SHARING SUCCESS

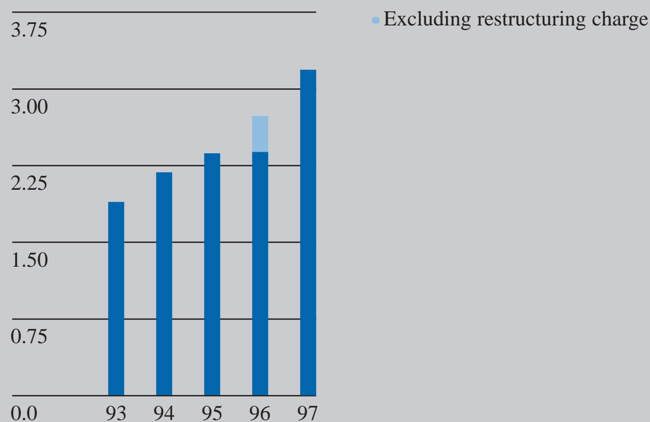
Comerica Incorporated
1997 Annual Report

Financial Highlights

Year Ended December 31 (dollar amounts in millions, except per share)	1997	1996	Change Amount	Change Percent
Income Statement				
Net interest income	$ 1,443	$ 1,412	$ 31	2%
Net income	530	417	113	27
Net income, excluding restructuring charge	530	477	53	11
Basic net income per share	3.24	2.41	.83	34
Basic net income per share, excluding restructuring charge	3.24	2.77	.47	17
Diluted net income per common share	3.19	2.38	.81	34
Diluted net income per common share, excluding restructuring charge	3.19	2.73	.46	17
Cash dividends per common share	1.15	1.01	.14	14
Book value per common share	16.02	14.70	1.32	9
Market value per share	60.17	34.92	25.25	72
Ratios				
Return on average common shareholders' equity	21.32%	15.98%		
Return on average common shareholders' equity, excluding restructuring charge	21.32	18.33		
Return on average assets	1.52	1.22		
Return on average assets, excluding restructuring charge	1.52	1.40		
Average common shareholders' equity as a percentage of average assets	6.91	7.47		
Balance Sheet (at December 31)				
Total assets	$36,292	$34,206	$2,086	6%
Total earning assets	33,104	31,110	1,994	6
Loans	28,895	26,207	2,688	10
Deposits	22,586	22,367	219	1
Common shareholders' equity	2,512	2,366	146	6

All per share amounts have been adjusted for the three-for-two stock split declared January 15, 1998.

Diluted Net Income per Share
(in dollars)



Net Income
(in millions)

Comerica's financial objective is to consistently rank among the top-10 of the 50 largest bank holding companies in the nation, as measured by return on equity. I believe the keys to consistent top-10 performance are profitability, growth and quality.

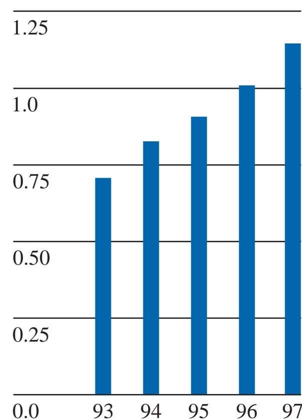
At Comerica, superior profitability is achieved through hard work and a clear focus on what we do well. We reinvest in growth businesses, rationalize those that have the potential for superior returns, and divest businesses or activities that are not integral to our future success.

Growth is achieved by emphasizing our core competencies. We are among the nation's leaders in business lending. Over the last 10 years, our commercial loan growth has averaged an impressive 11 percent, with only minor fluctuations year-to-year. We will continue to be a commercial loan generator going forward.

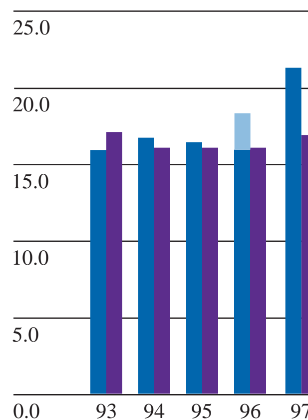
Like a three-legged stool, consistent top-10 performance also requires quality. This includes credit and service quality, both of which are absolutely essential. Banks cannot consistently generate exceptional profits without being top-flight credit underwriters. To compete effectively, they also must be providers of quality products and services. We at Comerica are recognized industrywide for our relentless focus on maintaining superior credit quality. We also are committed to delivering the highest quality financial services.

Our success is attributable to an exceptional team of employees, over 90 percent of whom are shareholders. They work hard every day to meet and exceed the expectations of their customers, and are determined that Comerica be recognized as a leader in the financial services industry.

Dividends per Common Share
(in dollars)



Return on Average Common Equity
(in percentages)

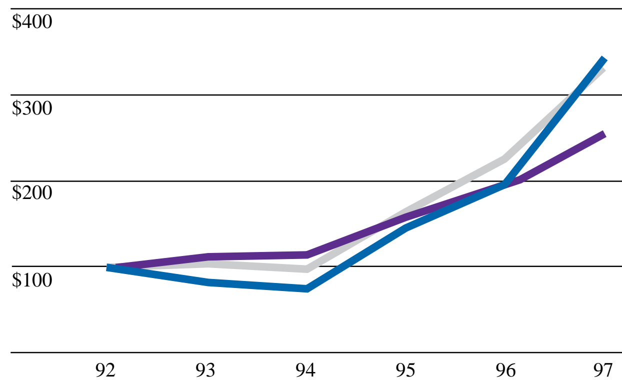


- Comerica
- Excluding restructuring charge
- Industry average (based on 50 largest U.S. bank holding companies)

In terms of 1997 performance, we are pleased with the results. Net income for the year rose 27 percent to $530 million (up 11 percent, excluding the 1996 Direction 2000: Phase III restructuring charge). Return on assets was 1.52 percent and return on common equity was 21.32 percent. Our stock price rose 72 percent in 1997, out pacing both the Keefe 50-Bank Index (up 43 percent) and the S&P 500 Index (up 31 percent). We also marked our 29th consecutive year of dividend increases.

At year-end 1997, our price-to-earnings ratio ranked 30th among the 50 largest bank holding companies in the nation. This ranking improved several positions during the year, but is still not in line with our financial results. We view this as an opportunity for our shareholders as the market continues to take notice of our performance.

During the four quarters of 1997, Comerica consistently ranked among the top-10 bank holding companies in the nation, in terms of return on common equity. Our job now is to extend consistency from quarters to years. Let me cite several examples of how we will do that.



Comparison of Five Year Cumulative Total Return Among Comerica Incorporated, Keefe 50-Bank Index and S&P 500 Index

(Assumes $100 Invested on 12/31/92 and Reinvestment of Dividends)

Comerica
Keefe
S&P 500

Our core competency is business lending. We are a leader because of the people we select, the training we provide, and the relationship orientation we emphasize, all backed up by a strong credit process. To further strengthen this core competency, we are investing in the marketing, technology and talent that will enable us to enhance the services we provide.

On the retail side, we are a gatherer of consumer assets and operate a dominant franchise in Michigan. We will continue to develop this franchise through product revisions and enhancements to our distribution system. We have invested significantly in our customer database. To me, having that knowledge is an important competitive advantage, particularly when it is combined with our people.

Although retail banking is important to us in Texas and California, it is mainly done on an accommodation basis. In these states, we see ourselves as the "business bank of choice."

We also will continue to grow our investment services. They are critical to our success, as they protect current relationships within the bank, expand existing relationships and provide incremental fee income. Going forward, we will become even more involved in distributing investment products and 401(k) services.

As this annual report goes to press, we are wrapping up implementation of Direction 2000: Phase III. The revenue enhancements and cost reduction ideas developed by Comerica employees will result in an annual pre-tax earnings impact of $110 million in 1999. By the end of the fourth quarter of 1997, we had implemented about 80 percent of the Phase III ideas, valued at 70 percent of the annual cost savings target, and 94 percent of the annual revenue target.

As industry consolidation continues, I am frequently asked about Comerica's market expansion plans. We continue to look at growth areas of the country where we can prosecute our brand of banking profitably, as we do in Texas and California. Both of these states have proven to be a good fit with the mature Michigan market. I believe performance and execution will lead us to opportunities down the road.

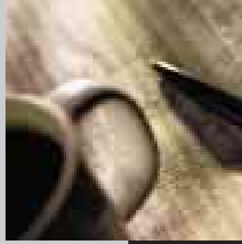
Today, acquisition pricing is very expensive. All of us at Comerica have worked too hard building the financial performance of our company to harm it with an acquisition that doesn't measure up. In our nearly 150-year history, we have successfully integrated countless mergers and acquisitions. There will be a time, a place and an opportunity again, but we must be selective.

I appreciate your interest and I thank you for your support.

Eugene A. Miller
Chairman and
Chief Executive Officer

Sharing Success

Nineteen ninety-seven was a tremendous year for Comerica. We share our success with our key constituencies—shareholders, customers, employees and the communities we serve.



We do this for:

- *shareholders* through appreciation of our stock price—72 percent in 1997—record earnings per share, and our 29th consecutive year of dividend increases;
- *customers* by delivering quality products and services;

- *employees* by sharing the financial rewards of our company becoming a top financial performer on a consistent basis; and,
- *communities we serve* by forging financial partnerships with residents, groups and organizations.

Direction 2000: Phase III on Target

In 1997, employees began implementing their ideas to simplify and streamline processes at Comerica. In order to carry out plans as efficiently and effectively as possible, an implementation team was mobilized. Hard work and careful monitoring are paying dividends.

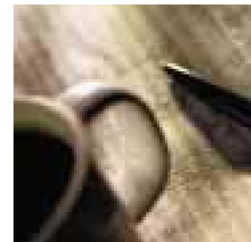
"We are right where we expected to be at this stage in the process," notes Comerica Chairman Eugene A. Miller.

The revenue enhancement and cost reduction ideas generated during Phase III will result in an annual pre-tax earnings impact of $110 million in 1999. Twenty percent of this benefit was realized in 1997, 80 percent will be realized in 1998 and the full effect in 1999.

At year-end 1997, 1,600 of more than 2,000 ideas have been completed. Among them:

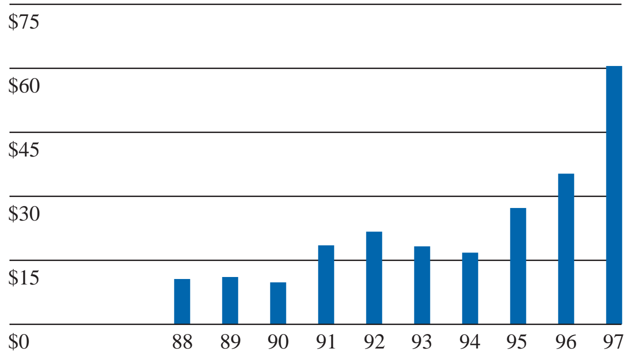
- a reduction in the type and quantity of envelopes used, and the conversion to a less-expensive envelope printing process;
- the use of a single provider for copier services, which is expected to save Comerica nearly $1 million annually;
- implementation of more than 20 telecommunications ideas, which is expected to save Comerica $3 million annually;
- the introduction of a new software product that eliminates the need for microfiche and its associated costs, while reducing computer paper report volume by 75 percent;
- the empowerment of branch employees with additional levels of authority, and a reduction in their clerical responsibilities, so they can serve customers better; and,
- a 20 percent reduction in the number of invoices processed as a result of consolidating vendors and obtaining summary billings.

Comerica will complete implementation of remaining Phase III ideas by the end of the first quarter of 1998.



The Board of Directors of Comerica Incorporated increased the quarterly cash dividend by 10 percent in 1997 and by 12 percent in January 1998 continuing a long history of dividend increases.

Excess capital, after supporting prudent growth in our businesses and acquisitions, is being returned to shareholders through a reduction in shares outstanding. Over the last two years, Comerica has repurchased more than 15 million shares—almost 13 percent—of Comerica's outstanding shares. That represents nearly $800 million of shareholders' capital. We continue to believe this is the most appropriate use of excess capital from a shareholder value perspective. In 1997, the total market value of Comerica's shares increased 68 percent to more than $9.4 billion.



Comerica December 31 Stock Prices

On January 15, 1998, Comerica directors authorized a three-for-two stock split effected in the form of a 50 percent stock dividend. The stock prices shown here have been adjusted to reflect the split.

The Direction 2000 Gainshare Incentive Plan reserves the first $10 million in savings from Phase III and distributes it in the form of stock to colleagues present during Phase III who also are with the corporation at the time it achieves an annual top-10 return on equity (ROE) performance. Comerica achieved its top-10 ROE ranking in 1997 and the Gainshare Incentive Plan pay out occurred in 1998 as the annual report went to press.

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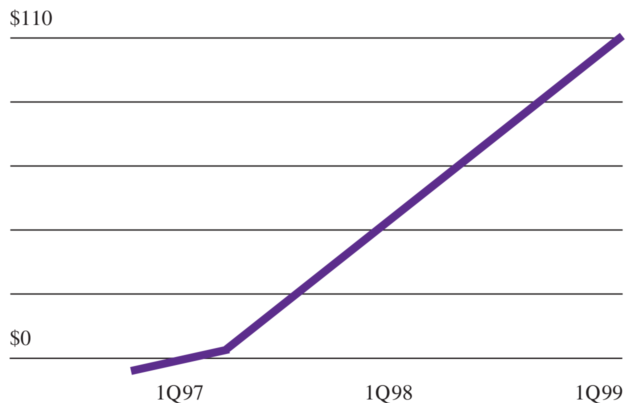
Every month, 244 Key Performance Measures (KPMs) affecting external customers are monitored for quality at the corporate level. Timeliness, accuracy, responsiveness and efficiency are among the performance measures monitored. In 1997, Comerica colleagues continued the upward trend in KPM ratings.

The Employee Stock Purchase Plan provides colleagues an opportunity to own Comerica stock and share the benefits of the financial results they helped create. Comerica provides a 15 percent match on quarterly contributions and another five percent match if the stock is kept for a two-year period without any withdrawals. Comerica is committed to helping every colleague become an employee-owner.

■ ■ ■

With the Performance Match Program, colleagues share in Comerica's success in meeting its financial goals. The annual payout to colleagues who are enrolled in the 401(k) Preferred Savings Plan is based on Comerica's ROE performance and how Comerica's ROE rates among the nation's 50 largest bank holding companies in the nation. Comerica's highest performance match to date—$5.1 million as a result of 1996 profits—was repeated as a result of the corporation's strong financial performance in 1997.

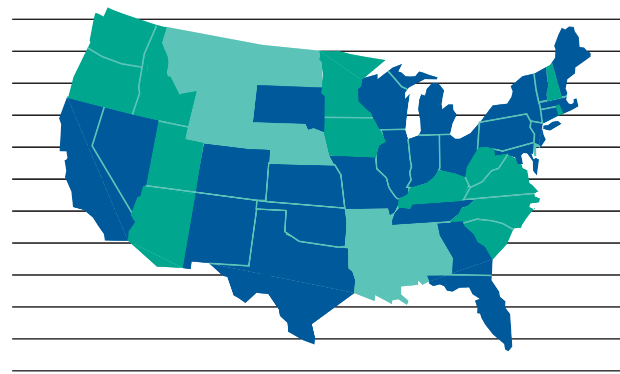
Phase III Results
Financial Statement Impact (in millions)



Phase III will have an annual earnings impact of $110 million beginning in 1999. Approximately 20 percent of the earnings impact will come from revenue enhancements; 80 percent from cost reductions.

Our alliance with PaineWebber, the $60 billion securities firm with approximately 300 offices and nearly 6,300 investment executives, broadens Comerica's national network for private banking services.

- *Current relationship*
- *Pursuing relationship*

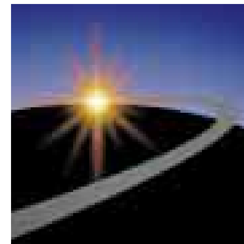


Michigan's largest independent investment advisor, Munder Capital Management—with whom Comerica has a partnership interest—grew to $45 billion in managed client assets in 1997. Munder's Micro-Cap Equity Fund recorded the second best performance among the more than 5,500 mutual funds in 1997.

Comerica introduced free instant quotes on term life insurance through its web site (comerica.com). The feature provides an alternative and interactive way for people to access and learn about insurance products. Comerica Insurance Services offers life, disability, long-term care, group benefits, and property and casualty insurance to businesses and individuals.

Comerica is ranked 8th among the top 100 SBA 7(a) lenders in the country.

Our expanded retail product line provides customers with the most convenient banking options available today, giving them more ways to save money when they do their banking. The "Choice" and "Premier" retail product packages reward customers with strong banking relationships by providing special bonuses and discounts on bank services, and non-bank benefits such as a discount dining card. The new packages premiered in Michigan in late 1997.



In addition to our extensive branch network, customers can access Comerica in the supermarket through our ComeriMARTs; through AccessOne, our branchless banking system; by telephone; by ATM; and, by personal computer.

Through Comerica's private bankers, customers have access to highly experienced specialists in investment management, estate planning and administration, tax, financial and retirement planning, real estate and lending. Clients receive personalized, highly responsive service and an array of high quality financial products delivered in the most convenient manner by qualified financial professionals.

Consumers made more than six million purchases with the VISA Check ComeriCARD in 1997 for goods and services worth more than $300 million. The VISA Check ComeriCARD now is accepted at more than 12 million VISA merchants around the globe.

The Rich Rewards Club is available to customers age 50 and over who meet minimum balance requirements. Benefits of membership include personalized checks at no charge, bonus interest, brokerage discounts and an exclusive travel service.

Investing in New Opportunities

For Comerica, investing in new opportunities is key to achieving its goal of becoming a consistent top-10 performer, as measured by return on equity.

Key investments in 1997 included the:

- enhancing of a customer knowledge database and customer information system, to provide Comerica with a greater under standing of its customers, their preferences for financial services, the ways and frequency in which they access us and their profitability;

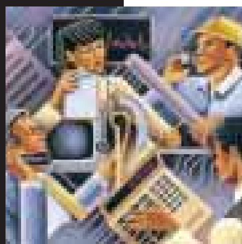
- expansion of the PaineWebber alliance, broadening Comerica's national network for personal trust services;
- expansion of the Small Business Administration (SBA) lending program to a national business;
- nationwide expansion of Comerica's home banking program, giving consumers and small businesses the ability to directly access their accounts via Quicken® and QuickBooks® personal computer software;
- leveraging of Comerica's participation in the Integrion Financial Network, which provides interactive banking and electronic commerce solutions to member banks;
- expansion of product distribution channels in response to our customers' desire for greater convenience;
- hiring of talent to keep pace with the increasing demand for Comerica's products and services;
- transition to corporate-wide electronic mail;
- implementation of an expandable, flexible profitability reporting system to meet current and future management information requirements; and,
- dedication of the human and capital resources necessary to prepare computer systems and applications for the new millennium.

Responding to the sophisticated needs of retail and business customers in all of our markets, Comerica developed a national product linking a customer's checking account to an investment account. Called the Comerica Asset Management Account for retail customers, and the Comerica Business Sweep Account for business customers, the product enables customers to earn higher interest when funds are swept daily between accounts.

The Business Bank of Choice

Comerica continues to combine strong commercial loan growth with consistently solid credit quality. Our business customers are primarily closely held or owner-managed companies with annual sales of less than $250 million. We also have stable, long-term financial relationships with many publicly held Fortune 1000 corporations.

Comerica's reputation in middle market banking is unparalleled. Our heritage is based on lending to medium-sized businesses over many years and through numerous economic cycles. We evaluate a firm's potential as well as its assets, looking beyond the balance sheet to such issues as position within the industry and depth of management experience.



Our emphasis on the commercial market means we deliver the fullest array of corporate financial products and services. And, we do so in a consistent, reliable, accurate and timely manner.

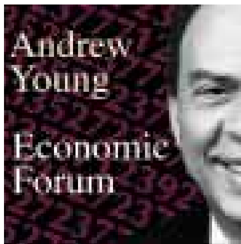
In 1997, Comerica fine-tuned its focus as a pre-eminent commercial lender by:

- launching Comerica Business Credit, a national asset-based lending business;
- developing a number of leading-edge imaging services for corporate customers;
- enhancing the delivery of other treasury management products and services to business customers, including Comerica Gateway and the Comerica Purchasing Card;
- honing our lending expertise in special industries, including automotive, energy, healthcare, real estate, high technology and entertainment;
- capitalizing on our reputation as one of the top bank providers of floor plan credit through our services to automotive dealers in select U.S. markets;
- offering "best in class" capital markets products, including private capital raising services to respond to customers' increasing needs for creatively structured finance solutions;
- opening a commercial banking subsidiary in Mexico to service mid- and large-sized corporate entities; and,
- applying to form a commercial banking subsidiary in Canada.

"It's a lot like treasury management from Comerica. You know where everything is. You control where everything goes."

A pioneer in image processing, Comerica has developed a number of leading-edge image-based services for corporate customers, including checks on CD-ROM and dial-up access, which enables customers to view checks and associated documents daily at their personal computers by dialing through a modem.

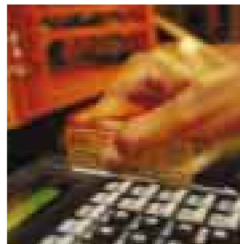
A number of organizations transferred their Master Trust & Custody accounts to Comerica in 1997. Master Trust & Custody services include securities settlement and custody, global custody, foreign exchange, master trust reporting, on-line data access, securities lending, cash management, performance measurement and benefit payments. Comerica ranks among the nation's leaders with more than $117 billion in trust assets under administration.



Comerica Bank-Texas, founding sponsor of the Comerica Economic Forum in Dallas, and AudioNet, the largest broadcast network on the Internet, teamed to deliver the first live webcast of an Economic Forum featuring Andrew Young, former U.S. congressman, U.S. ambassador to the United Nations and mayor of Atlanta. The forum also was broadcast on C-SPAN.

We introduced a new Comerica CD-ROM, "Global and Financial Risk Management," designed to educate financial decision-makers on current topics in treasury and risk management as well as provide them insight into the technologies employed and services offered by Comerica Bank.

Our new National Checking Account product enables business customers to make deposits to a single checking account at any Comerica branch in Michigan, California, Texas and Florida. This eliminates customers having to maintain multiple accounts because they conduct business across state lines.



We made enhancements to the Comerica Purchasing Card, a payment mechanism designed to help companies maintain control, while reducing the administrative costs associated with authorizing, tracking, paying and reconciling small dollar purchases.

When ranked by commercial and industrial loans as a percentage of total assets, Comerica Incorporated is first among the top bank holding companies in the nation.

Comerica Leasing Corporation expanded its national presence and achieved a record volume—more than $350 million of equipment was leased to Comerica customers in 1997. Airplanes, locomotives, bulldozers and production equipment continue to be standard leases for Comerica Leasing Corporation.

We added new retirement planning software, a new workbook, a new video and re-designed other educational materials for R.E.T.I.R.E. (Real Expertise to Invest Requires Education), Comerica's product line for 401(k) and other corporate retirement plans.

Comerica Bank (Michigan) received its second consecutive "Outstanding" Community Reinvestment Act rating in 1997.

Comerica was honored by the Michigan Minority Business Development Council for the second consecutive year in 1997 for its exemplary record in developing minority business enterprises (MBEs) and for implementing a corporate-wide reporting system for tracking its business with MBEs.

The "CoStars" of Comerica-Bank-Texas mobilized to build a house through Habitat for Humanity in Houston, while the "Comerica Cares" volunteers contributed their sweat equity to construct a home in Detroit.

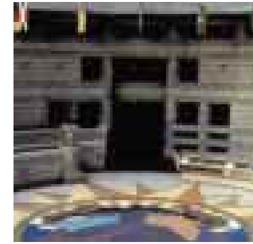
Comerica is the lead lender in Detroit's Empowerment Zone, an 18.35 square-mile area designated for intense redevelopment. Comerica has committed $500 million in lending to consumers and small- and middle market businesses in the Empowerment Zone. Comerica's pledge is part of a lending and investment package from Detroit's financial community worth more than $1 billion.

Comerica colleagues collectively contributed more than $1 million to United Way in 1997.

