is an estimate of the exchange price that would be received to sell an asset or paid to transfer a liability in an orderly transaction (i.e., not a forced transaction, such as a liquidation or distressed sale) between market participants at the measurement date. However, the calculated fair value estimates in many instances cannot be substantiated by comparison to independent markets and, in many cases, may not be realizable in a current sale of the financial instrument.
Trading securities, investment securities available-for-sale, derivatives and deferred compensation plan liabilities are recorded at fair value on a recurring basis. Additionally, from time to time, the Corporation may be required to record other assets and liabilities at fair value on a nonrecurring basis, such as impaired loans, other real estate (primarily foreclosed property), nonmarketable equity securities and certain other assets and liabilities. These nonrecurring fair value adjustments typically involve write-downs of individual assets or application of lower of cost or fair value accounting.
The Corporation categorizes assets and liabilities recorded at fair value on a recurring or nonrecurring basis and the estimated fair value of financial instruments not recorded at fair value on a recurring basis into a three-level hierarchy, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value.

Level 1 Valuation is based upon quoted prices for identical instruments traded in active markets.

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

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

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

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

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

Trading securities and associated deferred compensation plan liabilities

Securities held for trading purposes and associated deferred compensation plan liabilities are recorded at fair value on a recurring basis and included in “other short-term investments” and “accrued expenses and other liabilities,” respectively, on the consolidated balance sheets. Level 1 securities held for trading purposes include assets related to employee deferred compensation plans, which are invested in mutual funds, U.S. Treasury securities that are traded by dealers or brokers in active over-the-counter markets and other securities traded on an active exchange, such as the New York Stock Exchange. Deferred compensation plan liabilities represent the fair value of the obligation to the employee, which corresponds to the fair value of the invested assets. Level 2 trading securities include municipal bonds and residential mortgage-backed securities issued by U.S. government-sponsored entities and corporate debt securities. Securities classified as Level 3 include securities in less liquid markets and securities not rated by a credit agency. The methods used to value trading securities are the same as the methods used to value investment securities available-for-sale, discussed below.

Loans held-for-sale

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

Investment securities available-for-sale

Investment securities available-for-sale are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted prices, if available. If quoted prices are not available or the market is deemed to be inactive at the measurement date, an adjustment to the quoted prices may be necessary. In some circumstances, the Corporation may conclude that a change in valuation technique or the use of multiple valuation techniques may be appropriate to estimate an instrument's fair value. Level 1 securities include those traded on an active exchange, such as the New York Stock Exchange, U.S. Treasury securities that are traded by dealers or brokers in active over-the-counter markets and money market funds. Level 2 securities include residential mortgage-backed securities issued by U.S. government agencies and U.S. government-sponsored entities and corporate debt securities. The fair value of Level 2 securities was determined using quoted prices of securities with similar characteristics, or pricing models based on observable market data inputs, primarily interest rates, spreads and prepayment information.

Securities classified as Level 3, of which the substantial majority is auction-rate securities, represent securities in less liquid markets requiring significant management assumptions when determining fair value. Due to the lack of a robust

secondary auction-rate securities market with active fair value indicators, fair value for all periods presented was determined using an income approach based on a discounted cash flow model. The discounted cash flow model utilizes two significant inputs: discount rate and workout period. The discount rate was calculated using credit spreads of the underlying collateral or similar securities plus a liquidity risk premium. The liquidity risk premium was derived from the rate at which various types of similar auction-rate securities had been redeemed or sold. The workout period was based on an assessment of publicly available information on efforts to re-establish functioning markets for these securities and the Corporation's own redemption experience. Significant increases in any of these inputs in isolation would result in a significantly lower fair value. Additionally, as the discount rate incorporates the liquidity risk premium, a change in an assumption used for the liquidity risk premium would be accompanied by a directionally

similar change in the discount rate. The Corporate Development Department is responsible for determining the valuation methodology for auction-rate securities and for updating significant inputs based on changes to the factors discussed above. Valuation results, including an analysis of changes to the valuation methodology and significant inputs, are provided to senior management for review on a quarterly basis.

Loans

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

The Corporation discloses fair value estimates for loans not recorded at fair value. The estimated fair value is determined based on characteristics such as loan category, repricing features and remaining maturity, and includes prepayment and credit loss estimates. For variable rate business loans that reprice frequently, the estimated fair value is based on carrying values adjusted for estimated credit losses inherent in the portfolio at the balance sheet date. For other business loans and retail loans, fair values are estimated using a discounted cash flow model that employs a discount rate that reflects the Corporation's current pricing for loans with similar characteristics and remaining maturity, adjusted by an amount for estimated credit losses inherent in the portfolio at the balance sheet date. The rates take into account the expected yield curve, as well as an adjustment for prepayment risk, when applicable. The Corporation classifies the estimated fair value of loans held for investment as Level 3.

Customers' liability on acceptances outstanding and acceptances outstanding

Customers' liability on acceptances outstanding and acceptances outstanding, included in "accrued income and other assets" and "accrued expenses and other liabilities" on the consolidated balance sheets, respectively, have carrying amounts that approximate estimated fair value, due to their short-term nature. As such, the Corporation classifies the estimated fair value of these instruments as Level 1.

Derivative assets and derivative liabilities

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

The Corporation holds a portfolio of warrants for generally nonmarketable equity securities with a fair value of $3 million at December 31, 2012. These warrants are primarily from high technology, non-public companies obtained as part of the loan origination process. Warrants which contain a net exercise provision or a non-contingent put right embedded in the warrant agreement are accounted for as derivatives and recorded at fair value on a recurring basis

using a Black-Scholes valuation model. The Black-Scholes valuation model utilizes five inputs: risk-free rate, expected life, volatility, exercise price, and the per share market value of the underlying company. The Corporate Development Department is responsible for the warrant valuation process, which includes reviewing all significant inputs for reasonableness, and for providing valuation results to senior management. Increases in any of these inputs in isolation, with the exception of exercise price, would result in a higher fair value. Increases in exercise price in isolation would result in a lower fair value. The Corporation classifies warrants accounted for as derivatives as Level 3.

The Corporation also holds a derivative contract associated with the 2008 sale of its remaining ownership of Visa Inc. (Visa) Class B shares. Under the terms of the derivative contract, the Corporation will compensate the counterparty primarily for

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dilutive adjustments made to the conversion factor of the Visa Class B to Class A shares based on the ultimate outcome of litigation involving Visa. Conversely, the Corporation will be compensated by the counterparty for any increase in the conversion factor from anti-dilutive adjustments. The recurring fair value of the derivative contract is based on unobservable inputs consisting of management's estimate of the litigation outcome, timing of litigation settlements and payments related to the derivative. Significant increases in the estimate of litigation outcome and the timing of litigation settlements in isolation would result in a significantly higher liability fair value. Significant increases in payments related to the derivative in isolation would result in a significantly lower liability fair value. The Corporation classifies the derivative liability as Level 3. On July 13, 2012, Visa announced it had reached an agreement in principle to settle the multi-district interchange litigation which pertains to its Class B shares. The announcement of this settlement did not have a material impact on the fair value of the Corporation’s liability.

Nonmarketable equity securities

The Corporation has a portfolio of indirect (through funds) private equity and venture capital investments with a carrying value of $13 million at December 31, 2012. These funds generally cannot be redeemed and the majority are not readily marketable. Distributions from these funds are received by the Corporation as a result of the liquidation of underlying investments of the funds and/or as income distributions. It is estimated that the underlying assets of the funds will be liquidated over a period of up to 17 years. The investments are accounted for on the cost or equity method and are individually reviewed for impairment on a quarterly basis by comparing the carrying value to the estimated fair value. These investments may be carried at fair value on a nonrecurring basis when they are deemed to be impaired and written down to fair value. Where there is not a readily determinable fair value, the Corporation estimates fair value for indirect private equity and venture capital investments based on the Corporation's percentage ownership in the net asset value of the entire fund, as reported by the fund, after indication that the fund adheres to applicable fair value measurement guidance. For those funds where the net asset value is not reported by the fund, the Corporation derives the fair value of the fund by estimating the fair value of each underlying investment in the fund. In addition to using qualitative information about each underlying investment, as provided by the fund, the Corporation gives consideration to information pertinent to the specific nature of the debt or equity investment, such as relevant market conditions, offering prices, operating results, financial conditions, exit strategy and other qualitative information, as available. The lack of an independent source to validate fair value estimates, including the impact of future capital calls and transfer restrictions, is an inherent limitation in the valuation process. On a quarterly basis, the Corporate Development Department is responsible, with appropriate oversight and approval provided by senior management, for performing the valuation procedures and updating significant inputs, as are primarily provided by the underlying fund's management. The Corporation classifies both nonmarketable equity securities subjected to nonrecurring fair value adjustments and the estimated fair value of nonmarketable equity securities not recorded at fair value in their entirety on a recurring basis as Level 3. Commitments to fund additional investments in nonmarketable equity securities recorded at fair value on a nonrecurring basis were $2 million and $1 million at December 31, 2012 and 2011, respectively.

The Corporation also holds restricted equity investments, primarily FHLB and FRB stock. Restricted equity securities are not readily marketable and are recorded at cost (par value) and evaluated for impairment based on the ultimate recoverability of the par value. No significant observable market data for these instruments is available. The Corporation considers the profitability and asset quality of the issuer, dividend payment history and recent redemption experience when determining the ultimate recoverability of the par value. The Corporation’s investment in FHLB stock totaled $89 million and $92 million at December 31, 2012 and 2011, respectively, and its investment in FRB stock totaled $85 million at both December 31, 2012 and 2011. The Corporation believes its investments in FHLB and FRB stock are ultimately recoverable at par. Therefore, the carrying amount for these restricted equity investments approximates fair value. The Corporation classifies the estimated fair value of such investments as Level 1.

Other real estate

Other real estate is included in “accrued income and other assets” on the consolidated balance sheets and includes primarily foreclosed property. Foreclosed property is initially recorded at fair value, less costs to sell, at the date of

foreclosure, establishing a new cost basis. Subsequently, foreclosed property is carried at the lower of cost or fair value, less costs to sell. Other real estate may be carried at fair value on a nonrecurring basis when fair value is less than cost. Fair value is based upon independent market prices, appraised value or management's estimate of the value of the property. The Special Assets Group obtains updated independent market prices and appraised values, as required by state regulation or deemed necessary based on market conditions, and determines if additional write-downs are necessary. On a quarterly basis, senior management reviews all other real estate and determines whether the carrying values are reasonable, based on the length of time elapsed since receipt of independent market price or appraised value and current market conditions. Other real estate carried at fair value based on an observable market price or a current appraised value is classified by the Corporation as Level 2. When management determines that the fair value of other real estate requires additional adjustments, either as a result of a non-current appraisal or when there is no observable market price, the Corporation classifies the other real estate as Level 3.

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Loan servicing rights

Loan servicing rights with a carrying value of $2 million at December 31, 2012, included in “accrued income and other assets” on the consolidated balance sheets and primarily related to Small Business Administration loans, are subject to impairment testing. Loan servicing rights may be carried at fair value on a nonrecurring basis when impairment testing indicates that the fair value of the loan servicing rights is less than the recorded value. A valuation model is used for impairment testing on a quarterly basis, which utilizes a discounted cash flow model, using interest rates and prepayment speed assumptions currently quoted for comparable instruments and a discount rate determined by management. On a quarterly basis, the Accounting Department is responsible for performing the valuation procedures and updating significant inputs, which are primarily obtained from available third-party market data, with appropriate oversight and approval provided by senior management. If the valuation model reflects a value less than the carrying value, loan servicing rights are adjusted to fair value through a valuation allowance as determined by the model. As such, the Corporation classifies loan servicing rights as Level 3.

Deposit liabilities

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

Short-term borrowings

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

Medium- and long-term debt

The carrying value of variable-rate FHLB advances approximates the estimated fair value. The estimated fair value of the Corporation's remaining variable- and fixed-rate medium- and long-term debt is based on quoted market values when available. If quoted market values are not available, the estimated fair value is based on the market values of debt with similar characteristics. The Corporation classifies the estimated fair value of medium- and long-term debt as Level 2.

Credit-related financial instruments

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

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ASSETS AND LIABLILITIES RECORDED AT FAIR VALUE ON A RECURRING BASIS
The following tables present the recorded amount of assets and liabilities measured at fair value on a recurring basis as of December 31, 2012 and 2011.

(in millions)	Total	Level 1	Level 2	Level 3
December 31, 2012				
Trading securities:				
Deferred compensation plan assets	$88	$88	$—	$—
Residential mortgage-backed securities (a)	4	—	4	—
State and municipal securities	19	—	19	—
Corporate debt securities	3	—	3	—
Total trading securities	114	88	26	—
Investment securities available-for-sale:				
U.S. Treasury and other U.S. government agency securities	20	20	—	—
Residential mortgage-backed securities (a)	9,935	—	9,935	—
State and municipal securities (b)	23	—	—	23
Corporate debt securities:				
Auction-rate debt securities	1	—	—	1
Other corporate debt securities	57	—	57	—
Equity and other non-debt securities:				
Auction-rate preferred securities	156	—	—	156
Money market and other mutual funds	105	105	—	—
Total investment securities available-for-sale	10,297	125	9,992	180
Derivative assets:				
Interest rate contracts	556	—	556	—
Energy derivative contracts	173	—	173	—
Foreign exchange contracts	21	—	21	—
Warrants	3	—	—	3
Total derivative assets	753	—	750	3
Total assets at fair value	$11,164	$213	$10,768	$183
Derivative liabilities:				
Interest rate contracts	$218	$—	$218	$—
Energy derivative contracts	172	—	172	—
Foreign exchange contracts	18	—	18	—
Other	1	—	—	1
Total derivative liabilities	409	—	408	1
Deferred compensation plan liabilities	88	88	—	—
Total liabilities at fair value	$497	$88	$408	$1

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

(b) Primarily auction-rate securities.

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(in millions)	Total	Level 1	Level 2	Level 3
December 31, 2011				
Trading securities:				
Deferred compensation plan assets	$90	$90	$—	$—
Residential mortgage-backed securities (a)	2	—	2	—
Other government-sponsored enterprise securities	9	—	9	—
State and municipal securities	12	—	12	—
Corporate debt securities	1	—	1	—
Other securities	1	1	—	—
Total trading securities	115	91	24	—
Investment securities available-for-sale:				
U.S. Treasury and other U.S. government agency securities	20	20	—	—
Residential mortgage-backed securities (a)	9,512	—	9,512	—
State and municipal securities (b)	24	—	—	24
Corporate debt securities:				
Auction-rate debt securities	1	—	—	1
Other corporate debt securities	46	—	46	—
Equity and other non-debt securities:				
Auction-rate preferred securities	408	—	—	408
Money market and other mutual funds	93	93	—	—
Total investment securities available-for-sale	10,104	113	9,558	433
Derivative assets:				
Interest rate contracts	602	—	602	—
Energy derivative contracts	115	—	115	—
Foreign exchange contracts	40	—	40	—
Warrants	3	—	—	3
Total derivative assets	760	—	757	3
Total assets at fair value	$10,979	$204	$10,339	$436
Derivative liabilities:				
Interest rate contracts	$253	$—	$253	$—
Energy derivative contracts	115	—	115	—
Foreign exchange contracts	35	—	35	—
Other	6	—	—	6
Total derivative liabilities	409	—	403	6
Deferred compensation plan liabilities	90	90	—	—
Total liabilities at fair value	$499	$90	$403	$6

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

(b) Primarily auction-rate securities.

There were no transfers of assets or liabilities recorded at fair value on a recurring basis into or out of Level 1, Level 2 and Level 3 fair value measurements during the years ended December 31, 2012 and 2011.

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The following table summarizes the changes in Level 3 assets and liabilities measured at fair value on a recurring basis for the years ended December 31, 2012 and 2011.

(in millions)	Balance at Beginning of Period	Net Realized/Unrealized Gains (Losses) Recorded in Earnings: Realized	Unrealized	Recorded in Other Comprehensive Income (Pretax)	Purchases	Sales	Settlements	Balance at End of Period
Year Ended December 31, 2012								
Investment securities available-for-sale:								
State and municipal securities (a)	$ 24	$—	$ —	$ 1 (b)	$ —	$(2)	$ —	$ 23
Auction-rate debt securities	1	—	—	—	—	—	—	1
Auction-rate preferred securities	408	14 (c)	—	8 (b)	—	(274)	—	156
Total investment securities available-for-sale	433	14 (c)	—	9 (b)	—	(276)	—	180
Derivative assets:								
Warrants	3	4 (d)	1 (d)	—	—	(5)	—	3
Derivative liabilities:								
Other	6	(1) (c)	(1) (c)	—	—	—	(7)	1
Year Ended December 31, 2011								
Trading securities:								
State and municipal securities	$ —	$—	$ —	$ —	$ 3	$(3)	$ —	$—
Other securities	1	—	—	—	—	(1)	—	—
Total trading securities	1	—	—	—	3	(4)	—	—
Investment securities available-for-sale:								
State and municipal securities (a)	39	—	—	2 (b)	—	(17)	—	24
Auction-rate debt securities	1	—	—	—	—	—	—	1
Other corporate debt securities	1	—	—	—	—	—	(1)	—
Auction-rate preferred securities	570	10 (c)	—	12 (b)	—	(184)	—	408
Total investment securities available-for-sale	611	10 (c)	—	14 (b)	—	(201)	(1)	433
Derivative assets:								
Warrants	7	10 (d)	—	—	—	(14)	—	3
Derivative liabilities:								
Other	1	(2) (c)	(5) (c)	—	—	—	(2)	6

(a) Primarily auction-rate securities.

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

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

(d) Realized and unrealized gains and losses due to changes in fair value recorded in "other noninterest income" on the consolidated statements of income.

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ASSETS AND LIABILITIES RECORDED AT FAIR VALUE ON A NONRECURRING BASIS
The Corporation may be required, from time to time, to record certain assets and liabilities at fair value on a nonrecurring basis. These include assets that are recorded at the lower of cost or fair value that were recognized at fair value below cost at the end of the period. All assets recorded at fair value on a nonrecurring basis were classified as Level 3 at December 31, 2012 and 2011 and are presented in the following table. No liabilities were recorded at fair value on a nonrecurring basis at December 31, 2012 and 2011.

(in millions)	Level 3
December 31, 2012	
Loans:	
Commercial	$42
Real estate construction	25
Commercial mortgage	145
Lease financing	2
Total loans	214
Nonmarketable equity securities	2
Other real estate	24
Loan servicing rights	2
Total assets at fair value	$242
December 31, 2011	
Loans:	
Commercial	$164
Real estate construction	87
Commercial mortgage	302
Lease financing	3
International	8
Total loans	564
Nonmarketable equity securities	1
Other real estate	29
Loan servicing rights	3
Total assets at fair value	$597

The following table presents quantitative information related to the significant unobservable inputs utilized in the Corporation's significant Level 3 recurring fair value measurement as of December 31, 2012. The Corporation's significant level 3 recurring fair value measurements include auction-rate securities where fair value is determined using an income approach based on a discounted cash flow model. The inputs in the table below reflect reflect management's expectation of continued illiquidity in the secondary auction-rate securities market due to a lack of market activity for the issuers remaining in the portfolio, a lack of market incentives for issuer redemptions, and the expectation for the low interest rate environment continuing into 2015.

		Discounted Cash Flow Model Unobservable Input	
December 31, 2012	Fair Value (in millions)	Discount Rate	Workout Period (in years)
State and municipal securities (a)	$23	6% - 10%	4 - 6
Equity and other non-debt securities:			
Auction-rate preferred securities	156	4% - 6%	2 - 4

(a) Primarily auction-rate securities.

Level 3 assets recorded at fair value on a nonrecurring basis at December 31, 2012 included loans for which a specific allowance was established based on the fair value of collateral and other real estate for which fair value of the properties was less than the cost basis. For both asset classes, the unobservable inputs were the additional adjustments applied by management to the appraised values to reflect such factors as non-current appraisals and revisions to estimated time to sell. These adjustments are determined based on qualitative judgments made by management on a case-by-case basis and are not quantifiable inputs, although they are used in the determination of fair value.

