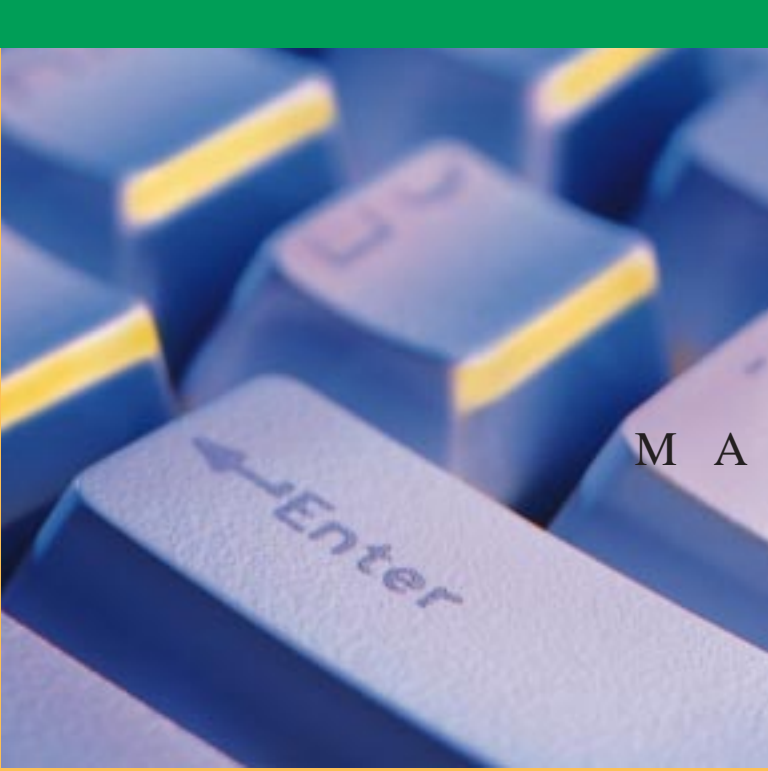


1 5 0
YEARS



M A K I N G I T

WORK.

COMERICA INCORPORATED
1998 ANNUAL REPORT

Comerica

Corporate Profile

Comerica Incorporated (NYSE: CMA) is a multi-state financial services provider headquartered in Detroit with banking subsidiaries in Michigan, California and Texas, banking operations in Florida, and businesses in seven other states. Comerica also operates banking subsidiaries in Canada and Mexico.

Comerica is the 24th largest bank holding company in the U.S., a *Fortune* 500 company with \$37 billion in total assets, and among the top 200 banking companies in the world, based on assets. Comerica is the nation's 15th largest commercial business lender, 17th largest small business lender and ranks first nationally among the top 15 commercial lenders in commercial loans as a percent of total assets.

Comerica's 11,000 colleagues deliver comprehensive financial services through a network that includes 340 branch and supermarket offices, 814 automated teller machines, 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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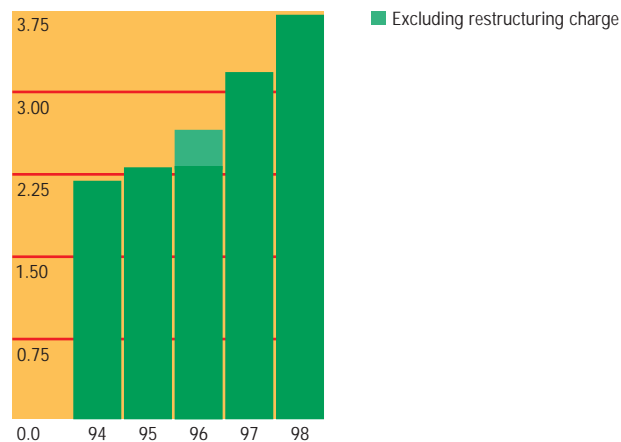
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Financial Highlights