This year, 225 colleagues celebrated service anniversaries of at least 25 years with Comerica.

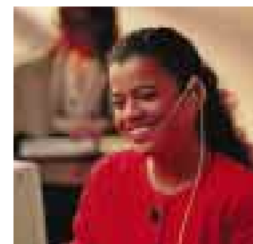
Give-a-Toot is an annual Comerica-sponsored effort to collect used musical instruments for donation to aspiring music students and band programs.

Comerica teamed up with the Detroit Zoo in 1997 to take a "Walk on the Wild Side," a year-long adventure to promote the Zoo as one of the finest in the country.



Comerica embraced the opportunity to become involved in the Museum of African American History. The museum is an impressive showpiece of African American heritage and latest addition to Detroit's burgeoning cultural district.

More than 400 employees referred at least $1 million of business to Comerica investment areas in 1997 and earned the distinction of being members of the Comerica Million Dollar Investment Club.



A Company of Exceptional Employees

In this highly competitive environment in which we operate, employees must continually adapt to ensure our success. Comerica's success is due, in large part, to our 11,000 employees, who demonstrate both a willingness and an ability to change. This is especially evident as they carry out the Direction 2000: Phase III implementation plans that are helping move Comerica forward.

Our employees are known for their strong focus on customers, community leadership and involvement, and spirit of volunteerism. As a learning organization, Comerica encourages employees to continue learning every day and here, too, they are rising to the challenge.

In 1996, we established the Comerica National Quality Excellence Award to recognize employees who exemplify the highest standards of customer service. Award winners are nominated and selected by their peers. Ten employees received quality awards in 1997. The overall winner is Colleen Hollerbach, a treasury management administrator. Not only did colleagues recognize her high performance, but customers did, too. For this distinction, Hollerbach received 250 shares of Comerica stock. The other nine finalists each received 100 shares.

Comerica colleagues throughout the corporation are contributing to the growth and well-being of the communities we serve. Employees are encouraged to be active in community affairs and to hold offices in non-profit organizations, and they do so, serving as models of corporate citizenship.

Our employees enrich the communities we serve by also volunteering their time and talents in other ways. Whether it's donating blood, giving to United Way, building and painting homes or tutoring youngsters, Comerica employees contribute their time, energy and ideas for the betterment of the communities where we do business.

Comerica's corporate contributions help support organizations dedicated to improving the quality of life in the communities we serve. Examples of Comerica contributions in 1997 include donations to the Barbara Ann Karmanos Cancer Institute, of Detroit; City Year, of San Jose, Calif.; Candlelight at Old City Park, of Dallas; and, the Jewish Federation of Palm Beach County, of Boca Raton, Fla.

ROAR (Recognizing Outstanding Achievement and Results) awards totaling $710,000 were presented to 3,500 employees in 1997.

Comerica Incorporated Board of Directors

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Chairman and
Managing General Partner
Metapoint Partners
Audit & Legal and Directors Committees

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Retired
Executive Vice President
The Coastal Corporation
Audit & Legal and Risk Asset Committees

J. Philip DiNapoli
Managing Partner
DiNapoli Companies
Audit & Legal and Directors Committees

Max M. Fisher
Investor
Compensation and Risk Asset Committees

John D. Lewis
Vice Chairman
Comerica Incorporated
and Comerica Bank
Executive Committee

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The Longe Company
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Chief Executive Officer
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Retired Chairman and
Chief Executive Officer
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Risk Asset Committee

Eugene A. Miller
Chairman and
Chief Executive Officer
Comerica Incorporated and
Comerica Bank
Directors, Executive and Risk Asset Committees

Michael T. Monahan
President
Comerica Incorporated and
Comerica Bank
Directors, Executive and Risk Asset Committees

Alfred A. Piergallini
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Chief Executive Officer
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Principal
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Audit & Legal and Compensation Committees

Executive Officers

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Chairman and
Chief Executive Officer

Michael T. Monahan
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John D. Lewis
Vice Chairman

Ralph W. Babb Jr.
Executive Vice President
and Chief Financial Officer

John R. Beran
Executive Vice President
and Chief Information
Officer

Joseph J. Buttigieg III
Executive Vice President
Global/Michigan
Corporate Banking

Richard A. Collister
Executive Vice President
Corporate Staff

George C. Eshelman
Executive Vice President
Investment Bank

J. Michael Fulton
President and
Chief Executive Officer
Comerica Bank-California

Dale E. Greene
Executive Vice President
Credit Administration

Charles L. Gummer
President and
Chief Executive Officer
Comerica Bank-Texas

John R. Haggerty
Executive Vice President
Consumer Finance (Secured)

Thomas R. Johnson
Executive Vice President
Credit Policy

George W. Madison
Executive Vice President,
General Counsel and
Corporate Secretary

Ronald P. Marcinelli
Executive Vice President
Asset-Based Businesses

David B. Stephens
Executive Vice President
Private Banking

Fenton R. Talbott
Executive Vice President
Community Banking

Marvin J. Elenbaas
First Vice President and
Controller

James R. Tietjen
Senior Vice President and
General Auditor

Comerica Bank (Michigan)

Eugene A. Miller
Chairman and
Chief Executive Officer

Comerica Tower at
Detroit Center
500 Woodward Avenue
Detroit, Michigan 48226

Markets:

Metropolitan Detroit, Ann Arbor, Battle Creek, Grand Rapids, Jackson, Kalamazoo, Lansing, Midland, Muskegon

Offices: 261

Directors

Lillian Bauder, Ph.D.
Vice President
Corporate Affairs
Masco Corp.

E. L. Cox
Retired
Chief Executive Officer
Michigan Mutual/
Amerisure Companies
Accident Fund of Michigan

Peter D. Cummings
President
Peter D. Cummings &
Associates

Roger Fridholm
President
St. Clair Group

Todd W. Herrick
President and
Chief Executive Officer
Tecumseh Products
Company

David Baker Lewis
Chairman
Lewis & Munday, P.C.

John D. Lewis
Vice Chairman
Comerica Incorporated
and Comerica Bank

Eugene A. Miller
Chairman and
Chief Executive Officer
Comerica Incorporated and
Comerica Bank

Michael T. Monahan
President
Comerica Incorporated and
Comerica Bank

John W. Porter
Chief Executive Officer
Urban Education
Alliance, Inc.

Heinz C. Prechter
Chairman and Founder
ASC Incorporated

Robert S. Taubman
President and
Chief Executive Officer
The Taubman Company,Inc.

Alfred H. Taylor Jr.
Trustee, Former Chairman
and Chief Executive Officer
The Kresge Foundation

William P. Vititoe
Consultant;
Former Chairman and
Chief Executive Officer
Washington Energy
Company

Gail L. Warden
President and
Chief Executive Officer
Henry Ford Health System

Kenneth L. Way
Chairman and
Chief Executive Officer
Lear Corporation

Comerica Bank-California

J. Michael Fulton
President and
Chief Executive Officer

333 W. Santa Clara Street
San Jose, California 95113

Markets:

The Bay Area (San Jose to San Francisco), Santa Cruz Coastal, Los Angeles (Los Angeles and Orange Counties) and San Diego

Offices: 31

Directors

Theodore J. Biagini
Of Counsel
Hopkins & Carley

Jack C. Carsten
Principal
Technology Investments

Leo E. Chavez
Chancellor
Foothill-DeAnza
Community College District

Jack W. Conner
Chairman
Comerica Bank-California

J. Philip DiNapoli
Managing Partner
DiNapoli Companies

N. John Douglas
President and
Chief Executive Officer
Personal Achievement
Radio Holding

J. Michael Fulton
President and
Chief Executive Officer
Comerica Bank-California

Drew Gibson
Chairman and
Chief Executive Officer
Gibson Speno Company

Walter T. Kaczmarek
Executive Vice President
Comerica Bank-California

Elinor Weiss Mansfield
Attorney

Linda R. Meier
Board Member
California Water
Service Company

Lowell W. Morse
Chairman
Cypress Ventures, Inc.

Edward P. Roski Jr.
President
Majestic Realty Company

David C. White
Executive Vice President
Comerica Bank-California

Lewis N. Wolff
Chairman and
Chief Executive Officer
Wolff-DiNapoli

Comerica Bank-Texas

Charles L. Gummer
President and
Chief Executive Officer

Thanksgiving Tower
1601 Elm Street
Dallas, Texas 75201

Markets:

Dallas, Fort Worth, Austin, Houston

Offices: 53

Directors

Carroll Baird
Retired President
Mrs Baird's Bakeries, Inc.

C. Dewitt Brown Jr.
President and
Chief Executive Officer
Dee Brown Masonry

James F. Cordes
Retired
Executive Vice President
The Coastal Corporation

Thomas M. Dunning
Chairman
Dunning Benefit
Corporation

.

Ruben E. Esquivel
Vice President
Community and
Corporate Relations
The University of Texas
Southwestern Medical
Center

Charles L. Gummer
President and
Chief Executive Officer
Comerica Bank-Texas

Rev. Zan W. Holmes Jr.
Senior Pastor
St. Luke Community
United Methodist Church

Jake Kamin
Chairman
South Texas
Advisory Board
Comerica Bank-Texas

W. Thomas McQuaid
President
Performance Properties
Corporation

Harriet Miers
President
Locke Purnell Rain Harrell

Raymond D. Nasher
Chairman
Comerica Bank-Texas;
Chairman
The Nasher Company

Calvin E. Person
Owner
Calvin Person &
Associates

Boone Powell Jr.
President and
Chief Executive Officer
Baylor University
Medical Center

Bill J. Priest, Ph.D.
Chancellor Emeritus
Dallas County Community
College District

Thomas J. Tierney
Chairman
Corporate Communications
Center, Inc.

Comerica Bank & Trust, FSB (Florida)

Randy B. Nobles
President and
Chief Executive Officer

1800 Corporate Blvd. NW
Suite 200
Boca Raton, Florida 33431

Markets:

Boca Raton, Fort Lauderdale, Naples, Palm Beach Gardens, Sarasota, Tampa

Offices: 6

Directors

Arthur R. Bradley
Retired Chairman and
Chief Executive Officer
Comerica Bank & Trust, FSB

Nancy H. Canary
Partner
Thompson, Hine and Flory

E. Paul Casey
Chairman and
Managing General Partner
Metapoint Partners

John F. Daly
Retired Vice Chairman
Johnson Controls

Don B. Dean
Retired President and
Chief Executive Officer
Manufacturers Bank & Trust
of Florida

Patricia Shontz Longe, Ph.D.
Economist; Senior Partner
The Longe Company

Randy B. Nobles
President and
Chief Executive Officer
Comerica Bank & Trust, FSB

Bill T. Smith Jr., Esq.
Attorney
Bill T. Smith Jr., P.A.

David B. Stephens
Chairman
Comerica Bank & Trust, FSB;
Executive Vice President
Comerica Incorporated

Other Comerica Components

Comerica Bank-Midwest, N.A.
Specializes in revolving credit loans; based in Toledo, Ohio.

Comerica Leasing Corporation
Provides equipment leasing and financing services for businesses throughout the United States.

Comerica Trust Company of Bermuda Ltd.
Offers trust services for captive insurance companies and offshore mutual funds.

Comerica Bank Mexico
Provides a wide range of corporate banking and trade finance services to middle market and large corporate companies.

Comerica Community Development Center
A non-conventional financial resource for housing rehabilitation and small business enterprise in Comerica's Michigan markets.

Comerica West Incorporated
U.S. Banking-West Group originates mid-sized loans to business customers with specific emphasis on the Western United States.

Comerica Investment Services

Comerica Insurance Services, Inc.
Offers life, disability, long-term care, group benefits, and property and casualty insurance to businesses and individuals.

Professional Life Underwriters Services, Inc. (PLUS)
Provides life insurance, annuities and disability insurance products to independent insurance agents.

Comerica Investment Services

Comerica Securities, Inc.
A full service broker-dealer that offers stocks, bonds, mutual funds and annuities to individual investors, along with investment banking services.

Wilson, Kemp & Associates, Inc.
Offers individualized investment portfolio management services to customers in the Midwest and Florida.

W. Y. Campbell & Company
Provides investment banking and corporate finance services to Fortune 500 companies and middle market firms.

Partnership Interest:

Munder Capital Management
An independent investment advisory firm.

Units of Comerica Incorporated

(select business offices located outside of Comerica's primary markets)

Comerica Business Credit
Denver
Cleveland
Dayton
Indianapolis

International Finance
Chicago
Hong Kong
Toronto

National Dealer Services
Chicago
Denver

Personal Trust
New York City
Memphis

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Table 1: Selected Financial Data

Year Ended December 31 (dollar amounts in millions, except per share data)	1997	1996	1995	1994	1993
Earnings Summary					
Total interest income	$ 2,648	$ 2,563	$ 2,614	$ 2,092	$ 1,783
Net interest income	1,443	1,412	1,300	1,230	1,134
Provision for loan losses	146	114	87	56	69
Securities gains	6	14	12	3	2
Noninterest income (excluding securities gains)	522	493	487	447	447
Restructuring charge	—	90	—	7	22
Noninterest expenses (excluding restructuring charge)	1,008	1,069	1,086	1,035	1,003
Net income	530	417	413	387	341
Per Share of Common Stock					
Basic net income*	$ 3.24	$ 2.41	$ 2.38	$ 2.20	$ 1.92
Diluted net income*	3.19	2.38	2.37	2.19	1.90
Cash dividends declared	1.15	1.01	0.91	0.83	0.71
Common shareholders' equity	16.02	14.70	15.17	13.64	12.66
Market value	60.17	34.92	26.67	16.25	17.75
Year-end Balances					
Total assets	$36,292	$34,206	$35,470	$33,430	$30,295
Total earning assets	33,104	31,110	32,051	30,606	27,852
Total loans	28,895	26,207	24,442	22,209	19,100
Total deposits	22,586	22,367	23,167	22,432	20,950
Total borrowings	10,479	8,731	9,319	8,303	6,861
Medium- and long-term debt	7,286	4,242	4,644	4,098	1,461
Common shareholders' equity	2,512	2,366	2,608	2,392	2,182
Daily Average Balances					
Total assets	$34,869	$34,195	$34,129	$31,451	$27,236
Total earning assets	32,025	31,370	31,537	29,038	25,012
Total loans	27,209	25,352	23,561	20,211	18,307
Total deposits	21,946	22,258	21,655	21,325	20,721
Total borrowings	9,798	8,850	9,639	7,527	4,105
Medium- and long-term debt	5,980	4,745	4,510	2,708	1,087
Common shareholders' equity	2,408	2,554	2,511	2,313	2,136
Ratios					
Return on average assets	1.52%	1.22%	1.21%	1.23%	1.25%
Return on average common shareholders' equity	21.32	15.98	16.46	16.74	15.94
Efficiency ratio	51.05	60.36	60.09	61.28	63.68
Dividend payout ratio	36	42	38	38	37
Common shareholders' equity as a percent of average assets	6.91	7.47	7.36	7.35	7.84
Excluding 1996 Restructuring Charge					
Net income		$ 477			
Basic net income per share of common stock		2.77			
Diluted net income per share of common stock		2.73			
Return on average assets		1.40%			
Return on average common shareholders' equity		18.33			
Efficiency ratio		55.67			
Dividend payout ratio		37			

*Net income per share in this annual report is calculated in accordance with FASB Statement 128, "Earnings Per Share." All prior period amounts have been restated.

1997 Financial Highlights

Focused on Performance

- Earned 21.32 percent on average common shareholders' equity, compared to 15.98 percent (18.33 percent excluding the restructuring charge) in 1996.
- Returned 1.52 percent on average assets, compared to 1.22 percent (1.40 percent excluding the restructuring charge) in 1996.

Reported Record Earnings

- Reported net income of $530 million, or $3.19 per share, compared with $417 million, or $2.38 per share (excluding the restructuring charge, net income increased $53 million from $477 million, or $2.73 per share) in 1996.
- On January 15, 1998, the Corporation declared a three-for-two stock split to be effected in the form of a stock dividend on April 1, 1998. All per share amounts have been adjusted to reflect the split.

Sustained Growth

- Grew average total assets slightly to $35 billion (increased 4 percent excluding the sale of Comerica Bank-Illinois).
- Reached $21 billion in average non-consumer loans, a 12 percent increase (15 percent increase excluding the sale of Comerica Bank-Illinois).
- Averaged $22 billion in total deposits, in both 1997 and 1996 (1 percent increase excluding the sale of Comerica Bank-Illinois).
- Maintained average shareholders' equity of $2.7 billion.

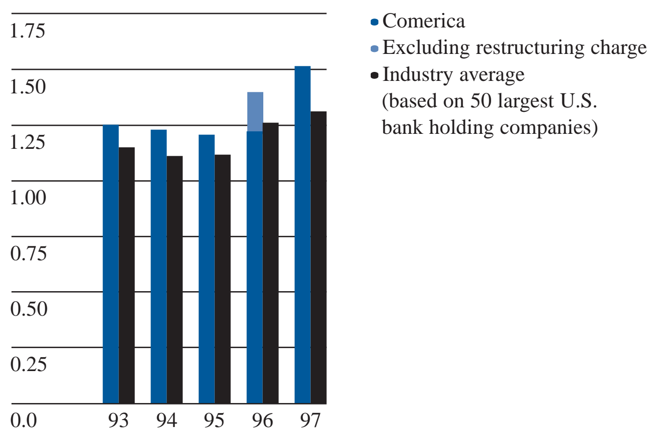
Enhanced Shareholders' Return

- Repurchased 3.6 million shares (or 5.4 million shares on a post-split basis) in 1997.
- Raised the quarterly cash dividend 12 percent to $0.29 per share.
- Declared annual cash dividends of $1.15 per share.

Implemented Key Strategies

- Sold the bond indenture services business and recorded a $23 million pre-tax gain.
- Maintained revenue momentum while implementing Phase III of Direction 2000.

Return on Average Assets
(in percentages)



Earnings Performance

Net Interest Income

Net interest income, on a fully taxable equivalent (FTE) basis, is the difference between interest earned on assets, including certain yield related fees, 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. Net interest income (FTE) comprised 73 percent of net revenues, compared to 74 percent in 1996 and 73 percent in 1995.

Net Interest Income

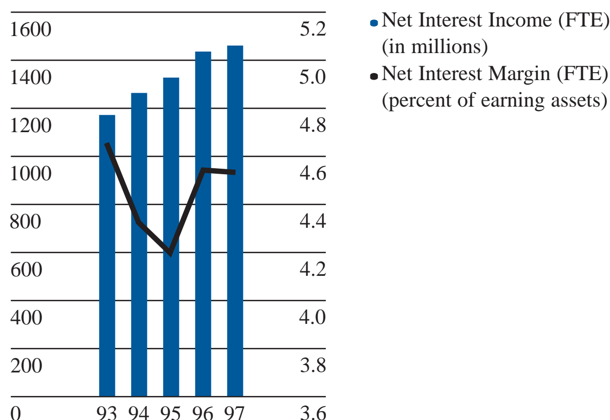


Table 2: Analysis of Net Interest Income–Fully Taxable Equivalent

(dollar amounts in millions)	1997 Average Balance	1997 Interest	1997 Average Rate	1996 Average Balance	1996 Interest	1996 Average Rate	1995 Average Balance	1995 Interest	1995 Average Rate
Commercial loans	$14,234	$1,174	8.25%	$12,686	$1,041	8.21%	$11,302	$ 989	8.75%
International loans	1,953	138	7.07	1,541	102	6.64	1,257	89	7.06
Real estate construction loans	866	81	9.38	707	65	9.22	541	52	9.52
Commercial mortgage loans	3,547	322	9.08	3,483	324	9.29	3,157	297	9.40
Residential mortgage loans	1,676	133	7.90	1,960	153	7.83	2,450	191	7.80
Consumer loans	4,486	440	9.81	4,624	457	9.88	4,569	461	10.10
Lease financing	447	33	7.48	351	24	6.82	285	19	6.65
Total loans (1)	27,209	2,321	8.53	25,352	2,166	8.54	23,561	2,098	8.90
Taxable securities	4,490	309	6.84	5,528	371	6.63	7,226	473	6.52
Securities exempt from federal income taxes	197	18	9.32	295	28	9.96	399	41	10.43
Total investment securities	4,687	327	6.94	5,823	399	6.79	7,625	514	6.72
Short-term investments	129	9	6.59	195	13	6.23	351	23	6.61
Total earning assets	32,025	2,657	8.29	31,370	2,578	8.20	31,537	2,635	8.35
Cash and due from banks	1,686			1,576			1,500		
Allowance for loan losses	(402)			(361)			(340)		
Accrued income and other assets	1,560			1,610			1,432		
Total assets	$34,869			$34,195			$34,129		
Money market and NOW accounts	$ 6,926	232	3.35	$ 6,913	231	3.33	$ 6,411	217	3.39
Savings deposits	1,701	34	2.02	2,026	44	2.18	2,277	48	2.14
Certificates of deposit	6,699	361	5.39	6,887	365	5.30	6,358	344	5.41
Foreign office deposits (2)	805	46	5.68	843	46	5.46	1,842	112	6.07
Total interest-bearing deposits	16,131	673	4.17	16,669	686	4.11	16,888	721	4.27
Federal funds purchased and securities sold under agreements to repurchase	2,017	111	5.49	2,106	112	5.31	2,816	166	5.88
Other borrowed funds	1,801	98	5.45	1,999	107	5.36	2,313	136	5.87
Medium- and long-term debt	5,980	374	6.26	4,745	295	6.22	4,510	289	6.41
Other (3)	—	(51)	—	—	(49)	—	—	2	—
Total interest-bearing sources	25,929	1,205	4.65	25,519	1,151	4.51	26,527	1,314	4.95
Noninterest-bearing deposits	5,815			5,589			4,767		
Accrued expenses and other liabilities	467			400			324		
Preferred stock	250			133			—		
Common shareholders' equity	2,408			2,554			2,511		
Total liabilities and shareholders' equity	$34,869			$34,195			$34,129		
Net interest income/rate spread (FTE)		$1,452	3.64		$1,427	3.69		$1,321	3.40
FTE adjustment (4)		$ 9			$ 15			$ 21	
Impact of net noninterest-bearing sources of funds			0.89			0.85			0.79
Net interest margin (as a percent of average earning assets) (FTE)			4.53%			4.54%			4.19%

(1) Nonaccrual loans are included in average balances reported and are used to calculate rates.

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

(3) Net interest rate swap (income)/expense. If swap (income)/expense were allocated, average rates on total loans would have been 8.63% in 1997, 8.66% in 1996 and 8.84% in 1995; average rates on medium- and long-term debt would have been 5.85% in 1997, 5.80% in 1996 and 6.14% in 1995.

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

Net interest income (FTE) rose 2 percent to $1,452 million in 1997. This increase was due primarily to a 2 percent increase in average earning assets, which was concentrated in commercial loans. The significant increase in commercial loans was offset by consumer loan runoff and sales and runoff of investment securities.

Net interest margin for 1997 declined slightly to 4.53 percent from 4.54 percent last year. Comerica (the "Corporation") experienced higher funding costs in 1997 as a result of a greater reliance on purchased funds in the mix of interest-bearing liabilities. This was offset by a favorable shift in earning assets to higher spread loans funded by the sales and runoff of lower yielding investment securities.