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ESTIMATED FAIR VALUES OF FINANCIAL INSTRUMENTS NOT RECORDED AT FAIR VALUE ON A RECURRING BASIS

The Corporation typically holds the majority of its financial instruments until maturity and thus does not expect to realize many of the estimated fair value amounts disclosed. The disclosures also do not include estimated fair value amounts for items that are not defined as financial instruments, but which have significant value. These include such items as core deposit intangibles, the future earnings potential of significant customer relationships and the value of trust operations and other fee generating businesses. The Corporation believes the imprecision of an estimate could be significant.

The carrying amount and estimated fair value of financial instruments not recorded at fair value in their entirety on a recurring basis on the Corporation's consolidated balance sheets are as follows:

	Carrying	Estimated Fair Value			
(in millions)	Amount	Total	Level 1	Level 2	Level 3
December 31, 2012					
Assets					
Cash and due from banks	$1,395	$1,395	$1,395	$—	$—
Federal funds sold	100	100	100	—	—
Interest-bearing deposits with banks	3,039	3,039	3,039	—	—
Loans held-for-sale	12	12	—	12	—
Total loans, net of allowance for loan losses (a)	45,428	45,649	—	—	45,649
Customers' liability on acceptances outstanding	18	18	18	—	—
Nonmarketable equity securities (b)	13	22	—	—	22
Restricted equity investments	174	174	174	—	—
Liabilities					
Demand deposits (noninterest-bearing)	23,279	23,279	—	23,279	—
Interest-bearing deposits	23,392	23,392	—	23,392	—
Customer certificates of deposit	5,531	5,535	—	5,535	—
Total deposits	52,202	52,206	—	52,206	—
Short-term borrowings	110	110	110	—	—
Acceptances outstanding	18	18	18	—	—
Medium- and long-term debt	4,720	4,685	—	4,685	—
Credit-related financial instruments	(103)	(103)	—	—	(103)
December 31, 2011					
Assets					
Cash and due from banks	$982	$982	$982	$—	$—
Interest-bearing deposits with banks	2,574	2,574	2,574	—	—
Loans held-for-sale	34	34	—	34	—
Total loans, net of allowance for loan losses (a)	41,953	42,233	—	—	42,233
Customers' liability on acceptances outstanding	22	22	22	—	—
Nonmarketable equity securities (b)	16	27	—	—	27
Restricted equity investments	177	177	177	—	—
Liabilities					
Demand deposits (noninterest-bearing)	19,764	19,764	—	19,764	—
Interest-bearing deposits	22,183	22,183	—	22,183	—
Customer certificates of deposit	5,808	5,809	—	5,809	—
Total deposits	47,755	47,756	—	47,756	—
Short-term borrowings	70	70	70	—	—
Acceptances outstanding	22	22	22	—	—

Medium- and long-term debt	4,944	4,794	—	4,794	—
Credit-related financial instruments	(101)	(101)	—	—	(101)

(a) Included $214 million and $564 million of impaired loans recorded at fair value on a nonrecurring basis at December 31, 2012 and 2011, respectively.

(b) Included $2 million and $1 million of nonmarketable equity securities recorded at fair value on a nonrecurring basis at December 31, 2012 and 2011, respectively.

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NOTE 3 - INVESTMENT SECURITIES

A summary of the Corporation's investment securities available-for-sale follows:

(in millions)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2012				
U.S. Treasury and other U.S. government agency securities	$20	$—	$—	$20
Residential mortgage-backed securities (a)	9,687	248	—	9,935
State and municipal securities (b)	27	—	4	23
Corporate debt securities:				
Auction-rate debt securities	1	—	—	1
Other corporate debt securities	57	—	—	57
Equity and other non-debt securities:				
Auction-rate preferred securities	163	—	7	156
Money market and other mutual funds	105	—	—	105
Total investment securities available-for-sale	$10,060	$248	$11	$10,297
December 31, 2011				
U.S. Treasury and other U.S. government agency securities	$20	$—	$—	$20
Residential mortgage-backed securities (a)	9,289	224	1	9,512
State and municipal securities (b)	29	—	5	24
Corporate debt securities:				
Auction-rate debt securities	1	—	—	1
Other corporate debt securities	46	—	—	46
Equity and other non-debt securities:				
Auction-rate preferred securities	423	—	15	408
Money market and other mutual funds	93	—	—	93
Total investment securities available-for-sale	$9,901	$224	$21	$10,104

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

(b) Primarily auction-rate securities.

A summary of the Corporation's investment securities available-for-sale in an unrealized loss position as of December 31, 2012 and 2011 follows:

	Temporarily Impaired							
	Less than 12 Months		12 Months or more			Total		
(in millions)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses		Fair Value	Unrealized Losses	
December 31, 2012								
State and municipal securities (b)	$—	$—	$23	$4		$23	$4	
Corporate debt securities:								
Auction-rate debt securities	—	—	1	—	(c)	1	—	(c)
Equity and other non-debt securities:								
Auction-rate preferred securities	—	—	156	7		156	7	
Total impaired securities	$—	$—	$180	$11		$180	$11	
December 31, 2011								

Residential mortgage-backed securities (a)	$249	$1	$—	$—		$249	$1	
State and municipal securities (b)	—	—	24	5		24	5	
Corporate debt securities:								
Auction-rate debt securities	—	—	1	—	(c)	1	—	(c)
Equity and other non-debt securities:								
Auction-rate preferred securities	88	1	320	14		408	15	
Total impaired securities	$337	$2	$345	$19		$682	$21	

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

(b) Primarily auction-rate securities.

(c) Unrealized losses less than $0.5 million.

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At December 31, 2012, the Corporation had 77 securities in an unrealized loss position with no credit impairment, including 54 auction-rate preferred securities, 22 state and municipal auction-rate securities and one auction-rate debt security. As of December 31, 2012, approximately 95 percent of the auction-rate securities that have been redeemed or sold since acquisition were redeemed or sold at or above cost. Approximately 85 percent of the aggregate auction-rate securities par value have been redeemed or sold since acquisition as of December 31, 2012. The unrealized losses for these securities resulted from changes in market interest rates and liquidity. The Corporation ultimately expects full collection of the carrying amount of these securities, does not intend to sell the securities in an unrealized loss position, and it is not more-likely-than-not that the Corporation will be required to sell the securities in an unrealized loss position prior to recovery of amortized cost. The Corporation does not consider these securities to be other-than-temporarily impaired at December 31, 2012.

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

(in millions)

Years Ended December 31	2012	2011	2010
Securities gains	$14	$22	$13
Securities losses (a)	(2)	(8)	(10)
Total net securities gains	$12	$14	$3

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

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

(in millions)

December 31, 2012	Amortized Cost	Fair Value
Contractual maturity		
Within one year	$86	$86
After one year through five years	551	557
After five years through ten years	125	124
After ten years	9,030	9,269
Subtotal	9,792	10,036
Equity and other nondebt securities:		
Auction-rate preferred securities	163	156
Money market and other mutual funds	105	105
Total investment securities available-for-sale	$10,060	$10,297

Included in the contractual maturity distribution in the table above were auction-rate securities with a total amortized cost and fair value of $28 million and $24 million, respectively. Auction-rate securities are long-term, floating rate instruments for which interest rates are reset at periodic auctions. At each successful auction, the Corporation has the option to sell the security at par value. Additionally, the issuers of auction-rate securities generally have the right to redeem or refinance the debt. As a result, the expected life of auction-rate securities may differ significantly from the contractual life. Also included in the table above were residential mortgage-backed securities with a total amortized cost and fair value of $9.7 billion and $9.9 billion, respectively. The actual cash flows of mortgage-backed securities may differ from contractual maturity as the borrowers of the underlying loans may exercise prepayment options.

At December 31, 2012, investment securities with a carrying value of $2.8 billion were pledged where permitted or required by law to secure $2.1 billion of liabilities, primarily public and other deposits of state and local government agencies and derivative instruments.

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The following table summarizes auction-rate securities activity for the years ended December 31, 2012 and 2011.

(in millions)	Par Value	Fair Value (a)
Balance at January 1, 2011	$677	$610
Redemptions	(201)	(201)
Net securities gains		10
Net unrealized gains (b)		14
Balance at December 31, 2011	$476	$433
Redemptions	(276)	(276)
Net securities gains		14
Net unrealized gains (b)		9
Balance at December 31, 2012	$200	$180

(a) Recorded in “investment securities available-for-sale” on the consolidated balance sheets.
(b) Changes in fair value recognized in accumulated other comprehensive income (loss).

NOTE 4 – CREDIT QUALITY AND ALLOWANCE FOR CREDIT LOSSES

The following table summarizes nonperforming assets.

(in millions)		
December 31	2012	2011
Nonaccrual loans	$519	$860
Reduced-rate loans (a)	22	27
Total nonperforming loans	541	887
Foreclosed property	54	94
Total nonperforming assets	$595	$981

(a) Reduced-rate business loans totaled $6 million and $8 million, respectively, and reduced-rate retail loans totaled $16 million and $19 million, respectively, at December 31, 2012 and 2011.

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The following table presents an aging analysis of the recorded balance of loans.

(in millions)	Loans Past Due and Still Accruing 30-59 Days	60-89 Days	90 Days or More	Total	Nonaccrual Loans	Current Loans (c)	Total Loans
December 31, 2012							
Business loans:							
Commercial	$23	$19	$5	$47	$103	$29,363	$29,513
Real estate construction:							
Commercial Real Estate business line (a)	—	—	—	—	30	1,019	1,049
Other business lines (b)	—	—	—	—	3	188	191
Total real estate construction	—	—	—	—	33	1,207	1,240
Commercial mortgage:							
Commercial Real Estate business line (a)	20	4	—	24	94	1,755	1,873
Other business lines (b)	27	9	8	44	181	7,374	7,599
Total commercial mortgage	47	13	8	68	275	9,129	9,472
Lease financing	—	—	—	—	3	856	859
International	4	—	3	7	—	1,286	1,293
Total business loans	74	32	16	122	414	41,841	42,377
Retail loans:							
Residential mortgage	27	6	2	35	70	1,422	1,527
Consumer:							
Home equity	9	3	—	12	31	1,494	1,537
Other consumer	4	3	5	12	4	600	616
Total consumer	13	6	5	24	35	2,094	2,153
Total retail loans	40	12	7	59	105	3,516	3,680
Total loans	$114	$44	$23	$181	$519	$45,357	$46,057
December 31, 2011							
Business loans:							
Commercial	$45	$6	$8	$59	$237	$24,700	$24,996
Real estate construction:							
Commercial Real Estate business line (a)	15	5	—	20	93	990	1,103
Other business lines (b)	1	1	1	3	8	419	430
Total real estate construction	16	6	1	23	101	1,409	1,533
Commercial mortgage:							
Commercial Real Estate business line (a)	62	16	1	79	159	2,269	2,507
Other business lines (b)	34	22	31	87	268	7,402	7,757
Total commercial mortgage	96	38	32	166	427	9,671	10,264
Lease financing	—	—	—	—	5	900	905
International	2	—	—	2	8	1,160	1,170
Total business loans	159	50	41	250	778	37,840	38,868
Retail loans:							
Residential mortgage	28	6	6	40	71	1,415	1,526
Consumer:							

Home equity	11	8	6	25	5	1,625	1,655
Other consumer	11	2	5	18	6	606	630
Total consumer	22	10	11	43	11	2,231	2,285
Total retail loans	50	16	17	83	82	3,646	3,811
Total loans	$209	$66	$58	$333	$860	$41,486	$42,679

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

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

(c) Included PCI loans with a total carrying value of $36 million and $87 million at December 31, 2012 and 2011, respectively.

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The following table presents loans by credit quality indicator, based on internal risk ratings assigned to each business loan at the time of approval and subjected to subsequent reviews, generally at least annually, and to pools of retail loans with similar risk characteristics.

	Internally Assigned Rating				
(in millions)	Pass (a)	Special Mention (b)	Substandard (c)	Nonaccrual (d)	Total
December 31, 2012					
Business loans:					
Commercial	$28,032	$820	$ 558	$ 103	$29,513
Real estate construction:					
Commercial Real Estate business line (e)	921	77	21	30	1,049
Other business lines (f)	176	3	9	3	191
Total real estate construction	1,097	80	30	33	1,240
Commercial mortgage:					
Commercial Real Estate business line (e)	1,479	213	87	94	1,873
Other business lines (f)	6,783	258	377	181	7,599
Total commercial mortgage	8,262	471	464	275	9,472
Lease financing	840	9	7	3	859
International	1,230	57	6	—	1,293
Total business loans	39,461	1,437	1,065	414	42,377
Retail loans:					
Residential mortgage	1,438	12	7	70	1,527
Consumer:					
Home equity	1,489	11	6	31	1,537
Other consumer	581	22	9	4	616
Total consumer	2,070	33	15	35	2,153
Total retail loans	3,508	45	22	105	3,680
Total loans	$42,969	$1,482	$ 1,087	$ 519	$46,057
December 31, 2011					
Business loans:					
Commercial	$23,206	$898	$ 655	$ 237	$24,996
Real estate construction:					
Commercial Real Estate business line (e)	768	139	103	93	1,103
Other business lines (f)	370	23	29	8	430
Total real estate construction	1,138	162	132	101	1,533
Commercial mortgage:					
Commercial Real Estate business line (e)	1,728	409	211	159	2,507
Other business lines (f)	6,541	415	533	268	7,757
Total commercial mortgage	8,269	824	744	427	10,264
Lease financing	865	18	17	5	905
International	1,097	33	32	8	1,170
Total business loans	34,575	1,935	1,580	778	38,868
Retail loans:					
Residential mortgage	1,434	12	9	71	1,526
Consumer:					
Home equity	1,600	22	28	5	1,655
Other consumer	603	12	9	6	630

Total consumer	2,203	34	37	11	2,285
Total retail loans	3,637	46	46	82	3,811
Total loans	$38,212	$1,981	$ 1,626	$ 860	$42,679

(a) Includes all loans not included in the categories of special mention, substandard or nonaccrual.

(b) Special mention loans are accruing loans that have potential credit weaknesses that deserve management’s close attention, such as loans to borrowers who may be experiencing financial difficulties that may result in deterioration of repayment prospects from the borrower at some future date. Included in the special mention category were $303 million and $481 million at December 31, 2012 and 2011, respectively, of loans proactively monitored by management that were considered “pass” by regulatory authorities.

(c) Substandard loans are accruing loans that have a well-defined weakness, or weaknesses, such as loans to borrowers who may be experiencing losses from operations or inadequate liquidity of a degree and duration that jeopardizes the orderly repayment of the loan. Substandard loans also are distinguished by the distinct possibility of loss in the future if these weaknesses are not corrected. PCI loans are included in the substandard category. This category is generally consistent with the "substandard" category as defined by regulatory authorities.

(d) Nonaccrual loans are loans for which the accrual of interest has been discontinued. For further information regarding nonaccrual loans, refer to the Nonperforming Assets subheading in Note 1. A significant majority of nonaccrual loans are generally consistent with the "substandard" category and the remainder are generally consistent with the "doubtful" category as defined by regulatory authorities.

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

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

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

(in millions)	2012 Business Loans	Retail Loans	Total	2011 Business Loans	Retail Loans	Total	2010 Business Loans	Retail Loans	Total
Years Ended December 31									
Allowance for loan losses:									
Balance at beginning of period	$648	$78	$726	$824	$77	$901	$915	$70	$985
Loan charge-offs	(212)	(33)	(245)	(375)	(48)	(423)	(574)	(53)	(627)
Recoveries on loans previously charged-off	65	10	75	89	6	95	58	5	63
Net loan charge-offs	(147)	(23)	(170)	(286)	(42)	(328)	(516)	(48)	(564)
Provision for loan losses	51	22	73	110	43	153	425	55	480
Balance at end of period	$552	$77	$629	$648	$78	$726	$824	$77	$901
As a percentage of total loans	1.30%	2.10%	1.37%	1.67%	2.04%	1.70%	2.27%	1.96%	2.24%
December 31									
Allowance for loan losses:									
Individually evaluated for impairment (a)	$76	$—	$76	$149	$4	$153	$192	$5	$197
Collectively evaluated for impairment	476	77	553	499	74	573	632	72	704
Total allowance for loan losses	$552	$77	$629	$648	$78	$726	$824	$77	$901
Loans:									
Individually evaluated for impairment	$368	$51	$419	$719	$52	$771	$927	$47	$974
Collectively evaluated for impairment	41,979	3,623	45,602	38,068	3,753	41,821	35,379	3,883	39,262
PCI loans (b)	30	6	36	81	6	87	—	—	—
Total loans evaluated for	$42,377	$3,680	$46,057	$38,868	$3,811	$42,679	$36,306	$3,930	$40,236

impairment

(a) Individually evaluated retail loans had no related allowance for loan losses at December 31, 2012, primarily due to policy changes which resulted in direct write-downs of restructured retail loans.

(b) No allowance for loan losses was required for PCI loans at December 31, 2012 and 2011.

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

(in millions)

Years Ended December 31	2012	2011	2010
Balance at beginning of period	$26	$35	$37
Provision for credit losses on lending-related commitments	6	(9)	(2)
Balance at end of period	$32	$26	$35
Unfunded lending-related commitments sold	$—	$5	$2

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Individually Evaluated Impaired Loans
The following table presents additional information regarding individually evaluated impaired loans.

(in millions)	Recorded Investment In: Impaired Loans with No Related Allowance	Impaired Loans with Related Allowance	Total Impaired Loans	Unpaid Principal Balance	Related Allowance for Loan Losses
December 31, 2012					
Business loans:					
Commercial	$2	$117	$119	$207	$26
Real estate construction:					
Commercial Real Estate business line (a)	—	26	26	31	4
Other business lines (b)	—	—	—	1	—
Total real estate construction	—	26	26	32	4
Commercial mortgage:					
Commercial Real Estate business line (a)	—	99	99	159	18
Other business lines (b)	—	122	122	167	28
Total commercial mortgage	—	221	221	326	46
Lease financing	—	2	2	5	—
Total business loans	2	366	368	570	76
Retail loans:					
Residential mortgage	39	—	39	48	—
Consumer:					
Home equity	8	—	8	10	—
Other consumer	4	—	4	10	—
Total consumer	12	—	12	20	—
Total retail loans (c)	51	—	51	68	—
Total individually evaluated impaired loans	$53	$366	$419	$638	$76
December 31, 2011					
Business loans:					
Commercial	$2	$244	$246	$348	$57
Real estate construction:					
Commercial Real Estate business line (a)	—	102	102	146	18
Other business lines (b)	—	5	5	7	1
Total real estate construction	—	107	107	153	19
Commercial mortgage:					
Commercial Real Estate business line (a)	—	148	148	198	34
Other business lines (b)	6	201	207	299	36
Total commercial mortgage	6	349	355	497	70
Lease financing	—	3	3	6	1
International	—	8	8	10	2
Total business loans	8	711	719	1,014	149
Retail loans:					
Residential mortgage	16	30	46	51	3
Consumer:					
Home equity	—	1	1	1	—

Other consumer	—	5	5	12	1
Total consumer	—	6	6	13	1
Total retail loans	16	36	52	64	4
Total individually evaluated impaired loans	$24	$747	$771	$1,078	$153

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

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

(c) Individually evaluated retail loans had no related allowance for loan losses at December 31, 2012, primarily due to policy changes which resulted in direct write-downs of restructured retail loans.