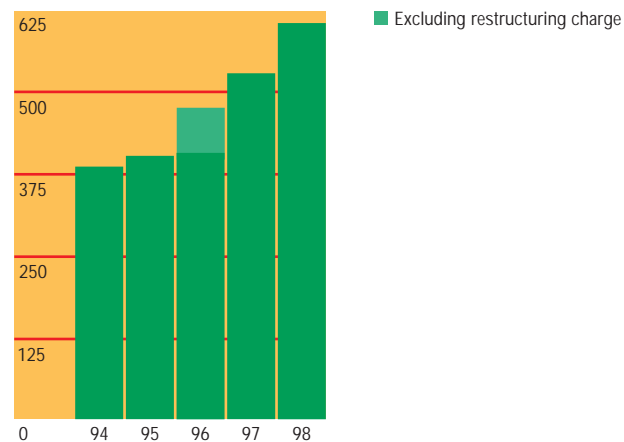
Year Ended December 31 (dollar amounts in millions, except per share data)	1998	1997	Change	
			Amount	Percent
Income Statement				
Net interest income	\$ 1,461	\$ 1,443	\$ 18	1%
Net income	607	530	77	14
Basic net income per common share	3.79	3.24	.55	17
Diluted net income per common share	3.72	3.19	.53	17
Cash dividends per common share	1.28	1.15	.13	11
Book value per common share	17.94	16.02	1.92	12
Market value per share	68.19	60.17	8.02	13
Ratios				
Return on average common shareholders' equity	22.54%	21.32%		
Return on average assets	1.74	1.52		
Average common shareholders' equity as a percentage of average assets	7.48	6.91		
Balance Sheet (at December 31)				
Total assets	\$36,601	\$36,292	\$ 309	1%
Total earning assets	33,427	33,104	323	1
Loans	30,605	28,895	1,710	6
Deposits	24,313	22,586	1,727	8
Common shareholders' equity	2,797	2,512	285	11

1

**Diluted Net Income
per Common Share**
(in dollars)



Net Income
(in millions)



More than 150 years ago, on March 5, 1849, the predecessor of Comerica was formed by order of Michigan Governor Epaphroditus Ransom. Called the Detroit Savings Fund Institute, it differed from a bank in that it had neither capital stock nor stockholders, and was formed as a trust.

Elon Farnsworth was appointed by Governor Ransom to lead the 11 trustees of Detroit Savings Fund Institute. Mr. Farnsworth and those trustees later became the first directors and shareholders when the Institute was reorganized and renamed Detroit Savings Bank in 1871.

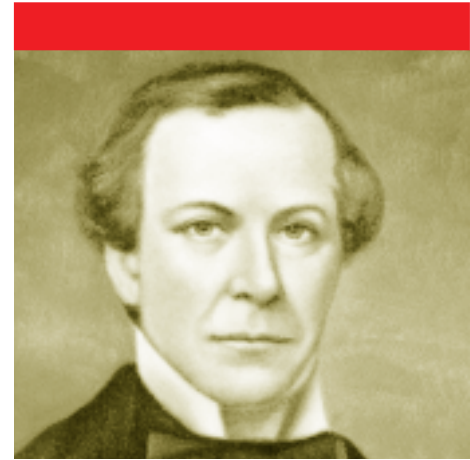
This is a letter to all shareholders, past, present and future.

We enter our 150th anniversary year with pride in our accomplishments and a clear sense of direction about our future. We have kept our promises: to hold and grow deposits; to deliver a consistent return to you, our shareholders; to help customers and colleagues succeed; and to improve the communities in which we operate.

We are fortunate to have a dedicated workforce—colleagues who act as owners because they are owners. They care about their customers, fellow shareholders and the success of Comerica.