Table 3: Rate-Volume Analysis–Fully Taxable Equivalent

	1997 / 1996			1996 / 1995		
(in millions)	Increase (Decrease) Due to Rate	Increase (Decrease) Due to Volume*	Net Increase (Decrease)	Increase (Decrease) Due to Rate	Increase (Decrease) Due to Volume*	Net Increase (Decrease)
Interest income (FTE)						
Commercial loans	$ 5	$128	$ 133	$ (62)	$114	$ 52
International loans	7	29	36	(6)	19	13
Real estate construction loans	1	15	16	(2)	15	13
Commercial mortgage loans	(7)	5	(2)	(3)	30	27
Residential mortgage loans	2	(22)	(20)	1	(39)	(38)
Consumer loans	(3)	(14)	(17)	(10)	6	(4)
Lease financing	2	7	9	—	5	5
Total loans	7	148	155	(82)	150	68
Taxable securities	10	(72)	(62)	12	(114)	(102)
Securities exempt from federal income taxes	(1)	(9)	(10)	(3)	(10)	(13)
Total investment securities	9	(81)	(72)	9	(124)	(115)
Short-term investments	1	(5)	(4)	(1)	(9)	(10)
Total interest income (FTE)	17	62	79	(74)	17	(57)
Interest expense						
Money market and NOW accounts	1	—	1	(3)	17	14
Savings deposits	(3)	(7)	(10)	1	(5)	(4)
Certificates of deposit	6	(10)	(4)	(7)	28	21
Foreign office deposits	2	(2)	—	(11)	(55)	(66)
Total interest-bearing deposits	6	(19)	(13)	(20)	(15)	(35)
Federal funds purchased and securities sold under agreements to repurchase	4	(5)	(1)	(16)	(38)	(54)
Other borrowed funds	2	(11)	(9)	(12)	(17)	(29)
Medium- and long-term debt	2	77	79	(9)	15	6
Other (1)	(2)	—	(2)	(51)	—	(51)
Total interest expense	12	42	54	(108)	(55)	(163)
Net interest income (FTE)	$ 5	$ 20	$ 25	$ 34	$ 72	$106

*Rate/volume variances are allocated to variances due to volume.
(1) Net interest rate swap income.

The Corporation implemented various asset and liability management strategies in 1997 to minimize exposure to net interest margin risk, which represents the potential reduction in net interest income that may result from rate spread compression between, for example, prime and market rates or core deposit and money market rates. Such strategies included permitting investment securities to run off in order to facilitate growth in higher yielding loans. Off-balance sheet interest rate swaps were also entered into during the year to effectively fix the high yields on certain variable rate loans and alter the interest rate characteristics of debt issued throughout the year. Refer to page 32 of this financial review for additional information regarding the Corporation's asset and liability management policies.

In 1996, net interest income (FTE) increased 8 percent over 1995, benefiting from strong growth in average earning assets, primarily commercial loans. The net interest margin for 1996 increased 35 basis points from 1995, principally due to a favorable shift in the mix of earning assets. The Corporation primarily funded the growth in higher yielding loans with sales of thin margin, floating rate investment securities and runoff of fixed rate investment securities. This shifted the structure of the balance sheet, placing a greater emphasis on higher spread loans and reducing the reliance on investment securities.

Provision and Allowance for Loan Losses

The allowance for loan losses represents management's assessment of possible losses inherent in the Corporation's loan portfolio and is determined based on the application of projected loss ratios to risk-rated loans, both individually and by category. Projected loss ratios incorporate factors such as recent loan loss experience, current economic conditions and trends, geographic dispersion of borrowers, trends with respect to past due and nonaccrual amounts, risk characteristics of various categories and concentrations of loans and transfer risks. However, there can be no assurance that the actual loss ratios will not vary from those projected. The provision for loan losses reflects management's evaluation of the adequacy of the allowance for loan losses. This evaluation is performed on a quarterly basis.

The provision for loan losses was $146 million in 1997, compared to $114 million in 1996 and $87 million in 1995. The provision increase in 1997 primarily reflected loan growth and management's intention to increase reserve ratios.

Total net charge-offs increased to $89 million in 1997, compared to $85 million and $76 million in 1996 and 1995, respectively. The ratio of net loans charged off to average total loans was 0.33 percent in both 1997 and 1996. Commercial loan net charge-offs as a percentage of average commercial loans were 0.10 percent and 0.12 percent for 1997 and 1996, respectively. Consumer loan net charge-offs as a percentage of average consumer loans were 1.79 percent and 1.57 percent for 1997 and 1996, respectively.

At December 31, 1997, the allowance for loan losses was $424 million, an increase of $57 million since year-end 1996. The allowance as a percentage of total loans increased to 1.47 percent from 1.40 percent at December 31, 1996. The allowance as a percentage of total nonperforming assets increased significantly to 413 percent at December 31, 1997, from 263 percent at year-end 1996.

An estimated allocation of the allowance for loan losses is provided in Table 9 on page 29. The allocations are made for analytical purposes. The total allowance is available to absorb losses from any segment of the portfolio.

Net Loans Charged Off to Average Loans
(in percentages)

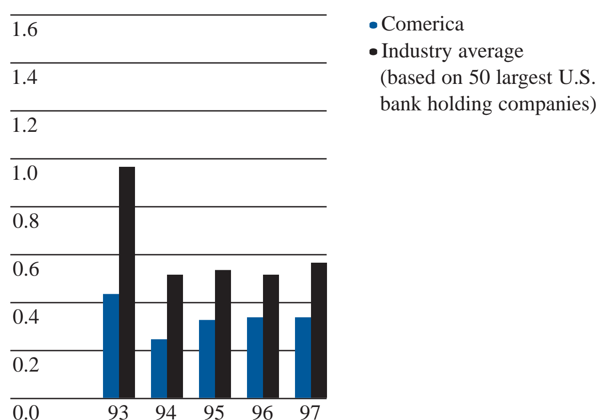


Table 4: Analysis of the Allowance for Loan Losses

Year Ended December 31 (dollar amounts in millions)	1997	1996	1995	1994	1993
Balance at beginning of period	$367	$341	$326	$299	$308
Allowance of institutions and loans purchased/sold	—	(3)	4	19	—
Loans charged off					
Domestic					
Commercial	33	33	33	25	36
Real estate construction	1	1	3	1	1
Commercial mortgage	4	5	8	17	20
Residential mortgage	—	1	2	—	1
Consumer	92	86	73	40	52
International	1	—	—	—	—
Total loans charged off	131	126	119	83	110
Recoveries					
Domestic					
Commercial	19	18	19	15	18
Real estate construction	1	1	3	—	—
Commercial mortgage	10	9	8	5	2
Consumer	12	13	13	14	12
International	—	—	—	1	—
Total recoveries	42	41	43	35	32
Net loans charged off	89	85	76	48	78
Provision for loan losses	146	114	87	56	69
Balance at end of period	$424	$367	$341	$326	$299
Ratio of allowance for loan losses to total loans at end of period	1.47%	1.40%	1.40%	1.47%	1.56%
Ratio of net loans charged off during the period to average loans outstanding during the period	0.33%	0.33%	0.32%	0.24%	0.43%

Noninterest Income

Year Ended December 31 (in millions)	1997	1996	1995
Income from fiduciary activities	$147	$126	$119
Service charges on deposit accounts	141	140	130
Revolving credit fees	20	23	36
Securities gains	6	14	12
Other	191	186	160
Subtotal	505	489	457
Bond indenture income	23	7	6
Customhouse broker fees	—	11	36
Total noninterest income	$528	$507	$499

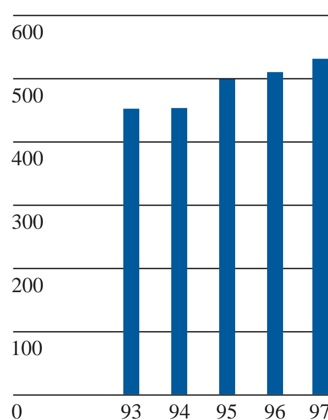
Noninterest income increased $21 million, or 4 percent, to $528 million in 1997, compared to $507 million and $499 million in 1996 and 1995, respectively. After adjusting for divestitures, securities gains and the large nonrecurring items discussed below, noninterest income rose $53 million, or 12 percent, in 1997.

Income from fiduciary activities increased $14 million, or 10 percent, in 1997, compared to an increase of $8 million, or 7 percent, in 1996. The increase in 1997 reflects a significant increase in both personal trust and institutional trust income due to an expanded customer base and market performance of assets under management. Total trust assets under management increased to $117 billion at December 31, 1997, from $107 billion at year-end 1996. Discretionary funds, which represent trust assets over which the Corporation has investment management authority, increased $4 billion to $30 billion from $26 billion in 1996. This increase resulted primarily from increases in the institutional trust category.

Service charges on deposit accounts rose $1 million, or 1 percent, in 1997 compared to an increase of $10 million, or 8 percent, in 1996. This increase is net of a $3 million reduction in service charges resulting from the divestiture of the Illinois subsidiary in 1996. The majority of the 1997 increase related to revisions of the commercial account fee structure, growth in demand deposit activity and lower earnings credit allowances.

Noninterest Income

(in millions)



Customhouse brokerage fees decreased $11 million in 1997, due to the sale of John V. Carr & Son, Inc. in the second quarter of 1996.

Revolving credit fee income decreased $3 million, or 14 percent, in 1997 compared to a $13 million, or 37 percent decrease in 1996. The lower fees in 1997 were primarily due to the transfer of fees and associated costs to a merchant services joint venture in early 1996.

Income from securities gains/(losses) decreased $8 million between 1997 and 1996, primarily representing decreases in gains on the sale of Latin American debt (principally Brady bonds) and U.S. government agency securities.

Other noninterest income grew $28 million, or 15 percent, in 1997. Excluding the impact of divestitures and large nonrecurring items in both periods, other noninterest income rose 17 percent. Accounting for the majority of this increase were higher levels of security trading and commercial fee income, as well as the implementation of new retail fees. Other noninterest income also increased due to management's continued emphasis on revenue growth through sales of nontraditional bank products. Commissions and fees related to these products increased $3 million, or 19 percent, in 1997 from $20 million in 1996. Significant nonrecurring items in other noninterest income include a $23 million gain on the sale of the Corporation's bond indentures services business in 1997. Significant nonrecurring items in 1996 include a $13 million gain on the transfer of merchant services to a joint venture, $9 million of interest on a state tax refund and a $6 million gain on the sale of Comerica Bank-Illinois; offset by a $9 million write-off related to the sale of John V. Carr & Son, Inc. There were no significant nonrecurring items included in other noninterest income in 1995.

Noninterest Expenses

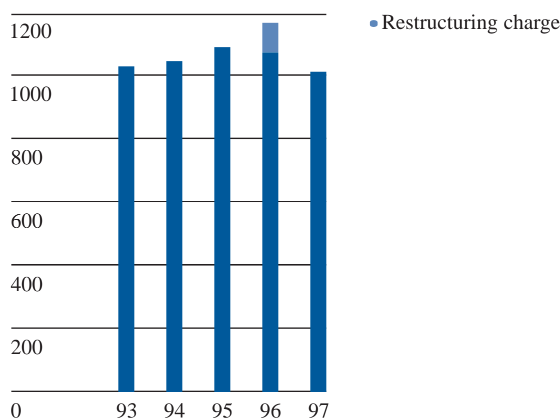
Year Ended December 31 (in millions)	1997	1996	1995
Salaries	$ 464	$ 475	$ 466
Employee benefits	75	86	96
Total salaries and employee benefits	539	561	562
Net occupancy expense	89	99	99
Equipment expense	62	69	68
FDIC insurance expense	3	8	24
Telecommunications expense	28	29	29
Other	287	303	304
Subtotal	1,008	1,069	1,086
Restructuring charge	—	90	—
Total noninterest expenses	$1,008	$1,159	$1,086

Noninterest expenses decreased 13 percent to $1,008 million in 1997 (decreased 6 percent from $1,069 million, excluding the 1996 restructuring charge), compared to $1,159 million in 1996 and $1,086 million in 1995. Excluding the effect of divestitures and the large nonrecurring items discussed later, noninterest expenses remained essentially unchanged in 1997.

A pre-tax restructuring charge of $90 million was recorded in 1996 in connection with a major program to improve efficiency, revenue and customer service. The charge included $48 million for termination benefits, $21 million for occupancy and equipment write-offs and $21 million for other costs. Estimated annual benefits of $110 million (cost savings of $85 million and revenue enhancements of $25 million) are anticipated from the program. Projected completion of the implementation plan is the end of the first quarter of 1998, so a substantial portion of the estimated benefits will not impact annual results until 1998, and full annual realization is not expected until 1999. As a result of the program, 1,890 employee positions, about 15 percent of total positions at year-end 1996, were identified to be eliminated by the end of Direction 2000. As of December 31, 1997, all but approximately 300 of the positions have been eliminated. Reinvestment opportunities during the implementation phase have created 300 new positions. Implementation of the major components of the program are progressing as anticipated. During 1997, $61 million of termination benefits, occupancy and equipment write-offs and other costs were incurred and charged against the restructuring reserve. Additional information regarding the Corporation's restructuring reserve can be found in Note 15 on page 50.

Total salaries expense decreased $11 million, or 2 percent, in 1997 versus an increase of $9 million, or 2 percent, in 1996. Excluding the effect of divestitures, salaries increased slightly during the year reflecting increased incentives tied to performance and annual merit increases. The number of full-time equivalent employees decreased 1,078, or 10 percent, from year-end 1996, excluding divestitures.

Noninterest Expenses
(in millions)



Employee benefits expense decreased $11 million, or 12 percent, in 1997 versus an increase of $10 million, or 10 percent, in 1996. After adjusting for divestitures, employee benefits decreased 7 percent, largely due to the reduction in full-time equivalent staff levels.

Net occupancy and equipment expenses, on a combined basis, decreased $17 million, or 10 percent, in 1997 versus virtually no change in 1996. After adjusting for divestitures, net occupancy and equipment expenses declined 6 percent.

The Federal Deposit Insurance Corporation (FDIC) expenses decreased significantly, by $5 million, or 63 percent, in 1997, and $16 million, or 66 percent, in 1996, primarily due to the FDIC adopting a new assessment rate schedule for Bank Insurance Fund (BIF) members in the third quarter of 1995. The new rate schedule, which continues to determine assessments based on a bank's risk-based capital levels, virtually eliminated each bank's 1996 BIF annual deposit insurance premium. Beginning in 1997, each subsidiary bank's deposit insurance assessment rate is predicated upon the level of insurance premiums necessary to maintain the bank insurance fund ratio at a level of 1.25 percent of insured deposits, plus an amount representing interest due on the Financing Corporation bonds issued during the savings and loan crisis. The BIF rate reduction described above translated into a $21 million reduction in FDIC insurance expense for the Corporation in 1996. Offsetting this savings in 1996 was a one-time charge of $5 million, representing the Corporation's portion of an assessment levied on banks with Savings Association Insurance Fund (SAIF) insured deposits in order to recapitalize the SAIF. Deposit insurance expense will approximate $3 million in 1998 based on current deposit levels and current deposit assessment rates.

Other noninterest expenses decreased $16 million in 1997, compared to a $1 million decrease in 1996. Included in other noninterest expenses in 1997 were $5 million of incremental litigation accruals. Other noninterest expenses in 1997, 1996 and 1995, included losses of $2 million, $18 million and $15 million (excluding $1 million of costs to sell), respectively, on the sale of a portion of the bankcard portfolio. Loss-sharing provisions in the sales agreement expose the Corporation to maximum losses of $50 million over the first 42 months following the sale (December 1995). Loss rates in 1996 and 1997 exceeded estimates, resulting in the additional charge for projected losses. Excluding divestitures and the above large nonrecurring items, other noninterest expenses increased $3 million, or less than 1 percent. The minimal increase reflects management's continued efforts to control expenses.

The Corporation's efficiency ratio is defined as total noninterest expenses divided by the sum of net interest revenue (FTE) and noninterest income, excluding securities gains/(losses). The ratio was 51.05 percent in 1997, compared to 60.36 percent in 1996 (55.67 percent excluding the restructuring charge) and 60.09 percent in 1995.

Income Taxes

The provision for income taxes was $287 million in 1997, compared to $229 million in 1996 and $213 million in 1995. The effective tax rate, computed by dividing the provision for income taxes by income before taxes, was 35.0 percent for 1997, compared to 35.4 percent in 1996 and 33.9 percent in 1995. The decrease in the effective tax over the prior year reflects greater levels of low-income housing credits.

Strategic Lines of Business

The Corporation has strategically aligned its operations into three major lines of business: the Business Bank, the Individual Bank and the Investment Bank. Table 5 on page 27 presents the financial results of these business lines for the years ended December 31, 1997 and 1996.

Lines of business results are produced by the Corporation's internal management accounting system. This system measures financial results based on the internal organizational structure of the Corporation; therefore, the information presented is not necessarily comparable with similar information for any other financial institution. The management accounting system assigns balance sheet and income statement items to each line of business using certain methodologies which are constantly being refined. For comparability purposes, both 1997 and 1996 amounts are based on methodologies in effect at December 31, 1997. These methodologies, which are briefly summarized in the following paragraph, may be modified as management accounting systems are enhanced and changes occur in the organizational structure or product lines.

The Corporation's internal funds transfer pricing system records cost of funds or credit for funds using a combination of matched maturity funding for certain assets and liabilities and a blended rate based on various maturities for the remaining assets and liabilities. The loan loss provision is assigned based on the amount necessary to maintain an allowance for loan losses adequate for that line of business. Noninterest income and expenses directly attributable to a line of business are assigned to that business. Direct expenses incurred by areas whose services support the overall Corporation are allocated to the business lines 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 based on the ratio of a line of business' noninter-

Table 5: Strategic Lines of Business Financial Results

	Business Bank		Individual Bank		Investment Bank*		Other		Total	
(dollar amounts in millions)	1997	1996	1997	1996	1997	1996	1997	1996	1997	1996
Earnings Summary										
Net interest income (FTE)	$ 653	$ 621	$ 759	$ 776	$ (2)	$ (1)	$ 42	$ 31	$ 1,452	$ 1,427
Provision for loan losses	(11)	2	82	109	n/a	n/a	75	3	146	114
Noninterest income	129	122	268	277	107	94	24	14	528	507
Noninterest expenses	298	293	602	655	101	95	7	116	1,008	1,159
Provision for income taxes	180	163	120	102	1	(1)	(5)	(20)	296	244
Net income (loss)	315	285	223	187	3	(1)	(11)	(54)	530	417
Selected Average Balances										
Assets	$19,781	$17,397	$ 9,644	$ 9,881	$27	$22	$5,417	$6,895	$34,869	$34,195
Loans	18,172	16,156	9,042	9,201	—	—	(5)	(5)	27,209	25,352
Deposits	3,911	3,914	17,084	17,262	40	48	911	1,034	21,946	22,258
Common equity	1,057	941	774	707	23	17	554	889	2,408	2,554
Statistical Data										
Return on average assets	1.59%	1.64%	1.24%	1.04%	4.21%	(1.78)%	(0.09)%	(0.49)%	1.52%	1.22%
Return on average common equity	29.85	30.24	28.76	26.45	12.62	(7.34)	(1.90)	(5.98)	21.32	15.98
Efficiency ratio	38.27	39.58	58.55	62.12	n/m	n/m	n/m	n/m	51.05	60.36

*Included in noninterest expenses are fees internally transferred to other lines of business for referrals to the Investment Bank. If excluded, Investment Bank net income would have been $6 million and $2 million and return on average common equity would have been 27.89% and 11.01%, in 1997 and 1996, respectively.
n/m Not meaningful
n/a Not applicable

est expenses to total noninterest expenses incurred by all business lines. Common equity is allocated based on credit, operational and business risks.

The following discussion provides information about each line of business, along with an explanation of factors impacting 1997 performance. Overall comparability of results is impacted because of the inclusion of the results of Comerica Bank-Illinois for the first seven months of 1996.

The Business Bank is comprised of middle market lending, asset-based lending, large corporate banking and international financial services. This line of business meets the needs of medium-size 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.

Net income increased $30 million, or 11 percent, in 1997, principally due to additional net interest income resulting from 12 percent average loan growth, and a lower provision for loan losses.

The Individual Bank includes consumer lending, consumer deposit gathering, mortgage loan origination and servicing, small business banking (annual sales under $5 million) and private banking. This line of business offers a variety of consumer products, including deposit accounts, direct and indirect installment loans, credit cards, home equity lines of credit and residential mortgage loans. In addition, a full range of financial services is provided to small businesses and municipalities. Private lending and personal trust services are also provided to meet the personal financial needs of affluent individuals (as defined by individual net income or wealth).

Net income increased $36 million, or 19 percent, in 1997, principally due to lower noninterest expenses resulting from the sale of the Corporation's Illinois subsidiary, a one-time loss on a bankcard portfolio sale and a one-time SAIF assessment charge for thrift bailout in 1996. Lower net interest income and noninterest income are offset by a lower provision for loan losses. Noninterest income in 1996 includes a $13 million gain on the sale of the merchant services business.

The Investment Bank is responsible for the sale of mutual fund and annuity products, as well as life, disability and long-term care insurance products. This line of business also offers institutional trust products, retirement services and provides investment management and advisory services, investment banking and discount securities brokerage services.

Net income increased $4 million in 1997, principally due to higher levels of institutional trust and discount brokerage fees.

The Other category includes divested business lines, the income and expense impact of cash and loan loss reserves not assigned to specific business lines, miscellaneous other items of a corporate nature and certain direct expenses not allocated to business lines. The Corporation's securities portfolio and asset and liability management activities are also reflected in these amounts. Noninterest income for 1997 includes a $23 million gain on the sale of the Corporation's bond indenture services business. Noninterest expenses in 1996 include a $90 million restructuring charge.

Table 6: Analysis of Investment Securities and Loans

December 31 (in millions)	1997	1996	1995	1994	1993
Investment securities available for sale					
U.S. government and agency securities	$ 3,239	$ 3,968	$ 6,038	$ 2,674	$ 2,164
State and municipal securities	170	228	371	—	—
Other securities	597	604	450	232	158
Total investment securities available for sale	4,006	4,800	6,859	2,906	2,322
Investment securities held to maturity					
U.S. government and agency securities	—	—	—	4,462	3,232
State and municipal securities	—	—	—	422	513
Other securities	—	—	—	86	233
Total investment securities held to maturity	—	—	—	4,970	3,978
Total investment securities	$ 4,006	$ 4,800	$ 6,859	$ 7,876	$ 6,300
Commercial loans	$15,805	$13,520	$12,041	$10,634	$ 9,087
International loans					
Government and official institutions	6	11	6	18	143
Banks and other financial institutions	339	323	583	660	671
Other	1,740	1,372	796	517	322
Total international loans	2,085	1,706	1,385	1,195	1,136
Real estate construction loans	941	751	641	414	437
Commercial mortgage loans	3,634	3,446	3,254	3,056	2,700
Residential mortgage loans	1,565	1,744	2,221	2,436	1,857
Consumer loans	4,348	4,634	4,570	4,215	3,674
Lease financing	517	406	330	259	209
Total loans	$28,895	$26,207	$24,442	$22,209	$19,100

In June 1997, the Financial Accounting Standards Board (FASB) issued Statement on Financial Accounting Standards (SFAS) No. 131, "Disclosures about Segments of an Enterprise and Related Information." The statement establishes standards for the way public business enterprises report information about operating segments in annual financial statements and requires that those enterprises report selected information about operating segments in interim financial reports issued to shareholders. The statement is effective for fiscal years beginning after December 15, 1997, but need not be applied to interim financial statements in the initial year of application. Subsequent adoption of SFAS No. 131 will not have a material impact to the Corporation.

Balance Sheet and Capital Funds Analysis

Total assets were $36.3 billion at year-end 1997, representing a $2.1 billion increase from $34.2 billion on December 31, 1996. On an average basis, total assets remained relatively flat with $34.9 billion in 1997, compared to $34.2 billion in 1996.

Earning Assets

Total earning assets were $33.1 billion at year-end 1997, representing a $2.0 billion increase from $31.1 billion at December 31, 1996. On an average basis, total earning assets were $32.0 billion in 1997, compared to $31.4 billion in 1996.

The average balance of domestic commercial loans, which is comprised of commercial and commercial mortgage loans, increased $1.6 billion, or 10 percent, from 1996. Real estate construction loans also rose an average $159 million, or 22 percent, in 1997. The commercial portfolio, especially small business and middle market loans, continues to grow in all the Corporation's markets. This growth, along with an increase of approximately 30 percent in commercial loan commitments to extend credit, is attributable to effective marketing efforts, strong customer relationships and continued economic strength in the commercial loan markets.

Average international loans increased $412 million, consisting largely of loans originated to facilitate trade with limited cross-border risk. The growth also reflects the increasing global activity of the Corporation's traditional customer base. Risk management practices in international lending include structuring bilateral arrangements or participating in bank facilities which secure repayment from sources external to the borrower's country. Accordingly, such international outstandings are excluded from cross-border risk of that country. Mexican cross-border risk of $414 million, or 1.14 percent of assets, was the only country exposure exceeding 1.00 percent of assets at December 31, 1997. There were no countries with exposure between 0.75 percent and 1.00 percent of total assets at year-end 1997. Table 7 on page 29 provides additional information on the Corporation's Mexican cross-border risk.