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

	Individually Evaluated Impaired Loans					
	2012		2011		2010	
(in millions)	Average Balance for the Period	Interest Income Recognized for the Period	Average Balance for the Period	Interest Income Recognized for the Period	Average Balance for the Period	Interest Income Recognized for the Period
Years Ended December 31						
Business loans:						
Commercial	$195	$4	$251	$5	$220	$3
Real estate construction:						
Commercial Real Estate business line (a)	58	—	153	—	355	1
Other business lines (b)	4	—	2	—	1	—
Total real estate construction	62	—	155	—	356	1
Commercial mortgage:						
Commercial Real Estate business line (a)	139	—	180	—	151	1
Other business lines (b)	177	4	220	4	203	2
Total commercial mortgage	316	4	400	4	354	3
Lease financing	3	—	6	—	11	—
International	2	—	5	—	9	1
Total business loans	578	8	817	9	950	8
Retail loans:						
Residential mortgage	41	—	42	1	33	—
Consumer:						
Home equity	5	—	—	—	—	—
Other consumer	4	—	6	—	4	—
Total consumer	9	—	6	—	4	—
Total retail loans	50	—	48	1	37	—
Total individually evaluated impaired loans	$628	$8	$865	$10	$987	$8

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

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Troubled Debt Restructurings
The following tables detail the recorded balance at December 31, 2012 and 2011 of loans considered to be TDRs that were restructured during the years ended December 31, 2012 and 2011, by type of modification. In cases of loans with more than one type of modification, the loans were categorized based on the most significant modification.

	2012				2011			
	Type of Modification				Type of Modification			
(in millions)	Principal Deferrals (a)	Interest Rate Reductions	AB Note Restructures (b)	Total Modifications	Principal Deferrals (a)	Interest Rate Reductions	AB Note Restructures (b)	Total Modifications
Years Ended December 31								
Business loans:								
Commercial	$18	$ —	$ —	$ 18	$91	$ 1	$ 6	$ 98
Real estate construction:								
Commercial Real Estate business line (c)	1	—	—	1	20	3	15	38
Commercial mortgage:								
Commercial Real Estate business line (c)	19	—	18	37	29	—	—	29
Other business lines (d)	20	2	—	22	41	22	6	69
Total commercial mortgage	39	2	18	59	70	22	6	98
Lease financing	—	—	—	—	—	3	—	3
International	—	—	—	—	—	—	4	4
Total business loans	58	2	18	78	181	29	31	241
Retail loans:								
Residential mortgage	8	(e) 1	—	9	1	11	—	12
Consumer:								
Home equity	3	(e) —	—	3	—	—	—	—
Other consumer	1	(e) 1	—	2	3	—	—	3
Total consumer	4	1	—	5	3	—	—	3
Total retail loans	12	2	—	14	4	11	—	15
Total loans	$70	$ 4	$ 18	$ 92	$185	$ 40	$ 31	$ 256

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

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

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

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

(e) Includes bankruptcy loans for which the court has discharged the borrower's obligation and the borrower has not reaffirmed the debt. Effective September 30, 2012, such loans are placed on nonaccrual status and written down to estimated collateral value, without regard to the actual payment status of the loan.

At December 31, 2012 and 2011, commitments to lend additional funds to borrowers whose terms have been modified in TDRs totaled $5 million and $13 million, respectively.

The majority of the modifications considered to be TDRs that occurred during the years ended December 31, 2012 and 2011 were principal deferrals. The Corporation charges interest on principal balances outstanding during deferral

periods. Additionally, none of the modifications involved forgiveness of principal. As a result, the current and future financial effects of the recorded balance of loans considered to be TDRs that were restructured during the years ended December 31, 2012 and 2011 were insignificant.

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

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The following table presents information regarding the recorded balance at December 31, 2012 and 2011 of loans modified by principal deferral during the years ended December 31, 2012 and 2011, and those principal deferrals which experienced a subsequent default during the same periods. For principal deferrals, incremental deterioration in the credit quality of the loan, represented by a downgrade in the risk rating of the loan, for example, due to missed interest payments or a reduction of collateral value, is considered a subsequent default.

(in millions)	2012		2011	
	Balance at December 31	Subsequent Default in the Year Ended December 31	Balance at December 31	Subsequent Default in the Year Ended December 31
Principal deferrals:				
Business loans:				
Commercial	$18	$7	$91	$45
Real estate construction:				
Commercial Real Estate business line (a)	1	1	20	—
Commercial mortgage:				
Commercial Real Estate business line (a)	19	18	29	29
Other business lines (b)	20	15	41	23
Total commercial mortgage	39	33	70	52
Total business loans	58	41	181	97
Retail loans:				
Residential mortgage	8	(c) —	1	—
Consumer:				
Home equity	3	(c) —	—	—
Other consumer	1	(c) —	3	3
Total consumer	4	—	3	3
Total retail loans	12	—	4	3
Total principal deferrals	$70	$41	$185	$100

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

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

(c) Includes bankruptcy loans for which the court has discharged the borrower's obligation and the borrower has not reaffirmed the debt. Effective September 30, 2012, such loans are placed on nonaccrual status and written down to estimated collateral value, without regard to the actual payment status of the loan.

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The following table presents information regarding the recorded balance at December 31, 2012 and 2011 of loans modified by interest rate reduction during the years ended December 31, 2012 and 2011, and those reduced-rate loans which experienced a subsequent default during the same periods. For reduced-rate loans, a subsequent payment default is defined in terms of delinquency, when a principal or interest payment is 90 days past due.

(in millions)	2012		2011	
	Balance at December 31	Subsequent Default in the Year Ended December 31	Balance at December 31	Subsequent Default in the Year Ended December 31
Interest rate reductions:				
Business loans:				
Commercial	$—	$—	$1	$—
Real estate construction:				
Commercial Real Estate business line (a)	—	—	3	3
Commercial mortgage:				
Other business lines (b)	2	—	22	2
Lease financing	—	—	3	—
Total business loans	2	—	29	5
Retail loans:				
Residential mortgage	1	—	11	5
Consumer:				
Other consumer	1	—	—	—
Total retail loans	2	—	11	5
Total interest rate reductions	$4	$—	$40	$10

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

During the years ended December 31, 2012 and 2011 loans with a carrying value of $18 million and $31 million at December 31, 2012 and 2011, respectively, were restructured into two notes (AB note restructures). For AB note restructures, a subsequent payment default is defined in terms of delinquency, when a principal or interest payment is 90 days past due. There were no subsequent payment defaults of AB note restructures during the year ended December 31, 2012 and subsequent defaults of $2 million during the year ended December 31, 2011.

Purchased Credit-Impaired Loans

In connection with the acquisition of Sterling Bancshares, Inc. (Sterling) on July 28, 2011, the Corporation acquired loans both with and without evidence of credit quality deterioration since origination. The acquired loans were initially recorded at fair value with no carryover of any allowance for loan losses.

Loans acquired with evidence of credit quality deterioration at acquisition for which it was probable that the Corporation would not be able to collect all contractual amounts due were accounted for as PCI loans. The Corporation aggregated the acquired PCI loans into pools of loans based on common risk characteristics.

The carrying amount of acquired PCI loans included in the consolidated balance sheet and the related outstanding balance at December 31, 2012 and 2011 were as follows. The outstanding balance represents the total amount owed as of December 31, 2012 and 2011, including accrued but unpaid interest and any amounts previously charged off. No allowance for loan losses was required on the acquired PCI loan pools at both December 31, 2012 and 2011.

(in millions) December 31	2012	2011
Acquired PCI loans:		
Carrying amount	$36	$87
Outstanding balance	138	234

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Changes in the accretable yield for acquired PCI loans for the years ended December 31, 2012 and 2011 were as follows.

(in millions)		
Years Ended December 31	2012	2011
Balance at beginning of period	$25	$—
Additions	—	24
Reclassifications from nonaccretable	8	6
Disposals of loans	—	(1)
Accretion	(17)	(4)
Balance at end of period	$16	$25

NOTE 5 - SIGNIFICANT GROUP CONCENTRATIONS 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. Concentrations of both on-balance sheet and off-balance sheet credit risk are controlled and monitored as part of credit policies. The Corporation is a regional financial services holding company with a geographic concentration of its on-balance-sheet and off-balance-sheet activities in Michigan, California and Texas.

As outlined below, the Corporation has a concentration of credit risk with the automotive industry. 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 loan portfolio were excluded from the definition. Outstanding loans and total exposure from loans, unused commitments and standby letters of credit to companies related to the automotive industry were as follows:

(in millions)		
December 31	2012	2011
Automotive loans:		
Production	$1,248	$931
Dealer	5,198	3,889
Total automotive loans	$6,446	$4,820
Total automotive exposure:		
Production	$2,230	$1,698
Dealer	6,294	5,831
Total automotive exposure	$8,524	$7,529

Further, the Corporation’s portfolio of commercial real estate loans, which includes real estate construction and commercial mortgage loans, was as follows.

(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
Total commercial real estate loans	$10,712	$11,797
Total unused commitments on commercial real estate loans	$1,523	$690

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

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NOTE 6 - PREMISES AND EQUIPMENT

A summary of premises and equipment by major category follows:

(in millions)		
December 31	2012	2011
Land	$90	$94
Buildings and improvements	816	830
Furniture and equipment	509	527
Total cost	1,415	1,451
Less: Accumulated depreciation and amortization	(793)	(776)
Net book value	$622	$675

The Corporation conducts a portion of its business from leased facilities and leases certain equipment. Rental expense for leased properties and equipment amounted to $81 million, $83 million and $82 million in 2012, 2011 and 2010, respectively. As of December 31, 2012, future minimum payments under operating leases and other long-term obligations were as follows:

(in millions)	
Years Ending December 31	
2013	$126
2014	101
2015	84
2016	60
2017	53
Thereafter	352
Total	$776

NOTE 7 - GOODWILL AND CORE DEPOSIT INTANGIBLES

The following table summarizes changes in the carrying value of goodwill for the years ended December 31, 2012 and 2011.

(in millions)	Business Bank	Retail Bank	Wealth Management	Total
Balance at December 31, 2010	$90	$47	$13	$150
Sterling acquisition	290	147	48	485
Balances at December 31, 2011 and 2012	$380	$194	$61	$635

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 indicate goodwill might be impaired.

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. In addition, the annual test of goodwill impairment was performed as of the beginning of the third quarter 2012. In September 2012, the Federal Reserve updated their expectation that the Federal Funds target rate will remain at the current low rate level through mid-2015. This announcement by the Federal Reserve did not significantly impact the results of the annual goodwill impairment test.

In 2011, the annual test of goodwill impairment was performed as of the beginning of the third quarter 2011 prior to the acquisition of Sterling. As a result of deterioration in overall market and economic conditions, clarification regarding legislative and regulatory changes and the announcement by the Federal Reserve that the Federal Funds target rate was expected to be held constant through the middle of 2013, the Corporation determined that an additional interim goodwill impairment test should be performed in the third quarter 2011. The Corporation included the effects of the Sterling acquisition when performing the additional interim goodwill impairment test.

At the conclusion of the first step of the annual and interim goodwill impairment tests performed in 2012 and 2011, the estimated fair values of all reporting units exceeded their carrying amounts, including goodwill, indicating that goodwill was not impaired.

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As a result of the acquisition of Sterling, the Corporation recorded a core deposit intangible of $34 million. The core deposit intangible is being amortized on an accelerated basis over 10 years. A summary of the core deposit intangible carrying value and related accumulated amortization follows:

(in millions)		
December 31	2012	2011
Gross carrying amount	$34	$34
Accumulated amortization	(14)	(5)
Net carrying amount	$20	$29

The Corporation recorded amortization expense related to the core deposit intangible of $9 million and $5 million for the years ended December 31, 2012 and 2011, respectively. At December 31, 2012, estimated future amortization expense was as follows:

(in millions)	
Years Ending December 31	
2013	$4
2014	3
2015	3
2016	2
2017	2
Thereafter	6
Total	$20

NOTE 8 - DERIVATIVE AND CREDIT-RELATED FINANCIAL INSTRUMENTS

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

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

Credit risk is the possible loss that may occur in the event of nonperformance by the counterparty to a financial instrument. The Corporation attempts to minimize credit risk arising from customer-initiated derivatives by evaluating the creditworthiness of each customer, adhering to the same credit approval process used for traditional lending activities and obtaining collateral as deemed necessary. For derivatives with dealer counterparties, the Corporation utilizes counterparty risk limits and monitoring procedures as well as master netting arrangements and bilateral collateral agreements to facilitate the management of credit risk. Master netting arrangements effectively reduce credit risk by permitting settlement, on a net basis, of contracts entered into with the same counterparty. Bilateral collateral agreements require daily exchange of cash or highly rated securities issued by the U.S. Treasury or other U.S. government entities to collateralize amounts due to either party beyond certain risk limits. At December 31, 2012, counterparties with bilateral collateral agreements had pledged $190 million of marketable investment securities and

deposited $12 million of cash with the Corporation to secure the fair value of contracts in an unrealized gain position. At December 31, 2012, the Corporation had pledged $59 million of investment securities as collateral for contracts in an unrealized loss position. For those counterparties not covered under bilateral collateral agreements, collateral is obtained, if deemed necessary, based on the results of management's credit evaluation of the counterparty. Collateral varies, but may include cash, investment securities, accounts receivable, equipment or real estate. Included in the fair value of derivative instruments are credit valuation

adjustments reflecting counterparty credit risk. These adjustments are determined by applying a credit spread for the counterparty or the Corporation, as appropriate, to the total expected exposure of the derivative.

The aggregate fair value of all derivative instruments with credit-risk-related contingent features that were in a liability position on December 31, 2012 was $62 million, for which the Corporation had pledged collateral of $47 million in the normal course of business. The credit-risk-related contingent features require the Corporation's debt to maintain an investment grade credit rating from each of the major credit rating agencies. If the Corporation's debt were to fall below investment grade, the counterparties to the derivative instruments could require additional overnight collateral on derivative instruments in net liability positions. If the credit-risk-related contingent features underlying these agreements had been triggered on December 31, 2012, the Corporation would have been required to assign an additional $15 million of collateral to its counterparties.

Derivative Instruments

Derivative instruments utilized by the Corporation are negotiated over-the-counter and primarily include swaps, caps and floors, forward contracts and options, each of which may relate to interest rates, energy commodity prices or foreign currency exchange rates. Swaps are agreements in which two parties periodically exchange cash payments based on specified indices applied to a specified notional amount until a stated maturity. Caps and floors are agreements which entitle the buyer to receive cash payments based on the difference between a specified reference rate or price and an agreed strike rate or price, applied to a specified notional amount until a stated maturity. Forward contracts are over-the-counter agreements to buy or sell an asset at a specified future date and price. Options are similar to forward contracts except the purchaser has the right, but not the obligation, to buy or sell the asset during a specified period or at a specified future date.

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

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The following table presents the composition of the Corporation's derivative instruments held or issued for risk management purposes or in connection with customer-initiated and other activities at December 31, 2012 and 2011. The table excludes commitments, warrants accounted for as derivatives and a derivative related to the Corporation's 2008 sale of its remaining ownership of Visa shares.

	December 31, 2012			December 31, 2011		
		Fair Value (a)			Fair Value (a)	
(in millions)	Notional/ Contract Amount (b)	Asset Derivatives	Liability Derivatives	Notional/ Contract Amount (b)	Asset Derivatives	Liability Derivatives
Risk management purposes						
Derivatives designated as hedging instruments						
Interest rate contracts:						
Swaps - fair value - receive fixed/pay floating	$1,450	$290	$—	$1,450	$317	$—
Derivatives used as economic hedges						
Foreign exchange contracts:						
Spot, forwards and swaps	475	1	—	229	1	1
Total risk management purposes	$1,925	$291	$—	$1,679	$318	$1
Customer-initiated and other activities						
Interest rate contracts:						
Caps and floors written	$545	$—	$3	$421	$—	$3
Caps and floors purchased	545	3	—	421	3	—
Swaps	10,952	263	215	9,699	282	250
Total interest rate contracts	12,042	266	218	10,541	285	253
Energy contracts:						
Caps and floors written	1,873	—	112	1,141	—	86
Caps and floors purchased	1,873	112	—	1,141	86	—
Swaps	1,815	61	60	379	29	29
Total energy contracts	5,561	173	172	2,661	115	115
Foreign exchange contracts:						
Spot, forwards, options and swaps	2,253	20	18	2,842	39	34
Total customer-initiated and other activities	$19,856	$459	$408	$16,044	$439	$402
Total derivatives	$21,781	$750	$408	$17,723	$757	$403

(a) Asset derivatives are included in "accrued income and other assets" and liability derivatives are included in "accrued expenses and other liabilities" on the consolidated balance sheets. Included in the fair value of derivative assets and liabilities are credit valuation adjustments reflecting counterparty credit risk and credit risk of the Corporation. The fair value of derivative assets included credit valuation adjustments for counterparty credit risk totaled $4 million at December 31, 2012 and 2011.

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

Risk Management

As an end-user, the Corporation employs a variety of financial instruments for risk management purposes, including cash instruments, such as investment securities, as well as derivative instruments. Activity related to these instruments is centered predominantly in the interest rate markets and mainly involves interest rate swaps. Various other types of instruments also may be used to manage exposures to market risks, including interest rate caps and floors, total return swaps, foreign exchange forward contracts and foreign exchange swap agreements.

As part of a fair value hedging strategy, the Corporation entered into interest rate swap agreements for interest rate risk management purposes. These interest rate swap agreements effectively modify the Corporation's exposure to interest rate risk by converting fixed-rate debt to a floating rate. These agreements involve the receipt of fixed-rate interest amounts in exchange for floating-rate interest payments over the life of the agreement, without an exchange of the underlying principal amount.

Risk management fair value interest rate swaps generated net interest income of $69 million and $72 million for the years ended December 31, 2012 and 2011, respectively.

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The amount recognized in "other noninterest income" in the consolidated statements of income for the ineffective portion of risk management derivative instruments designated as fair value hedges of fixed-rate debt was a loss of $1 million and a gain of $1 million for the years ended December 31, 2012 and 2011, respectively.

As of and for the year ended December 31, 2012 the Corporation had no interest rate swap agreements designated as cash flow hedges of loans. In the first quarter 2011, the remaining interest rate swap agreements designated as cash flow hedges outstanding matured. The net gains (losses) recognized in income and OCI on risk management derivatives designated as cash flow hedges of loans for the year ended December 31, 2011 are displayed in the table below.

(in millions)	
Year Ended December 31, 2011	
Interest rate swaps	
Loss recognized in OCI (effective portion)	$(2)
Gain recognized in other noninterest income (ineffective portion)	1
Gain reclassified from accumulated OCI into interest and fees on loans (effective portion)	1

Foreign exchange rate risk arises from changes in the value of certain assets and liabilities denominated in foreign currencies. The Corporation employs spot and forward contracts in addition to swap contracts to manage exposure to these and other risks.

The Corporation recognized an insignificant amount of net gains (losses) on risk management derivative instruments used as economic hedges in "other noninterest income" in the consolidated statements of income in the years ended December 31, 2012 and 2011.

The following table summarizes the expected weighted average remaining maturity of the notional amount of risk management interest rate swaps and the weighted average interest rates associated with amounts expected to be received or paid on interest rate swap agreements as of December 31, 2012 and 2011.

(dollar amounts in millions)	Notional Amount	Weighted Average Remaining Maturity (in years)	Receive Rate	Pay Rate (a)
December 31, 2012				
Swaps - fair value - receive fixed/pay floating rate				
Medium- and long-term debt designation	$1,450	4.4	5.45 %	0.62 %
December 31, 2011				
Swaps - fair value - receive fixed/pay floating rate				
Medium- and long-term debt designation	1,450	5.4	5.45	0.60

(a) Variable rates paid on receive fixed swaps are based on six-month LIBOR rates in effect at December 31, 2012 and 2011.

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

Customer-Initiated and Other

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

For customer-initiated foreign exchange contracts where offsetting positions have not been taken, the Corporation manages the remaining inherent market risk through individual foreign currency position limits and aggregate value-at-risk limits. These limits are established annually and reviewed quarterly. For those customer-initiated derivative contracts which were not offset or where the Corporation holds a speculative position within the limits described above, the Corporation recognized $1 million of net gains in “other noninterest income” in the consolidated

statements of income in the years ended December 31, 2012 and 2011.