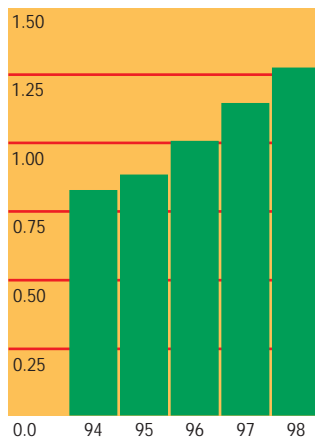
Thanks to the great efforts of these colleagues, nearly 90 percent of whom are shareholders, we are recognized as a premier business lender and a top 10 bank holding company in financial performance.

In 1998, net income for the year rose 14 percent to \$607 million. Return on assets was 1.74 percent and return on common equity was 22.54 percent.

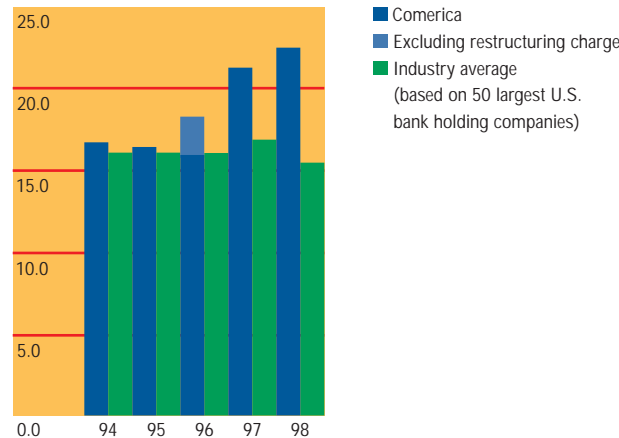


Above: Elon Farnsworth
Right: Eugene A. Miller

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)

The bank drew six depositors on opening day (August 17, 1849). By the end of the year, 56 people had deposited \$3,287.



Forward

://www

ne Page

Our goal is consistent top 10 financial performance. Our first objective is profitability, and our target is to rank in the top 10 of the 50 largest U.S. bank holding companies as measured by return on equity. As a result of significant activities undertaken in 1995 and especially in 1996, we were successful in meeting this objective in 1997 and 1998.

We rank among the best.

Focus is our key to attaining superior profitability. We operate on a line-of-business basis and carefully define our approach to our various business lines. Some we have identified as “grow” businesses which warrant significant reinvestment. Others we are rationalizing by driving down expenses and driving up targeted marketing. Still others we have divested or would consider divesting. This ongoing process of reinventing the corporation has become a way of life for us.

Our second objective is quality, both in credit underwriting and in service. Banks cannot consistently generate exceptional profits without being extraordinary in both areas. Credit quality is absolutely essential, especially when we enter slower growth economic environments.

Loan growth and profitability at Comerica have never come at the expense of credit quality. For example, even now, when banks’ credit quality measures are excellent, our percentage of non-performing assets is nearly half that of the top 50 banks and below that of our conservative Midwestern peers. Additionally, our loan charge-offs are also typically lower than the industry average and the conservative Midwestern portion of the country.

Our third objective is growth. Of course, one of our growth businesses is Comerica’s core competency, commercial lending—both generating and underwriting commercial loans. Our commercial loan growth has outpaced our peers and, as a result, we are again ranked first among the top 15 commercial lenders in commercial loans as a percent of assets. Over the last 10 years, commercial loan growth has averaged an impressive 12 percent and has fluctuated very modestly around that average. We rank 15th in commercial lending and 17th in small business lending, another very successful and growing market for us.

Our strategy of tapping into high growth metropolitan markets where we can practice our brand of banking fuels our growth, while at the same time helping us even out potential geographic and industry-specific fluctuations. As a result of this strategy, we have seen an increasing proportion of our assets come from non-Michigan markets. This is a trend we expect will continue.

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Expenses for the first year totaled \$355.36 and included: a stove costing \$8; wood worth \$1.50; advertising for \$10; and printing costing \$9.25.