Table 7: Mexican Cross-Border Risk

December 31 (in millions)	1997	1996	1995
Governments and official institutions	$ 41	$192	$142
Banks and other financial institutions	78	26	42
Commercial and industrial	295	50	32
Total	$414	$268	$216

Table 8: Loan Maturities and Interest Rate Sensitivity

December 31, 1997 (in millions)	Within One Year*	After One But Within Five Years	After Five Years	Total
Commercial loans	$12,059	$3,043	$ 703	$15,805
Commercial mortgage loans	1,281	1,701	652	3,634
International loans	1,993	90	2	2,085
Real estate construction loans	650	213	78	941
Total	$15,983	$5,047	$1,435	$22,465
Loans maturing after one year				
Predetermined interest rates		$2,064	$ 863	
Floating interest rates		2,983	572	
Total		$5,047	$1,435	

* Includes demand loans, loans having no stated repayment schedule or maturity and overdrafts.

Table 9: Allocation of the Allowance for Loan Losses

December 31 (dollar amounts in millions)	1997 Allocated Allowance	1997 Percent of Total Loans	1996 Allocated Allowance	1996 Percent of Total Loans	1995 Allocated Allowance	1995 Percent of Total Loans	1994 Allocated Allowance	1994 Percent of Total Loans	1993 Allocated Allowance	1993 Percent of Total Loans
Domestic										
Commercial	$ 94	55%	$ 98	52%	$118	49%	$119	48%	$123	48%
Real estate construction	7	3	6	3	5	3	6	2	4	2
Commercial mortgage	18	13	27	13	33	13	35	14	26	14
Residential mortgage	1	5	2	7	2	9	2	11	3	10
Consumer	116	15	120	18	84	19	60	19	60	19
Lease financing	1	2	1	1	1	1	1	1	1	1
International	5	7	3	6	2	6	3	5	18	6
Unallocated	182	—	110	—	96	—	100	—	64	—
Total	$424	100%	$367	100%	$341	100%	$326	100%	$299	100%

Average residential mortgage loans decreased $284 million primarily due to management's decision to sell the majority of mortgage originations. Average consumer loans, comprised of installment, revolving credit and bankcard loans, declined $138 million. Average installment loan balances decreased $106 million, while average revolving credit loans decreased $39 million. Average bankcard loans were relatively unchanged during the period.

Average investment securities declined to $4.7 billion in 1997, compared to $5.8 billion in 1996, reflecting sales and runoff of securities primarily to fund growth in higher-yielding loans and to divest lower earning variable rate assets. Average U.S. government and agency securities decreased $1.2 billion and average state and municipal securities decreased $97 million, while average other securities increased $194 million. The Corporation shifted away from purchasing on-balance sheet securities to balance interest rate sensitivity and preserve net interest margin to purchasing off-balance sheet interest rate swaps that accomplish the same interest risk reduction objective. The decline in U.S. government and agency securities principally resulted from sales and paydowns, while the tax-

exempt portfolio of state and municipal securities continued to decrease as reduced tax advantages for these types of securities deterred additional investment. Other securities consist primarily of collateralized mortgage obligations (CMOs), Brady bonds and Eurobonds. The increase in other securities during the year was largely a result of Eurobonds.

Other Earning Assets

Short-term investments in interest-bearing deposits with banks, federal funds sold and securities purchased under agreements to resell provide a range of maturities under one year to supplement corporate liquidity. Interest-bearing deposits with banks are investments with banks in developed countries or foreign banks' international banking facilities located in the United States. Federal funds sold provide a vehicle to control the reserve position and serve correspondent banks, as well as offer supplemental earnings opportunities. As a result of the emphasis on higher-yielding loans, short-term investments declined on average $37 million during 1997.

Loans held for sale totaled $41 million at the end of 1997, up slightly from $38 million in 1996.

Table 10: Maturity Distribution of Domestic Certificates of Deposit of $100,000 and Over

December 31 (in millions)	1997
Three months or less	$1,380
Over three months to six months	395
Over six months to twelve months	350
Over twelve months	171
Total	$2,296

Deposits and Borrowed Funds

Average deposits declined $312 million, or 1 percent, from 1996. Excluding the impact of divestitures, deposits increased 1 percent.

Average demand deposits grew $226 million, or 4 percent, from 1996, largely due to the growth in related commercial loan business. Average certificates of deposit decreased $188 million, or 3 percent, from 1996.

With deposit balances declining slightly, there was increased reliance on medium-term debt (both domestic and European), and long-term debt to provide the necessary funding to support expanding loan volumes. Medium-term debt provides the Corporation a funding source with maturities ranging from one month to 15 years and durations that are similar to deposit liabilities. Long-term subordinated notes help maintain the bank's total capital ratio at the level that qualifies for the lowest FDIC risk-based insurance premium and allow the Corporation to take advantage of acquisition activity. Medium-term debt increased $2.8 billion representing the net result of the issuance of $5.4 billion and the maturity of $2.6 billion of notes during 1997. Long-term debt increased $200 million from the issuance of subordinated notes during 1997. Further information on the Corporation's medium- and long-term debt is included in Note 9 of the consolidated financial statements on page 46.

Capital

Shareholders' equity was $2.8 billion at December 31, 1997. During the year, the Corporation authorized the repurchase of up to 12 million shares (or 18 million shares on a post-split basis) of Comerica common stock. Coupled with other authorizations to acquire shares, Comerica repurchased 4 million shares equaling more than $242 million of capital during 1997. At December 31, 1997, the Corporation had remaining authorization to purchase 15 million shares (or 22 million shares on a post-split basis) of common stock.

The remaining change in capital is the net effect of increases in capital from retained earnings of $332 million, $36 million of common stock for employee stock plans and a change of $21 million in nonowner equity, principally a change in value of available for sale securities.

The Corporation declared common dividends totaling $181 million on net income applicable to common stock of $513 million, representing a dividend payout ratio of 36 percent. The payout ratio in 1996 was 42 percent (37 percent excluding the after-tax impact of the restructuring charge). The Corporation has targeted a payout ratio of between 30 to 40 percent, although this target is constantly reassessed by the board of directors in light of changing market and industry conditions.

On January 15, 1998, the Corporation's board of directors declared a three-for-two stock split, effected in the form of a 50 percent stock dividend to be paid April 1, 1998, as well as increased the quarterly cash dividend 10 percent to $0.32 per share.

At December 31, 1997, the Corporation and all of its 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. See Note 17 of the consolidated financial statements on page 51 for the capital ratios.

Asset Quality

Nonperforming Assets

The Corporation's policies regarding nonaccrual loans reflect the importance of identifying troubled loans early. Consumer loans are directly charged off no later than 180 days past due,

Nonperforming Assets to Loans and Other Real Estate
(in percentages)

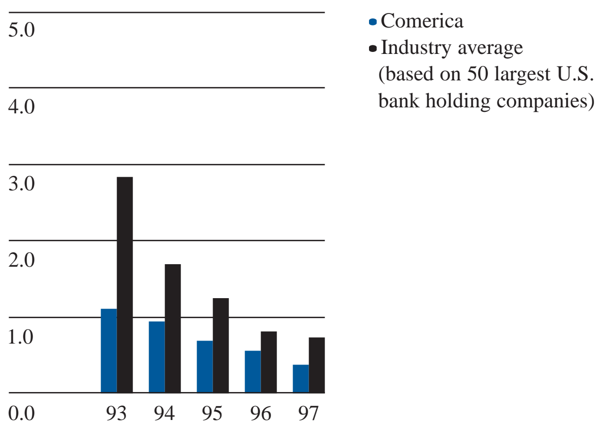


Table 11: Analysis of Investment Securities Portfolio–Fully Taxable Equivalent

December 31, 1997 (dollar amounts in millions)	Maturity† Within 1 Year		1 - 5 Years		5 - 10 Years		After 10 Years		Total		Weighted Average Maturity
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Yrs./Mos.
Available for sale											
U.S. Treasury	$ 46	6.09%	$ 27	5.54%	$ —	—%	$ —	—%	$ 73	5.90%	1/1
U.S. government and agency	125	7.08	194	7.10	185	7.02	2,662	6.57	3,166	6.65	10/8
State and municipal securities	43	5.90	87	6.41	32	6.23	8	6.40	170	6.25	3/3
Other bonds, notes and debentures	108	9.36	177	7.71	127	7.43	84	8.85	496	8.19	6/3
Federal Reserve Bank stock and other investments*	—	—	—	—	2	—	99	—	101	—	—
Total investment securities available for sale	$322	7.55%	$485	7.08%	$346	7.10%	$2,853	6.64%	$4,006	6.81%	9/8

* Balances are excluded in the calculation of total yield.
† Based on final contractual maturity.

Table 12: Summary of Nonperforming Assets and Past Due Loans

December 31 (dollar amounts in millions)	1997	1996	1995	1994	1993
Nonperforming assets					
Nonaccrual loans					
Commercial loans	$ 59	$ 72	$ 87	$ 89	$ 71
International loans	1	—	—	—	—
Real estate construction loans	3	3	7	17	19
Real estate mortgage loans (principally commercial)	15	28	37	56	64
Total nonaccrual loans	78	103	131	162	154
Reduced-rate loans	8	8	3	2	5
Total nonperforming loans	86	111	134	164	159
Other real estate	17	29	29	40	50
Total nonperforming assets	$103	$140	$163	$204	$209
Nonperforming loans as a percentage of total loans	0.30%	0.42%	0.55%	0.74%	0.83%
Nonperforming assets as a percentage of total loans and other real estate	0.36%	0.53%	0.67%	0.92%	1.09%
Allowance for loan losses as a percentage of total nonperforming assets	413%	263%	209%	160%	143%
Loans past due 90 days—domestic	$ 53	$ 52	$ 57	$ 39	$ 46

or earlier if deemed uncollectible. Loans other than consumer are generally placed on nonaccrual status when management determines that principal or interest may not be fully collectible, but no later than when the loan is 90 days past due on principal or interest unless it is fully collateralized and in the process of collection. Loan amounts in excess of probable future cash collections are charged off at the time the loan is placed on nonaccrual status to an amount that represents management's assessment of the ultimate collectibility of the loan. Interest previously accrued but not collected on nonaccrual loans is charged against current income. Income on such loans is then recognized only to the extent that cash is received and where the future collection of principal is probable.

Nonperforming assets as a percent of total loans and other real estate were 0.36 percent and 0.53 percent at year-end 1997 and 1996, respectively. This decline reflects the continued improvement in the quality of the loan portfolio, favorable economic conditions in the Corporation's markets, and other real estate sales.

Nonaccrual loans at December 31, 1997, decreased 24 percent to $78 million from year-end 1996.

The nonaccrual loan table below indicates the percentage of nonaccrual loan value to original contractual value and demonstrates the conservative and prompt nature of the corporate charge-off and payment application policy.

Other real estate owned (ORE) declined significantly to $17 million, as two large sales more than offset ORE additions.

Nonaccrual Loans

December 31 (dollar amounts in millions)	1997	1996
Carrying value	$ 78	$103
Contractual value	119	147
Carrying value as a percentage of contractual value	66%	70%

Concentration of Credit

Loans to companies and individuals involved with the automotive industry, including suppliers, manufacturers and dealers, represented the largest significant industry concentration at December 31, 1997. These loans totaled $4.3 billion, or 15 percent of total loans at December 31, 1997, and included floor plan loans to automobile dealers of $1,408 million and $1,209 million at December 31, 1997 and 1996, respectively. All other industry concentrations individually represented less than 5 percent of total loans at year-end 1997. Automotive industry loans at year-end 1996 totaled approximately $4.3 billion, or 16 percent, of total loans.

The Corporation has successfully operated in the Michigan economy in spite of a loan concentration and several downturns in the auto industry. There were no automotive industry-related loans larger than $6 million on nonaccrual status as of year-end 1997. In addition, there were no significant automotive industry-related charge-offs during the year.

Commercial Real Estate Lending

The real estate construction loan portfolio contains loans made to long-time customers in local markets with satisfactory project completion experience. The portfolio has approximately 922 loans, of which 72 percent have balances of less than $1 million. The largest real estate construction loan has a balance of approximately $28 million.

The commercial mortgage loan portfolio, 45 percent of which relates to owner-occupied properties, also consists of loans to long-time customers. Of the approximately 7,229 loans in the portfolio, 89 percent have balances under $1 million and the largest loan has a balance of approximately $28 million. Additionally, the Corporation's policy requires a 75 percent or less loan-to-value (LTV) ratio for all commercial mortgage and real estate construction loans. This policy is within bank regulatory limits.

The geographic distribution of the real estate construction and commercial mortgage loan portfolios is also an important determinant in evaluating credit risk. The following table indicates the diversification of the portfolios throughout the markets served by the Corporation.

Geographic Distribution

December 31, 1997 (in millions)	Real Estate Construction	Commercial Mortgage
Michigan	$396	$2,189
California	160	565
Texas	303	375
Florida	19	150
Other	63	355
Total	$941	$3,634

Asset and Liability Management

The Corporation has a material exposure to interest rate risk, which it actively manages. The principle objective of asset and liability management is to maximize net interest income while operating within acceptable limits established for interest rate risk and maintaining adequate levels of funding and liquidity. The Corporation utilizes various on- and off-balance sheet financial instruments to manage the extent to which net interest income may be affected by fluctuations in interest rates. Corporate policies and risk limits pertaining to asset and liability management activities are established by the Asset Liability Policy Committee (ALPC) and approved by the board of directors. Adherence to these policies is governed by the ALPC, which is comprised of executive and senior management from various areas of the Corporation, including finance, lending, investments and deposit gathering, who meet regularly to execute asset and liability management strategies.

Interest Rate Sensitivity

Interest rate risk arises in the normal course of business due to differences in the repricing and maturity characteristics of assets and liabilities. Since no single measurement system satisfies all management objectives, a combination of techniques are used to manage interest rate risk, including simulation analysis, asset and liability repricing schedules and duration of equity. The results of these interest rate risk measurement systems are reviewed regularly by the ALPC.

Net interest income is frequently evaluated under various balance sheet and interest rate scenarios. The results of this analysis provide the information needed to assess the proper balance sheet structure. An unexpected change in the pace of economic activity, whether domestically or internationally, could translate into a materially different interest rate environment than currently expected. A process is maintained where management evaluates "base" net interest income under what is believed to be the most likely balance sheet structure and interest rate environment. This "base" net interest income is then evaluated against interest rate scenarios that are taken up and down 200 basis points from the most likely rate environment. In addition, adjustments to asset prepayment levels, yield curves and overall balance sheet mix and growth

assumptions are made to be consistent with each interest rate environment. These assumptions are inherently uncertain and, as a result, the model cannot 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 interest rate changes and changes in market conditions and management strategies, among other factors. Derivative financial instruments and other financial instruments used for purposes other than trading are included in this analysis. The measurement of risk exposure at year-end 1997 for a 200-basis-point decline in short-term interest rates identified approximately $35 million of net interest income at risk during 1998. If short-term interest rates rise 200 basis points, the Corporation would have approximately $22 million of net interest income at risk. Year-end 1996 net interest income at risk was measured at $9 million and $15 million, respectively, for a 200-basis-point decline and rise in interest rates. The change in exposure is the result of differences in the economic scenarios in the shocked environments, and therefore differences in the timing and magnitude of rate changes. Further, yield curve differences create faster amortization on certain loans, securities and interest rate swaps in the 1997 rate shock. Corporate policy limits adverse change to no more than 5 percent of management's most likely net interest income forecast. In either case, the Corporation is within the policy guideline.

While most assets and liabilities reprice either at maturity or in accordance with their contractual terms, several balance sheet components demonstrate characteristics that require adjustments to more accurately reflect repricing and cash flow behavior. Assumptions based on historical pricing relationships and anticipated market reactions are made to certain core deposit categories to reflect the elasticity of the changes in the related interest rates relative to changes in market interest rates. In addition, estimates are made concerning early loan and security repayments. Prepayment assumptions are based on the expertise of portfolio managers along with input from financial markets. Consideration is given to current and future interest rate levels. While management recognizes the limited ability of a traditional gap schedule to accurately portray interest rate risk, adjustments are made to provide a more accurate picture of the Corporation's interest rate risk profile. This additional interest rate risk measurement tool provides a directional outlook on the impact of changes in interest rates.

As market rates approach expected turning points, management adjusts the interest rate sensitivity of the Corporation. This sensitivity is measured as a percentage of earning assets. The operating range for interest rate sensitivity, on an elasticity-adjusted basis, is between an asset sensitive position of 10 percent of earning assets and a liability sensitive position of 10 percent of earning assets.

The table on page 34 shows the interest sensitivity gap as of year-end 1997 and 1996. The report reflects the contractual repricing and payment schedules of assets and liabilities, including an estimate of all early loan and security repayments which adds $1.0 billion of rate sensitivity to the 1997 year-end gap. In addition, the schedule identifies the adjustment for the price elasticity on certain core deposits.

Risk Management Derivative Financial Instruments and Foreign Exchange Contracts

Risk Management Notional Activity

(in millions)	Interest Rate Contracts	Foreign Exchange Contracts	Totals
Balances at December 31, 1995	$6,119	$ 279	$6,398
Additions	4,026	4,762	8,788
Maturities/amortizations	(1,925)	(4,559)	(6,484)
Balances at December 31, 1996	$8,220	$ 482	$8,702
Additions	3,857	5,715	9,572
Maturities/amortizations	(3,510)	(5,598)	(9,108)
Balances at December 31, 1997	$8,567	$ 599	$9,166

The Corporation remained modestly asset sensitive throughout 1997, as asset sensitivity generated by continued investment security amortization was offset by a shortening in the average maturity of the certificate of deposit portfolio. The Corporation had a one-year asset sensitive gap of $1,156 million, or 3 percent of earning assets, as of December 31, 1997. This compares to a $547 million asset sensitive gap, or 2 percent of earning assets, on December 31, 1996. Management anticipates material growth in asset sensitivity throughout 1998, and will continue to look at both on- and off-balance sheet alternatives to hedge this increased asset sensitivity and achieve the desired interest rate risk profile for the Corporation.

The Corporation utilizes interest rate swaps predominantly as asset and liability management tools with the overall objectives of managing the sensitivity of net interest income to changes in interest rates. To accomplish this objective, interest rate swaps are used primarily to modify the interest rate characteristics of certain assets and liabilities (e.g., from a floating rate to a fixed rate, a fixed rate to a floating rate, or from one floating rate index to another). This strategy assists management in achieving interest rate risk objectives.

At December 31, 1997 and 1996, the notional amount of risk management interest rate swaps totaled $8,515 million and $8,015 million, respectively. The fair value of risk management interest rate swaps at December 31, 1997, was a positive $123 million, compared to a negative $55 million at December 31, 1996. For the year ended December 31, 1997, risk management interest rate swaps generated $52 million in net interest income, compared to $49 million in net interest income for the year ended December 31, 1996. These off-balance sheet instruments represented 74 percent and 82 percent of total derivative financial instruments and foreign exchange contracts, including commitments, at year-end 1997 and 1996, respectively.

Table 14 on page 35 summarizes the expected maturity distribution of the notional amount of risk management interest rate swaps and provides the weighted average interest rates associated with amounts to be received or paid as of December 31, 1997. The swaps have been grouped by the assets and liabilities to which they have been designated.

Table 13: Schedule of Rate Sensitive Assets and Liabilities

(dollar amounts in millions)	December 31, 1997 Interest Sensitivity Period			December 31, 1996 Interest Sensitivity Period		
	Within One Year	Over One Year	Total	Within One Year	Over One Year	Total
Assets						
Cash and due from banks	$ —	$ 1,927	$ 1,927	$ —	$ 1,902	$ 1,902
Short-term investments	196	7	203	98	5	103
Investment securities	1,223	2,783	4,006	1,428	3,372	4,800
Commercial loans (including lease financing)	14,742	1,580	16,322	12,489	1,437	13,926
International loans	2,085	—	2,085	1,706	—	1,706
Real estate related loans	3,907	2,233	6,140	3,662	2,279	5,941
Consumer loans	2,100	2,248	4,348	2,201	2,433	4,634
Total loans	22,834	6,061	28,895	20,058	6,149	26,207
Other assets	742	519	1,261	615	579	1,194
Total assets	$24,995	$11,297	$36,292	$22,199	$12,007	$34,206
Liabilities						
Deposits						
Noninterest-bearing	$ 459	$ 6,302	$ 6,761	$ 570	$ 6,143	$ 6,713
Savings	—	1,601	1,601	—	1,770	1,770
Money market and NOW	5,570	1,724	7,294	5,351	1,631	6,982
Certificates of deposit	5,562	1,059	6,621	5,056	1,550	6,606
Foreign office	309	—	309	295	1	296
Total deposits	11,900	10,686	22,586	11,272	11,095	22,367
Short-term borrowings	3,193	—	3,193	4,489	—	4,489
Medium- and long-term debt	5,961	1,325	7,286	2,842	1,400	4,242
Other liabilities	149	316	465	177	315	492
Total liabilities	21,203	12,327	33,530	18,780	12,810	31,590
Shareholders' equity	(1)	2,763	2,762	(23)	2,639	2,616
Total liabilities and shareholders' equity	$21,202	$15,090	$36,292	$18,757	$15,449	$34,206
Sensitivity impact of interest rate swaps	$(4,377)	$ 4,377	—	$ (4,676)	$ 4,676	—
Sensitivity impact of unsettled swap and security purchases	—	—	—	(43)	43	—
Interest sensitivity gap	(584)	584	—	(1,277)	1,277	—
Gap as a percentage of earning assets	(2)%	2%	—	(4)%	4%	—
Sensitivity impact from elasticity adjustments (1)	1,740	(1,740)	—	1,824	(1,824)	—
Interest sensitivity gap with elasticity adjustments	$ 1,156	$(1,156)	—	$ 547	$ (547)	—
Gap as a percentage of earning assets	3%	(3)%	—	2%	(2)%	—

(1) Elasticity adjustments for NOW, savings and money market deposit accounts are based on historical pricing relationships dating back to 1985 as well as expected future pricing relationships.

Table 14: Remaining Expected Maturity of Risk Management Interest Rate Swaps

(amounts in millions)	1998	1999	2000	2001	2002	2003-2026	Total	Dec. 31 1996
Variable Rate Asset Designation:								
Receive fixed swaps								
Generic	$ —	$ —	$ 700	$ —	$ —	$ —	$ 700	$ —
Amortizing	100	—	—	—	—	—	100	184
Index amortizing	1,054	1,054	736	300	235	125	3,504	5,014
Weighted average: (1)								
Receive rate	6.27%	6.36%	6.33%	6.42%	6.49%	6.22%	6.33%	6.11%
Pay rate	5.88%	5.88%	5.91%	5.86%	5.93%	5.99%	5.90%	5.56%
Floating/floating swaps (3)	$ —	$ —	$ 55	$ —	$ —	$ —	$ 55	$ 25
Fixed Rate Asset Designation:								
Pay fixed swaps								
Generic	$ —	$ 2	$ —	$ —	$ —	$ —	$ 2	$ 2
Index amortizing	5	3	9	—	—	—	17	40
Weighted average: (1)								
Receive rate	5.97%	5.95%	5.97%	—%	—%	—%	5.97%	5.60%
Pay rate	5.34%	6.70%	5.34%	—%	—%	—%	5.85%	5.35%
Medium- and Long-term Debt Designation:								
Generic receive fixed swaps	$ 950	$ —	$ 200	$ —	$ 150	$ 900	$2,200	$2,350
Weighted average: (1)								
Receive rate	5.97%	—%	6.91%	—%	7.37%	7.66%	6.84%	6.62%
Pay rate	5.75%	—%	5.88%	—%	5.85%	5.89%	5.83%	5.53%
Floating/floating swaps	$1,900	$ —	$ 37	$ —	$ —	$ —	$1,937	$ 400
Weighted average: (2)								
Receive rate	5.73%	—%	5.92%	—%	—%	—%	5.73%	5.32%
Pay rate	5.77%	—%	5.77%	—%	—%	—%	5.77%	5.39%
Total notional amount	$4,009	$1,059	$1,737	$ 300	$ 385	$1,025	$8,515	$8,015

(1) Variable rates paid or received are based primarily on one-month and three-month LIBOR rates paid or received at December 31, 1997.
(2) Variable rates paid are based on LIBOR at December 31, 1997, while variable rates received are based on prime.
(3) Variable rate paid was 5.85%, based on LIBOR at December 31, 1997, while variable rate received represents the return on a principal only total return swap. This return is based on principal paydowns of the referenced security as well as changes in market value.