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

(in millions)

Years Ended December 31	Location of Gain	2012	2011
Interest rate contracts	Other noninterest income	$22	$15
Energy contracts	Other noninterest income	3	1
Foreign exchange contracts	Foreign exchange income	35	38
Total		$60	$54

Credit-Related Financial Instruments

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

(in millions)

December 31	2012	2011
Unused commitments to extend credit:		
Commercial and other	$25,659	$24,819
Bankcard, revolving check credit and home equity loan commitments	1,681	1,612
Total unused commitments to extend credit	$27,340	$26,431
Standby letters of credit	$4,985	$5,325
Commercial letters of credit	78	132
Other credit-related financial instruments	1	6

The Corporation maintains an allowance to cover probable credit losses inherent in lending-related commitments, including unused commitments to extend credit, letters of credit and financial guarantees. At December 31, 2012 and 2011, the allowance for credit losses on lending-related commitments, included in "accrued expenses and other liabilities" on the consolidated balance sheets, was $32 million and $26 million, respectively. The Corporation recorded a purchase discount for lending-related commitments acquired from Sterling on July 28, 2011. 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. At December 31, 2012, no allowance was recorded for Sterling lending-related commitments and $2 million of purchase discount remained, compared to no allowance and $3 million of remaining purchase discount at December 31, 2011.

Unused Commitments to Extend Credit

Commitments to extend credit are legally binding agreements to lend to a customer, provided there is no violation of any condition established in the contract. These commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many commitments expire without being drawn upon, the total contractual amount of commitments does not necessarily represent future cash requirements of the Corporation. Commercial and other unused commitments are primarily variable rate commitments. The allowance for credit losses on lending-related commitments included $19 million and $9 million at December 31, 2012 and 2011, respectively, for probable credit losses inherent in the Corporation's unused commitments to extend credit.

Standby and Commercial Letters of Credit

Standby letters of credit represent conditional obligations of the Corporation which guarantee the performance of a customer to a third party. Standby letters of credit are primarily issued to support public and private borrowing arrangements, including commercial paper, bond financing and similar transactions. Commercial letters of credit are

issued to finance foreign or domestic trade transactions. These contracts expire in decreasing amounts through the year 2022. The Corporation may enter into participation arrangements with third parties that effectively reduce the maximum amount of future payments which may be required under standby and commercial letters of credit. These risk participations covered $325 million and $271 million, respectively, of the $5.1 billion and $5.5 billion standby and commercial letters of credit outstanding at December 31, 2012 and 2011, respectively.

The carrying value of the Corporation's standby and commercial letters of credit, included in "accrued expenses and other liabilities" on the consolidated balance sheets, totaled $82 million at December 31, 2012, including $69 million in deferred

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fees and $13 million in the allowance for credit losses on lending-related commitments. At December 31, 2011, the comparable amounts were $89 million, $72 million and $17 million, respectively.

The following table presents a summary of internally classified watch list standby and commercial letters of credit at December 31, 2012 and 2011. The Corporation's internal watch list is generally consistent with the Special mention, Substandard and Doubtful categories defined by regulatory authorities. The Corporation manages credit risk through underwriting, periodically reviewing and approving its credit exposures using Board committee approved credit policies and guidelines.

(dollar amounts in millions)

December 31	2012		2011	
Total watch list standby and commercial letters of credit	$144		$195	
As a percentage of total outstanding standby and commercial letters of credit	2.9	%	3.6	%

Other Credit-Related Financial Instruments

The Corporation enters into credit risk participation agreements, under which the Corporation assumes credit exposure associated with a borrower’s performance related to certain interest rate derivative contracts. The Corporation is not a party to the interest rate derivative contracts and only enters into these credit risk participation agreements in instances in which the Corporation is also a party to the related loan participation agreement for such borrowers. The Corporation manages its credit risk on the credit risk participation agreements by monitoring the creditworthiness of the borrowers, which is based on the normal credit review process had it entered into the derivative instruments directly with the borrower. The notional amount of such credit risk participation agreement reflects the pro-rata share of the derivative instrument, consistent with its share of the related participated loan. As of December 31, 2012 and 2011, the total notional amount of the credit risk participation agreements was approximately $574 million and $394 million, respectively, and the fair value, included in customer-initiated interest rate contracts recorded in "accrued expenses and other liabilities" on the consolidated balance sheets, was insignificant for each period. The maximum estimated exposure to these agreements, as measured by projecting a maximum value of the guaranteed derivative instruments, assuming 100 percent default by all obligors on the maximum values, was approximately $11 million and $12 million at December 31, 2012 and 2011, respectively. In the event of default, the lead bank has the ability to liquidate the assets of the borrower, in which case the lead bank would be required to return a percentage of the recouped assets to the participating banks. As of December 31, 2012, the weighted average remaining maturity of outstanding credit risk participation agreements was 2.4 years.

In 2008, the Corporation sold its remaining ownership of Visa Class B shares and entered into a derivative contract. Under the terms of the derivative contract, the Corporation will compensate the counterparty primarily for dilutive adjustments made to the conversion factor of the Visa Class B shares to Class A shares based on the ultimate outcome of litigation involving Visa. Conversely, the Corporation will be compensated by the counterparty for any increase in the conversion factor from anti-dilutive adjustments. The notional amount of the derivative contract was equivalent to approximately 780,000 Visa Class B shares. The fair value of the derivative liability, included in "accrued expenses and other liabilities" on the consolidated balance sheets, was $1 million and $6 million at December 31, 2012 and 2011, respectively.

NOTE 9 - VARIABLE INTEREST ENTITIES

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

The Corporation holds ownership interests in funds in the form of limited partnerships or limited liability companies (LLCs) investing in low income housing projects. The Corporation also directly invests in limited partnerships and LLCs which invest in community development projects which generate similar tax credits to investors. These tax credit entities meet the definition of a VIE; however, the Corporation is not the primary beneficiary of the entities, as the general partner or the managing member has both the power to direct the activities that most significantly impact

the economic performance of the entities and the obligation to absorb losses or the right to receive benefits that could be significant to the entities. While the partnership/LLC agreements allow the limited partners/investor members, through a majority vote, to remove the general partner/managing member, this right is not deemed to be substantive as the general partner/managing member can only be removed for cause.

The Corporation accounts for its interest in these entities on either the cost or equity method. Exposure to loss as a result of the Corporation’s involvement with these entities at December 31, 2012 was limited to approximately $372 million, which reflected the book basis of the Corporation's investment and unfunded commitments for future investments.

As an investor, the Corporation obtains income tax credits and deductions from the operating losses of these tax credit entities. The income tax credits and deductions are allocated to the investors based on their ownership percentages and are recorded

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as a reduction of income tax expense (or an increase to income tax benefit) and a reduction of federal income taxes payable. Investment balances, including all legally binding commitments to fund future investments, are included in "accrued income and other assets" on the consolidated balance sheets, with amortization and other write-downs of investments recorded in "other noninterest income" on the consolidated statements of income. In addition, a liability is recognized in "accrued expenses and other liabilities" on the consolidated balance sheets for all legally binding unfunded commitments to fund tax credit entities ($123 million at December 31, 2012).

The Corporation provided no financial or other support that was not contractually required to any of the above VIEs during the years ended December 31, 2012 and 2011.

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

(in millions)

Years Ended December 31	2012	2011	2010
Other noninterest income	$(57)	$(52)	$(51)
Benefit for income taxes (a)	(56)	(51)	(49)

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

For further information on the Corporation's consolidation policy, see Note 1.

NOTE 10 - DEPOSITS

At December 31, 2012, the scheduled maturities of certificates of deposit and other deposits with a stated maturity were as follows:

(in millions)

Years Ending December 31	
2013	$4,941
2014	773
2015	82
2016	58
2017	41
Thereafter	138
Total	$6,033

A maturity distribution of domestic certificates of deposit of $100,000 and over follows:

(in millions)

December 31	2012	2011
Three months or less	$1,208	$1,257
Over three months to six months	515	609
Over six months to twelve months	1,085	1,062
Over twelve months	707	618
Total	$3,515	$3,546

All foreign office time deposits of $502 million and $348 million at December 31, 2012 and 2011, respectively, were in denominations of $100,000 or more.

NOTE 11 - SHORT-TERM BORROWINGS

Federal funds purchased and securities sold under agreements to repurchase generally mature within one to four days from the transaction date. Other short-term borrowings, which may consist of commercial paper, borrowed securities, term federal funds purchased, short-term notes, and treasury tax and loan deposits generally mature within one to 120 days from the transaction date.

At December 31, 2012, Comerica Bank (the Bank), a subsidiary of the Corporation, had pledged loans totaling $24 billion which provided for up to $19 billion of available collateralized borrowing with the FRB.

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The following table provides a summary of short-term borrowings.

(dollar amounts in millions)	Federal Funds Purchased and Securities Sold Under Agreements to Repurchase		Other Short-term Borrowings	
December 31, 2012				
Amount outstanding at year-end	$87		$23	
Weighted average interest rate at year-end	0.11	%	—	%
Maximum month-end balance during the year	$87		$23	
Average balance outstanding during the year	76		—	
Weighted average interest rate during the year	0.12	%	—	%
December 31, 2011				
Amount outstanding at year-end	$70		$—	
Weighted average interest rate at year-end	0.05	%	—	%
Maximum month-end balance during the year	$317		$18	
Average balance outstanding during the year	137		1	
Weighted average interest rate during the year	0.09	%	4.33	%
December 31, 2010				
Amount outstanding at year-end	$126		$4	
Weighted average interest rate at year-end	0.12	%	4.95	%
Maximum month-end balance during the year	$474		$16	
Average balance outstanding during the year	210		6	
Weighted average interest rate during the year	0.11	%	5.31	%

NOTE 12 - MEDIUM- AND LONG-TERM DEBT

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

(in millions) December 31	2012	2011
Parent company		
Subordinated notes:		
4.80% subordinated notes due 2015	$330	$338
Floating-rate subordinated notes related to trust preferred securities due 2012	—	30
Total subordinated notes	330	368
Medium-term notes:		
3.00% notes due 2015	299	298
Total parent company	629	666
Subsidiaries		
Subordinated notes:		
7.375% subordinated notes due 2013	51	53
5.70% subordinated notes due 2014	267	276
5.75% subordinated notes due 2016	694	699
5.20% subordinated notes due 2017	593	595
Floating-rate based on LIBOR index subordinated notes due 2018	26	26
8.375% subordinated notes due 2024	186	189
7.875% subordinated notes due 2026	241	243
Total subordinated notes	2,058	2,081
Medium-term notes:		
Floating-rate based on LIBOR indices due 2012	—	158

Federal Home Loan Bank advances:		
Floating-rate based on LIBOR indices due 2013 to 2014	2,000	2,000
Other notes:		
6.0% - 6.4% fixed-rate notes due 2020	33	39
Total subsidiaries	4,091	4,278
Total medium- and long-term debt	$4,720	$4,944

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The carrying value of medium- and long-term debt has been adjusted to reflect the gain or loss attributable to the risk hedged with interest rate swaps.
Subordinated notes with remaining maturities greater than one year qualify as Tier 2 capital.
On July 28, 2011, the Corporation assumed $83 million of subordinated notes from Sterling related to trust preferred securities issued by unconsolidated subsidiaries. At December 31, 2012, all subordinated notes assumed from Sterling and the related trust preferred securities had been redeemed. The following table summarized the redemption of these subordinated notes.

(in millions)	Redemption Date	Amount Redeemed
Subordinated notes related to trust preferred securities:		
8.30% fixed rate due 2032	October 27, 2011	$32
Floating rate due 2032	December 31, 2011	21
Floating rate due 2033	January 7, 2012	4
Floating rate due 2037	June 15, 2012	26
Total subordinated notes related to trust preferred securities redeemed		$83

The Bank is a member of the FHLB, which provides short- and long-term funding collateralized by mortgage-related assets to its members. FHLB advances bear interest at variable rates based on LIBOR and were secured by a blanket lien on $14 billion of real estate-related loans at December 31, 2012.
The Corporation currently has a $15 billion medium-term senior note program. This program allows the Bank to issue fixed- or floating-rate notes with maturities between 3 months and 30 years. The Bank did not issue any notes under the senior note program during the years ended December 31, 2012 and 2011. Additionally, all outstanding issuances under the senior note program matured during the year December 31, 2012. The medium-term notes do not qualify as Tier 2 capital and are not insured by the FDIC.
At December 31, 2012, the principal maturities of medium- and long-term debt were as follows:

(in millions)	
Years Ending December 31	
2013	$1,055
2014	1,256
2015	606
2016	650
2017	500
Thereafter	341
Total	$4,408

NOTE 13 - SHAREHOLDERS' EQUITY
The Federal Reserve completed its review of the Corporation's 2012 Capital Plan in March 2012 and did not object to the capital distributions contemplated in the plan. The capital plan provides for up to $375 million in equity repurchases for the five-quarter period ending March 31, 2013. Through December 31, 2012, the Corporation repurchased $304 million (10.1 million shares) in accordance with the capital plan. The capital plan further contemplated increases in the quarterly dividend. In April 2012, the Board of Directors of the Corporation (the Board) approved a 50 percent increase in the dividend, from 10 cents per share to 15 cents per share, and in January 2013, the Board approved a 13 percent increase, to 17 cents per share.

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In November 2010, the Board 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 the Corporation's original outstanding warrants. On April 24, 2012, the Board authorized the repurchase of an additional 5.7 million shares of Comerica Incorporated outstanding common stock. There is no expiration date for the Corporation's share repurchase program. Open market repurchases of common stock totaled 4.1 million shares in 2011. There were no open market repurchases of warrants in 2011 and no open market repurchases of common stock or warrants in 2010. The following table summarizes the Corporation'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 shares 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 the Corporation's repurchase program.

(c) The Corporation 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.

In July 2011, in connection with the acquisition of Sterling, the Corporation issued 24.3 million shares of common stock with an acquisition date fair value of $793 million. 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 the Corporation. In addition, outstanding warrants to purchase Sterling common stock were converted into warrants to purchase shares of common stock of the Corporation at an effective exercise price of $30.36 per share. The options and warrants issued were recorded in "capital surplus" at their acquisition date fair values of $3 million and $7 million, respectively.

In the first quarter 2010, the Corporation fully redeemed $2.25 billion of Fixed Rate Cumulative Perpetual Preferred Stock (preferred stock) issued in 2008 in connection with the U.S. Department of Treasury (U.S. Treasury) Capital Purchase Program. The redemption was funded by the net proceeds from an $880 million common stock offering completed in the first quarter 2010 and from excess liquidity at the parent company. The redemption resulted in a one-time, non-cash redemption charge of $94 million in the first quarter 2010, reflecting the accelerated accretion of the remaining discount, which reduced diluted earnings per common share by $0.54 for the year ended December 31, 2010. The total impact of the preferred stock, including the redemption charge, cash dividends of $24 million and non-cash discount accretion of $5 million, was a reduction to diluted earnings per common share of $0.71 for the year

ended December 31, 2010.

In the second quarter 2010, the U.S. Treasury sold the related warrant, which granted the right to purchase 11.5 million shares of the Corporation's common stock at $29.40 per share. Prior to the public sale, the warrant was separated into 11.5 million warrants to purchase one share of the Corporation's common stock at an exercise price of $29.40 per share. The sale of the warrant by the U.S. Treasury had no impact on the Corporation's equity. The warrants remained outstanding at December 31, 2012 and were included in "capital surplus" on the consolidated statements of changes in shareholders' equity at their original fair value of $124 million.

At December 31, 2012, the Corporation had 12.1 million shares of common stock reserved for warrants, 18.4 million shares of common stock reserved for stock option exercises and 2.4 million shares of restricted stock outstanding to employees and directors under share-based compensation plans.

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NOTE 14 - ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The following table presents a reconciliation of the changes in the components of accumulated other comprehensive loss and details the components of other comprehensive income (loss) for the years ended December 31, 2012, 2011 and 2010, including the amount of income tax expense (benefit) allocated to each component of other comprehensive income (loss).

(in millions)

Years Ended December 31	2012	2011	2010
Accumulated net unrealized gains on investment securities available-for-sale:			
Balance at beginning of period, net of tax	$129	$14	$11
Net unrealized holding gains arising during the period	48	202	12
Less: Provision for income taxes	18	74	3
Net unrealized holding gains arising during the period, net of tax	30	128	9
Less:			
Net realized gains included in net securities gains	14	21	8
Less: Provision for income taxes	5	8	2
Reclassification adjustment for net securities gains included in net income, net of tax	9	13	6
Change in net unrealized gains on investment securities available-for-sale, net of tax	21	115	3
Balance at end of period, net of tax	$150	$129	$14
Accumulated net gains on cash flow hedges:			
Balance at beginning of period, net of tax	$—	$2	$18
Net cash flow hedge gains (losses) arising during the period	—	(2)	2
Less: Provision for income taxes	—	(1)	1
Net cash flow hedge gains (losses) arising during the period, net of tax	—	(1)	1
Less:			
Net cash flow hedge gains recognized in interest and fees on loans	—	1	28
Less: Provision for income taxes	—	—	11
Reclassification adjustment for net cash flow gains included in net income, net of tax	—	1	17
Change in net cash flow hedge gains, net of tax	—	(2)	(16)
Balance at end of period, net of tax	$—	$—	$2
Accumulated defined benefit pension and other postretirement plans adjustment:			
Balance at beginning of period, net of tax	$(485)	$(405)	$(365)
Actuarial loss arising during the period	(192)	(176)	(100)
Less: Benefit for income taxes	(70)	(64)	(34)
Net defined benefit pension and other postretirement adjustment arising during the period, net of tax	(122)	(112)	(66)
Less:			
Amortization of actuarial net loss	(62)	(42)	(30)

Amortization of prior service cost	(3)	(3)	(5)
Amortization of transition obligation	(4)	(4)	(4)
Amounts recognized in employee benefits expense	(69)	(49)	(39)
Less: Benefit for income taxes	(25)	(17)	(13)
Adjustment for amounts recognized as components of net periodic benefit cost during the period, net of tax	(44)	(32)	(26)
Change in defined benefit pension and other postretirement plans adjustment, net of tax	(78)	(80)	(40)
Balance at end of period, net of tax	$(563)	$(485)	$(405)
Total accumulated other comprehensive loss at end of period, net of tax	$(413)	$(356)	$(389)

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NOTE 15 - NET INCOME PER COMMON SHARE

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

(in millions, except per share data)

Years Ended December 31	2012	2011	2010
Basic and diluted			
Income from continuing operations	$521	$393	$260
Less:			
Preferred stock dividends	—	—	29
Redemption discount accretion on preferred stock	—	—	94
Income allocated to participating securities	6	4	1
Income from continuing operations attributable to common shares	$515	$389	$136
Net income	$521	$393	$277
Less:			
Preferred stock dividends	—	—	29
Redemption discount accretion on preferred stock	—	—	94
Income allocated to participating securities	6	4	1
Net income attributable to common shares	$515	$389	$153
Basic average common shares	191	185	170
Basic income from continuing operations per common share	$2.68	$2.11	$0.79
Basic net income per common share	2.68	2.11	0.90
Basic average common shares	191	185	170
Dilutive common stock equivalents:			
Net effect of the assumed exercise of stock options	1	—	1
Net effect of the assumed exercise of warrants	—	1	2
Diluted average common shares	192	186	173
Diluted income from continuing operations per common share	$2.67	$2.09	$0.78
Diluted net income per common share	2.67	2.09	0.88

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

(shares in millions)

Years Ended December 31	2012	2011	2010
Average outstanding options	16.0	17.1	15.1
Range of exercise prices	$29.81 - $64.50	$25.34 - $64.50	$36.24 - $64.50
Average outstanding warrants	0.3	6.0	
Exercise price	$30.36	$29.40 - $30.36	

NOTE 16 - SHARE-BASED COMPENSATION

Share-based compensation expense is charged to “salaries” expense on the consolidated statements of income. The components of share-based compensation expense for all share-based compensation plans and related tax benefits are as follows.