The background of the page is a blue gradient with a faint, stylized financial chart. The chart features several lines: a solid red line, a solid blue line, and a dotted white line. The lines fluctuate across the page, suggesting a line graph. Large, semi-transparent white percentages are scattered throughout the background, including '10%' at the top left, '6.5%' in the middle left, and '6.0%' at the bottom left. A green rectangular box is positioned on the left side of the page, containing white text.

As Detroit became a center for industry, Detroit Savings Fund Institute ledgers recorded a growth in deposits. Growth, along with profitability and quality, are important objectives of Comerica as it enters 1999, the year of its 150th anniversary.

We also have demonstrated our ability to gather consumer assets, particularly in Michigan, where we continue to have a dominant market share.

As industry consolidation occurs, we monitor the landscape closely. We believe performance and execution will lead to opportunities down the road. However, we also believe that big is not always best for the customer, nor for the shareholder. If Comerica is going to stand out, it will be because of performance, not size.

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The results of our focus on consistent top 10 performance have not gone unnoticed by Wall Street. Our stock price has climbed the last several years, rising 13 percent in 1998 after increasing 72 percent in 1997. Including reinvestment of dividends, \$100 invested in Comerica at the end of 1993 would have returned \$452 at the end of 1998, significantly more than a similar investment in the Keefe 50-Bank Index, which would have returned \$340, and the S&P 500 Index, which would have returned \$294.

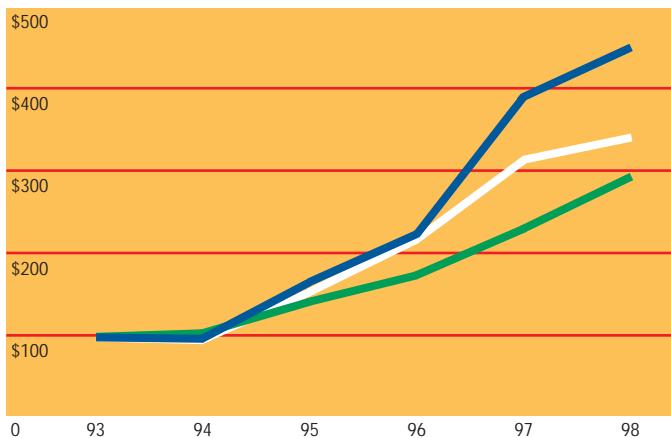
We return excess capital to our shareholders after supporting balance sheet growth. Our dividend policy has resulted in increased annual dividends for 30 consecutive years, 10 percent annual growth and payouts of 34 to 42 percent of our profits. In January 1998, we raised the quarterly cash dividend for common stock by 12 percent to \$0.32 per share, reflective of the three-for-two stock split announced that same month. In January 1999, we increased the quarterly cash dividend for common stock by 13 percent, to \$0.36 per share.



Comparison of five year cumulative total return among Comerica Incorporated, Keefe 50-Bank Index and S&P 500 Index

(assumes \$100 invested on 12/31/93 and reinvestment of dividends)

- Comerica
- Keefe 50-Bank Index
- S&P 500



Within two years, deposits from 320 thrifty souls totaled \$25,000, enough to warrant purchase of a new safe for \$125.

The Institute performed so well it had to move to larger quarters and hire a full-time cashier in 1855. Today, Comerica's focus on consistent top 10 performance places it among the premier banking companies in the nation.



Comerica	CMA	2.12	8.2	12	10922	12 1/16	11 1/2	11 1/16	+	3/16
ComEd TOPrS	FIX	1.44f	2.3	17	43	25 13/16	25 13/16	25 13/16	+	1/16
ComftrSysUSA	CBH	...	...	16	5824	64	61 1/8	62 5/8	+	1 1/4
ComproBcpNJ	CBH	...	...	22	314	15 1/8	14 3/4	14 13/16	-	5/16
CommerBank	CBH	...	...	...	488	44 3/4	43 1/16	43 1/16	-	15/16

As we celebrate our 150th anniversary in 1999 and contemplate our future, I am certain of two things: There will continue to be challenges, and we will continue to meet those challenges with the same determination to succeed and dedication to customer service held by the original trustees who laid the foundation of Comerica so long ago.