In addition to interest rate swaps, the Corporation employs various other types of off-balance sheet derivative and foreign exchange contracts to mitigate exposures to interest rate and foreign currency risks associated with specific assets and liabilities (e.g., loans or deposits denominated in foreign currencies, mortgages held for sale and originated mortgage servicing rights). Such instruments include interest rate caps and floors, purchased put options, foreign exchange forward contracts, foreign exchange generic swap agreements and cross-currency swaps. The aggregate notional amounts of these risk management derivative and foreign exchange contracts at December 31, 1997 and 1996, were $651 million and $687 million, respectively.

In 1997, the FASB issued a revised Exposure Draft on accounting for derivative and similar financial instruments and for hedging activities. This Exposure Draft would introduce significant volatility in earnings and could affect how the Corporation balances interest rate sensitivity in the future. Management has expressed concern to the FASB of the potential adverse impact on managing interest rate risk and earnings from this Exposure Draft. Further information regarding risk management derivative financial instruments and foreign currency exchange contracts is provided in Notes 1, 8, 9 and 18 to the consolidated financial statements.

Liquidity

Liquidity is the ability to meet financial obligations through the maturity or sale of existing assets or acquisition of additional funds. Liquidity requirements are satisfied with various funding sources, including a $7.5 billion medium-term note program which allows the Michigan, California and Texas banks to issue debt between one month and 15 years. The Michigan bank has an additional $2 billion European note program. At year-end 1997, unissued debt related to the two programs totaled $3.1 billion. In addition, liquid assets totaled $6.1 billion, at December 31, 1997. The Corporation also had available $1.1 billion from a collateralized borrowing account with the Federal Reserve Bank at year-end 1997. Purchased funds at December 31, 1997, excluding certificates of deposit with maturities beyond one year and medium- and long-term debt, approximated $5.6 billion.

Another source of liquidity for the parent company is dividends from its subsidiaries. As discussed in Note 17 to the consolidated financial statements on page 51, subsidiary banks are subject to regulation and may be limited in their ability to pay dividends or transfer funds to the holding company. During 1998, the subsidiary banks can pay dividends up to $361 million plus current net profits without prior regulatory approval. One measure of current parent company liquidity is investment in subsidiaries, as a percent of shareholders' equity. An amount over 100 percent represents the reliance on subsidiary dividends to repay liabilities. As of December 31, 1997, the ratio was 109 percent.

Customer Initiated and Other Derivative Financial Instruments and Foreign Exchange Contracts

On a limited basis, the Corporation writes interest rate caps and enters into foreign exchange contracts and interest rate swaps to accommodate the needs of customers requesting such services. At December 31, 1997 and 1996, customer-initiated activity represented 20 percent and 11 percent, respectively, of total derivative and foreign exchange contracts, including commitments. Refer to Note 18 to the consolidated financial statements on page 51 for further information regarding customer-initiated and other derivative financial instruments and foreign exchange contracts.

Customer Initiated and Other Notional Activity

(in millions)	Interest Rate Contracts	Foreign Exchange Contracts	Totals
Balances at December 31, 1995	$363	$ 320	$ 683
Additions	237	37,571	37,808
Maturities/amortizations	(210)	(37,247)	(37,457)
Balances at December 31, 1996	$390	$ 644	$ 1,034
Additions	464	43,462	43,926
Maturities/amortizations	(358)	(42,269)	(42,627)
Balances at December 31, 1997	$496	$ 1,837	$ 2,333

Other Matters

In February, 1997, the FASB issued Statement on Financial Accounting Standards (SFAS) No. 128 on "Earnings Per Share." The statement changes the computation, presentation and disclosure requirements for earnings per share and is effective for the 1997 financial statements. The Corporation has adopted the statement and all prior period earnings per share presented have been restated in accordance with the new disclosure requirements.

The Corporation recognizes the need to manage its operations so that year 2000 software failures, miscalculations or errors will not adversely impact its business. The Corporation, with the assistance of outside consultants, is working to identify, evaluate, implement and test changes to computer systems and applications necessary to achieve a year 2000 date conversion with no impact on customers or disruption to business operations. The Corporation expects to conclude remediation of the majority of its systems by the end of 1998, with completion of the remaining systems in the first half of 1999. Testing, which is ongoing, will be completed on these last systems in the second half of 1999. The Corporation projects the amount of year 2000 expense to be in the range of $25-$30 million, of which approximately 25 percent was expensed in 1996 and 1997. The problem caused by the year 2000 creates risk for the Corporation from unforeseen problems in its own computer systems and from third parties such as customers or vendors. Such failures of the Corporation and/or third parties' computer systems could have a material impact on the Corporation's ability to conduct its business.

Forward looking statements in this annual report to shareholders are based on current expectations and/or the assumptions made in the earnings simulation analyses, but numerous factors could cause variances in these projections, and their underlying assumptions, such as changes in interest rates, year 2000 expenses and changes in industries where the Corporation has a concentration in loans.

Consolidated Balance Sheets
Comerica Incorporated and Subsidiaries

December 31 (in thousands, except share data)	1997	1996
Assets		
Cash and due from banks	$ 1,927,087	$ 1,901,760
Short-term investments	202,957	103,607
Investment securities available for sale	4,005,962	4,800,034
Commercial loans	15,805,549	13,520,246
International loans	2,085,090	1,706,388
Real estate construction loans	940,910	750,760
Commercial mortgage loans	3,633,785	3,445,562
Residential mortgage loans	1,565,445	1,743,876
Consumer loans	4,347,665	4,634,258
Lease financing	516,600	405,618
Total loans	28,895,044	26,206,708
Less allowance for loan losses	(424,147)	(367,165)
Net loans	28,470,897	25,839,543
Premises and equipment	380,157	407,663
Customers' liability on acceptances outstanding	18,392	33,102
Accrued income and other assets	1,286,946	1,120,362
Total assets	$36,292,398	$34,206,071
Liabilities and Shareholders' Equity		
Demand deposits (noninterest-bearing)	$ 6,761,202	$ 6,712,985
Interest-bearing deposits	15,825,115	15,654,188
Total deposits	22,586,317	22,367,173
Federal funds purchased and securities sold under agreements to repurchase	592,860	1,395,540
Other borrowed funds	2,600,041	3,093,651
Acceptances outstanding	18,392	33,102
Accrued expenses and other liabilities	446,625	459,267
Medium- and long-term debt	7,286,387	4,241,769
Total liabilities	33,530,622	31,590,502
Nonredeemable preferred stock—$50 stated value Authorized—5,000,000 shares Issued—5,000,000 shares in 1997 and 1996	250,000	250,000
Common stock—$5 par value Authorized—250,000,000 shares Issued— 156,815,367 shares in 1997 and 107,297,345 shares in 1996	784,077	536,487
Capital surplus	—	—
Unrealized gains and losses on investment securities available for sale	(1,937)	(22,789)
Retained earnings	1,731,419	1,854,116
Deferred compensation	(1,783)	(2,245)
Total shareholders' equity	2,761,776	2,615,569
Total liabilities and shareholders' equity	$36,292,398	$34,206,071

See notes to consolidated financial statements.

Consolidated Statements of Income
Comerica Incorporated and Subsidiaries

Year Ended December 31 (in thousands, except per share data)	1997	1996	1995
Interest Income			
Interest and fees on loans	$2,317,844	$2,160,981	$2,090,854
Interest on investment securities			
Taxable	310,399	372,331	473,759
Exempt from federal income tax	10,797	17,443	26,189
Total interest on investment securities	321,196	389,774	499,948
Interest on short-term investments	8,363	12,025	23,122
Total interest income	2,647,403	2,562,780	2,613,924
Interest Expense			
Interest on deposits	673,265	685,539	721,475
Interest on short-term borrowings			
Federal funds purchased and securities sold under agreements to repurchase	110,752	111,729	165,544
Other borrowed funds	98,258	107,155	135,667
Interest on medium- and long-term debt	374,022	294,990	288,990
Net interest rate swap (income)/expense	(51,670)	(48,911)	2,365
Total interest expense	1,204,627	1,150,502	1,314,041
Net interest income	1,442,776	1,412,278	1,299,883
Provision for loan losses	146,000	114,000	86,500
Net interest income after provision for loan losses	1,296,776	1,298,278	1,213,383
Noninterest Income			
Income from fiduciary activities	147,336	133,482	125,038
Service charges on deposit accounts	141,078	140,436	130,249
Customhouse broker fees	—	10,764	36,086
Revolving credit fees	19,439	22,670	36,248
Securities gains	5,695	13,588	11,748
Other noninterest income	214,404	186,014	159,356
Total noninterest income	527,952	506,954	498,725
Noninterest Expenses			
Salaries and employee benefits	538,926	560,784	562,159
Net occupancy expense	89,380	99,211	98,945
Equipment expense	61,759	68,827	67,872
FDIC insurance expense	3,029	8,139	23,817
Telecommunications expense	28,010	29,092	29,644
Restructuring charge	—	90,000	—
Other noninterest expenses	286,882	302,973	303,977
Total noninterest expenses	1,007,986	1,159,026	1,086,414
Income before income taxes	816,742	646,206	625,694
Provision for income taxes	286,266	229,045	212,328
Net Income	$ 530,476	$ 417,161	$ 413,366
Net income applicable to common stock	$ 513,376	$ 408,136	$ 413,366
Basic net income per common share	$3.24	$2.41	$2.38
Diluted net income per common share	3.19	2.38	2.37
Cash dividends declared on common stock	$ 181,272	$ 170,067	$ 158,309
Dividends per common share	$1.15	$1.01	$0.91

See notes to consolidated financial statements.

Consolidated Statements of Changes in Shareholders' Equity
Comerica Incorporated and Subsidiaries

(in thousands, except share data)	Non-redeemable Preferred Stock	Common Stock	Capital Surplus	Unrealized Gains and (Losses) on Investment Securities Available for Sale	Retained Earnings	Deferred Compensation	Treasury Stock	Total Shareholders' Equity
Balances at January 1, 1995	$ —	$596,473	$526,838	$(55,039)	$1,390,405	$(1,786)	$(65,111)	$2,391,780
Net income for 1995	—	—	—	—	413,366	—	—	413,366
Nonowner changes in equity:								
Unrealized holding gains/(losses) arising during the period	—	—	—	90,053	—	—	—	90,053
Less: Reclassification adjustment for gains/(losses) included in net income	—	—	—	11,748	—	—	—	11,748
Nonowner changes in equity before income taxes	—	—	—	78,305	—	—	—	78,305
Provision for income taxes related to nonowner changes in equity	—	—	—	27,407	—	—	—	27,407
Nonowner changes in equity, net of tax	—	—	—	50,898	—	—	—	50,898
Net income and nonowner changes in equity	—	—	—	—	—	—	—	464,264
Cash dividends declared on common stock	—	—	—	—	(158,309)	—	—	(158,309)
Purchase of 1,405,500 shares of common stock	—	—	—	—	—	—	(38,725)	(38,725)
Purchase and retirement of 4,200,000 shares of common stock	—	(21,000)	(118,931)	—	—	—	—	(139,931)
Issuance of common stock for:								
Employee stock plans	—	—	1,261	—	(4,482)	(1,034)	14,957	10,702
Acquisitions	—	—	1,450	—	—	—	75,650	77,100
Amortization of deferred compensation	—	—	—	—	—	846	—	846
Balances at December 31, 1995	$ —	$575,473	$410,618	$ (4,141)	$1,640,980	$(1,974)	$(13,229)	$2,607,727
Net income for 1996	—	—	—	—	417,161	—	—	417,161
Nonowner changes in equity:								
Unrealized holding gains/(losses) arising during the period	—	—	—	(15,101)	—	—	—	(15,101)
Less: Reclassification adjustment for gains/(losses) included in net income	—	—	—	13,588	—	—	—	13,588
Nonowner changes in equity before income taxes	—	—	—	(28,689)	—	—	—	(28,689)
Provision for income taxes related to nonowner changes in equity	—	—	—	(10,041)	—	—	—	(10,041)
Nonowner changes in equity, net of tax	—	—	—	(18,648)	—	—	—	(18,648)
Net income and nonowner changes in equity	—	—	—	—	—	—	—	398,513
Issuance of preferred stock	250,000	—	(3,256)	—	—	—	—	246,744
Cash dividends declared:								
Preferred stock	—	—	—	—	(9,025)	—	—	(9,025)
Common stock	—	—	—	—	(170,067)	—	—	(170,067)
Purchase and retirement of 12,176,496 shares of common stock	—	(60,883)	(519,924)	—	(5,065)	—	(36,324)	(622,196)
Issuance of common stock for:								
Employee stock plans	—	897	14,090	—	(20,076)	(1,197)	40,295	34,009
Acquisitions	—	21,000	98,472	—	208	—	9,258	128,938
Amortization of deferred compensation	—	—	—	—	—	926	—	926
Balances at December 31, 1996	$250,000	$536,487	$ —	$(22,789)	$ 1,854,116	$ (2,245)	$ —	$2,615,569
Net income for 1997	—	—	—	—	530,476	—	—	530,476
Nonowner changes in equity:								
Unrealized holding gains/(losses) arising during the period	—	—	—	37,775	—	—	—	37,775
Less: Reclassification adjustment for gains/(losses) included in net income	—	—	—	5,695	—	—	—	5,695
Nonowner changes in equity before income taxes	—	—	—	32,080	—	—	—	32,080
Provision for income taxes related to nonowner changes in equity	—	—	—	11,228	—	—	—	11,228
Nonowner changes in equity, net of tax	—	—	—	20,852	—	—	—	20,852
Net income and nonowner changes in equity	—	—	—	—	—	—	—	551,328
Cash dividends declared:								
Preferred stock	—	—	—	—	(17,100)	—	—	(17,100)
Common stock	—	—	—	—	(181,273)	—	—	(181,273)
Purchase and retirement of 3,618,479 shares of common stock	—	(18,092)	(30,750)	—	(193,450)	—	—	(242,292)
Issuance of common stock under								
Employee stock plans	—	4,323	30,750	—	9	(531)	—	34,551
Amortization of deferred compensation	—	—	—	—	—	993	—	993
Stock split (three-for-two)	—	261,359	—	—	(261,359)	—	—	—
Balances at December 31, 1997	$250,000	$ 784,077	$ —	$ (1,937)	$ 1,731,419	$ (1,783)	$ —	$ 2,761,776

( ) Indicates deduction.

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows
Comerica Incorporated and Subsidiaries

Year Ended December 31 (in thousands)	1997	1996	1995
Operating Activities			
Net income	$ 530,476	$ 417,161	$ 413,366
Adjustments to reconcile net income to net cash provided by operating activities			
Provision for loan losses	146,000	114,000	86,500
Depreciation	58,529	66,776	64,014
Restructuring charge	(61,237)	90,000	(6,127)
Net (increase) decrease in trading account securities	(3,093)	4,659	(6,336)
Net (increase) decrease in loans held for sale	(2,666)	473,493	(420,015)
Net (increase) decrease in accrued income receivable	(23,730)	924	(26,749)
Net increase (decrease) in accrued expenses	54,330	(39,720)	96,645
Net amortization of intangibles	28,375	30,803	29,016
Funding for employee benefit plans	—	(25,000)	(200,000)
Other, net	(121,519)	187,438	(178,874)
Total adjustments	74,989	903,373	(561,926)
Net cash provided by (used in) operating activities	605,465	1,320,534	(148,560)
Investing Activities			
Net (increase) decrease in interest-bearing deposits with banks	24,010	(3,705)	363,870
Net (increase) decrease in federal funds sold and securities purchased under agreements to resell	(117,601)	4,898	(122,498)
Proceeds from sale of investment securities available for sale	238,506	1,211,250	103,531
Proceeds from maturity of investment securities available for sale	1,456,447	1,531,012	837,412
Purchases of investment securities available for sale	(924,509)	(643,796)	(211,222)
Proceeds from maturity of investment securities held to maturity	—	—	788,620
Purchases of investment securities held to maturity	—	—	(223,579)
Net increase in loans (other than loans purchased)	(2,615,226)	(1,852,199)	(1,908,266)
Purchase of loans	(162,128)	(77,805)	(48,349)
Fixed assets, net	(31,023)	(46,038)	(62,334)
Net (increase) decrease in customers' liability on acceptances outstanding	14,710	(12,341)	13,097
Net cash provided by acquisitions/sales	—	200,459	19,224
Net cash provided by (used in) investing activities	(2,116,814)	311,735	(450,494)
Financing Activities			
Net increase (decrease) in deposits	219,144	(825,859)	130,276
Net increase (decrease) in short-term borrowings	(1,296,290)	(129,056)	468,754
Net increase (decrease) in acceptances outstanding	(14,710)	12,341	(13,097)
Proceeds from issuance of medium- and long-term debt	5,600,000	2,251,000	2,960,000
Repayments and purchases of medium- and long-term debt	(2,555,382)	(2,553,650)	(2,418,171)
Proceeds from issuance of preferred stock	—	246,744	—
Proceeds from issuance of common stock	22,584	35,206	11,736
Purchase of common stock for treasury and retirement	(243,258)	(622,196)	(178,656)
Dividends paid	(195,412)	(173,414)	(155,726)
Net cash provided by (used in) financing activities	1,536,676	(1,758,884)	805,116
Net increase (decrease) in cash and due from banks	25,327	(126,615)	206,062
Cash and due from banks at beginning of year	1,901,760	2,028,375	1,822,313
Cash and due from banks at end of year	$1,927,087	$1,901,760	$2,028,375
Interest paid	$1,161,812	$1,201,146	$1,274,101
Income taxes paid	$ 266,428	$ 212,530	$ 180,134
Noncash investing and financing activities			
Loan transfers to other real estate	$ 7,076	$ 10,534	$ 23,908
Stock issued for acquisitions	$ —	$ 128,938	$ 77,100

See notes to consolidated financial statements.

1

Accounting Policies

Organization

Comerica Incorporated is a registered bank holding company headquartered in Detroit, Michigan. The Corporation's principal lines of business are the Business Bank, the Individual Bank and the Investment Bank. The core businesses are tailored to each of the Corporation's four primary geographic markets: Michigan, Texas, California and Florida.

The accounting and reporting policies of Comerica Incorporated and its subsidiaries conform to generally accepted accounting principles and prevailing practices within the banking industry. Management makes estimates and assumptions that affect the amounts reported in the financial statements and accompanying footnotes. Actual results could differ from these estimates.

The following is a summary of the more significant accounting and reporting policies.

Consolidation

The consolidated financial statements include the accounts of the Corporation and its subsidiaries after elimination of all significant intercompany accounts and transactions. Prior years' financial statements are reclassified to conform with current financial statement presentation.

For acquisitions accounted for as pooling-of-interests combinations, the historical consolidated financial statements are restated to include the accounts and results of operations. For acquisitions using the purchase method of accounting, the assets acquired and liabilities assumed are adjusted to fair market values at the date of acquisition, and the resulting net discount or premium is accreted or amortized into income over the remaining lives of the relevant assets and liabilities. Goodwill representing the excess of cost over the net book value of identifiable assets acquired is amortized on a straight-line basis over periods ranging from 10 to 30 years (weighted average of 17 years). Core deposit intangible assets are amortized on an accelerated method over 10 years.

Loans Held for Sale

Loans held for sale, normally mortgages, are carried at the lower of cost or market. Market value is determined in the aggregate.

Securities

Investment securities held to maturity are those securities which management has the ability and positive intent to hold to maturity. Investment securities held to maturity are stated at cost, adjusted for amortization of premium and accretion of discount.

Investment securities that fail to meet the ability and positive intent criteria are accounted for as securities available for sale, and stated at fair value with unrealized gains and losses, net of income taxes, reported as a component of shareholders' equity.

Trading account securities are carried at market value. Realized and unrealized gains or losses on trading securities are included in noninterest income.

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

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 properties. Leasehold improvements are amortized over the terms of their respective leases or the estimated useful lives of the improvements, whichever is shorter.

Allowance for Loan Losses

The allowance is maintained at a level adequate to absorb losses inherent in the loan portfolio. Management determines the adequacy of the allowance by applying projected loss ratios to the risk ratings of loans both individually and by category. The projected loss ratios incorporate such factors as recent loss experience, current economic conditions, the risk characteristics of the various categories and concentrations of loans, transfer risk and other pertinent factors. However, there can be no assurance that the actual loss ratios will not vary from those projected. Loans which are 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.

Nonperforming Assets

Nonperforming assets are comprised of loans for which the accrual of interest has been discontinued, loans for which the terms have been renegotiated to less than market rates due to a serious weakening of the borrower's financial condition and other real estate which has been acquired primarily through foreclosure and is awaiting disposition.

Consumer loans are generally not placed on nonaccrual status and are directly charged off no later than 180 days past due, or earlier if deemed uncollectible. Loans other than consumer are generally placed on nonaccrual status when principal or interest is past due 90 days or more and/or when, in the opinion of management, full collection of principal or interest is unlikely. 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 where future collection of principal is probable.

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Accounting Policies (continued)

Other real estate acquired is carried at the lower of cost or fair value, minus estimated costs to sell. When the property is acquired through foreclosure, any excess of the related loan balance over fair value is charged to the allowance for loan losses. Subsequent write-downs, operating expenses and losses upon sale, if any, are charged to noninterest expenses.

Stock-Based Compensation

In 1996, the Corporation adopted SFAS No. 123, "Accounting for Stock-Based Compensation." Under the provisions of this statement, the Corporation elected to continue to apply Accounting Principles Board (APB) opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations in measuring and recognizing compensation expense for its stock-based compensation plans, and to disclose the pro forma effect of applying the fair value method contained in SFAS No. 123. Information on the Corporation's stock-based compensation plans is included in Note 12.

Pension Costs

Pension costs are charged to salaries and employee benefits expense and funded consistent with the requirements of federal law and regulations.

Postretirement Benefits

Postretirement benefits are recognized in the financial statements during the employee's active service period.

Derivative Financial Instruments and Foreign Exchange Contracts

Interest rate and foreign exchange swaps, interest rate caps and floors, and futures and forward contracts may be used to manage the Corporation's exposure to interest rate and foreign currency risks. These instruments, with the exception of futures and forwards, are accounted for on an accrual basis since there is a high correlation with the on-balance sheet instrument being hedged. If this correlation ceases to exist, the existing unrealized gain or loss is amortized over the remaining term of the instrument, and future changes in fair value are accounted for in other income or expense. Net interest income or expense, including premiums paid or received, is recognized over the life of the contract and reported as an adjustment to interest expense. Realized gains and losses on futures and forwards are generally deferred and amortized over the life of the contract as an adjustment to net interest income. Gains or losses on early termination of risk management derivative financial instruments are deferred and amortized as an adjustment to the yields of the related assets or liabilities over their remaining contractual life. If the designated asset or liability matures, or is disposed of or extinguished, any unrealized gains or losses on the related derivative instrument are recognized currently and reported as an adjustment to interest expense.

Foreign exchange futures and forward contracts, foreign currency options, interest rate caps and interest rate swap agreements executed as a service to customers are accounted for on a fair value basis. As a result, the fair values of these instruments are recorded in the consolidated balance sheet with both realized and unrealized gains and losses recognized currently in noninterest income.

Income Taxes

Provisions for income taxes are based on amounts reported in the statements of income (after exclusion of nontaxable income such as interest on state and municipal securities) and include deferred income taxes on temporary differences between the tax basis and financial reporting basis of assets and liabilities.