(in millions)

Years Ended December 31	2012	2011	2010
Total share-based compensation expense	$37	$37	$32
Related tax benefits recognized in net income	$13	$14	$12

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The following table summarizes unrecognized compensation expense for all share-based plans:

(dollar amounts in millions)	December 31, 2012
Total unrecognized share-based compensation expense	$55
Weighted-average expected recognition period (in years)	3.2

The Corporation has share-based compensation plans under which it awards both shares of restricted stock and restricted stock units to key executive officers and key personnel and stock options to executive officers, directors and key personnel of the Corporation and its subsidiaries. Restricted stock vests over periods ranging from three years to five years, restricted stock units vest over periods ranging from three years to eight years, and stock options vest over periods ranging from one year to four years. During the period the U.S. Treasury held equity issued under the Capital Purchase Program, restricted share grants were temporarily prohibited from vesting in less than two years from the grant date and retirement-based acceleration was not allowed. These temporary restrictions lengthened the requisite service period and, therefore, the amortization period for retirement eligible grantees. Upon redemption of the preferred stock in the first quarter 2010, the temporary restrictions lapsed. The maturity of each option is determined at the date of grant; however, no options may be exercised later than ten years from the date of grant. The options may have restrictions regarding exercisability. The plans originally provided for a grant of up to 15.2 million common shares, plus shares under certain plans that are forfeited, expire or are cancelled. At December 31, 2012, 5.4 million shares were available for grant.

In 2010, the Corporation provided phantom stock units (PSUs) as a component of compensation for certain executives. The number of PSUs awarded for each pay period was determined by dividing the amount of base salary payable in PSUs for that pay period by the reported closing price on the New York Stock Exchange (NYSE) for a share of the Corporation's common stock on the pay date for the pay period. PSUs did not include any shareholder rights such as the right to vote or receive dividends, were fully vested when awarded, and were settled in cash in the first quarter 2011. The amount paid upon settlement was equal to the number of PSUs settled multiplied by the reported closing price on the NYSE for a share of the Corporation common stock on the date of settlement. Salaries expense included $7 million related to PSUs for the year ended December 31, 2010.

The Corporation used a binomial model to value stock options granted in the periods presented. Option valuation models require several inputs, including the expected stock price volatility, and changes in input assumptions can materially affect the fair value estimates. The model used may not necessarily provide a reliable single measure of the fair value of employee and director stock options. The risk-free interest rate assumption used in the binomial option-pricing model as outlined in the table below was based on the federal ten-year treasury interest rate. The expected dividend yield was based on the historical and projected dividend yield patterns of the Corporation's common shares. Expected volatility assumptions considered both the historical volatility of the Corporation's common stock over a ten-year period and implied volatility based on actively traded options on the Corporation's common stock with pricing terms and trade dates similar to the stock options granted.

The estimated weighted-average grant-date fair value per option and the underlying binomial option-pricing model assumptions are summarized in the following table:

Years Ended December 31	2012	2011	2010
Weighted-average grant-date fair value per option	$8.63	$11.58	$11.07
Weighted-average assumptions:			
Risk-free interest rates	2.16 %	3.43 %	3.73 %
Expected dividend yield	3.00	3.00	3.00
Expected volatility factors of the market price of Comerica common stock	39	38	40
Expected option life (in years)	6.1	6.1	6.1

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A summary of the Corporation's stock option activity and related information for the year ended December 31, 2012 follows:

	Number of Options (in thousands)	Weighted-Average Exercise Price per Share	Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in millions)
Outstanding-January 1, 2012	19,150	$47.10		
Granted	2,026	29.60		
Forfeited or expired	(2,556)	60.72		
Exercised	(195)	18.69		
Outstanding-December 31, 2012	18,425	43.58	4.7	$16
Outstanding, net of expected forfeitures-December 31, 2012	18,064	43.79	4.7	16
Exercisable-December 31, 2012	13,617	47.43	3.5	10

The aggregate intrinsic value of outstanding options shown in the table above represents the total pretax intrinsic value at December 31, 2012, based on the Corporation's closing stock price of $30.34 at December 31, 2012.
The total intrinsic value of stock options exercised was $2 million, $1 million and $3 million for the years ended December 31, 2012, 2011 and 2010, respectively.
A summary of the Corporation's restricted stock/unit activity and related information for the year ended December 31, 2012 follows:

	Number of Shares (in thousands)	Weighted-Average Grant-Date Fair Value per Share
Outstanding-January 1, 2012	2,033	$32.97
Granted	1,070	29.61
Forfeited	(53)	30.16
Vested	(467)	34.89
Outstanding-December 31, 2012	2,583	$31.31

The total fair value of restricted stock awards that fully vested during the years ended December 31, 2012, 2011 and 2010 was $16 million, $26 million and $19 million, respectively.
The Corporation expects to satisfy the exercise of stock options and future grants of restricted stock by issuing shares of common stock out of treasury. At December 31, 2012, the Corporation held 39,889,610 shares in treasury.
For further information on the Corporation's share-based compensation plans, refer to Note 1.
NOTE 17 - EMPLOYEE BENEFIT PLANS
Defined Benefit Pension and Postretirement Benefit Plans
The Corporation has a qualified and a non-qualified defined benefit pension plan, which together provide benefits for substantially all full-time employees hired before January 1, 2007. Employee benefits expense included defined benefit pension expense of $75 million, $47 million and $30 million in the years ended December 31, 2012, 2011 and 2010, respectively, for the plans. Benefits under the defined benefit plans are based primarily on years of service, age and compensation during the five highest paid consecutive calendar years occurring during the last ten years before retirement.
The Corporation's postretirement benefit plan continues to provide postretirement health care and life insurance benefits for retirees as of December 31, 1992. The plan also provides certain postretirement health care and life insurance benefits for a limited number of retirees who retired prior to January 1, 2000. For all other employees hired prior to January 1, 2000, a nominal benefit is provided. Employees hired on or after January 1, 2000 are not eligible to participate in the plan. The Corporation funds the pre-1992 retiree plan benefits with bank-owned life insurance.

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The following table sets forth reconciliations of plan assets and the projected benefit obligation, the weighted-average assumptions used to determine year-end benefit obligations, and the amounts recognized in accumulated other comprehensive income (loss) for the Corporation's defined benefit pension plans and postretirement benefit plan at December 31, 2012 and 2011. The Corporation used a measurement date of December 31, 2012 for these plans.

	Defined Benefit Pension Plans					
	Qualified		Non-Qualified		Postretirement Benefit Plan	
(dollar amounts in millions)	2012	2011	2012	2011	2012	2011
Change in fair value of plan assets:						
Fair value of plan assets at January 1	$1,508	$1,464	$—	$—	$69	$73
Actual return on plan assets	199	92	—	—	4	3
Employer contributions	300	—	—	—	4	(1)
Benefits paid	(52)	(48)	—	—	(5)	(6)
Fair value of plan assets at December 31	$1,955	$1,508	$—	$—	$72	$69
Change in projected benefit obligation:						
Projected benefit obligation at January 1	$1,592	$1,409	$210	$177	$78	$82
Service cost	33	29	4	3	—	—
Interest cost	79	76	10	11	3	4
Actuarial (gain) loss	245	126	30	28	3	(2)
Benefits paid	(52)	(48)	(9)	(9)	(5)	(6)
Projected benefit obligation at December 31	$1,897	$1,592	$245	$210	$79	$78
Accumulated benefit obligation	$1,718	$1,465	$209	$184	$79	$78
Funded status at December 31 (a) (b)	$58	$(84)	$(245)	$(210)	$(7)	$(9)
Weighted-average assumptions used:						
Discount rate	4.20%	4.99%	4.20%	4.99%	3.81%	4.55%
Rate of compensation increase	4.00	4.00	4.00	4.00	n/a	n/a
Healthcare cost trend rate:						
Cost trend rate assumed for next year	n/a	n/a	n/a	n/a	8.00	8.00
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	n/a	n/a	n/a	n/a	5.00	5.00
Year when rate reaches the ultimate trend rate	n/a	n/a	n/a	n/a	2033	2032
Amounts recognized in accumulated other comprehensive income (loss) before income taxes:						
Net actuarial loss	$(743)	$(637)	$(106)	$(83)	$(27)	$(26)
Prior service (cost) credit	(5)	(9)	2	4	(3)	(4)
Net transition obligation	—	—	—	—	—	(4)
Balance at December 31	$(748)	$(646)	$(104)	$(79)	$(30)	$(34)

(a) Based on projected benefit obligation for defined benefit pension plans and accumulated benefit obligation for postretirement benefit plan.

(b) The Corporation recognizes the overfunded and underfunded status of the plans in "accrued income and other assets" and "accrued expenses and other liabilities," respectively, on the consolidated balance sheets.

n/a - not applicable

The accumulated benefit obligation exceeded the fair value of plan assets for the non-qualified defined benefit pension plan and the postretirement benefit plan at December 31, 2012 and 2011.

The following table details the changes in plan assets and benefit obligations recognized in other comprehensive income (loss) for the year ended December 31, 2012.

	Defined Benefit Pension Plans			
(in millions)	Qualified	Non-Qualified	Postretirement Benefit Plan	Total
Actuarial loss arising during the period	$(160)	$(30)	$(2)	$(192)
Amortization of net actuarial loss	54	7	1	62
Amortization of prior service cost (credit)	4	(2)	1	3
Amortization of transition obligation	—	—	4	4
Total recognized in other comprehensive income (loss)	$(102)	$(25)	$4	$(123)

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Components of net periodic defined benefit cost and postretirement benefit cost, the actual return on plan assets and the weighted-average assumptions used were as follows.

	Defined Benefit Pension Plans					
(dollar amounts in millions)	Qualified			Non-Qualified		
Years Ended December 31	2012	2011	2010	2012	2011	2010
Service cost	$33	$29	$28	$4	$3	$3
Interest cost	79	76	73	10	11	9
Expected return on plan assets	(114)	(115)	(116)	—	—	—
Amortization of prior service cost (credit)	4	4	6	(2)	(2)	(2)
Amortization of net loss	54	34	25	7	7	4
Net periodic defined benefit cost	$56	$28	$16	$19	$19	$14
Actual return on plan assets	$199	$92	$172	n/a	n/a	n/a
Actual rate of return on plan assets	13.33%	5.85%	13.10%	n/a	n/a	n/a
Weighted-average assumptions used:						
Discount rate	4.99%	5.51%	5.92%	4.99%	5.51%	5.92%
Expected long-term return on plan assets	7.50	7.75	8.00	n/a	n/a	n/a
Rate of compensation increase	4.00	4.00	3.50	4.00	4.00	3.50

n/a - not applicable

(dollar amounts in millions)	Postretirement Benefit Plan		
Years Ended December 31	2012	2011	2010
Interest cost	$3	$4	$4
Expected return on plan assets	(3)	(4)	(3)
Amortization of transition obligation	4	4	4
Amortization of prior service cost	1	1	1
Amortization of net loss	1	1	1
Net periodic postretirement benefit cost	$6	$6	$7
Actual return on plan assets	$4	$3	$4
Actual rate of return on plan assets	6.39%	5.00%	5.65%
Weighted-average assumptions used:			
Discount rate	4.55%	4.95%	5.41%
Expected long-term return on plan assets	5.00	5.00	5.00
Healthcare cost trend rate:			
Cost trend rate assumed for next year	8.00	8.00	8.00
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	5.00	5.00	5.00
Year that the rate reaches the ultimate trend rate	2032	2031	2030

The expected long-term rate of return of plan assets is the average rate of return expected to be realized on funds invested or expected to be invested over the life of the plan, which has an estimated average life of approximately 16 years as of December 31, 2012. The expected long-term rate of return 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 returns on the various asset categories are blended to derive one long-term rate of return. The Corporation reviews its pension plan assumptions on an annual basis with its actuarial consultants to determine if assumptions are reasonable and adjusts the assumptions to reflect changes in future expectations.

The estimated portion of balances remaining in accumulated other comprehensive income (loss) that are expected to be recognized as a component of net periodic benefit cost in the year ended December 31, 2013 are as follows.

(in millions)	Defined Benefit Pension Plans		Postretirement Benefit Plan	Total
	Qualified	Non-Qualified		
Net loss	$75	$10	$2	$87
Prior service cost (credit)	4	(2)	1	3

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Assumed healthcare cost trend rates have a significant effect on the amounts reported for the postretirement benefit plan. A one-percentage-point change in 2012 assumed healthcare and prescription drug cost trend rates would have the following effects.

	One-Percentage-Point	
(in millions)	Increase	Decrease
Effect on postretirement benefit obligation	$5	$(5)
Effect on total service and interest cost	—	—

Plan Assets

The Corporation's overall investment goals for the qualified defined benefit pension plan are to maintain a portfolio of assets of appropriate liquidity and diversification; to generate investment returns (net of operating costs) that are reasonably anticipated to maintain the plan's fully funded status or to reduce a funding deficit, after taking into account various factors, including reasonably anticipated future contributions and expense and the interest rate sensitivity of the plan's assets relative to that of the plan's liabilities; and to generate investment returns (net of operating costs) that meet or exceed a customized benchmark as defined in the plan investment policy. Derivative instruments, are permissible for hedging and transactional efficiency, but only to the extent that the derivative use enhances the efficient execution of the plan's investment policy. The plan does not directly invest in securities issued by the Corporation and its subsidiaries. The Corporation's target allocations for plan investments are 48 percent to 58 percent equity securities and 42 percent to 52 percent fixed income, including cash. Equity securities include collective investment and mutual funds and common stock. Fixed income securities include U.S. Treasury and other U.S. government agency securities, mortgage-backed securities, corporate bonds and notes, municipal bonds, collateralized mortgage obligations and money market funds.

Fair Value Measurements

The Corporation's qualified defined benefit pension plan utilizes fair value measurements to record fair value adjustments and to determine fair value disclosures. The Corporation's qualified benefit pension plan categorizes investments recorded at fair value into a three-level hierarchy, based on the markets in which the investment are traded and the reliability of the assumptions used to determine fair value. Refer to Note 2 for a description of the three-level hierarchy.

Following is a description of the valuation methodologies and key inputs used to measure the fair value of the Corporation's qualified defined benefit pension plan investments, including an indication of the level of the fair value hierarchy in which the investments are classified.

Collective investment funds

Fair value measurement is based upon the NAV provided by the administrator of the fund. Collective investment fund NAVs are based primarily on observable inputs, generally the quoted prices for underlying assets owned by the fund, and are included in Level 2 of the fair value hierarchy.

Mutual funds

Fair value measurement is based upon the NAV provided by the administrator of the fund. Mutual fund NAVs are quoted in an active market exchange, such as the New York Stock Exchange, and are included in Level 1 of the fair value hierarchy.

Common stock

Fair value measurement is based upon the closing price quoted in an active market exchange, such as the New York Stock Exchange. Level 1 common stock includes domestic and foreign stock and real estate investment trusts. The fair value of American Depositary Receipts is based upon independent pricing models utilizing primarily observable inputs, generally the quoted prices for the underlying securities, and is included in Level 2 of the fair value hierarchy.

U.S. Treasury and other U.S. government agency securities

Fair value measurement is based upon quoted prices in an active market exchange, such as the New York Stock Exchange. Level 1 securities include U.S. Treasury securities that are traded by dealers or brokers in active over-the-counter markets.

Corporate and Municipal bonds and notes

Fair value measurement is based upon quoted prices of securities with similar characteristics or pricing models based on observable market data inputs, primarily interest rates, spreads and prepayment information. Level 2 securities include corporate bonds, municipal bonds, foreign bonds and foreign notes.

Collateralized mortgage obligations

Fair value measurement is based upon independent pricing models or other model-based valuation techniques such as the present value of future cash flows, adjusted for the security's credit rating, prepayment assumptions and other factors, such as credit loss and liquidity assumptions, and are included in Level 2 of the fair value hierarchy.

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U.S. Government agency mortgage-backed securities
Fair value measurement is based upon quoted prices of securities with similar characteristics or pricing models based on observable market data inputs, primarily interest rates, spreads and prepayment information and are included in Level 2 of the fair value hierarchy.
Private placements
Fair value is measured using the NAV provided by fund management as quoted prices in active markets are not available. Management considers additional discounts to the provided NAV for market and credit risk. Private placements are included in Level 3 of the fair value hierarchy.
Securities purchased under agreements to resell
Fair value measurement is based upon independent pricing models or other model-based valuation techniques such as the present value of future cash flows, and is included in Level 2 of the fair value hierarchy.
Fair Values
The fair values of the Corporation's qualified defined benefit pension plan investments measured at fair value on a recurring basis at December 31, 2012 and 2011, by asset category and level within the fair value hierarchy, are detailed in the table below.

(in millions)	Total	Level 1	Level 2	Level 3
December 31, 2012				
Cash equivalent securities:				
Mutual funds	$21	$21	$—	$—
Equity securities:				
Collective investment funds	507	—	507	—
Mutual funds	53	53	—	—
Common stock	420	420	—	—
Fixed income securities:				
U.S. Treasury and other U.S. government agency securities	534	534	—	—
Corporate and municipal bonds and notes	308	—	308	—
Collateralized mortgage obligations	5	—	5	—
U.S. government agency mortgage-backed securities	2	—	2	—
Mutual funds	69	69	—	—
Private placements	30	—	—	30
Other assets:				
Securities purchased under agreements to resell	4	—	4	—
Total investments at fair value	$1,953	$1,097	$826	$30
December 31, 2011				
Cash equivalent securities:				
Mutual funds	$21	$21	$—	$—
Equity securities:				
Collective investment funds	340	—	340	—
Mutual funds	154	154	—	—
Common stock	368	368	—	—
Fixed income securities:				
U.S. Treasury and other U.S. government agency securities	236	236	—	—
Corporate and municipal bonds and notes	344	—	344	—
U.S. government agency mortgage-backed securities	2	—	2	—
Mutual funds	22	22	—	—

Private placements	26	—	—	26
Total investments at fair value	$1,513	$801	$686	$26

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The table below provides a summary of changes in the Corporation's qualified defined benefit pension plan's Level 3 investments measured at fair value on a recurring basis for the years ended December 31, 2012 and 2011.

(in millions)	Balance at Beginning of Period	Net Gains Realized	Unrealized	Purchases	Sales	Balance at End of Period
Year Ended December 31, 2012						
Private placements	$26	$—	$2	$11	$(9)	$30
Year Ended December 31, 2011						
Private placements	$28	$—	$1	$9	$(12)	$26

There were no assets in the non-qualified defined benefit pension plan at December 31, 2012 and 2011. The postretirement benefit plan is fully invested in bank-owned life insurance policies. The fair value of bank-owned life insurance policies is based on the cash surrender values of the policies as reported by the insurance companies and are classified in Level 2 of the fair value hierarchy.

Cash Flows

Estimated future employer contributions were zero for the qualified and non-qualified defined benefit pension plans and postretirement benefit plan for the year ended December 31, 2013.

(in millions) Years Ended December 31	Estimated Future Benefit Payments Qualified Defined Benefit Pension Plan	Non-Qualified Defined Benefit Pension Plan	Postretirement Benefit Plan (a)
2013	$59	$10	$7
2014	63	11	7
2015	67	12	7
2016	72	12	7
2017	77	13	6
2018 - 2022	467	73	28

(a) Estimated benefit payments in the postretirement benefit plan are net of estimated Medicare subsidies.

Defined Contribution Plans

Substantially all of the Corporation's employees are eligible to participate in the Corporation's principal defined contribution plan (a 401(k) plan). Under this plan, the Corporation makes core matching cash contributions of 100 percent of the first 4 percent of qualified earnings contributed by employees (up to the current IRS compensation limit), invested based on employee investment elections. Employee benefits expense included expense for the plan of $20 million for the years ended December 31, 2012 and 2011 and $19 million for the year ended December 31, 2010.

The Corporation also provides a profit sharing plan for the benefit of substantially all employees hired on or after January 1, 2007. Under the profit sharing plan, the Corporation makes an annual discretionary allocation to the individual account of each eligible employee ranging from 3 percent to 8 percent of annual compensation, determined based on combined age and years of service. The allocations are invested based on employee investment elections. The employee fully vests in the defined contribution pension plan after three years of service, at age 65 if still employed, or in the event of death while an employee. Before an employee is eligible to participate, the plan requires the equivalent of one year of service. The Corporation recognized $7 million, $4 million and $3 million in employee benefits expense for this plan for the years ended December 31, 2012, 2011 and 2010, respectively.