Some of the challenges are familiar ones, like widespread consolidation and competition, that have become defining characteristics of our industry. Other challenges surfaced more recently, like the tumultuous economic conditions in Asia and our own unsettled political and economic arenas. Comerica remains well positioned to weather any changes in the economic climate, as we have consistently in the past. This year, the year 2000 challenge is a top priority. We are devoting substantial human and capital resources to implement our program. We will be ready to conduct business in the year 2000 and beyond.

As we face these challenges, we intend to continue to keep our promises—to you, our shareholders, as well as to our customers, colleagues and communities we serve. While much has changed in 150 years, the nature of Comerica and how we conduct ourselves have not changed.


Two months after the Detroit Savings Fund Institute first opened, the Detroit Free Press noted that few knew about the Institute and "it will doubtless require two to three years time for this bank to grow...but the officers are confident that it will continue to increase in importance and usefulness...."

Clearly, Comerica has grown to become a top performer in the financial services industry. We welcome the arrival of the year 2000, the new millennium and the next 150 years.

Eugene A. Miller
Chairman and Chief Executive Officer



Only in 1871, when the Institute became Detroit Savings Bank, were the first shares issued.



For 150 years, Comerica has made promises—to hold and grow deposits, to deliver a consistent return to shareholders, to help customers and colleagues succeed, to improve the community. Delivery on these promises is the cornerstone upon which Comerica's reputation was built. Trust is the result, and today Comerica thrives.

Number
5923

While we continue to develop products and services inconceivable 150 years ago, our purpose today remains the same as it was in 1849: We are in business to help people be successful.

For example, to provide a wide range of corporate banking and trade finance services to middle market and large corporations doing business in Canada, we opened a new commercial banking subsidiary, Comerica Bank-Canada, in Toronto, Ontario. Together with Comerica Bank-Mexico, which we opened in 1997 in Mexico City and expanded to Monterrey in 1998, we have created an integrated North American distribution system for our corporate customers.

We continued to expand our service offerings nationally with the opening of a U.S. Small Business Administration (SBA) lending office in Fort Lauderdale, Florida, and a high technology banking office in Austin, Texas.

Comerica is the 8th largest SBA lender in the nation. Our goal is to be in the top five by the year 2000. We plan to enter at least five additional markets with our SBA lending business in the next two years, as well as increase penetration in our existing markets of California, Michigan, Texas and Florida.

The technology sector in Texas has experienced rapid growth in recent years and the presence of experienced bankers able to meet the financial needs of established and start-up technology companies has been limited—until now. Comerica is providing a full range of services through its new office in Austin, as well as from California's Silicon Valley.

Among our new products for business customers are Comerica Export Manager, a Windows®-based software package that automates the export documentation process; and the MasterCard® Fleet Card, designed for companies that maintain fleet and service vehicles.

Comerica significantly enhanced its relationship with a *Fortune* 100 client in 1998 by adding sophisticated spreadsheet functionality to Comerica Gateway, making it the primary information management system for that customer's bank group.

We practice relationship banking to the fullest, and our business model is about skill, not scale. We train our officers well, give them the tools they need to manage their responsibilities, and strive to maintain continuity in their relationships with customers. As we pursue companies of all sizes, we look for those businesses that appreciate the personal attention and capital access that we offer.



By the end of April 1933, commercial deposits had more than doubled, from \$10 million to \$22 million, a sign that the business community had faith in the bank.



By the early 1950s, 20-pocket proof machines were used to sort and balance checks. Today, Comerica is among the industry leaders in the use of imaging technology. Comerica's computerized imaging system processes hundreds of millions of checks each year.

To help our individual and investment banking customers be successful, we strive to offer the products they desire at the prices they are willing to pay, through the distribution channel most convenient for them.

Our new Comerica Home ATM personal computer banking program transfers the universal experience of using an automated teller machine (ATM) to the consumer's personal computer.