Statements of Cash Flows

For the purpose of presentation in the statements of cash flows, cash and cash equivalents are defined as those amounts included in the balance sheet caption, "Cash and due from banks."

Loan Origination Fees and Costs

Loan origination and commitment fees are deferred and recognized over the life of the related loan or over the commitment period as a yield adjustment. Loan fees on unused commitments and fees related to loans sold are recognized currently as other noninterest income.

Nonowner Changes in Equity

In 1997, the Corporation adopted SFAS No. 130, "Reporting Comprehensive Income." This statement establishes standards for the reporting and display of net income and nonowner changes in equity and its components in a full set of general-purpose financial statements. The Corporation has elected to present information regarding this statement in the Consolidated Statements of Changes in Shareholders' Equity on page 39. The caption "Net income and nonowner changes in equity," represents total comprehensive income as defined in the statement.

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Acquisitions

During the years ended December 31, 1996 and 1995, Comerica made the following acquisitions, which were accounted for as purchases:

(in millions)	FMV of Assets Acquired	FMV of Liabilities Assumed	Purchase Price	Intangibles Recorded
During 1996				
Metrobank	$1,083	$1,020	$125	$62
During 1995				
University Bank & Trust	456	422	69	35
QuestStar Bank, N.A.	205	193	25	13

Investment Securities

Information concerning investment securities as shown in the consolidated balance sheets of the Corporation was as follows:

(in thousands)	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
December 31, 1997				
U.S. government and agency securities	$3,239,423	$24,223	$24,994	$3,238,652
State and municipal securities	164,394	5,902	244	170,052
Other securities	603,176	7,584	13,502	597,258
Total securities available for sale	$4,006,993	$37,709	$38,740	$4,005,962
December 31, 1996				
U.S. government and agency securities	$4,011,022	$22,702	$65,375	$3,968,349
State and municipal securities	220,173	7,866	196	227,843
Other securities	603,873	654	685	603,842
Total securities available for sale	$4,835,068	$31,222	$66,256	$4,800,034

The cost and estimated fair values of debt securities by contractual maturity were as follows (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.

December 31, 1997 (in thousands)	Cost	Estimated Fair Value
Contractual maturity		
Within one year	$ 205,857	$ 206,165
Over one year to five years	284,387	283,331
Over five years to ten years	162,991	159,140
Over ten years	61,554	66,350
Subtotal securities	714,789	714,986
Mortgage-backed securities	3,190,530	3,189,879
Equity and other nondebt securities	101,674	101,097
Total securities available for sale	$4,006,993	$4,005,962

Sales and calls of investment securities available for sale resulted in realized gains and losses as follows:

Year Ended December 31 (in thousands)	1997	1996
Securities gains	$ 8,890	$14,945
Securities losses	(3,195)	(1,357)
Total	$ 5,695	$13,588

Assets, principally securities, carried at approximately $2.7 billion at December 31, 1997, were pledged to secure public deposits (including State of Michigan deposits of $40 million at December 31, 1997) and for other purposes as required by law.

All held to maturity securities were redesignated to the available for sale category in December 1995 in accordance with the one-time provisions issued in conjunction with the FASB's Special Report, "A Guide to Implementation of Statement 115 on Accounting for Certain Investments in Debt and Equity Securities." At the date of transfer the amortized cost of the held to maturity securities was $4.6 billion. The net unrealized loss related to the redesignated securities totaled $9 million.

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Nonperforming Assets

The following table summarizes nonperforming assets and loans which are contractually past due 90 days or more as to interest or principal payments. Nonperforming assets consist of nonaccrual loans, reduced-rate loans and other real estate. Nonaccrual loans are those on which interest is not being recognized. Reduced-rate loans are those on which interest has been renegotiated to lower than market rates because of the weakened financial condition of the borrower.

Nonaccrual and reduced-rate loans are included in loans on the consolidated balance sheet.

December 31 (in thousands)	1997	1996
Nonaccrual loans		
Commercial loans	$ 58,914	$ 71,991
International loans	1,000	—
Real estate construction loans	3,438	3,576
Commercial mortgage loans	11,088	22,567
Residential mortgage loans	3,719	5,160
Total	78,159	103,294
Reduced-rate loans	7,583	8,009
Total nonperforming loans	85,742	111,303
Other real estate	17,046	28,398
Total nonperforming assets	$102,788	$139,701
Loans past due 90 days	$ 52,805	$ 51,748
Gross interest income that would have been recorded had the nonaccrual and reduced-rate loans performed in accordance with original terms	$ 10,088	$ 11,119
Interest income recognized	$ 2,399	$ 2,681

A loan is impaired when it is probable that payment of interest and principal will not be made in accordance with the contractual terms of the loan agreement. Consistent with this definition, all nonaccrual and reduced-rate loans (with the exception of residential mortgage and consumer loans) are impaired.

December 31 (in thousands)	1997	1996	1995
Average impaired loans for the year	$73,502	$114,253	$148,087
Total period-end impaired loans	70,470	98,050	135,034
Period-end impaired loans requiring an allowance	60,376	59,960	89,209
Impairment allowance	20,358	19,528	26,578

Those impaired loans not requiring an allowance represent loans for which the fair value exceeded the recorded investment in the loan. Sixty-four percent of the total impaired loans at December 31, 1997, are evaluated based on fair value of related collateral. Remaining loan impairment is based on the present value of expected future cash flows discounted at the loan's effective interest rate.

5

Allowance for Loan Losses

An analysis of changes in the allowance for loan losses follows:

(in thousands)	1997	1996	1995
Balance at January 1	$367,165	$341,344	$326,195
Allowance of institutions and loans purchased/sold	—	(3,630)	4,668
Loans charged off	(131,140)	(125,912)	(119,028)
Recoveries on loans previously charged off	42,122	41,363	43,009
Net loans charged off	(89,018)	(84,549)	(76,019)
Provision for loan losses	146,000	114,000	86,500
Balance at December 31	$424,147	$367,165	$341,344
As a percent of total loans	1.47%	1.40%	1.40%

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Significant Group Concentrations of Credit Risk

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 bank holding company with a geographic concentration of its on-balance sheet and off-balance sheet activities centered in Michigan. In addition, the Corporation has an industry concentration with the automotive industry, which includes manufacturers and their finance subsidiaries, suppliers, dealers and company executives.

At December 31, 1997 and 1996, exposure from loan commitments and guarantees to companies related to the automotive industry totaled $8.3 billion and $8.2 billion, respectively. Additionally, commercial real estate loans, including commercial mortgages and construction loans, totaled $4.6 billion in 1997 and $4.2 billion in 1996. Approximately $2.0 billion of commercial real estate loans at December 31, 1997, involved mortgages on owner-occupied properties. Those borrowers are involved in business activities other than real estate, and the sources of repayment are not dependent on the performance of the real estate market.

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Premises and Equipment

A summary of premises and equipment at December 31 by major category follows:

(in thousands)	1997	1996
Land	$ 52,934	$ 54,635
Buildings and improvements	353,308	366,618
Furniture and equipment	344,681	436,133
Total cost	750,923	857,386
Less accumulated depreciation and amortization	(370,766)	(449,723)
Net book value	$380,157	$407,663

Rental expense for leased properties and equipment amounted to $41 million in 1997 and $44 million in 1996 and 1995. Future minimum lease rentals under noncancelable operating lease obligations are as follows:

(in thousands)	
1998	$ 41,189
1999	38,379
2000	35,429
2001	31,649
2002	26,333
2003 and later	117,813

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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 borrowed funds, consisting 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. The following is a summary of short-term borrowings at December 31, 1997 and 1996:

(in thousands)	Federal Funds Purchased and Securities Sold Under Agreements to Repurchase	Other Borrowed Funds
December 31, 1997		
Amount outstanding at year-end	$ 592,860	$2,600,041
Weighted average interest rate at year-end	5.26%	5.30%
December 31, 1996		
Amount outstanding at year-end	$1,395,540	$3,093,651
Weighted average interest rate at year-end	5.80%	5.14%

The 1996 amounts outstanding include $700 million of short-term notes. The Corporation entered into interest rate swap contracts that converted the rates paid on notes from the bank prime rate minus 2.96% and the one-month London Interbank Offered Rate (LIBOR) (5.29% and 5.53% at December 31, 1996, respectively) to a three-month LIBOR (5.56% at December 31, 1996) based rate.

At December 31, 1997, the parent company had available additional credit totaling $100 million under a line of credit agreement, all of which was unused. Under the current agreement the line will expire in April of 2000.

Medium- and Long-term Debt

Medium- and long-term debt consisted of the following at December 31:

(in thousands)	1997	1996
Parent Company		
7.25% subordinated notes due 2007	$ 148,509	$ 148,548
9.75% subordinated notes due 1999	74,877	74,782
10.125% subordinated debentures due 1998	74,965	74,880
Total parent company	298,351	298,210
Subsidiaries		
Subordinated notes:		
7.25% subordinated notes due 2007	198,100	—
8.375% subordinated notes due 2024	147,938	147,860
7.25% subordinated notes due 2002	149,246	149,089
6.875% subordinated notes due 2008	99,220	99,143
7.125% subordinated notes due 2013	148,224	148,112
7.875% subordinated notes due 2026	146,914	146,814
Total subordinated notes	889,642	691,018
Medium-term notes:		
Floating rate based on LIBOR indices	2,811,793	1,448,947
Floating rate based on Treasury bill indices	487,000	399,955
Floating rate based on Prime indices	1,100,007	—
Floating rate based on Federal Funds indices	349,998	—
Fixed rate notes with interest rates ranging from 5.75% to 6.875%	1,349,596	1,399,040
Total medium-term notes	6,098,394	3,247,942
Notes payable	—	4,599
Total subsidiaries	6,988,036	3,943,559
Total medium- and long-term debt	$7,286,387	$4,241,769

Concurrent with the issuance of certain of the medium- and long-term debt presented above, the Corporation entered into interest rate swap agreements to convert the stated rate of the debt to a rate based on the indices identified in the following table:

(in thousands)	Principal Amount of Debt Converted	Base Rate	Base Rate at 12/31/97
Parent Company			
7.25% subordinated notes	$ 150,000	6-month LIBOR	5.91%
9.75% subordinated notes	50,000	3-month LIBOR	5.91
Subsidiaries			
Subordinated notes:			
7.25% subordinated notes	200,000	6-month LIBOR	5.91
8.375% subordinated notes	150,000	6-month LIBOR	5.91
7.25% subordinated notes	150,000	6-month LIBOR	5.91
6.875% subordinated notes	100,000	6-month LIBOR	5.91
7.125% subordinated notes	150,000	6-month LIBOR	5.91
7.875% subordinated notes	150,000	6-month LIBOR	5.91
Medium-term notes:			
Floating rate based on LIBOR indices	600,000	1-month LIBOR	5.94
	1,895,000	3-month LIBOR	5.91
Fixed rate notes with interest rates ranging from 5.80% to 6.65%	100,000	1-month LIBOR	5.94
	1,050,000	3-month LIBOR	5.91

All subordinated notes and debentures with maturities greater than one year qualify as Tier 2 capital.

The Corporation currently has two medium-term note programs: a senior note program and a European note program. Under these programs, certain of the bank subsidiaries may offer an aggregate principal amount of up to $9.5 billion. The notes can be issued as fixed or floating rate notes and with terms from one month to 15 years. The interest rates on the floating rate medium-term notes based on LIBOR ranged from three-month LIBOR minus 0.14% to three-month LIBOR plus 0.10%. The notes are due from 1998 to 2002. The interest rates on the floating rate medium-term notes based on U.S. Treasury indices ranged from the three-month U.S. Treasury bill bond equivalent rate plus 0.54% to the two-year Constant Treasury Maturity Rate plus 0.01%. The notes are due from 1998 to 2000. The interest rates on the floating rate medium-term notes based on prime ranged from prime minus 2.87% to prime minus 2.82% and are due in 1998. The interest rates on the floating rate medium-term notes based on the federal funds rate ranged from the federal funds rate plus 0.055% to the federal funds rate plus 0.0625% and are also due in 1998. The maturities of the fixed rate notes range from 1998 to 2000. The medium-term notes do not qualify as Tier 2 capital and are not insured by the FDIC. The principal maturities of medium- and long-term debt are as follows:

(in thousands)	
1998	$5,273,441
1999	73,636
2000	265,744
2001	298,958
2002	482,135
2003 and later	892,473

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Shareholders' Equity

The board of directors has authorized the repurchase of up to 27 million shares (or 40.5 million shares on a post-split basis) of Comerica Incorporated common stock for general corporate purposes, acquisitions and employee benefit plans. At December 31, 1997, 12.2 million shares (or 18.3 million shares on a post-split basis) had been repurchased under this program.

At December 31, 1997, the Corporation had reserved 7.7 million shares of common stock for issuance to employees and directors under the long-term incentive plans.

In January 1998, the Corporation declared a three-for-two stock split, effected in the form of a 50 percent stock dividend to be paid April 1, 1998. All per share data included in the consolidated financial statements and in the related notes thereto have been retroactively adjusted to reflect the split.

During 1996, the Corporation issued 5 million shares of Fixed/Adjustable Rate Noncumulative Preferred Stock, Series E, with a stated value of $50 per share. Dividends are payable quarterly, at a rate of 6.84% per annum through July 1, 2001. Thereafter, the rate will be equal to 0.625% plus an effective rate, but not less than 7.34% nor greater than 13.34%. The effective rate will be equal to the highest of the Treasury Bill Rate, the Ten Year Constant Treasury Maturity Rate and the Thirty Year Constant Treasury Maturity Rate (as defined in the prospectus). The Corporation, at its option, may redeem all or part of the outstanding shares on or after July 1, 2001.

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Net Income per Common Share

SFAS No. 128, "Earnings per Share," was adopted in 1997. The statement simplifies the standards for computing earnings per share. Basic net income per common share is computed by dividing net income applicable to common stock by the weighted average number of shares of common stock outstanding during the period. Diluted net income per common share is computed by dividing net income applicable to common stock by the weighted average number of shares, nonvested stock and dilutive common stock equivalents outstanding during the period. Common stock equivalents consist of common stock issuable under the assumed exercise of stock options granted under the Corporation's stock plans, using the treasury stock method. A computation of earnings per share follows:

Year Ended December 31 (in thousands, except per share data)	1997	1996	1995
Basic			
Average shares outstanding	158,333	169,076	173,532
Net income	$530,476	$417,161	$413,366
Less preferred stock dividends	17,100	9,025	—
Net income applicable to common stock	$513,376	$408,136	$413,366
Basic net income per share	$3.24	$2.41	$2.38
Diluted			
Average shares outstanding	158,333	169,076	173,532
Nonvested stock	204	195	163
Common stock equivalents			
Net effect of the assumed exercise of stock options	2,503	1,956	1,070
Diluted average shares	161,040	171,227	174,765
Net income	$530,476	$417,161	$413,366
Less preferred stock dividends	17,100	9,025	—
Net income applicable to common stock	$513,376	$408,136	$413,366
Diluted net income per share	$3.19	$2.38	$2.37

Long-term Incentive Plans

The Corporation has long-term incentive plans under which it has awarded both shares of restricted stock to key executive officers and stock options to executive officers, directors and key personnel of the Corporation and its subsidiaries. The exercise price of the stock options is equal to the fair market value at the time the options are granted and the options may have restrictions regarding exercisability. 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 Corporation adopted the disclosure-only option under SFAS No. 123, "Accounting for Stock-Based Compensation," as of December 31, 1996. If the recognition provisions of the new statement had been adopted as of the beginning of 1997, the effect on 1997 net income would have been immaterial.

		Average per Share	
	Number	Exercise Price	Market Price
Outstanding—December 31, 1994	5,982,030	$15.42	$16.25
Granted	1,659,270	18.64	18.64
Cancelled	(331,112)	19.43	21.25
Exercised	(771,370)	10.74	21.04
Expired	—		
Acquisition of University Bank & Trust	229,679	10.70	18.33
Outstanding—December 31, 1995	6,768,497	$16.39	$26.67
Granted	1,894,143	25.61	25.61
Cancelled	(321,119)	18.95	28.95
Exercised	(1,775,613)	12.78	29.34
Expired	—		
Acquisition of Metrobank	595,718	8.49	26.42
Outstanding—December 31, 1996	7,161,626	$18.95	$34.92
Granted	1,994,182	40.28	40.28
Cancelled	(266,295)	26.00	43.07
Exercised	(1,252,170)	15.93	44.81
Expired	—		
Outstanding—December 31, 1997	7,637,343	$24.77	$60.17
Exercisable—December 31, 1997	3,599,513		
Available for grant—December 31, 1997	98,393		

The following table summarizes information about stock options outstanding at December 31, 1997:

	Outstanding			Exercisable	
Exercise Price Range	Shares	Average Life (a)	Average Exercise Price	Shares	Average Exercise Price
$ 7.66 - $10.29	772,229	2.4	$ 9.57	772,229	$ 9.57
10.37 - 18.00	953,303	5.3	16.65	722,615	16.22
18.59 - 18.75	1,161,279	7.2	18.59	521,637	18.59
19.00 - 25.17	1,205,404	4.9	20.79	1,173,154	20.75
25.42 - 40.09	1,688,751	8.2	26.29	409,278	26.05
40.25 - 52.67	1,856,377	9.2	40.33	600	40.25
Total	7,637,343	6.8	$24.77	3,599,513	$17.73

(a) Average contractual life remaining in years.

Employee Benefit Plans

The Corporation has a defined benefit pension plan in effect for substantially all full-time employees. Staff expense includes income of $0.3 million in 1997, $1.4 million in 1996 and $1.0 million in 1995 for the plan. Benefits under the plan are based primarily on years of service and the levels of compensation during the five highest paid consecutive calendar years occurring during the last ten years before retirement. The plan's assets primarily consist of units of certain collective investment funds administered by Munder Capital Management, equity securities, U.S. government and agency securities and corporate bonds and notes.

Net periodic pension cost/(income) consisted of the following:

(in thousands)	1997	1996	1995
Service cost—benefits earned during the period	$ 12,400	$ 11,675	$ 8,857
Interest cost on projected benefit obligation	33,823	31,572	29,231
Actual return on plan assets	(89,528)	(62,710)	(93,650)
Net amortization and (deferral)	43,006	18,072	54,585
Net pension income	$ (299)	$ (1,391)	$ (977)

The following table sets forth the funded status of the defined benefit pension plans and amounts recognized on the Corporation's balance sheet:

December 31 (in thousands)	1997	1996
Accumulated benefit obligation		
Vested	$411,688	$367,376
Nonvested	17,797	16,483
Accumulated benefit obligation	429,485	383,859
Effect of projected future compensation levels	95,844	78,917
Projected benefit obligation	525,329	462,776
Plan assets at fair value	585,215	515,164
Plan assets in excess of projected benefit obligation	59,886	52,388
Unrecognized net gain due to past experience different from that assumed and effects of changes in assumptions	(25,790)	(17,672)
Unrecognized net assets being amortized over 15 years	(15,358)	(20,191)
Prepaid pension	$ 18,738	$ 14,525

Actuarial assumptions were as follows:

	1997	1996	1995
Discount rate used in determining projected benefit obligation	7%	7.5%	7.5%
Rate of increase in compensation levels	5%	5%	5%
Long-term rate of return on assets	9%	9%	8%

The Corporation has a savings ("401(k)") plan which is a defined contribution plan. All of the Corporation's salaried and regular part-time employees are eligible to participate in the plan. The Corporation makes matching contributions based on a declining percentage of employee contributions (currently, maximum per employee is $1,000) as well as a performance-based matching contribution based on the Corporation's financial performance. Staff expense includes expense of $9.7 million in 1997, $10.4 million in 1996 and $7.1 million in 1995 for the plan.

The Corporation's postretirement benefits plan continues postretirement health care and life insurance benefits for retirees as of December 31, 1992, provides a phase-out for employees over 50 as of that date and substantially reduces all benefits for remaining employees. The Corporation has funded the plan with a company-owned life insurance contract purchased in 1995.

Net periodic postretirement benefit cost included the following components:

(in thousands)	1997	1996	1995
Service cost	$ 273	$ 402	$ 383
Interest cost on accumulated postretirement benefit obligation	5,710	5,597	6,652
Return on plan assets	(7,941)	(3,094)	(2,453)
Amortization of transition obligation	4,628	4,628	4,628
Net amortization and (deferral)	2,472	(2,488)	(1,511)
Net periodic postretirement benefit cost	$5,142	$5,045	$7,699

The following table sets forth the status of the postretirement plan at December 31:

(in thousands)	1997	1996
Retirees	$72,175	$65,711
Other fully eligible plan participants	5,543	4,910
Other active plan participants	3,866	5,799
Total accumulated postretirement benefit obligation	81,584	76,420
Plan assets at fair value	86,727	80,547
Funded status	5,143	4,127
Unrecognized net gain	(8,294)	(11,800)
Unrecognized transition obligation	69,105	73,733
Prepaid postretirement benefit	$65,954	$66,060

Actuarial assumptions were as follows:

	1997	1996	1995
Discount rate used in determining accumulated postretirement benefit obligation	7%	7.5%	7.5%
Long-term rate of return on assets	6.7%	6.7%	6.7%

A 7 percent health care cost trend rate was projected for 1997 and is assumed to decrease gradually to 5 percent by 1999, remaining constant thereafter. Increasing each health care rate by one percentage point would increase the accumulated postretirement benefit obligation by $6 million at December 31, 1997, and the aggregate of the service and interest cost components by $384 thousand for the year ended December 31, 1997.

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Income Taxes

The current and deferred components of income taxes were as follows:

(in thousands)	1997	1996	1995
Currently payable			
Federal	$239,680	$225,863	$192,899
Foreign	30,723	5,912	1,015
State and local	15,584	11,039	7,595
	285,987	242,814	201,509
Deferred federal, state and local	279	(13,769)	10,819
Total	$286,266	$229,045	$212,328

There were $2.0 million, $4.8 million and $4.1 million of income taxes provided on securities transactions in 1997, 1996 and 1995, respectively.

The principal components of deferred tax (assets) liabilities at December 31 were as follows:

(in thousands)	1997	1996
Allowance for loan losses	$(132,990)	$(116,816)
Lease financing transactions	122,127	105,805
Allowance for depreciation	15,567	18,972
Deferred loan origination fees and costs	(20,088)	(11,408)
Investment securities available for sale	(149)	(11,562)
Employee benefits	(7,625)	(3,132)
Restructuring charge	(10,150)	(15,178)
Other temporary differences, net	(34,440)	(35,825)
Total	$ (67,748)	$ (69,144)

The provision for income taxes differs from that computed by applying the federal statutory rate of 35 percent for the reasons in the following analysis:

(in thousands)	1997	1996	1995
Tax based on federal statutory rate	$285,860	$226,172	$218,993
Effect of tax-exempt interest income	(5,687)	(8,842)	(12,538)
Other	6,093	11,715	5,873
Provision for income taxes	$286,266	$229,045	$212,328

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Restructuring

The Corporation recorded a restructuring charge of $90 million in 1996 in connection with a program to improve efficiency, revenue and customer service. The charge only includes direct and incremental costs associated with the program. The following table provides details on the restructuring-related reserve as of December 31:

(in thousands)	Employee Termination	Occupancy and Equipment	Other	Total
Balances at 12/31/96	$48,000	$21,000	$21,000	$90,000
Activity	(38,000)	(10,000)	(13,000)	(61,000)
Balances at 12/31/97	$10,000	$11,000	$ 8,000	$29,000

Termination benefits primarily include severance payments. The occupancy and equipment portion consists of lease termination costs, space consolidation and estimated losses on the disposal of vacated properties. Other charges consist primarily of the project costs incurred during the assessment phase of the program.

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Transactions With Related Parties

The bank subsidiaries have had, and expect to have in the future, transactions with the Corporation's directors and their affiliates. Such transactions were made in the ordinary course of business and included extensions of credit, all of which 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, 1997, approximated $138 million at the beginning and $226 million at the end of 1997. During 1997, new loans to related parties aggregated $124 million and repayments totaled $36 million.