Deferred Compensation Plans

The Corporation offers optional deferred compensation plans under which certain employees may make an irrevocable election to defer incentive compensation and/or a portion of base salary until retirement or separation from the Corporation. The employee may direct deferred compensation into one or more deemed investment options. Although not required to do so, the Corporation invests actual funds into the deemed investments as directed by employees,

resulting in a deferred compensation asset, recorded in “other short-term investments” on the consolidated balance sheets that offsets the liability to employees under the plan, recorded in “accrued expenses and other liabilities.” The earnings from the deferred compensation asset are recorded in “interest on short-term investments” and “other noninterest income” and the related change in the liability to employees under the plan is recorded in “salaries” expense on the consolidated statements of income.

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NOTE 18 - INCOME TAXES AND TAX-RELATED ITEMS

The provision for income taxes is calculated as the sum of income taxes due for the current year and deferred taxes. Income taxes due for the current year is computed by applying federal and state tax statutes to income before income taxes as reported in the consolidated financial statements. Deferred taxes arise from temporary differences between the income tax basis and financial accounting basis of assets and liabilities. Tax-related interest and penalties and foreign taxes are then added to the tax provision.

The current and deferred components of the provision for income taxes for continuing operations were as follows:

(in millions)			
December 31	2012	2011	2010
Current:			
Federal	$7	$42	$239
Foreign	6	9	6
State and local	18	7	12
Total current	31	58	257
Deferred:			
Federal	152	73	(202)
State and local	6	6	—
Total deferred	158	79	(202)
Total	$189	$137	$55

Income from continuing operations before income taxes of $710 million for the year ended December 31, 2012 included $21 million of foreign-source income.

Income from discontinued operations, net of tax, included a provision for income taxes on discontinued operations of $10 million for the year ended December 31, 2010. There was no income from discontinued operations for the years ended December 31, 2012 and 2011. The income tax provision on securities transactions was $4 million, $5 million and $1 million for the years ended December 31, 2012, 2011 and 2010, respectively.

A reconciliation of expected income tax expense at the federal statutory rate to the Corporation's provision for income taxes for continuing operations and effective tax rate follows:

(dollar amounts in millions)	2012		2011		2010	
Years Ended December 31	Amount	Rate	Amount	Rate	Amount	Rate
Tax based on federal statutory rate	$249	35.0 %	$185	35.0 %	$110	35.0 %
State income taxes	14	2.0	9	1.6	7	2.4
Affordable housing and historic credits	(56)	(7.8)	(51)	(9.7)	(49)	(15.6)
Bank-owned life insurance	(15)	(2.1)	(14)	(2.7)	(15)	(4.9)
Other changes in unrecognized tax benefits	1	0.2	17	3.2	2	0.6
Tax-related interest and penalties	—	—	(7)	(1.3)	3	1.0
Other	(4)	(0.7)	(2)	(0.2)	(3)	(1.0)
Provision for income taxes	$189	26.6 %	$137	25.9 %	$55	17.5 %

The Corporation recognized no expense in 2012 for tax-related interest and penalties included in "provision for income taxes" on the consolidated statements of income, compared to a benefit of $7 million in 2011 and an expense of $3 million in 2010. Included in "accrued expenses and other liabilities" on the consolidated balance sheets was a $4 million liability for tax-related interest and penalties at December 31, 2012, compared to a receivable of $8 million December 31, 2011.

In the ordinary course of business, the Corporation enters into certain transactions that have tax consequences. From time to time, the Internal Revenue Service (IRS) may review and/or challenge specific interpretive tax positions taken by the Corporation with respect to those transactions. The Corporation believes that its tax returns were filed based

upon applicable statutes, regulations and case law in effect at the time of the transactions. The IRS, an administrative authority or a court, if presented with the transactions, could disagree with the Corporation's interpretation of the tax law.

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A reconciliation of the beginning and ending amount of net unrecognized tax benefits follows:

(in millions)	2012	2011	2010
Balance at January 1	$20	$10	$—
Increases as a result of tax positions taken during a prior period	33	22	10
Decrease related to settlements with tax authorities	(11)	(12)	—
Balance at December 31	$42	$20	$10

The Corporation anticipates that it is reasonably possible that settlements of federal and state tax issues will result in a decrease in net unrecognized tax benefits of $30 million within the next twelve months.

The increase in unrecognized tax benefits in 2012 was primarily the result of the recognition of federal and state audit adjustments, partially offset by a decrease in unrecognized tax benefits primarily resulting from the Corporation finalizing a settlement with the IRS regarding the repatriation of foreign earnings on a structured investment transaction. After consideration of the effect of the federal tax benefit available on unrecognized state tax benefits, the total amount of unrecognized tax benefits that, if recognized, would affect the Corporation's effective tax rate was approximately $2 million at December 31, 2012.

The following tax years for significant jurisdictions remain subject to examination as of December 31, 2012:

Jurisdiction	Tax Years
Federal	2008-2011
California	2001-2011

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

The principal components of deferred tax assets and liabilities were as follows:

(in millions) December 31	2012	2011
Deferred tax assets:		
Allowance for loan losses	$220	$255
Deferred compensation	134	142
Defined benefit plans	113	147
Loan purchase accounting adjustments	38	73
Deferred loan origination fees and costs	30	29
Foreign tax credit	1	14
Other tax credits	39	54
Other temporary differences, net	34	52
Total deferred tax assets	609	766
Deferred tax liabilities:		
Lease financing transactions	(241)	(262)
Net unrealized gains on investment securities available-for-sale	(86)	(73)
Allowance for depreciation	(28)	(36)
Total deferred tax liabilities	(355)	(371)
Net deferred tax asset	$254	$395

Included in deferred tax assets at December 31, 2012 were $40 million of federal tax credits, the majority of which will expire in 2032 if not utilized. Deferred tax assets at December 31, 2012 also included net state tax credit carryforwards of $7 million, which will expire in 2027 if not utilized. At December 31, 2012, the Corporation determined that no valuation allowance was necessary on federal or state deferred tax assets. This determination was based on sufficient taxable income in the carry-back period and anticipated future events to absorb a significant portion of the deferred tax assets. The remaining deferred tax assets will be absorbed by future reversals of existing

taxable temporary differences. For further information on the Corporation's valuation policy for deferred tax assets, refer to Note 1.

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NOTE 19 - TRANSACTIONS WITH RELATED PARTIES

The Corporation's banking subsidiaries had, and expect to have in the future, transactions with the Corporation's directors and executive officers, companies with which these individuals are associated, and certain related individuals. Such transactions were made in the ordinary course of business and included extensions of credit, leases and professional services. With respect to extensions of credit, all were made on substantially the same terms, including interest rates and collateral, as those prevailing at the same time for comparable transactions with other customers and did not, in management's opinion, involve more than normal risk of collectibility or present other unfavorable features. The aggregate amount of loans attributable to persons who were related parties at December 31, 2012, totaled $198 million at the beginning of 2012 and $140 million at the end of 2012. During 2012, new loans to related parties aggregated $692 million and repayments totaled $750 million.

NOTE 20 - REGULATORY CAPITAL AND RESERVE REQUIREMENTS

Reserves required to be maintained and/or deposited with the FRB are classified in interest-bearing deposits with banks. These reserve balances vary, depending on the level of customer deposits in the Corporation's banking subsidiaries. The average required reserve balances were $360 million and $335 million for the years ended December 31, 2012 and 2011, respectively.

Banking regulations limit the transfer of assets in the form of dividends, loans or advances from the bank subsidiaries to the parent company. Under the most restrictive of these regulations, the aggregate amount of dividends which can be paid to the parent company, with prior approval from bank regulatory agencies, approximated $277 million at January 1, 2013, plus 2013 net profits. Substantially all the assets of the Corporation's banking subsidiaries are restricted from transfer to the parent company of the Corporation in the form of loans or advances.

The Corporation's subsidiary banks declared dividends of $497 million, $292 million and $28 million in 2012, 2011 and 2010, respectively.

The Corporation and its U.S. banking subsidiaries are subject to various regulatory capital requirements administered by federal and state banking agencies. Quantitative measures established by regulation to ensure capital adequacy require the maintenance of minimum amounts and ratios of Tier 1 and total capital (as defined in the regulations) to average and risk-weighted assets. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Corporation's financial statements. At December 31, 2012 and 2011, the Corporation and its U.S. banking subsidiaries exceeded the ratios required for an institution to be considered "well capitalized" (total risk-based capital, Tier 1 risk-based capital and leverage ratios greater than 10 percent, 6 percent and 5 percent, respectively). There have been no conditions or events since December 31, 2012 that management believes have changed the capital adequacy classification of the Corporation or its U.S. banking subsidiaries.

The following is a summary of the capital position of the Corporation and Comerica Bank, its principal banking subsidiary.

(dollar amounts in millions)	Comerica Incorporated (Consolidated)		Comerica Bank	
December 31, 2012				
Tier 1 capital (minimum-$2.6 billion (Consolidated))	$6,705		$6,700	
Total capital (minimum-$5.3 billion (Consolidated))	8,695		8,570	
Risk-weighted assets	66,188		65,996	
Average assets (fourth quarter)	63,720		63,525	
Tier 1 capital to risk-weighted assets (minimum-4.0%)	10.13	%	10.15	%
Total capital to risk-weighted assets (minimum-8.0%)	13.14		12.99	
Tier 1 capital to average assets (minimum-3.0%)	10.52		10.55	
December 31, 2011				
Tier 1 capital (minimum-$2.5 billion (Consolidated))	$6,582		$6,596	

Total capital (minimum-$5.1 billion (Consolidated))	9,015		8,849	
Risk-weighted assets	63,244		63,029	
Average assets (fourth quarter)	60,301		60,065	
Tier 1 capital to risk-weighted assets (minimum-4.0%)	10.41	%	10.47	%
Total capital to risk-weighted assets (minimum-8.0%)	14.25		14.04	
Tier 1 capital to average assets (minimum-3.0%)	10.92		10.98	

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NOTE 21 - CONTINGENT LIABILITIES

Legal Proceedings

The Corporation and certain of its subsidiaries are subject to various pending or threatened legal proceedings arising out of the normal course of business or operations. The Corporation 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 the Corporation and its shareholders. Settlement may result from the Corporation's determination that it may be more prudent financially to settle, rather than litigate, and should not be regarded as an admission of liability. On at least a quarterly basis, the Corporation assesses its liabilities and contingencies in connection with outstanding legal proceedings utilizing the latest information available. On a case-by-case basis, reserves are established for those legal claims for which it is probable that a loss will be incurred either as a result of a settlement or judgment, and the amount of such loss can be reasonably estimated. The actual costs of resolving these claims may be substantially higher or lower than the amounts reserved. Litigation-related expense of $23 million, $10 million and $2 million and legal fees of $31 million, $43 million and $35 million were included in "other noninterest expenses" on the consolidated statements of income for the years ended December 31, 2012, 2011 and 2010, respectively. Based on current knowledge, and after consultation with legal counsel, management believes that current reserves are adequate, and the amount of any incremental liability arising from these matters is not expected to have a material adverse effect on the Corporation's consolidated financial condition, consolidated results of operations or consolidated cash flows.

For other matters, where a loss is not probable, the Corporation has not established legal reserves. In determining whether it is possible to provide an estimate of loss or range of possible loss, the Corporation 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 the Corporation'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, the Corporation 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 the Corporation'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 the Corporation's consolidated financial condition, consolidated results of operations or consolidated cash flows.

For information regarding income tax contingencies, refer to Note 18.

NOTE 22 - BUSINESS SEGMENT INFORMATION

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

refined. For comparability purposes, amounts in all periods are based on business segments and methodologies in effect at December 31, 2012. These methodologies may be modified as the management accounting system is enhanced and changes occur in the organizational structure and/or product lines.

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 allowance for loan losses is allocated to the business segments based on the methodology used to estimate the consolidated allowance for loan losses described in Note 1. The related provision for loan losses is assigned based on the amount necessary to maintain an allowance for loan losses appropriate for each business segment. 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 discussion provides information about the activities of each business segment. A discussion of the financial results and the factors impacting 2012 performance can be found in the section entitled "Business Segments" in the financial review.

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

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

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

The Finance segment includes the Corporation's securities portfolio and asset and liability management activities. This segment is responsible for managing the Corporation's funding, liquidity and capital needs, performing interest sensitivity analysis and executing various strategies to manage the Corporation's exposure to liquidity, interest rate risk and foreign exchange risk.

The Other category includes discontinued operations, the income and expense impact of equity and cash, tax benefits not assigned to specific business segments, charges of an unusual or infrequent nature that are not reflective of the normal operations of the business segments and miscellaneous other expenses of a corporate nature.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Comerica Incorporated and Subsidiaries

Business segment financial results are as follows:

(dollar amounts in millions) Year Ended December 31, 2012	Business Bank	Retail Bank	Wealth Management	Finance	Other	Total
Earnings summary:						
Net interest income (expense) (FTE)	$1,541	$645	$187	$(680)	$38	$1,731
Provision for credit losses	36	21	21	—	1	79
Noninterest income	319	173	258	60	8	818
Noninterest expenses	602	723	320	12	100	1,757
Provision (benefit) for income taxes (FTE)	382	24	38	(236)	(16)	192
Net income (loss)	$840	$50	$66	$(396)	$(39)	$521
Net credit-related charge-offs	$107	$40	$23	$—	$—	$170
Selected average balances:						
Assets	$34,450	$6,008	$4,623	$12,164	$5,610	$62,855
Loans	33,470	5,308	4,528	—	—	43,306
Deposits	24,837	20,623	3,680	213	187	49,540
Statistical data:						
Return on average assets (a)	2.44 %	0.23 %	1.42 %	N/M	N/M	0.83 %
Efficiency ratio	32.35	88.24	74.31	N/M	N/M	69.24

(dollar amounts in millions) Year Ended December 31, 2011	Business Bank	Retail Bank	Wealth Management	Finance	Other	Total
Earnings summary:						
Net interest income (expense) (FTE)	$1,427	$630	$184	$(620)	$36	$1,657
Provision for credit losses	29	77	40	—	(2)	144
Noninterest income	306	169	239	74	4	792
Noninterest expenses	650	683	315	11	112	1,771
Provision (benefit) for income taxes (FTE)	331	16	26	(211)	(21)	141
Net income (loss)	$723	$23	$42	$(346)	$(49)	$393
Net credit-related charge-offs	$199	$89	$40	$—	$—	$328
Selected average balances:						
Assets	$30,691	$5,814	$4,720	$10,252	$5,440	$56,917
Loans	30,074	5,292	4,709	—	—	40,075
Deposits	21,394	18,912	3,096	231	129	43,762
Statistical data:						
Return on average assets (a)	2.35 %	0.12 %	0.89 %	N/M	N/M	0.69 %
Efficiency ratio	37.50	84.63	76.41	N/M	N/M	72.73

(Table continues on following page)

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Comerica Incorporated and Subsidiaries

(dollar amounts in millions) Year Ended December 31, 2010	Business Bank	Retail Bank	Wealth Management	Finance	Other	Total
Earnings summary:						
Net interest income (expense) (FTE)	$1,370	$531	$170	$(427)	$7	$1,651
Provision for credit losses	280	106	90	—	2	478
Noninterest income	303	174	240	61	11	789
Noninterest expenses	638	647	324	18	15	1,642
Provision (benefit) for income taxes (FTE)	226	(17)	(1)	(148)	—	60
Income from discontinued operations, net of tax	—	—	—	—	17	17
Net income (loss)	$529	$(31)	$(3)	$(236)	$18	$277
Net credit-related charge-offs	$424	$88	$52	$—	$—	$564
Selected average balances:						
Assets	$30,673	$5,866	$4,863	$9,329	$4,822	$55,553
Loans	30,306	5,386	4,825	—	—	40,517
Deposits	19,001	16,974	2,762	638	111	39,486
Statistical data:						
Return on average assets (a)	1.73 %	(0.18)%	(0.06)%	N/M	N/M	0.50 %
Efficiency ratio	38.11	91.22	80.43	N/M	N/M	67.39

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

FTE - Fully Taxable Equivalent

N/M – not meaningful

The Corporation operates in three primary markets - Texas, California, and Michigan, as well as in Arizona and Florida, with select businesses operating in several other states, and in Canada and Mexico. The Corporation produces market segment results for the Corporation’s three primary geographic markets, which were realigned in the fourth quarter 2012, as well as Other Markets. Other Markets includes Florida, Arizona, the International Finance division, and businesses with a national perspective. The Finance & Other category includes the Finance segment and the Other category as previously described. Market segment results are provided as supplemental information to the business segment results and may not meet all operating segment criteria as set forth in ASC Topic 280, Segment Reporting. For comparability purposes, amounts in all periods are based on market segments and methodologies in effect at December 31, 2012.

A discussion of the financial results and the factors impacting 2012 performance can be found in the section entitled "Market Segments" in the financial review.

Market segment financial results are as follows:

(dollar amounts in millions) Year Ended December 31, 2012	Michigan	California	Texas	Other Markets	Finance & Other	Total
Earnings summary:						
Net interest income (expense) (FTE)	$780	$701	$570	$322	$(642)	$1,731
Provision for credit losses	4	3	40	31	1	79
Noninterest income	387	136	124	103	68	818
Noninterest expenses	716	394	360	175	112	1,757
Provision (benefit) for income taxes (FTE)	159	167	104	14	(252)	192

Net income (loss)	$288	$273	$190	$205	$(435)	$521
Net credit-related charge-offs	$41	$47	$22	$60	$—	$170
Selected average balances:						
Assets	$13,922	$12,979	$10,309	$7,871	$17,774	$62,855
Loans	13,618	12,736	9,552	7,400	—	43,306
Deposits	19,573	14,568	10,040	4,959	400	49,540
Statistical data:						
Return on average assets (a)	1.40 %	1.76 %	1.69 %	2.61 %	N/M	0.83 %
Efficiency ratio	61.27	47.11	51.87	42.49	N/M	69.24

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Comerica Incorporated and Subsidiaries

(dollar amounts in millions) Year Ended December 31, 2011	Michigan	California	Texas	Other Markets	Finance & Other	Total
Earnings summary:						
Net interest income (expense) (FTE)	$808	$654	$477	$302	$(584)	$1,657
Provision for credit losses	84	21	2	39	(2)	144
Noninterest income	381	136	103	94	78	792
Noninterest expenses	745	405	294	204	123	1,771
Provision (benefit) for income taxes (FTE)	133	134	103	3	(232)	141
Net income (loss)	$227	$230	$181	$150	$(395)	$393
Net credit-related charge-offs	$148	$75	$17	$88	$—	$328
Selected average balances:						
Assets	$14,164	$12,014	$8,092	$6,955	$15,692	$56,917
Loans	13,937	11,819	7,705	6,614	—	40,075
Deposits	18,536	12,667	7,805	4,394	360	43,762
Statistical data:						
Return on average assets (a)	1.16 %	1.69 %	2.12 %	2.14 %	N/M	0.69 %
Efficiency ratio	62.34	51.21	50.64	52.77	N/M	72.73

(dollar amounts in millions) Year Ended December 31, 2010	Michigan	California	Texas	Other Markets	Finance & Other	Total
Earnings summary:						
Net interest income (expense) (FTE)	$816	$627	$318	$310	$(420)	$1,651
Provision for credit losses	197	131	48	100	2	478
Noninterest income	397	133	91	96	72	789
Noninterest expenses	757	409	253	190	33	1,642
Provision (benefit) for income taxes (FTE)	92	89	38	(11)	(148)	60
Income from discontinued operations, net of tax	—	—	—	—	17	17
Net income (loss)	$167	$131	$70	$127	$(218)	$277
Net credit-related charge-offs	$211	$193	$47	$113	$—	$564
Selected average balances:						
Assets	$14,692	$12,516	$6,687	$7,507	$14,151	$55,553
Loans	14,510	12,337	6,480	7,190	—	40,517
Deposits	17,697	11,892	5,320	3,828	749	39,486
Statistical data:						
Return on average assets (a)	0.88 %	1.00 %	1.04 %	1.70 %	N/M	0.50 %
Efficiency ratio	62.13	53.77	61.92	47.79	N/M	67.39

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

FTE—Fully Taxable Equivalent
N/M – not meaningful

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 23 – MERGER AND RESTRUCTURING CHARGES

The Corporation committed to a restructuring plan in connection with the acquisition of Sterling on July 28, 2011 (the acquisition date). The restructuring plan, which was complete as of December 31, 2012, was implemented to streamline operations across the combined organization. The restructuring plan primarily encompassed facilities and contract termination charges, systems integration and related charges, severance and other employee-related charges, and transaction-related costs. From the acquisition date through completion of the plan, the Corporation recognized acquisition-related expenses of $110 million ($70 million after-tax), recorded in "merger and restructuring charges" in the consolidated statements of income. Merger and restructuring charges included the incremental costs to integrate the operations of Sterling and do not reflect the costs of the fully integrated combined organization. Merger and restructuring charges comprised the following from the acquisition date to the completion date and for the years ended December 31, 2012 and 2011.