We expect home banking to parallel the exponential growth of personal computer usage nationwide. A leading internet technology analyst has predicted that in two years, 13 million U.S. households will be banking online—five times as many people as in 1996. We created Comerica Home ATM for this emerging market—a broader segment of customers who want their banking at home to be simple and convenient.

We added our 37th ComeriMART supermarket branch in 1998. ComeriMARTs offer customers products and services available at other Comerica Bank branches, plus the convenience of banking while shopping.

Comerica expanded its strategic alliance with PaineWebber to 41 states with new offices in Cleveland, Ohio, and Memphis, Tennessee. PaineWebber clients in these markets now have access to trust, estate administration, real estate, portfolio management and closely held business services from the Private Banking Division of Comerica Bank.

Comerica Securities, our full-service broker-dealer, introduced in July another way for customers to access its products and services. Customers can now locate their discount brokerage accounts, obtain quotes, and perform trades of stocks and bonds through a link in Comerica's web site. This service joins Comerica Securities' other computer-based service, PC Trader, and its telephone-based TouchTone service.

We have a very strong retail presence in our home state of Michigan. In 1998, we added the convenience of even more ATMs throughout our headquarters state. In the largest agreement of its kind between a Michigan bank and a local drug retailer, Comerica announced it will open ATMs in 250 Arbor stores in Michigan, including 22 in the city of Detroit.

The Arbor agreement further enhances Comerica's ATM network, which continues to be the largest in Michigan, with some 720 machines currently, and the 20th largest in the nation.



In 1972, Detroit Bank & Trust installed metro Detroit's first fully automated ATM, which allowed customers to make deposits, pay bills and transfer funds between accounts.

ATM Bill Pay

W E L C O M E

Drive-in teller windows helped make banking more convenient for customers. Today, Comerica customers can conduct business with us 24 hours a day, seven days a week, through a choice of distribution channels.

Payees
History
Customer Service
Settings
Exit

Comerica
We listen. We understand. We make it work.™



How the landscape has changed here in our hometown of Detroit these past 150 years! We are very proud of the promise we have kept to Detroit—and to all of the communities in which we operate—to be an outstanding corporate citizen, contributing to the quality of life in each.

Comerica has been an active participant in Detroit's growth, from an office near historic Mariners' Church 150 years ago, to our headquarters building today—Comerica Tower at Detroit Center. Through our involvement in the neighborhoods and status as lead lender in the federally designated Empowerment Zone, Comerica is touching lives and businesses, building success.

At the end of 1998 and on the eve of our 150th anniversary, we announced our decision to purchase the naming rights of the new ballpark in downtown Detroit. By calling it Comerica Park, we link Michigan's oldest and largest bank with the hallowed traditions of baseball and the Detroit Tigers.

The national exposure the new park will receive will be a great source of pride for the ball club, the city of Detroit, our colleagues throughout Comerica and fans of the Tigers everywhere.

In California, as a legacy to the community in honor of our 150th anniversary, Comerica Bank-California is spearheading The Mayfair Initiative, a major revitalization effort to transform the Mayfair neighborhood of East San Jose into a safe, supportive and productive community.

Based on the belief that residents must play an active role in shaping the future of the neighborhood in order to sustain positive neighborhood change, the Mayfair Initiative draws on community strengths and involves the residents themselves in the planning, development and implementation of the initiative.

Among the many ways Comerica Bank-Texas colleagues support local communities is through the Comerica CoStars program. In 1998, Comerica CoStars volunteered hundreds of hours to worthwhile community projects.

Our commitment in Texas to helping people be successful is further evidenced by our partnerships with chambers of commerce. We also provide support and leadership in the community through organizations such as the YMCA, Junior Achievement, Big Brothers and Big Sisters, the Juvenile Diabetes Foundation, the American Heart Association, and the Leukemia Society.