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Regulatory Capital and Banking Subsidiaries

Banking regulations limit the transfer of assets in the form of dividends, loans or advances from the bank subsidiaries to the Corporation. Under the most restrictive of these regulations, the aggregate amount of dividends which can be paid to the Corporation without obtaining prior approval from bank regulatory agencies approximated $361 million at January 1, 1998, plus current year's earnings. Substantially all the assets of the Corporation's subsidiaries are restricted from transfer to the Corporation in the form of loans or advances.

Dividends paid to the Corporation by its banking subsidiaries amounted to $354 million in 1997, $322 million in 1996 and $184 million in 1995.

The Corporation and its banking subsidiaries are subject to various regulatory capital requirements administered by the federal 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. At December 31, 1997, the Corporation and all of its banking subsidiaries exceeded the ratios required for an institution to be considered "well capitalized" (total capital ratio greater than 10 percent). The following is a summary of the capital position of the Corporation and its significant banking subsidiaries:

(in thousands)	Comerica Inc. (Consolidated)	Comerica Bank	Comerica Bank-Texas	Comerica Bank-California
December 31, 1997				
Tier 1 capital	$2,513,820	$2,037,217	$325,394	$329,963
Total capital	3,961,243	3,243,206	359,674	370,531
Tier 1 capital to average assets (minimum–3.0%)	7.09%	7.15%	8.92%	9.07%
Tier 1 capital to risk–weighted assets (minimum–4.0%)	7.07	6.85	9.59	9.20
Total capital to risk–weighted assets (minimum–8.0%)	11.14	10.90	10.60	10.33
December 31, 1996				
Tier 1 capital	$2,366,342	$1,930,830	$275,895	$282,108
Total capital	3,617,961	2,914,832	309,627	319,109
Tier 1 capital to average assets (minimum–3.0%)	7.07%	7.23%	8.42%	7.40%
Tier 1 capital to risk–weighted assets (minimum–4.0%)	7.18	7.12	9.49	8.95
Total capital to risk–weighted assets (minimum–8.0%)	10.99	10.75	10.65	10.12

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Financial Instruments With Off-Balance Sheet Risk

In the normal course of business, the Corporation enters into various off-balance sheet transactions involving derivative financial instruments, foreign exchange contracts and credit-related financial instruments to manage exposure to fluctuations in interest rate, foreign currency and other market risks and to meet the financing needs of customers. These financial instruments involve, to varying degrees, elements of credit and market risk in excess of the amount reflected in the consolidated balance sheets.

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 off-balance sheet financial instruments by evaluating the creditworthiness of each counterparty adhering to the same credit approval process used for traditional lending activities. Counterparty risk limits and monitoring procedures have also been established to facilitate the management of credit risk. Collateral is obtained, if deemed necessary, based on the results of management's credit evaluation. Collateral varies, but may include cash, investment securities, accounts receivable, inventory, property, plant and equipment or real estate.

Derivative financial instruments and foreign exchange contracts are traded over an organized exchange or negotiated over-the-counter. Credit risk associated with exchange-traded contracts is typically assumed by the organized exchange. 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

Financial Instruments With Off-Balance Sheet Risk (continued)

price information. The Corporation reduces exposure to credit and liquidity risks from over-the-counter derivative and foreign exchange contracts by conducting such transactions with investment-grade domestic and foreign investment banks or commercial banks.

Market risk is the potential loss that may result from movements in interest or foreign currency rates which cause an unfavorable change in the value of a financial instrument. The Corporation manages this risk by establishing counterparty and monetary exposure limits and monitoring compliance with those limits. Market risk arising from derivative and foreign exchange positions entered into on behalf of customers is reflected in the consolidated financial statements and may be mitigated by entering into offsetting transactions. Market risk inherent in off-balance sheet derivative and foreign exchange contracts held or issued for risk management purposes is generally offset by changes in the value of rate sensitive on-balance sheet assets or liabilities. Termination of derivative contracts, other than by a counterparty, is unlikely as a particular instrument can be offset by entering into an opposite-effect derivative product to facilitate risk management strategies.

Derivative Financial Instruments and Foreign Exchange Contracts

The Corporation, as an end-user, employs a variety of off-balance sheet financial instruments for risk management purposes. Activity related to these instruments is centered predominantly in the interest rate markets and mainly involves interest rate swaps. Various other types of instruments are also 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. Refer to the section entitled "Risk Management Derivative Financial Instruments and Foreign Exchange Contracts" in the financial review on page 33 for further information about the Corporation's objectives for using such instruments.

The following table presents the composition of off-balance sheet derivative financial instruments and foreign exchange contracts, excluding commitments, held or issued for risk management purposes at December 31, 1997 and 1996.

Notional amounts, which represent the extent of involvement in the derivatives market, are generally 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.

(in millions)	Notional/ Contract Amount	Unrealized Gains	Unrealized Losses	Fair Value
December 31, 1997				
Risk management				
Interest rate contracts:				
Swaps	$8,515	$137	$ (14)	$123
Options, caps and floors purchased	52	—	—	—
Caps written	—	—	—	—
Total interest rate contracts	8,567	137	(14)	123
Foreign exchange contracts:				
Spot and forwards	445	12	(9)	3
Swaps	154	5	—	5
Total foreign exchange contracts	599	17	(9)	8
Total risk management	$9,166	$154	$ (23)	$131
December 31, 1996				
Risk management				
Interest rate contracts:				
Swaps	$8,015	$ 42	$ (97)	$(55)
Options, caps and floors purchased	53	—	—	—
Caps written	152	—	—	—
Total interest rate contracts	8,220	42	(97)	(55)
Foreign exchange contracts:				
Spot and forwards	444	26	(4)	22
Swaps	38	—	(1)	(1)
Total foreign exchange contracts	482	26	(5)	21
Total risk management	$8,702	$ 68	$(102)	$(34)

Credit risk, which excludes the effects of any collateral or netting arrangements, is measured as the cost to replace, at current market rates, contracts in a profitable position. The amount of this exposure is represented by the gross unrealized gains on derivative and foreign exchange contracts. Bilateral collateral agreements with counterparties covered 93 percent of the notional amount of interest rate derivative contracts at December 31, 1997 and 1996. These agreements reduce credit risk by providing for the exchange of marketable investment securities to secure amounts due on contracts in an unrealized gain position. In addition, at December 31, 1997, master netting arrangements had been established with all interest rate swap counterparties and certain foreign exchange counterparties. These arrangements effectively reduce credit risk by permitting settlement, on a net basis, of contracts entered into with the same counterparty. The Corporation has not experienced any credit losses associated with derivative or foreign exchange contracts.

Financial Instruments With Off-Balance Sheet Risk (continued)

On a limited scale, fee income is earned from entering into various transactions, principally foreign exchange contracts and interest rate caps, at the request of customers. The Corporation does not speculate in derivative financial instruments for the purpose of profiting in the short-term from favorable movements in market rates.

Fair values for customer-initiated and other derivative and foreign exchange contracts 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 income statements. For the year ended December 31, 1997, unrealized gains and unrealized losses on customer-initiated and other foreign exchange contracts averaged $23 million and $18 million, respectively. For the year ended December 31, 1996, unrealized gains and unrealized losses averaged $10 million and $9 million, respectively. These contracts also generated $7 million of noninterest income for both years ended December 31, 1997 and 1996. Average positive and negative fair values and income related to customer-initiated and other interest rate contracts were not material for 1997 and 1996.

The following table presents the composition of off-balance sheet derivative financial instruments and foreign exchange contracts held or issued in connection with customer-initiated and other activities at December 31, 1997 and 1996.

(in millions)	Notional/ Contract Amount	Unrealized Gains	Unrealized Losses	Fair Value
December 31, 1997				
Customer-initiated and other				
Interest rate contracts:				
Caps written	$ 314	$ —	$ —	$ —
Floors purchased	32	—	—	—
Swaps	150	6	(6)	—
Total interest rate contracts	496	6	(6)	—
Foreign exchange contracts:				
Spot, forwards, futures and options	1,837	37	(33)	4
Total customer-initiated and other	$2,333	$ 43	$(39)	$ 4
December 31, 1996				
Customer-initiated and other				
Interest rate contracts:				
Caps written	$ 358	$ —	$ —	$ —
Floors purchased	2	—	—	—
Swaps	30	5	(5)	—
Total interest rate contracts	390	5	(5)	—
Foreign exchange contracts:				
Spot, forwards, futures and options	644	19	(18)	1
Total customer-initiated and other	$1,034	$ 24	$(23)	$ 1

Detailed discussions of each class of derivative financial instrument and foreign exchange contract held or issued by the Corporation for both risk management and customer-initiated and other activities are provided below.

Interest Rate Swaps

Interest rate swaps are agreements in which two parties periodically exchange fixed cash payments for variable payments based on a designated market rate or index (or variable payments based on two different rates or indices for basis swaps), applied to a specified notional amount until a stated maturity. In some cases, the payments may be based on the change in the value of an underlying security. The Corporation's swap agreements are structured such that variable payments are primarily based on one-month and three-month LIBOR. These instruments are principally negotiated over-the-counter and are subject to credit risk, market risk and liquidity risk.

Interest Rate Options, Including Caps and Floors

Option contracts grant the option holder the right to buy or sell an underlying financial instrument for a predetermined price before the contract expires. Interest rate caps and floors are option-based contracts which entitle the buyer to receive cash payments based on the difference between a designated reference rate and the strike price, applied to a notional amount. Written options, primarily caps, expose the Corporation to market risk but not credit risk. A fee is received at inception for assuming the risk of unfavorable changes in interest rates. Purchased options contain both credit and market risk; however, market risk is limited to the fee paid. Options are either exchange-traded or negotiated over-the-counter. All interest rate caps and floors are over-the-counter agreements.

Foreign Exchange Contracts

The Corporation uses foreign exchange rate swaps, including generic receive variable swaps and cross-currency swaps, for risk management purposes. Generic receive variable swaps involve payment, in a foreign currency, of the difference between a contractually fixed exchange rate and an average exchange rate determined at settlement, applied to a notional amount. Cross-currency swaps involve the exchange of both interest and principal amounts in two different currencies. Other foreign exchange contracts such as futures, forwards and options are primarily entered into as a service to customers and to offset market risk arising from such positions. Futures and forward contracts require the delivery or receipt of foreign currency at a specified date and exchange rate. Foreign currency options allow the holder to purchase or sell a foreign currency at a specified date and price. Foreign exchange futures are exchange-traded, while forwards, swaps and most options are negotiated over-the-counter. Foreign exchange contracts expose the Corporation to both market risk and credit risk.

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Financial Instruments With Off-Balance Sheet Risk (continued)

Commitments

The Corporation also enters into commitments to purchase or sell earning assets for risk management purposes. These transactions, which are similar in nature to forward contracts, did not have a material impact on the consolidated financial statements for the years ended December 31, 1997 and 1996. Commitments to purchase investment securities are executed to secure certain rates on primarily U.S. government and agency securities. No such commitments were outstanding at year-end 1997, while $50 million were outstanding at year-end 1996. Commitments to purchase and sell U.S. Treasury and municipal bond securities related to the Corporation's trading account totaled $2 million and $18 million at December 31, 1997 and 1996, respectively. At December 31, 1997 and 1996, $30 million and $23 million, respectively, of commitments with settlement terms of up to 120 days had been initiated to reduce interest rate risk on fixed rate residential mortgage loans originated or held for sale. Outstanding commitments expose the Corporation to both credit risk and market risk.

Available credit lines on fixed rate credit card and check product accounts, which have characteristics similar to option contracts, totaled $1.8 billion and $2.0 billion at December 31, 1997 and 1996, respectively. These commitments expose the Corporation to the risk of a reduction in net interest income as interest rates increase. Market risk exposure arising from fixed rate revolving credit commitments is very limited, however, since it is unlikely that a significant number of customers with these accounts will simultaneously borrow up to their maximum available credit lines. Additional information concerning unused commitments to extend credit is provided in the "Credit-Related Financial Instruments" section below.

Credit-Related Financial Instruments

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

(in millions)	1997	1996
Unused commitments to extend credit	$27,528	$22,118
Standby letters of credit and financial guarantees	3,088	2,684
Commercial letters of credit	449	335

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. Total unused commitments to extend credit at December 31, 1997 and 1996, included $4 billion of variable and fixed rate revolving credit commitments. Other unused loan commitments, primarily variable rate, totaled $24 billion at December 31, 1997, and $18 billion at December 31, 1996.

Standby and Commercial Letters of Credit and Financial Guarantees

Standby and commercial letters of credit and financial guarantees represent conditional obligations of the Corporation which guarantee the performance of a customer to a third party. Standby letters of credit and financial guarantees are primarily issued to support public and private borrowing arrangements, including commercial paper, bond financing and similar transactions. Long-term standby letters of credit and financial guarantees, defined as those maturing beyond one year, expire in decreasing amounts through the year 2012, and were $1,309 million and $1,192 million at December 31, 1997 and 1996, respectively. The remaining standby letters of credit and financial guarantees, which mature within one year, totaled $1,779 million and $1,492 million at December 31, 1997 and 1996, respectively. Commercial letters of credit are issued to finance foreign or domestic trade transactions.

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Contingent Liabilities

The Corporation and its subsidiaries are parties to litigation and claims arising in the normal course of their activities. Although the amount of ultimate liability, if any, with respect to such matters cannot be determined with reasonable certainty, management, after consultation with legal counsel, believes that the litigation and claims, some of which are substantial, will not have a materially adverse effect on the Corporation's consolidated financial position or results of operations.

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Usage Restrictions

Included in cash and due from banks are amounts required to be deposited with the Federal Reserve Bank. These reserve balances vary, depending on the level of customer deposits in the Corporation's subsidiary banks. At December 31, 1997 and 1996, the Federal Reserve balances were $587 million and $534 million, respectively.

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Estimated Fair Values of Financial Instruments

Disclosure of the estimated fair values of financial instruments, which differ from carrying values, often requires the use of estimates. In cases where quoted market values 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. Accordingly, the estimates provided herein do not necessarily indicate amounts which could be realized in a current exchange. Furthermore, as the Corporation normally intends to hold the majority of its financial instruments until maturity, it does not expect to realize many of the estimated amounts disclosed. The disclosures also do not include estimated fair value amounts for items which 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 does not believe that it would be practicable to estimate a representational fair value for these types of items.

The Corporation used the following methods and assumptions:

Cash and short-term investments: The carrying amount approximates the estimated fair value of these instruments, which consist of cash and due from banks, interest-bearing deposits with banks and federal funds sold.

Trading account securities: These securities are carried at quoted market value or the market value for comparable securities, which represents estimated fair value.

Loans held for sale: The market value of these loans represents estimated fair value. The market value is determined on the basis of existing forward commitments or the market values of similar loans.

Investment securities: The market value of investment securities, which is based on quoted market values or the market values for comparable securities, represents estimated fair value.

Domestic commercial loans: These consist of commercial, real estate construction, commercial mortgage and equipment lease financing loans. The estimated fair value of the Corporation's variable rate commercial loans is represented by their carrying value, adjusted by an amount which estimates the change in fair value caused by changes in the credit quality of borrowers since the loans were originated. The estimated fair value of fixed rate commercial loans is calculated by discounting the contractual cash flows of the loans using year-end origination rates derived from the Treasury yield curve or other representative bases. The resulting amounts are adjusted to estimate the effect of changes in the credit quality of borrowers since the loans were originated.

International loans: The estimated fair value of the Corporation's short-term international loans which consist of trade-related loans, or loans which have no cross-border risk due to the existence of domestic guarantors or liquid collateral, is represented by their carrying value, adjusted by an amount which estimates the effect on fair value of changes in the credit quality of borrowers or guarantors. The estimated fair value of long-term international loans is based on the quoted market values of these loans or on the market values of international loans with similar characteristics.

Retail loans: This category consists of residential mortgage, consumer and auto lease financing loans. The estimated fair value of residential mortgage loans is based on discounted contractual cash flows or market values of similar loans sold in conjunction with securitized transactions. For consumer loans, the estimated fair values are calculated by discounting the contractual cash flows of the loans using rates representative of year-end origination rates. The resulting amounts are adjusted to estimate the effect of changes in the credit quality of borrowers since the loans were originated.

Customers' liability on acceptances outstanding: The carrying amount approximates the estimated fair value.

Loan servicing rights: The estimated fair value represents those servicing rights recorded under SFAS No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." Fair value is computed using discounted cash flow analyses, using interest rates and prepayment speed assumptions currently quoted for comparable instruments.

Estimated Fair Values of Financial Instruments (continued)

Deposit liabilities: The estimated fair value of demand deposits, consisting of checking, savings and certain money market deposit accounts, is represented by the amounts payable on demand. The carrying amount of deposits in foreign offices approximates their estimated fair value, while the estimated fair value of term deposits is calculated by discounting the scheduled cash flows using the year-end rates offered on these instruments.

Short-term borrowings: The carrying amount of federal funds purchased, securities sold under agreements to repurchase and other borrowings approximates estimated fair value.

Acceptances outstanding: The carrying amount approximates the estimated fair value.

Medium- and long-term debt: The estimated fair value of the Corporation's variable rate medium- and long-term debt is represented by its carrying value. The estimated fair value of the fixed rate medium- and long-term debt is based on quoted market values. If quoted market values are not available, the estimated fair value is based on the market values of debt with similar characteristics.

Derivative financial instruments and foreign exchange contracts: The estimated fair value of interest rate swaps represents the amount the Corporation would receive or pay to terminate or otherwise settle the contracts at the balance sheet date, taking into consideration current unrealized gains and losses on open contracts. The estimated fair value of foreign exchange futures and forward contracts and commitments to purchase or sell financial instruments are based on quoted market prices. The estimated fair value of interest rate and foreign currency options (including interest rate caps and floors) are determined using option pricing models.

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

The estimated fair values of the Corporation's financial instruments at December 31, 1997 and 1996 are as follows:

	1997		1996	
(in millions)	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Assets				
Cash and short-term investments	$ 2,080	$ 2,080	$ 1,961	$ 1,961
Trading account securities	9	9	6	6
Loans held for sale	41	41	38	38
Investment securities available for sale	4,006	4,006	4,800	4,800
Commercial loans	15,805	15,743	13,520	13,445
International loans	2,085	2,080	1,706	1,704
Real estate construction loans	941	933	751	744
Commercial mortgage loans	3,634	3,617	3,446	3,413
Residential mortgage loans	1,565	1,608	1,744	1,771
Consumer loans	4,348	4,231	4,634	4,498
Lease financing	517	518	406	406
Total loans	28,895	28,730	26,207	25,981
Less allowance for loan losses	(424)	—	(367)	—
Net loans	28,471	28,730	25,840	25,981
Customers' liability on acceptances outstanding	18	18	33	33
Loan servicing rights	28	31	23	25
Liabilities				
Demand deposits (noninterest-bearing)	6,761	6,761	6,713	6,713
Interest-bearing deposits	15,825	15,840	15,654	15,664
Total deposits	22,586	22,601	22,367	22,377
Short-term borrowings	3,193	3,193	4,489	4,489
Acceptances outstanding	18	18	33	33
Medium- and long-term debt	7,286	7,395	4,242	4,268
Off-balance Sheet Financial Instruments				
Derivative financial instruments and foreign exchange contracts				
Risk management:				
Unrealized gains	—	154	—	68
Unrealized losses	—	(23)	—	(102)
Customer-initiated and other:				
Unrealized gains	43	43	24	24
Unrealized losses	(39)	(39)	(23)	(23)
Credit-related financial instruments	—	(13)	—	(10)

Parent Company Financial Statements

BALANCE SHEETS—Comerica Incorporated

December 31 (in thousands, except share data)	1997	1996
Assets		
Cash and due from banks	$ 372	$ 263
Time deposits with subsidiary bank	80,400	105,700
Investment securities available for sale	20,822	17,074
Investment in subsidiaries, principally banks	3,017,058	2,829,906
Receivables from subsidiaries	375	—
Premises and equipment	6,566	53,347
Other assets	39,634	31,345
Total assets	$3,165,227	$3,037,635
Liabilities and Shareholders' Equity		
Long-term debt	$ 298,351	$ 298,210
Other borrowed funds	—	842
Advances from nonbanking subsidiaries	4,054	236
Other liabilities	101,046	122,778
Total liabilities	403,451	422,066
Nonredeemable preferred stock—$50 stated value		
Authorized—5,000,000 shares		
Issued—5,000,000 shares in 1997 and 1996	250,000	250,000
Common stock—$5 par value		
Authorized—250,000,000 shares		
Issued—156,815,367 shares in 1997 and 107,297,345 shares in 1996	784,077	536,487
Capital surplus	—	—
Unrealized gains and losses on investment securities available for sale	(1,937)	(22,789)
Retained earnings	1,731,419	1,854,116
Deferred compensation	(1,783)	(2,245)
Total shareholders' equity	2,761,776	2,615,569
Total liabilities and shareholders' equity	$3,165,227	$3,037,635

STATEMENTS OF INCOME—Comerica Incorporated

Year Ended December 31 (in thousands)	1997	1996	1995
Income			
Income from subsidiaries			
Dividends from subsidiaries	$353,500	$322,000	$183,700
Other interest income	3,626	3,372	7,113
Intercompany management fees	166,952	264,368	293,292
Other interest income	559	1,773	—
Other noninterest income	2,070	5,278	2,680
Total income	526,707	596,791	486,785
Expenses			
Interest on long-term debt and other borrowed funds	26,129	26,328	19,948
Net interest rate swap income	(2,818)	(2,794)	(785)
Interest on advances from subsidiaries	18	86	243
Salaries and employee benefits	65,766	123,271	127,261
Occupancy expense	9,373	22,483	22,778
Equipment expense	2,053	24,806	25,600
Restructuring charge	—	27,000	—
Other noninterest expenses	54,244	63,224	76,319
Total expenses	154,765	284,404	271,364
Income before income taxes and equity in undistributed net income of subsidiaries	371,942	312,387	215,421
Income tax expense (credit)	6,111	(1,931)	10,705
	365,831	314,318	204,716
Equity in undistributed net income of subsidiaries, principally banks	164,645	102,843	208,650
Net Income	$530,476	$417,161	$413,366

Parent Company Financial Statements (continued)

STATEMENTS OF CASH FLOWS — Comerica Incorporated

Year Ended December 31 (in thousands)	1997	1996	1995
Operating Activities			
Net income	$530,476	$417,161	$413,366
Adjustments to reconcile net income to net cash provided by operating activities			
Undistributed earnings of subsidiaries, principally banks	(164,645)	(102,843)	(208,650)
Depreciation	1,800	20,595	20,447
Restructuring charge	(20,992)	27,000	(6,078)
Other, net	20,928	23,091	16,694
Total adjustments	(162,909)	(32,157)	(177,587)
Net cash provided by operating activities	367,567	385,004	235,779
Investing Activities			
Purchase of investment securities available for sale	(4,092)	(4,820)	(6,097)
Proceeds from sale of investment securities available for sale	427	—	—
Proceeds from sales of fixed assets and other real estate	28,958	603	3,439
Purchases of fixed assets	(1,424)	(20,345)	(16,413)
Net (increase) decrease in bank time deposits	25,300	25,100	(41,200)
Net (increase) in receivables from subsidiaries	(375)	—	—
Capital transactions with subsidiaries	(3,283)	131,871	(1,400)
Net cash provided by (used in) investing activities	45,511	132,409	(61,671)
Financing Activities			
Net increase (decrease) in advances from subsidiaries	3,818	(3,523)	(4,064)
Proceeds from issuance of long-term debt	—	—	210,000
Repayments and purchases of long-term debt	141	(259)	(59,147)
Net decrease in short-term borrowings	(842)	—	—
Proceeds from issuance of preferred stock	—	246,744	—
Proceeds from issuance of common stock	22,584	35,206	11,736
Purchase of common stock for treasury and retirement	(243,258)	(622,196)	(178,656)
Dividends paid	(195,412)	(173,414)	(155,726)
Net cash used in financing activities	(412,969)	(517,442)	(175,857)
Net increase (decrease) in cash on deposit at bank subsidiary	109	(29)	(1,749)
Cash on deposit at bank subsidiary at beginning of year	263	292	2,041
Cash on deposit at bank subsidiary at end of year	$ 372	$ 263	$ 292
Interest paid	$ 25,799	$ 25,942	$ 15,623
Income taxes recovered (paid)	$ (1,145)	$ 11,150	$ 3,275
Noncash investing and financing activities			
Stock issued for acquisitions	$ —	$128,938	$ 77,100

The preceding parent company financial statements reflect the sale of the Corporation's information services, transaction processing and operations services departments to a subsidiary, Comerica Bank, on January 1, 1997.