(in millions)	Total Expected	Total Incurred Inception to December 31, 2012	Years Ended December 31 2012	2011
Facilities and contract termination charges	$47	$47	$31	$16
Systems integration and related charges	29	29	3	26
Severance and other employee-related charges	26	26	1	25
Transaction costs	8	8	—	8
Total merger and restructuring charges	$110	$110	$35	$75

The following table presents the changes in restructuring reserves for the years ended December 31, 2012 and 2011.

(in millions)		
Years Ended December 31	2012	2011
Balance at beginning of period	$26	$—
Merger and restructuring charges	41	75
Payments	(29)	(49)
Other adjustments (a)	(6)	—
Balance at end of period	$32	$26

(a) Other adjustments include revisions to the timing or amount of estimated net costs related to the exit of lease facilities included in facilities and contract termination charges.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Comerica Incorporated and Subsidiaries

NOTE 24 - PARENT COMPANY FINANCIAL STATEMENTS

BALANCE SHEETS - COMERICA INCORPORATED
(in millions, except share data)

December 31	2012	2011
Assets		
Cash and due from subsidiary bank	$2	$7
Short-term investments with subsidiary bank	431	411
Other short-term investments	88	90
Investment in subsidiaries, principally banks	7,045	7,011
Premises and equipment	4	4
Other assets	150	177
Total assets	$7,720	$7,700
Liabilities and Shareholders' Equity		
Medium- and long-term debt	$629	$666
Other liabilities	149	166
Total liabilities	778	832
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
Less cost of common stock in treasury - 39,889,610 shares at 12/31/12 and 30,831,076 shares at 12/31/11	(1,879)	(1,633)
Total shareholders' equity	6,942	6,868
Total liabilities and shareholders' equity	$7,720	$7,700

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Comerica Incorporated and Subsidiaries

STATEMENTS OF INCOME - COMERICA INCORPORATED
(in millions)

Years Ended December 31	2012	2011	2010
Income			
Income from subsidiaries			
Dividends from subsidiaries	$505	$309	$34
Other interest income	1	1	1
Intercompany management fees	108	119	104
Other noninterest income	7	11	5
Total income	621	440	144
Expenses			
Interest on medium- and long-term debt	11	12	30
Salaries and employee benefits	114	112	105
Net occupancy expense	7	8	8
Equipment expense	1	1	1
Merger and restructuring charges	35	75	—
Other noninterest expenses	54	51	56
Total expenses	222	259	200
Income (loss) before benefit for income taxes and equity in undistributed earnings of subsidiaries	399	181	(56)
Benefit for income taxes	(37)	(44)	(31)
Income (loss) before equity in undistributed earnings of subsidiaries	436	225	(25)
Equity in undistributed earnings of subsidiaries, principally banks	85	168	302
Net income	521	393	277
Less:			
Preferred stock dividends	—	—	123
Income allocated to participating securities	6	4	1
Net income attributable to common shares	$515	$389	$153

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Comerica Incorporated and Subsidiaries

STATEMENTS OF CASH FLOWS - COMERICA INCORPORATED
(in millions)

Years Ended December 31	2012	2011	2010
Operating Activities			
Net income	$521	$393	$277
Adjustments to reconcile net income to net cash provided by operating activities:			
Undistributed earnings of subsidiaries, principally banks	(85)	(168)	(302)
Depreciation and amortization	1	1	1
Share-based compensation expense	15	15	12
Provision for deferred income taxes	2	8	3
Excess tax benefits from share-based compensation arrangements	(1)	(1)	(1)
Other, net	(1)	28	18
Net cash provided by operating activities	452	276	8
Investing Activities			
Proceeds from sales of indirect private equity and venture capital investments	—	19	3
Cash and cash equivalents acquired in acquisition of Sterling Bancshares, Inc.	—	37	—
Capital transactions with subsidiaries	(5)	(3)	—
Net change in premises and equipment	(1)	(1)	—
Net cash (used in) provided by investing activities	(6)	52	3
Financing Activities			
Medium- and long-term debt:			
Maturities and redemptions	(30)	(53)	(666)
Issuances	—	—	298
Common Stock:			
Repurchases	(308)	(116)	(4)
Cash dividends paid	(97)	(73)	(34)
Issuances of common stock under employee stock plans	3	4	5
Issuances of common stock	—	—	849
Preferred Stock:			
Redemption	—	—	(2,250)
Cash dividends paid	—	—	(38)
Excess tax benefits from share-based compensation arrangements	1	1	1
Net cash used in financing activities	(431)	(237)	(1,839)
Net increase (decrease) in cash and cash equivalents	15	91	(1,828)
Cash and cash equivalents at beginning of period	418	327	2,155
Cash and cash equivalents at end of period	$433	$418	$327
Interest paid	$12	$12	$40
Income taxes recovered	$(46)	$(39)	$(35)

NOTE 25 - SALE OF BUSINESS/DISCONTINUED OPERATIONS

In December 2006, the Corporation sold its ownership interest in Munder Capital Management (Munder), an investment advisory subsidiary, to an investor group. The sale agreement included an interest-bearing contingent note. In 2010, the Corporation and the investor group that acquired Munder negotiated a cash settlement of the note receivable for $35 million, which resulted in a $27 million gain ($17 million, after tax), recorded in “income from discontinued operations, net of tax” on the consolidated statements of income. The settlement paid the note in full and

concluded the Corporation's financial arrangements with Munder.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Comerica Incorporated and Subsidiaries

The components of net income from discontinued operations are shown in the following table. There was no income from discontinued operations for the years ended December 31, 2012 and 2011.

(in millions, except per share data)	
Year Ended December 31	2010
Income from discontinued operations before income taxes	$27
Provision for income taxes	10
Net income from discontinued operations	$17
Earnings per common share from discontinued operations:	
Basic	$0.11
Diluted	0.10

NOTE 26 - SUMMARY OF QUARTERLY FINANCIAL STATEMENTS (UNAUDITED)

The following quarterly information is unaudited. However, in the opinion of management, the information reflects all adjustments, which are necessary for the fair presentation of the results of operations, for the periods presented.

(in millions, except per share data)	2012 Fourth Quarter	Third Quarter	Second Quarter	First Quarter
Interest income	$456	$460	$470	$477
Interest expense	32	33	35	35
Net interest income	424	427	435	442
Provision for credit losses	16	22	19	22
Net securities gains	1	—	6	5
Noninterest income excluding net securities gains	203	197	205	201
Noninterest expenses	427	449	433	448
Provision for income taxes	55	36	50	48
Net income	130	117	144	130
Less:				
Income allocated to participating securities	2	1	2	1
Net income attributable to common shares	$128	$116	$142	$129
Earnings per common share:				
Basic	$0.68	$0.61	$0.73	$0.66
Diluted	0.68	0.61	0.73	0.66
Comprehensive income (loss)	(30)	165	169	160

(in millions, except per share data)	2011 Fourth Quarter	Third Quarter	Second Quarter	First Quarter
Interest income	$481	$463	$431	$434
Interest expense	37	40	40	39
Net interest income	444	423	391	395
Provision for credit losses	18	35	45	46
Net securities gains (losses)	(4)	12	4	2
Noninterest income excluding net securities gains (losses)	186	189	198	205
Noninterest expenses	479	463	411	418
Provision for income taxes	33	28	41	35
Net income	96	98	96	103
Less:				
Income allocated to participating securities	1	1	1	1

Net income attributable to common shares	$95	$97	$95	$102
Earnings per common share:				
Basic	$0.48	$0.51	$0.54	$0.58
Diluted	0.48	0.51	0.53	0.57
Comprehensive income (loss)	(30)	176	170	110

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REPORT OF MANAGEMENT

The management of Comerica Incorporated (the Corporation) is responsible for the accompanying consolidated financial statements and all other financial information in this Annual Report. The consolidated financial statements have been prepared in conformity with U.S. generally accepted accounting principles and include amounts which of necessity are based on management's best estimates and judgments and give due consideration to materiality. The other financial information herein is consistent with that in the consolidated financial statements.

In meeting its responsibility for the reliability of the consolidated financial statements, management develops and maintains effective internal controls, including those over financial reporting, as defined in the Securities and Exchange Act of 1934, as amended. The Corporation's internal control over financial reporting includes policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Corporation; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of the consolidated financial statements in conformity with U.S. generally accepted accounting principles, and that receipts and expenditures of the Corporation are made only in accordance with authorizations of management and directors of the Corporation; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Corporation's assets that could have a material effect on the consolidated financial statements.

Management assessed, with participation of the Corporation's Chief Executive Officer and Chief Financial Officer, internal control over financial reporting as it relates to the Corporation's consolidated financial statements presented in conformity with U.S. generally accepted accounting principles as of December 31, 2012. The assessment was based on criteria for effective internal control over financial reporting described in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, management determined that internal control over financial reporting is effective as it relates to the Corporation's consolidated financial statements presented in conformity with U.S. generally accepted accounting principles as of December 31, 2012.

Because of inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

The Corporation's internal control over financial reporting as of December 31, 2012 has been audited by Ernst & Young LLP, an independent registered public accounting firm, as stated in their accompanying report.

The Corporation's Board of Directors oversees management's internal control over financial reporting and financial reporting responsibilities through its Audit Committee as well as various other committees. The Audit Committee, which consists of directors who are not officers or employees of the Corporation, meets regularly with management, internal audit and the independent public accountants to assure that the Audit Committee, management, internal auditors and the independent public accountants are carrying out their responsibilities, and to review auditing, internal control and financial reporting matters.

Ralph W. Babb Jr.	Karen L. Parkhill	Muneera S. Carr
Chairman, President and	Vice Chairman and	Executive Vice President and
Chief Executive Officer	Chief Financial Officer	Chief Accounting Officer

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders

Comerica Incorporated

We have audited Comerica Incorporated and subsidiaries' internal control over financial reporting as of December 31, 2012, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Comerica Incorporated and subsidiaries' management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Report of Management. Our responsibility is to express an opinion on the Corporation's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Comerica Incorporated and subsidiaries' maintained, in all material respects, effective internal control over financial reporting as of December 31, 2012, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the 2012 consolidated financial statements of Comerica Incorporated and subsidiaries and our report dated February 19, 2013 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Dallas, TX

February 19, 2013

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders

Comerica Incorporated

We have audited the accompanying consolidated balance sheets of Comerica Incorporated and subsidiaries as of December 31, 2012 and 2011, and the related consolidated statements of income and comprehensive income, changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 2012. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Comerica Incorporated and subsidiaries at December 31, 2012 and 2011, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2012, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Comerica Incorporated and subsidiaries' internal control over financial reporting as of December 31, 2012, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 19, 2013 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Dallas, Texas

February 19, 2013

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HISTORICAL REVIEW - AVERAGE BALANCE SHEETS
Comerica Incorporated and Subsidiaries
CONSOLIDATED FINANCIAL INFORMATION
(in millions)

Years Ended December 31	2012	2011	2010	2009	2008
ASSETS					
Cash and due from banks	$983	$921	$825	$883	$1,185
Federal funds sold	17	5	6	18	93
Interest-bearing deposits with banks	4,112	3,741	3,191	2,440	219
Other short-term investments	134	129	126	154	244
Investment securities available-for-sale	9,915	8,171	7,164	9,388	8,101
Commercial loans	26,224	22,208	21,090	24,534	28,870
Real estate construction loans	1,390	1,843	2,839	4,140	4,715
Commercial mortgage loans	9,842	10,025	10,244	10,415	10,411
Lease financing	864	950	1,086	1,231	1,356
International loans	1,272	1,191	1,222	1,533	1,968
Residential mortgage loans	1,505	1,580	1,607	1,756	1,886
Consumer loans	2,209	2,278	2,429	2,553	2,559
Total loans	43,306	40,075	40,517	46,162	51,765
Less allowance for loan losses	(693)	(838)	(1,019)	(947)	(691)
Net loans	42,613	39,237	39,498	45,215	51,074
Accrued income and other assets	5,081	4,713	4,743	4,711	4,269
Total assets	$62,855	$56,917	$55,553	$62,809	$65,185
LIABILITIES AND SHAREHOLDERS' EQUITY					
Noninterest-bearing deposits	$21,004	$16,994	$15,094	$12,900	$10,623
Money market and interest-bearing checking deposits	20,629	19,088	16,355	12,965	14,245
Savings deposits	1,593	1,550	1,394	1,339	1,344
Customer certificates of deposit	5,902	5,719	5,875	8,131	8,150
Other time deposits	—	23	306	4,103	6,715
Foreign office time deposits	412	388	462	653	926
Total interest-bearing deposits	28,536	26,768	24,392	27,191	31,380
Total deposits	49,540	43,762	39,486	40,091	42,003
Short-term borrowings	76	138	216	1,000	3,763
Accrued expenses and other liabilities	1,409	1,147	1,099	1,285	1,520
Medium- and long-term debt	4,818	5,519	8,684	13,334	12,457
Total liabilities	55,843	50,566	49,485	55,710	59,743
Total shareholders' equity	7,012	6,351	6,068	7,099	5,442
Total liabilities and shareholders' equity	$62,855	$56,917	$55,553	$62,809	$65,185

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HISTORICAL REVIEW - STATEMENTS OF INCOME
Comerica Incorporated and Subsidiaries
CONSOLIDATED FINANCIAL INFORMATION
(in millions, except per share data)

Years Ended December 31	2012	2011	2010	2009	2008
INTEREST INCOME					
Interest and fees on loans	$1,617	$1,564	$1,617	$1,767	$2,649
Interest on investment securities	234	233	226	329	389
Interest on short-term investments	12	12	10	9	13
Total interest income	1,863	1,809	1,853	2,105	3,051
INTEREST EXPENSE					
Interest on deposits	70	90	115	372	734
Interest on short-term borrowings	—	—	1	2	87
Interest on medium- and long-term debt	65	66	91	164	415
Total interest expense	135	156	207	538	1,236
Net interest income	1,728	1,653	1,646	1,567	1,815
Provision for credit losses	79	144	478	1,082	704
Net interest income after provision for loan losses	1,649	1,509	1,168	485	1,111
NONINTEREST INCOME					
Service charges on deposit accounts	214	208	208	228	229
Fiduciary income	158	151	154	161	199
Commercial lending fees	96	87	95	79	69
Letter of credit fees	71	73	76	69	69
Card fees	47	58	58	51	58
Foreign exchange income	38	40	39	41	40
Bank-owned life insurance	39	37	40	35	38
Brokerage fees	19	22	25	31	42
Net securities gains	12	14	3	243	67
Other noninterest income	124	102	91	112	82
Total noninterest income	818	792	789	1,050	893
NONINTEREST EXPENSES					
Salaries	778	770	740	687	781
Employee benefits	240	205	179	210	194
Total salaries and employee benefits	1,018	975	919	897	975
Net occupancy expense	163	169	162	162	156
Equipment expense	65	66	63	62	62
Outside processing fee expense	107	101	96	97	104
Software expense	90	88	89	84	76
Merger and restructuring charges	35	75	—	—	—
FDIC insurance expense	38	43	62	90	16
Advertising expense	27	28	30	29	30
Other real estate expense	9	22	29	48	10
Other noninterest expenses	205	204	192	181	304
Total noninterest expenses	1,757	1,771	1,642	1,650	1,733
Income (loss) from continuing operations before income taxes	710	530	315	(115)	271
Provision (benefit) for income taxes	189	137	55	(131)	59
Income from continuing operations	521	393	260	16	212
Income from discontinued operations, net of tax	—	—	17	1	1

NET INCOME	$521	$393	$277	$17	$213
Less:					
Preferred stock dividends	—	—	123	134	17
Income allocated to participating securities	6	4	1	1	4
Net income (loss) attributable to common shares	$515	$389	$153	$(118)	$192
Basic earnings per common share:					
Income (loss) from continuing operations	$2.68	$2.11	$0.79	$(0.80)	$1.28
Net income (loss)	2.68	2.11	0.90	(0.79)	1.29
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
Comprehensive income (loss)	464	426	224	(10)	81
Cash dividends declared on common stock	106	75	44	30	348
Cash dividends declared per common share	0.55	0.40	0.25	0.20	2.31

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HISTORICAL REVIEW - STATISTICAL DATA
Comerica Incorporated and Subsidiaries
CONSOLIDATED FINANCIAL INFORMATION

Years Ended December 31	2012		2011		2010		2009		2008	
Average Rates (Fully Taxable Equivalent Basis)										
Federal funds sold	0.27	%	0.32	%	0.36	%	0.32	%	2.08	%
Interest-bearing deposits with banks	0.26		0.24		0.25		0.25		0.61	
Other short-term investments	1.65		2.17		1.58		1.74		3.98	
Investment securities available-for-sale	2.43		2.91		3.24		3.61		4.83	
Commercial loans	3.44		3.69		3.89		3.63		5.08	
Real estate construction loans	4.44		4.37		3.17		2.92		4.89	
Commercial mortgage loans	4.44		4.23		4.10		4.20		5.57	
Lease financing	3.01		3.51		3.88		3.25		0.59	
International loans	3.73		3.83		3.94		3.79		5.13	
Residential mortgage loans	4.55		5.27		5.30		5.53		5.94	
Consumer loans	3.42		3.50		3.54		3.68		5.08	
Total loans	3.74		3.91		4.00		3.84		5.13	
Interest income as a percentage of earning assets	3.27		3.49		3.65		3.64		5.06	
Domestic deposits	0.24		0.33		0.48		1.39		2.33	
Deposits in foreign offices	0.63		0.48		0.31		0.29		2.77	
Total interest-bearing deposits	0.25		0.33		0.47		1.37		2.34	
Short-term borrowings	0.12		0.13		0.25		0.24		2.30	
Medium- and long-term debt	1.36		1.20		1.05		1.23		3.33	
Interest expense as a percentage of interest-bearing sources	0.41		0.48		0.62		1.29		2.59	
Interest rate spread	2.86		3.01		3.03		2.35		2.47	
Impact of net noninterest-bearing sources of funds	0.17		0.18		0.21		0.37		0.55	
Net interest margin as a percentage of earning assets	3.03	%	3.19	%	3.24	%	2.72	%	3.02	%
Ratios										
Return on average common shareholders' equity	7.43	%	6.18	%	2.74	%	(2.37	)%	3.79	%
Return on average assets	0.83		0.69		0.50		0.03		0.33	
Efficiency ratio	69.24		72.73		67.39		69.28		65.53	
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	
Total capital as a percentage of risk-weighted assets	13.14		14.25		14.54		16.93		14.72	
Tangible common equity as a percentage of tangible assets (a)	9.71		10.27		10.54		7.99		7.21	
Per Common Share Data										
Book value at year-end	$36.87		$34.80		$32.82		$32.27		$33.38	
Market value at year-end	30.34		25.80		42.24		29.57		19.85	
Market value for the year										
High	34.00		43.53		45.85		32.30		45.19	
Low	26.25		21.48		29.68		11.72		15.05	

Other Data (share data in millions)					
Average common shares outstanding - basic	191	185	170	149	149
Average common shares outstanding - diluted	192	186	173	149	149
Number of banking centers	489	494	444	447	439
Number of employees (full-time equivalent)	8,967	9,397	9,001	9,330	10,186

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

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized as of February 19, 2013.

COMERICA INCORPORATED

By: /s/ Ralph W. Babb, Jr.
Ralph W. Babb, Jr.
Chairman, President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the registrant in the capacities indicated as of February 19, 2013.