Charitable giving is focused on the communities where we do business. Through the Comerica Charitable Foundation, we provided more than 700 grants to non-profit organizations in 1998.



Started in 1978 and now reaching 11,000 students in three states, Comerica's Youth Incentive Savings Program teaches school children how to save and how to apply math in everyday life.



In 1957, "opening day" at a new branch included cigar giveaways. With the naming of Comerica Park, opening day takes on a different meaning for employees, customers and all followers of America's favorite pastime. Comerica Park, new home of the Detroit Tigers, is being readied for opening day in the year 2000.

Clearly we owe our continuing success to our dedicated and talented colleagues whose guiding principles are:

- customer service
- teamwork
- flexibility and adaptability to change
- trust and integrity
- ownership
- learning and personal growth

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They strive for the highest measure of quality in all that they do.

In recognition of their high standards of customer service, 10 colleagues received Comerica's National Quality Excellence Award in 1998. These individuals were nominated by their peers and their customers because they epitomize the very best in quality customer service. The overall winner was Joseph Davio, president of the Battle Creek Region in Michigan. Other winners were:

Barbara Campbell Branch Delivery Systems & Projects Comerica Bank (Michigan)	Colleen Green Client Production Services Comerica Incorporated
---	--

Janet Haskin Deposit Services Comerica Bank (Michigan)	Karen Holway Information Services Comerica Incorporated
--	---

Michael Lawson Branch Delivery Systems & Projects Comerica Bank (Michigan)	Clarence Oliver Michigan Real Estate Comerica Bank (Michigan)
---	---

Rick Pellecchia Consumer Lending Comerica Bank (Michigan)	Cathy Watson Texas Energy Department Comerica Bank-Texas
---	--

Mary Jo Weiss
Direct Banking
Comerica Bank (Michigan)

Approximately 900 colleagues are celebrating 25 or more years of service with Comerica in 1999. Years ago, employees marking important service anniversaries received watches, traditional symbols of lengthy service. Today, colleagues with notable service anniversaries receive shares of Comerica stock. It is a reflection of the new Comerica and its investment in colleagues and the future.

We make it work.



On June 18, 1992, employees of the new Comerica celebrated the merger of Manufacturers National Corporation and Comerica Incorporated.

In 1901, the Michigan banking commissioner commended Detroit Savings Bank on its performance, indicating credit is due "to those who have charge of the daily detailed work...which has been found...to be thoroughly accurate and exceptionally correct." Today, Comerica remains committed to delivering the highest quality customer service.



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In memoriam

Patricia Shontz Longe, who retired from the Comerica Incorporated Board of Directors in March 1998, passed away in August. Her 25 years of service and dedication to this company always will be remembered.

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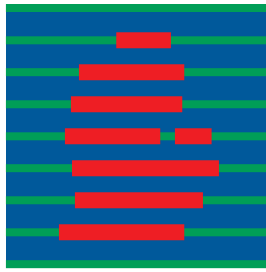
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General Counsel and
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Executive Vice President
National Business Finance

David B. Stephens
Executive Vice President
Private Banking

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Urban Education
Alliance, Inc.

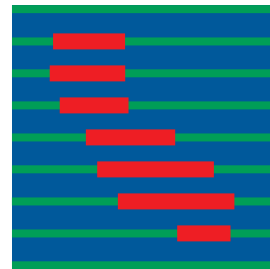
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Chairman and Founder
ASC Incorporated

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President and
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The Taubman
Company, Inc.

Alfred H. Taylor Jr.
Trustee,
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The Kresge Foundation

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Consultant;
Former Chairman and
Chief Executive Officer
Washington Energy
Company

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



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Hopkins & Carley

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Leo E. Chavez
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Foothill-DeAnza
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JP DiNapoli Companies

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President and
Chief Executive Officer
Information Network
Radio, L.L.P.