Summary of Quarterly Financial Information

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.

	1997			
(in thousands, except per share data)	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
Interest income	$682,163	$674,671	$663,326	$627,243
Interest expense	316,281	313,090	299,798	275,458
Net interest income	365,882	361,581	363,528	351,785
Provision for loan losses	37,000	34,000	34,000	41,000
Securities gains/(losses)	5,836	1,096	(1,359)	122
Noninterest income (excluding securities gains)	134,928	135,251	122,806	129,272
Noninterest expenses	257,368	252,622	249,259	248,737
Net income	139,927	137,067	129,710	123,772
Basic net income per share	$0.86	$0.84	$0.79	$0.75
Diluted net income per share	0.85	0.83	0.78	0.74

	1996			
(in thousands, except per share data)	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
Interest income	$632,737	$633,421	$642,192	$654,430
Interest expense	279,476	280,154	285,703	305,169
Net interest income	353,261	353,267	356,489	349,261
Provision for loan losses	32,000	28,500	25,000	28,500
Securities gains/(losses)	10,194	(276)	3,310	360
Noninterest income (excluding securities gains)	122,214	116,604	117,480	137,068
Restructuring charge	90,000	—	—	—
Noninterest expenses (excluding restructuring charge)	266,220	253,635	270,196	278,975
Net income	60,816	121,518	118,221	116,606
Basic net income per share	$0.35	$0.71	$0.68	$0.66
Diluted net income per share	0.35	0.70	0.67	0.66

Report of Management

Management is responsible for the accompanying financial statements and all other financial information in this Annual Report. The financial statements have been prepared in conformity with 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 financial statements.

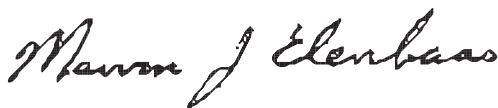
In meeting its responsibility for the reliability of the financial statements, management develops and maintains systems of internal accounting controls. These controls are designed to provide reasonable assurance that assets are safeguarded and transactions are executed and recorded in accordance with management's authorization. The concept of reasonable assurance is based on the recognition that the cost of internal accounting control systems should not exceed the related benefits. The systems of control are continually monitored by the internal auditors whose work is closely coordinated with and supplements in many instances the work of independent auditors.

The financial statements have been audited by independent auditors Ernst & Young LLP. Their role is to render an independent professional opinion on management's financial statements based upon performance of procedures they deem appropriate under generally accepted auditing standards.

The Corporation's Board of Directors oversees management's internal control 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 periodically with management and internal and independent auditors to assure that they and the Committee are carrying out their responsibilities, and to review auditing, internal control and financial reporting matters.

Eugene A. Miller
Chairman and Chief Executive Officer

Ralph W. Babb Jr.
Executive Vice President and Chief Financial Officer



Marvin J. Elenbaas
First Vice President and Controller

Report of Independent Auditors

Board of Directors,
Comerica Incorporated

We have audited the accompanying consolidated balance sheets of Comerica Incorporated and subsidiaries as of December 31, 1997 and 1996, and the related consolidated statements of income, changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 1997. 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 generally accepted auditing standards. 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, 1997 and 1996, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 1997, in conformity with generally accepted accounting principles.

Detroit, Michigan
January 20, 1998

Historical Review–Average Balance Sheets
Comerica Incorporated and Subsidiaries

Consolidated Financial Information (in millions)	1997	1996	1995	1994	1993
Assets					
Cash and due from banks	$ 1,686	$ 1,576	$ 1,500	$ 1,532	$ 1,490
Short-term investments	129	195	351	823	1,193
Investment securities	4,687	5,823	7,625	8,004	5,512
Commercial loans	14,234	12,686	11,302	9,598	8,473
International loans	1,953	1,541	1,257	1,107	897
Real estate construction loans	866	707	541	403	441
Commercial mortgage loans	3,547	3,483	3,157	2,916	2,629
Residential mortgage loans	1,676	1,960	2,450	2,175	1,979
Consumer loans	4,486	4,624	4,569	3,795	3,697
Lease financing	447	351	285	217	191
Total loans	27,209	25,352	23,561	20,211	18,307
Less allowance for loan losses	(402)	(361)	(340)	(322)	(311)
Net loans	26,807	24,991	23,221	19,889	17,996
Accrued income and other assets	1,560	1,610	1,432	1,203	1,045
Total assets	$34,869	$34,195	$34,129	$31,451	$27,236
Liabilities and Shareholders' Equity					
Demand deposits (noninterest-bearing)	$ 5,815	$ 5,589	$ 4,767	$ 4,700	$ 4,380
Interest-bearing deposits	15,326	15,826	15,046	14,809	15,035
Deposits in foreign offices	805	843	1,842	1,816	1,306
Total deposits	21,946	22,258	21,655	21,325	20,721
Federal funds purchased and securities sold under agreements to repurchase	2,017	2,106	2,816	2,817	1,586
Other borrowed funds	1,801	1,999	2,313	2,002	1,432
Accrued expenses and other liabilities	467	400	324	286	274
Medium- and long-term debt	5,980	4,745	4,510	2,708	1,087
Total liabilities	32,211	31,508	31,618	29,138	25,100
Shareholders' equity	2,658	2,687	2,511	2,313	2,136
Total liabilities and shareholders' equity	$34,869	$34,195	$34,129	$31,451	$27,236

Historical Review–Statements of Income
Comerica Incorporated and Subsidiaries

Consolidated Financial Information (in millions, except per share data)	1997	1996	1995	1994	1993
Interest Income					
Interest and fees on loans	$2,318	$2,161	$2,091	$1,577	$1,388
Interest on investment securities					
Taxable	310	372	474	446	307
Exempt from federal income tax	11	18	26	31	40
Total interest on investment securities	321	390	500	477	347
Interest on short-term investments	9	12	23	38	48
Total interest income	2,648	2,563	2,614	2,092	1,783
Interest Expense					
Interest on deposits	673	686	721	543	530
Interest on short-term borrowings					
Federal funds purchased and securities sold under agreements to repurchase	111	112	166	121	47
Other borrowed funds	98	107	136	79	41
Interest on medium- and long-term debt	374	295	289	148	63
Net interest rate swap (income)/expense	(51)	(49)	2	(29)	(32)
Total interest expense	1,205	1,151	1,314	862	649
Net interest income	1,443	1,412	1,300	1,230	1,134
Provision for loan losses	146	114	87	56	69
Net interest income after provision for loan losses	1,297	1,298	1,213	1,174	1,065
Noninterest Income					
Income from fiduciary activities	147	133	125	122	122
Service charges on deposit accounts	141	140	130	124	120
Customhouse broker fees	—	11	36	41	40
Revolving credit fees	20	23	36	24	23
Securities gains	6	14	12	3	2
Other noninterest income	214	186	160	136	142
Total noninterest income	528	507	499	450	449
Noninterest Expenses					
Salaries and employee benefits	539	561	562	549	529
Net occupancy expense	89	99	99	99	96
Equipment expense	62	69	68	68	62
FDIC insurance expense	3	8	24	44	44
Telecommunications expense	28	29	29	27	21
Restructuring charge	—	90	—	7	22
Other noninterest expenses	287	303	304	248	251
Total noninterest expenses	1,008	1,159	1,086	1,042	1,025
Income before income taxes	817	646	626	582	489
Provision for income taxes	287	229	213	195	148
Net Income	$ 530	$ 417	$ 413	$ 387	$ 341
Net income applicable to common stock	$ 513	$ 408	$ 413	$ 387	$ 341
Basic net income per common share	$3.24	$2.41	$2.38	$2.20	$1.92
Diluted net income per common share	3.19	2.38	2.37	2.19	1.90
Cash dividends declared on common stock	$181	$170	$158	$145	$125
Dividends per common share	$1.15	$1.01	$0.91	$0.83	$0.71

Historical Review-Statistical Data
Comerica Incorporated and Subsidiaries

Consolidated Financial Information	1997	1996	1995	1994	1993
Average Rates (Fully Taxable Equivalent Basis)					
Short-term investments	6.59%	6.23%	6.61%	4.57%	3.97%
Investment securities	6.94	6.79	6.72	6.15	6.70
Commercial loans	8.25	8.21	8.75	7.38	6.56
International loans	7.07	6.64	7.06	5.58	5.04
Real estate construction loans	9.38	9.22	9.52	7.85	6.63
Commercial mortgage loans	9.08	9.29	9.40	8.52	8.10
Residential mortgage loans	7.90	7.83	7.80	7.46	8.57
Consumer loans	9.81	9.88	10.10	9.44	9.98
Lease financing	7.48	6.82	6.65	6.48	7.34
Total loans	8.53	8.54	8.90	7.84	7.62
Interest income as a percent of earning assets	8.29	8.20	8.35	7.28	7.25
Domestic deposits	4.09	4.04	4.05	3.14	3.24
Deposits in foreign offices	5.68	5.46	6.07	4.28	3.29
Total interest-bearing deposits	4.17	4.11	4.27	3.26	3.24
Federal funds purchased and securities sold under agreements to repurchase	5.49	5.31	5.88	4.31	3.01
Other borrowed funds	5.45	5.36	5.87	3.92	2.88
Medium- and long-term debt	6.26	6.22	6.41	5.46	5.77
Interest expense as a percent of interest-bearing sources	4.65	4.51	4.95	3.57	3.18
Interest rate spread	3.64	3.69	3.40	3.71	4.07
Impact of net noninterest-bearing sources of funds	0.89	0.85	0.79	0.61	0.58
Net interest margin as a percent of earning assets	4.53	4.54	4.19	4.32	4.65
Return on Average Common Shareholders' Equity	21.32	15.98	16.46	16.74	15.94
Return on Average Assets	1.52	1.22	1.21	1.23	1.25
Efficiency Ratio	51.05	60.36	60.09	61.28	63.68
Per Share Data					
Book value at year-end	$16.02	$14.70	$15.17	$13.64	$12.66
Market value at year-end	60.17	34.92	26.67	16.25	17.75
Market value—high and low for year	62-34	39-24	29-16	21-16	23-17
Other Data					
Number of banking offices	350	358	395	398	385
Number of employees (full-time equivalent)	9,960	11,079	12,876	13,077	12,670

Economic Outlook For 1998

Much will be said about the past seven years of American prosperity. But even more notable will be the date next year when this current period of wealth-building pierces the all-time record economic expansion of 106 consecutive months achieved between 1961 and 1969.

By the end of the first quarter of 1999, the current business expansion will have extended beyond all others known in U.S. economic history. Comerica's finest forecasting tool, the Recession Watch Index, assigns a 70 percent probability to achieving record longevity for this economic cycle.

This economic expansion has durability:

- Real Gross Domestic Product (GDP) growth rates continue to exceed broadly measured inflation rates.
- Productivity gains remain impressive, due to robust capital goods outlays by businesses.
- Federal spending growth rates have decelerated sharply, lowering the annual budget deficits.
- Embracing freer trade has strengthened the dollar and lowered costs and prices.
- Financial markets grow stronger with disinflation and engender more prudent behavior.
- Major regions of the U.S. economy, which have under-performed heretofore, are now accelerating.

Nevertheless, these factors are likely to detract from growth prospects through 1998:

- Households entered 1998 rather fully extended with regard to credit burdens.
- Decelerating economies of our trading partners, particularly in Asia, will clip U.S. exports.
- New waves of company downsizings will lead to slower employment and income gains.

Comparable Economic History

Many observers have been startled by the coexistence of declining inflation rates and falling unemployment rates in the United States over the past two years. This blessed event is no coincidence. It is not accidental that strong business spending on computers and new productivity-augmenting plants and equipment are raising productivity throughout the private sector of the U.S. economy. It is no accident that the sharp reduction in the U.S. budget deficit coincides with the newfound spending restraint exercised by Washington over the past six years. Since fiscal year 1993, the average growth in federal spending has been 3 percent, and the incremental growth last year was only 2.7 percent. Together, higher productivity and reduced rates of issuance of new federal debt cause inflation and interest rates to move lower at the same time real GDP and employment move higher. Furthermore, lower inflation improves the quality of profits and the purchasing power of household income.

The past three years of economic prosperity in the U.S. are reminiscent of the very positive economic developments from the decades that preceded 1900. A century ago, the U.S. was the world's showcase for productivity gains and industrial innovation. Consequently, the U.S. ran huge trade deficits and attracted monumental amounts of capital from abroad—direct investments from Europe and elsewhere. A similar scenario has unfolded today.

Another Good Year

Average annual GDP growth for the past seven-year expansion has been 2.7 percent. For 1998, we are forecasting real economic growth at 3.0 percent, down from 3.8 percent in 1997. Although slower real GDP growth implies some 200,000 fewer auto and truck sales and a slightly less robust housing year, deceleration on the goods side of the economy will be matched by further deceleration in inflation and borrowing costs.

We predict 1998 through the first quarter 1999 to be recession-free, with inflation and unemployment rates reaching their lowest points for the current business cycle expansion. The Federal Reserve Board will have little reason to loosen or tighten monetary policy, so it is likely that short-term interest rates will remain largely unchanged during the year. The implosion of some Asian financial markets and deceleration of most economies in non-English-speaking nations across the globe suggest considerably tougher sledding for U.S. exports in the year ahead. Because export growth had been a mainstay of economic growth in the U.S. over the past three years, the loss of export strength will slow real GDP in 1998 and possibly give rise to protectionist sentiment.

	1998 forecast	1997 actual
GDP growth	3.0%	3.8%
Inflation (CPI)	1.7%	2.3%
Vehicle sales (cars/light trucks)	14.7 million units	14.9 million units
Federal funds rate	5.5%	5.5%
Unemployment rate	4.7%	4.9%
Current account deficit	$170 billion	$151 billion

Beyond 1998

The U.S. economy is doing well because fiscal and monetary policies have become more disciplined, especially since 1994. The greatest threats to domestic economic health over the next several years stem chiefly from the possible imposition of government regulations that have not been cost-justified. Specifically, there is no scientific consensus as to whether the earth is cooling, warming or staying within the normal temperature ranges of the past several centuries. Whatever environmental threats emerge, they are best handled by economic systems that are free, market-oriented, rich and growing wealthier. Wealth and innovation serve as the facilitators for a cleaner, safer environment. The key to continued prosperity beyond 1998 will be the avoidance of myopic policies that sacrifice economic growth on the political altar of income redistribution.

Interest Rate Forecasts

	Fed Funds	Prime Rate	3 Month LIBOR	1 Month Commercial Paper	Treasury Bills 3 Month	Treasury Bills 6 Months	Treasury Bills 1 Year
2nd Quarter 1998	5.50%	8.50%	5.80%	5.75%	5.15%	5.25%	5.30%
3rd Quarter 1998	5.50	8.50	5.90	5.85	5.20	5.30	5.35
4th Quarter 1998	5.50	8.50	6.10	6.05	5.25	5.35	5.40
1st Quarter 1999	5.50	8.50	6.30	6.25	5.35	5.45	5.50

	Treasury Notes 2 Year	Treasury Notes 3 Year	Treasury Notes 5 Year	Treasury Bonds 10 Year	Treasury Bonds 30 Year	Corp Aaa Bonds	A Utility Bonds
2nd Quarter 1998	5.40%	5.45%	5.60%	5.85%	6.00%	7.30%	7.40%
3rd Quarter 1998	5.45	5.50	5.70	5.80	6.10	7.40	7.50
4th Quarter 1998	5.50	5.60	5.90	6.10	6.30	7.60	7.70
1st Quarter 1999	5.60	5.70	6.00	6.25	6.50	7.80	7.90

	Home Mortgage Rates FHLMC	Federal Reserve Trade-Weighted Dollar Index	Annualized Percent Changes Real GDP	Annualized Percent Changes GDP Deflator	Annualized Percent Changes CPI
2nd Quarter 1998	7.20%	110.0%	2.8%	1.5%	1.8%
3rd Quarter 1998	7.30	110.0	3.0	1.6	1.8
4th Quarter 1998	7.50	108.0	3.0	1.8	2.2
1st Quarter 1999	7.70	105.0	3.0	2.2	2.4

Comerica Markets

An eighth consecutive year of general economic expansion in 1998 should generate ample growth within Comerica's principal markets of Michigan, California, Texas and Florida.

Michigan

Housing prices and unemployment rates speak volumes to the growth trajectory of Michigan's economy over the past few years. For a second straight year, Michigan's average increase in home prices led the nation with an appreciation of 7.2 percent, versus 4.5 percent for the U.S. Michigan's unemployment rate averaged nearly one full percentage point below the U.S. average of 4.9 percent. Motor vehicle output expanded 2.5 percent in 1997, with Michigan truck production up nearly 6 percent. Perhaps the greatest challenge confronting the Michigan economy in 1998 will be its severe labor constraints. In 1997, shortages of skilled labor, particularly in the building trades, reduced the volume of new housing activity from 1996 levels. The likelihood of continued low inflation and financing rates in 1998 will augment affordability of automobiles and contribute to state growth.

California

No state made greater economic progress in 1997 than California. An illustration of this is the decline of unemployment rates from 7.1 to 6.2 percent between the third quarters of 1996 and 1997. New housing permit activity rose 23 percent in California during 1997, versus 9 percent for the nation, and average housing prices appreciated by 4.7 percent, compared with 4.5 percent for the U.S. California total employment grew 2.7 percent, far outstripping the 1.8 percent average for all states. Continued economic expansion and business profitability during 1998 is strongly suggested by the 1997 performance of California-based stocks, which rose nearly 50 percent. California's greatest challenge will be reduced exports to Pacific Asia. This will be partially offset by the burgeoning volume of import business related to the stronger dollar and lower costs of outsourced labor and materials as inputs to businesses.

Texas

As long as the U.S. economy continues to expand in 1998, the economy of Texas should be able to run ahead by approximately 0.5 percent. This implies 3 to 3.5 percent growth in real gross state product in 1998. Employment growth in 1997, at 2.5 percent, exceeded the U.S. average of 1.8 percent, with strong performance in the business-service jobs sector. Improvement in the Mexican economy and resultant growth in trade flows were especially significant forces in the expansion of the state's economy last year. Texas-based stocks experienced one of the more dynamic gains of any state in 1997, up nearly 70 percent. This strong equity performance often foreshadows business expansion, profitability and employment gains in the subsequent year. The chief threat would be another period of weakness or readjustment in the Mexican economy, due to rising inflation and remedial monetary policies.

Florida

Florida hit its stride in 1997, besting the national average unemployment rate (4.8 percent versus 4.9 percent) and far outperforming the U.S. average with respect to housing permit activity (up 22 percent versus 9 percent) and overall job growth (3.5 percent versus 1.8 percent). South Florida, which once acted as the senior partner in growth, is now sharing that role with the booming central, northern and panhandle regions. Florida is now the fourth most populous state, with the fastest population growth among the top four from 1990-96. The state's population growth between 1990-96 doubled the U.S. rate. Florida's chief economic challenges in 1998 include decelerating Latin American economies, the stronger dollar's impact on tourism and continued downsizing in military staffing and budgets. Otherwise, population and business gains will guarantee a diversified and balanced-growth economy.

David L. Littmann and William T. Wilson, Ph.D
Comerica Economics Department

Shareholder Information

Stock

Comerica's stock trades on the New York Stock Exchange (NYSE) under the symbol CMA.

Shareholder Assistance

Inquiries related to shareholder records, change of name, address or ownership of stock, and lost or stolen stock certificates should be directed to the transfer agent and registrar:

Norwest Shareowner Services
P.O. Box 64854
St. Paul, Minnesota 55164-0854
1-800-468-9716

Elimination of Duplicate Materials

If you receive duplicate mailings at one address, you may have multiple shareholder accounts. You can consolidate your multiple accounts into a single, more convenient account by contacting the transfer agent shown above. In addition, if more than one member of your household is receiving shareholder materials, you can eliminate the duplicate mailings by contacting the transfer agent.

Dividend Reinvestment Plan

Comerica offers a dividend reinvestment plan which permits participating shareholders of record to reinvest dividends in Comerica common stock without paying brokerage commissions or service charges. Participating shareholders also may invest up to $3,000 in additional funds each quarter for the purchase of additional shares. A brochure describing the plan in detail and an authorization form can be requested from the transfer agent shown above.

Dividend Direct Deposit

Common shareholders of Comerica may have their dividends deposited into their savings or checking account at any bank that is a member of the National Automated Clearing House (ACH) system. Information describing this service and an authorization form can be requested from the transfer agent shown above.

Dividend Payments

Subject to approval of the board of directors, dividends customarily are paid on Comerica's common stock on or about April 1, July 1, October 1 and January 1.

Annual Meeting

The Annual Meeting of Shareholders of Comerica Incorporated will be held on Friday, May 15, 1998, at 9:30 a.m. in the Renaissance Conference Center, Level 2, Tower 300 of the Renaissance Center, Detroit, Michigan.

Form 10-K

A copy of the Corporation's Annual Report on Form 10-K, as filed with the Securities and Exchange Commission, may be obtained without charge upon written request to the Secretary of the Corporation at the address listed under Corporate Information.

Stock Prices, Dividends and Yields

(adjusted for stock split)

Quarter	High	Low	Dividend Per Share	Dividend* Yield
1997				
Fourth	$61.875	$50.167	$0.29	2.1%
Third	53.250	45.042	0.29	2.4
Second	46.750	35.917	0.29	2.8
First	42.083	34.167	0.29	3.0
1996				
Fourth	$39.583	$33.500	$0.26	2.8%
Third	36.000	26.750	0.26	3.3
Second	29.917	26.833	0.26	3.7
First	27.917	24.166	0.23	3.5

*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.

At January 31, 1998, there were approximately 16,306 holders of record of the Corporation's common stock.

Corporate Information

Comerica Incorporated
Comerica Tower at Detroit Center, MC 3391
500 Woodward Avenue
Detroit, Michigan 48226
1-800-521-1190
Internet: www.comerica.com

Product Information Center

If you have any questions about Comerica's products and services, please contact our Product Information Center at 1-800-292-1300.

Community Reinvestment Act (CRA) Performance

Comerica is committed to meeting the credit needs of the communities it serves. Following are the most recent CRA ratings for Comerica subsidiaries:

Comerica Bank (Michigan)	Outstanding
Comerica Bank–Texas	Outstanding
Comerica Bank & Trust, FSB (Florida)	Outstanding
Comerica Bank–California	Satisfactory
Comerica Bank–Midwest	Satisfactory

Equal Employment Opportunity

Comerica is committed to its affirmative action program and practices which ensure uniform treatment of employees without regard to race, creed, color, age, national origin, religion, handicap, marital status, veteran status, weight, height or sex.

Investor Contact

Allison T. McFerren
313-222-6317

Media Contact

Sharon R. McMurray
313-222-4881

Corporate Profile

Comerica Incorporated (NYSE: CMA) is a diversified financial services provider headquartered in Detroit that operates banking subsidiaries in Michigan, California, Texas and Florida.

Comerica is the 25th largest bank holding company in the U.S., with $36 billion in total assets. We are the nation's 14th largest commercial business lender and 17th largest small business lender.

Our nearly 11,000 employees serve a diverse customer base, delivering comprehensive financial services through a network that includes approximately 350 branch offices, 630 automated teller machines, supermarket branches, banking by personal computer and telephone banking.

Comerica is organized into three focused operating units: the Business Bank, the Individual Bank and the Investment Bank.

Comerica's Vision

Comerica is in business to help people be successful. We are committed to delivering the highest quality financial services by:

- Providing outstanding value and building enduring customer relationships.
- Creating a positive environment for our colleagues, built on trust, teamwork and respect.
- Demonstrating leadership in our community.
- Ensuring a consistent, superior return for our owners.

We listen. We understand. We make it work.®

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IN MEMORY

Stanley R. Pijanowski III

Assistant Vice President
and Branch Manager

James L. Isom

Retail Service Representative

We listen. We understand. We make it work.®