/s/ Ralph W. Babb, Jr. Ralph W. Babb, Jr.	Chairman, President and Chief Executive Officer and Director (Principal Executive Officer)
/s/ Karen L. Parkhill Karen L. Parkhill	Vice Chairman and Chief Financial Officer (Principal Financial Officer)
/s/ Muneera S. Carr Muneera S. Carr	Executive Vice President and Chief Accounting Officer (Principal Accounting Officer)
/s/ Roger A. Cregg Roger A. Cregg	Director
/s/ T. Kevin DeNicola T. Kevin DeNicola	Director
/s/ Jacqueline P. Kane Jacqueline P. Kane	Director
/s/ Richard G. Lindner Richard G. Lindner	Director
/s/ Alfred A. Piergallini Alfred A. Piergallini	Director
/s/ Robert S. Taubman Robert S. Taubman	Director
/s/ Reginald M. Turner, Jr. Reginald M. Turner, Jr.	Director
/s/ Nina G. Vaca Nina G. Vaca	Director

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EXHIBIT INDEX

2.1	Agreement and Plan of Merger, dated as of January 16, 2011, by and among Comerica Incorporated, Sterling Bancshares, Inc., and, from and after its accession to the Agreement, Sub (as defined therein) (the schedules and exhibits have been omitted pursuant to Item 601(b)(2) of Regulation S-K) (filed as Exhibit 2.1 to Registrant's Current Report on Form 8-K dated January 16, 2011, and incorporated herein by reference).
3.1	Restated Certificate of Incorporation of Comerica Incorporated (filed as Exhibit 3.2 to Registrant's Current Report on Form 8-K dated August 4, 2010, and incorporated herein by reference).
3.2	Certificate of Amendment to Restated Certificate of Incorporation of Comerica Incorporated (filed as Exhibit 3.2 to Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2011, and incorporated herein by reference).
3.3	Amended and Restated Bylaws of Comerica Incorporated (filed as Exhibit 3.3 to Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2011, and incorporated herein by reference).
4	[Reference is made to Exhibits 3.1, 3.2 and 3.3 in respect of instruments defining the rights of security holders. In accordance with Regulation S-K Item No. 601(b)(4)(iii), the Registrant is not filing copies of instruments defining the rights of holders of long-term debt because none of those instruments authorizes debt in excess of 10% of the total assets of the registrant and its subsidiaries on a consolidated basis. The Registrant hereby agrees to furnish a copy of any such instrument to the SEC upon request.]
4.1	Warrant Agreement, dated May 6, 2010, between the registrant and Wells Fargo Bank, N.A. (filed as Exhibit 4.1 to Registrant's Registration Statement on Form 8-A dated May 7, 2010, and incorporated herein by reference).
4.2	Form of Warrant (filed as Exhibit 4.1 to Registrant's Registration Statement on Form 8-A dated May 7, 2010, and incorporated herein by reference).
4.3	Warrant Agreement, dated as of June 9, 2010, between Comerica Incorporated (as successor to Sterling Bancshares, Inc.) and American Stock Transfer & Trust Company, LLC (filed as Exhibit 4.1 to Sterling Bancshares, Inc.'s Registration Statement on Form 8-A12B filed on June 10, 2010 (File No. 001-34768) and incorporated herein by reference).
4.4	Form of Warrant (filed as Exhibit 4.2 to Registrant's Registration Statement on Form S-4 (File No. 333-172211), and incorporated herein by reference).
9	(not applicable)
10.1†	Comerica Incorporated 2006 Amended and Restated Long-Term Incentive Plan (filed as Exhibit 10.1 to Registrant's Annual Report on Form 10-K for the year ended December 31, 2010, and incorporated herein by reference).
10.1A†	Form of Standard Comerica Incorporated Non-Qualified Stock Option Agreement under the Comerica Incorporated Amended and Restated 2006 Long-Term Incentive Plan (filed as Exhibit 10.7 to Registrant's Annual Report on Form 10-K for the year ended December 31, 2006, and incorporated herein by reference).

10.1B†	Form of Standard Comerica Incorporated Non-Qualified Stock Option Agreement under the Comerica Incorporated Amended and Restated 2006 Long-Term Incentive Plan (2011 version) (filed as Exhibit 10.44 to Registrant's Annual Report on Form 10-K for the year ended December 31, 2010, and incorporated herein by reference).
10.1C†	Form of Standard Comerica Incorporated Non-Qualified Stock Option Agreement under the Comerica Incorporated Amended and Restated 2006 Long-Term Incentive Plan (2012 version) (filed as Exhibit 10.1C to Registrant's Annual Report on Form 10-K for the year ended December 31, 2011, and incorporated herein by reference) .
10.1D†	Form of Standard Comerica Incorporated Restricted Stock Award Agreement (non-cliff vesting) under the Amended and Restated Comerica Incorporated 2006 Long-Term Incentive Plan (filed as Exhibit 10.11 to Registrant's Annual Report on Form 10-K for the year ended December 31, 2006, and incorporated herein by reference).
10.1E†	Form of Standard Comerica Incorporated Restricted Stock Award Agreement (non-cliff vesting) under the Amended and Restated Comerica Incorporated 2006 Long-Term Incentive Plan (2011 version) (filed as Exhibit 10.46 to Registrant's Annual Report on Form 10-K for the year ended December 31, 2010, and incorporated herein by reference).
10.1F†	Form of Standard Comerica Incorporated Restricted Stock Award Agreement (non-cliff vesting) under the Amended and Restated Comerica Incorporated 2006 Long-Term Incentive Plan (2012 version) (filed as Exhibit 10.1F to Registrant's Annual Report on Form 10-K for the year ended December 31, 2011, and incorporated herein by reference).
10.1G†	Form of Standard Comerica Incorporated Restricted Stock Award Agreement (cliff vesting) under the Comerica Incorporated 2006 Amended and Restated Long-Term Incentive Plan (filed as Exhibit 99.1 to Registrant's Current Report on Form 8-K dated January 22, 2007, and incorporated herein by reference).

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10.1H†	Form of Standard Comerica Incorporated Restricted Stock Award Agreement (cliff vesting) under the Comerica Incorporated 2006 Amended and Restated Long-Term Incentive Plan (2011 version) (filed as Exhibit 10.45 to Registrant's Annual Report on Form 10-K for the year ended December 31, 2010, and incorporated herein by reference).
10.1I†	Form of Standard Comerica Incorporated Restricted Stock Award Agreement (cliff vesting) under the Comerica Incorporated 2006 Amended and Restated Long-Term Incentive Plan (2012 version) (filed as Exhibit 10.1I to Registrant's Annual Report on Form 10-K for the year ended December 31, 2011, and incorporated herein by reference).
10.1J†	Form of Standard Comerica Incorporated Restricted Stock Award Agreement (cliff vesting) under the Comerica Incorporated 2006 Amended and Restated Long-Term Incentive Plan (long-term restricted version) (filed as Exhibit 10.41 to Registrant's Annual Report on Form 10-K for the year ended December 31, 2009, and incorporated herein by reference).
10.1K†	Form of Standard Comerica Incorporated Restricted Stock Unit Agreement under the Amended and Restated Comerica Incorporated 2006 Long-Term Incentive Plan (2011 version) (filed as Exhibit 10.47 to Registrant's Annual Report on Form 10-K for the year ended December 31, 2010, and incorporated herein by reference).
10.1L†	Form of Standard Comerica Incorporated Restricted Stock Unit Agreement under the Amended and Restated Comerica Incorporated 2006 Long-Term Incentive Plan (2011 version 2) (filed as Exhibit 10.5 to Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2011, and incorporated herein by reference).
10.1M†	Form of Standard Comerica Incorporated Performance Restricted Stock Unit Agreement under the Amended and Restated Comerica Incorporated 2006 Long-Term Incentive Plan (2012 version) (filed as Exhibit 10.1 to Registrant's Current Report on Form 8-K dated November 19, 2012, and incorporated herein by reference).
10.2†	Comerica Incorporated 1997 Amended and Restated Long-Term Incentive Plan (filed as Exhibit 10.1 to Registrant's Annual Report on Form 10-K for the year ended December 31, 2001, and incorporated herein by reference).
10.2A†	Form of Standard Comerica Incorporated Non-Qualified Stock Option Agreement under the Amended and Restated Comerica Incorporated 1997 Long-Term Incentive Plan (filed as Exhibit 10.4 to Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2004, and incorporated herein by reference).
10.2B†	Form of Standard Comerica Incorporated Restricted Stock Award Agreement (non-cliff vesting) under the Amended and Restated Comerica Incorporated 1997 Long-Term Incentive Plan (filed as Exhibit 10.3 to Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2004, and incorporated herein by reference).
10.2C†	Form of Standard Comerica Incorporated Restricted Stock Award Agreement (cliff vesting) under the Comerica Incorporated 1997 Amended and Restated Long-Term Incentive Plan (filed as Exhibit 10.2 to Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2004, and incorporated herein by reference).

10.4†	Amended and Restated Sterling Bancshares, Inc. 2003 Stock Incentive and Compensation Plan effective April 30, 2007 (filed as Exhibit 10.1 Sterling Bancshares, Inc.'s Current Report on Form 8-K dated August 14, 2007 (File No. 000-20750), and incorporated herein by reference).
10.5†	1994 Incentive Stock Option Plan of the Sterling Bancshares, Inc. (filed as Exhibit 10.1 Sterling Bancshares, Inc.'s Annual Report on Form 10-K for the year ended December 31, 1994 (File No. 000-20750), and incorporated herein by reference).
10.6†	Comerica Incorporated Amended and Restated Employee Stock Purchase Plan (amended and restated November 15, 2011) (filed as Exhibit 10.6 to Registrant's Annual Report on Form 10-K for the year ended December 31, 2011, and incorporated herein by reference).
10.7†	Comerica Incorporated 2011 Management Incentive Plan (filed as Exhibit 10.1 to Registrant's Current Report on Form 8-K dated April 26, 2011, and incorporated herein by reference).
10.7A†	Form of Standard Comerica Incorporated No Sale Agreement under the Comerica Incorporated Amended and Restated Management Incentive Plan (filed as Exhibit 10.5 to Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2004, and incorporated herein by reference).
10.8†	Amended and Restated Benefit Equalization Plan for Employees of Comerica Incorporated (amended and restated March 24, 2009, with amendments effective January 1, 2009) (filed as Exhibit 10.1 to Registrant's Current Report on Form 8-K dated March 24, 2009, and incorporated herein by reference).
10.9†	1999 Comerica Incorporated Amended and Restated Deferred Compensation Plan (amended and restated on July 26, 2011) (filed as Exhibit 10.1 to Registrant's Current Report on Form 8-K dated July 26, 2011, and incorporated herein by reference).

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10.10†	1999 Comerica Incorporated Amended and Restated Common Stock Deferred Incentive Award Plan (amended and restated on July 26, 2011) (filed as Exhibit 10.2 to Registrant's Current Report on Form 8-K dated July 26, 2011, and incorporated herein by reference).
10.11†	Amended and Restated Comerica Incorporated Stock Option Plan For Non-Employee Directors (amended and restated on May 22, 2001) (filed as Exhibit 10.12 to Registrant's Annual Report on Form 10-K for the year ended December 31, 2002, and incorporated herein by reference)
10.12†	Amended and Restated Comerica Incorporated Stock Option Plan For Non-Employee Directors of Comerica Bank and Affiliated banks (amended and restated May 22, 2001) (filed as Exhibit 10.13 to Registrant's Annual Report on Form 10-K for the year ended December 31, 2002, and incorporated herein by reference).
10.13†	Amended and Restated Comerica Incorporated Non-Employee Director Fee Deferral Plan (amended and restated on November 18, 2008, with amendments effective December 31, 2008) (filed as Exhibit 10.22 to Registrant's Annual Report on Form 10-K for the year ended December 31, 2008, and incorporated herein by reference).
10.14†	Amended and Restated Comerica Incorporated Common Stock Non-Employee Director Fee Deferral Plan (amended and restated on November 18, 2008, with amendments effective December 31, 2008) (filed as Exhibit 10.23 to Registrant's Annual Report on Form 10-K for the year ended December 31, 2008, and incorporated herein by reference).
10.15†	Comerica Incorporated Amended and Restated Incentive Plan for Non-Employee Directors (amended and restated on November 18, 2008, with amendments effective December 31, 2008) (filed as Exhibit 10.24 to Registrant's Annual Report on Form 10-K for the year ended December 31, 2008, and incorporated herein by reference).
10.15A†	Form of Standard Comerica Incorporated Non-Employee Director Restricted Stock Unit Agreement under the Comerica Incorporated Amended and Restated Incentive Plan for Non-Employee Directors (filed as Exhibit 10.2 to Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2005, and incorporated herein by reference).
10.15B†	Form of Standard Comerica Incorporated Non-Employee Director Restricted Stock Unit Agreement under the Comerica Incorporated Amended and Restated Incentive Plan for Non-Employee Directors (Version 2) (filed as Exhibit 10.6 to Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2006, and incorporated herein by reference).
10.15C†	Form of Standard Comerica Incorporated Non-Employee Director Restricted Stock Unit Agreement under the Comerica Incorporated Amended and Restated Incentive Plan for Non-Employee Directors (Version 2.5) (filed as Exhibit 10.48 to Registrant's Annual Report on Form 10-K for the year ended December 31, 2010, and incorporated herein by reference).
10.15D†	Form of Standard Comerica Incorporated Non-Employee Director Restricted Stock Unit Agreement under the Comerica Incorporated Amended and Restated Incentive Plan for Non-Employee Directors (Version 3) (filed as Exhibit 10.1 to Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2009, and incorporated herein by reference).
10.15E†	

	Form of Standard Comerica Incorporated Non-Employee Director Restricted Stock Unit Agreement under the Comerica Incorporated Amended and Restated Incentive Plan for Non-Employee Directors (Version 4) (filed as Exhibit 10.4 to Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2011, and incorporated herein by reference).
10.16†	Form of Director Indemnification Agreement between Comerica Incorporated and certain of its directors (filed as Exhibit 10.6 to Registrant's Annual Report on Form 10-K for the year ended December 31, 2002, and incorporated herein by reference).
10.17†	Supplemental Benefit Agreement with Eugene A. Miller (filed as Exhibit 10.1 to Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2002, and incorporated herein by reference).
10.18†	Supplemental Pension and Retiree Medical Agreement with Ralph W. Babb Jr. (filed as Exhibit 10.2 to Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 1998, and incorporated herein by reference).
10.19A†	Restrictive Covenants and General Release Agreement by and between Elizabeth S. Acton and Comerica Incorporated dated April 20, 2012 (filed as Exhibit 10.1 to Registrant's Current Report on Form 8-K dated April 25, 2012, and incorporated herein by reference).
10.19B†	Restrictive Covenants and General Release Agreement by and between Dale E. Greene and Comerica Incorporated dated August 22, 2011 (filed as Exhibit 10.1 to Registrant's Current Report on Form 8-K dated August 22, 2011, and incorporated herein by reference).
10.19C†	Restrictive Covenants and General Release Agreement by and between Mary Constance Beck and Comerica Incorporated dated January 21, 2011 (filed as Exhibit 10.1 to Registrant's Current Report on Form 8-K dated January 21, 2011, and incorporated herein by reference).

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10.19D†	Restrictive Covenants and General Release Agreement by and between Joseph J. Buttigieg, III and Comerica Incorporated dated April 23, 2010 (filed as Exhibit 10.1 to Registrant's Current Report on Form 8-K dated April 23, 2010, and incorporated herein by reference).
10.19E†	Restrictive Covenants and General Release Agreement by and between Dennis J. Mooradian and Comerica Incorporated dated February 20, 2009 (filed as Exhibit 10.1 to Registrant's Current Report on Form 8-K dated February 25, 2009, and incorporated herein by reference).
10.20†	Form of Change of Control Employment Agreement (BE4 and Higher Version without gross-up or window period-current) (filed as Exhibit 10.42 to Registrant's Annual Report on Form 10-K for the year ended December 31, 2009, and incorporated herein by reference).
10.20A†	Schedule of Named Executive Officers Party to Change of Control Employment Agreement (BE4 and Higher Version without gross-up or window period-current).
10.21†	Form of Change of Control Employment Agreement (BE4 and Higher Version) (filed as Exhibit 10.1 to Registrant's Current Report on Form 8-K dated November 18, 2008, and incorporated herein by reference).
10.21A†	Schedule of Named Executive Officers Party to Change of Control Employment Agreement (BE4 and Higher Version)
10.22†	Form of Change of Control Employment Agreement (BE2-BE3 Version) (filed as Exhibit 10.2 to Registrant's Current Report on Form 8-K dated November 18, 2008, and incorporated herein by reference).
10.23†	Waiver of Senior Executive Officers dated November 14, 2008 (filed as Exhibit 10.2 to Registrant's Current Report on Form 8-K dated November 13, 2008, regarding U.S. Department of Treasury's Capital Purchase Program, and incorporated herein by reference).
10.24†	Amendments to Benefit Plans and Related Consent of Senior Executive Officers dated November 14, 2008 (filed as Exhibit 10.3 to Registrant's Current Report on Form 8-K dated November 13, 2008, regarding U.S. Department of Treasury's Capital Purchase Program, and incorporated herein by reference).
10.25†	Form of Agreement Regarding Portion of Salary Payable in Phantom Stock Units (filed as Exhibit 10.1 to Registrant's Current Report on Form 8-K dated January 26, 2010, and incorporated herein by reference).
10.26	Letter Agreement dated November 14, 2008 by and between the Registrant and the United States Department of the Treasury (filed as Exhibit 10.1 to Registrant's Current Report on From 8-K dated November 13, 2008, regarding U.S. Department of Treasury's Capital Purchase Program, and incorporated herein by reference).
10.27	Implementation Agreement dated July 28, 2005 between Framlington Holdings Limited, Guarantors as named in the Agreement and AXA Investment Managers SA (restated to reflect amendments on September 7, 2005) (filed as Exhibit 10.4 to Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2005, and incorporated herein by reference).

10.28	Second Amendment Agreement dated October 31, 2005 in relation to an Implementation Agreement dated July 28, 2005 (as amended on September 7, 2005) (filed as Exhibit 10.5 to Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2005, and incorporated herein by reference).
10.29	FINRA Settlement Term Sheet, dated September 16, 2008 (filed as Exhibit 10.1 to Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2008 and incorporated herein by reference).
10.30	FINRA Letter of Acceptance, Waiver and Consent, effective January 5, 2009 (regarding settlement of auction rate securities investigation) (filed as Exhibit 10.39 to Registrant's Annual Report on Form 10-K for the year ended December 31, 2008, and incorporated herein by reference).
11	Statement regarding Computation of Net Income Per Common Share (incorporated by reference from Note 15 on page F-97 of this Annual Report on Form 10-K).
12	(not applicable)
13	(not applicable)
14	(not applicable)
16	(not applicable)
18	(not applicable)
21	Subsidiaries of Registrant
22	(not applicable)

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23.1	Consent of Ernst & Young LLP
24	(not applicable)
31.1	Chairman, President and CEO Rule 13a-14(a)/15d-14(a) Certification of Periodic Report (pursuant to Section 302 of the Sarbanes-Oxley Act of 2002)
31.2	Executive Vice President and CFO Rule 13a-14(a)/15d-14(a) Certification of Periodic Report (pursuant to Section 302 of the Sarbanes-Oxley Act of 2002)
32	Section 1350 Certification of Periodic Report (pursuant to Section 906 of the Sarbanes-Oxley Act of 2002)
33	(not applicable)
34	(not applicable)
35	(not applicable)
100	(not applicable)
101	Financial statements from Annual Report on Form 10-K of the Registrant for the year ended December 31, 2012, formatted in Extensible Business Reporting Language: (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Income, (iii) the Consolidated Statements of Changes in Shareholders' Equity, (iv) the Consolidated Statements of Cash Flows and (v) the Notes to Consolidated Financial Statements.
†	Management contract or compensatory plan or arrangement.
	File No. for all filings under Exchange Act, unless otherwise noted: 1-10706.