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President and
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Comerica Bank-California

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Executive Vice President
Comerica Bank-California

Elinor Weiss Mansfield
Attorney

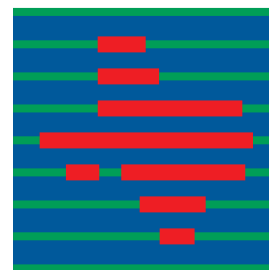
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California Water
Service Company
Peninsula Community
Foundation
Haas Public Service

Lowell W. Morse
Chairman of the Board
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



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President and
Chief Executive Officer
Dee Brown Masonry

James F. Cordes
Retired Executive
Vice President
The Coastal Corporation

Thomas M. Dunning
Chairman and
Chief Executive Officer
Lockton Dunning Benefit
Company

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

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President and
Chief Executive Officer
Comerica Bank-Texas

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Senior Pastor
St. Luke Community
United Methodist Church

Jake Kamin
Chairman
Houston Advisory Board
Comerica Bank-Texas

W. Thomas McQuaid
President
Performance Properties
Corporation

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Comerica Bank-Texas;
Chairman
The Nasher Company

Calvin E. Person
Owner
Calvin Person
and Associates

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

Thomas J. Tierney
Chairman
Corporate Communications
Center, Inc.

Commercial Banking Subsidiaries of Comerica

Comerica Bank

Comerica Tower at
Detroit Center, MC 3391
500 Woodward Avenue
Detroit, Michigan 48226

(313) 222-4000
(248) 371-5000

Eugene A. Miller
Chairman and
Chief Executive Officer

Headquartered in Detroit
with offices in metropolitan
Detroit, Ann Arbor,
Battle Creek,
Grand Rapids, Jackson,
Kalamazoo, Lansing,
Midland and Muskegon.
Florida region specializes
in private banking services,
with offices in Boca Raton,
Fort Lauderdale,
Palm Beach Gardens,
Naples, Sarasota and
Tampa.

Comerica Bank-California

333 W. Santa Clara Street
MC 4805
San Jose, California 95113

(408) 556-5000

J. Michael Fulton
President and
Chief Executive Officer

Headquartered in San Jose
with offices in Bay Area
(San Jose to San
Francisco), Santa Cruz
Coastal, Los Angeles
(Los Angeles and Orange
Counties) and San Diego.

Comerica Bank-Texas

1601 Elm Street, MC 6507
Dallas, Texas 75201

(214) 589-1400

Charles L. Gummer
President and
Chief Executive Officer

Headquartered in Dallas
with offices in metropolitan
Austin, Dallas, Fort Worth
and Houston.

Comerica Bank-Canada

Suite 2210 South Tower
Royal Bank Plaza
200 Bay Street
P.O. Box 61
Toronto, Ontario M5J2J2

(416) 367-3113

Philip H. Buxton
Managing Director

Headquartered in Toronto,
Comerica Bank-Canada
provides a wide range of
corporate banking and
trade services in Canada.

Comerica Bank Mexico, S.A.

Edificio Forum
Andres Bello No. 10
Piso 17
Col. Chapultepec Polanco
Mexico, D.F. 11560

(011) 525-282-2055

Claude H. Miller
Managing Director

Headquartered in Mexico
City, with an additional
office in Monterrey,
Comerica Bank Mexico,
S.A. provides a wide range
of corporate banking
and trade finance services
to middle market and large
corporate companies.

Other Comerica Components

Comerica Bank, N.A.

Specializes in revolving
credit loans; also supports
PaineWebber alliance.

Comerica West Incorporated

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

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 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.

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 (continued)

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 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

National Dealer Services

Chicago
Denver

Personal Trust

New York City
Memphis

PaineWebber alliance

Dedicated offices in
New York City
Memphis
Cleveland

U.S. Banking

Chicago

In the beginning, the bank's footprint was squarely in Detroit. Today, Comerica's map is like a patchwork quilt—Michigan, California, Texas and Florida are the main sections with other areas stitched in. Comerica prefers to target markets where conditions are favorable to successfully practice its kind of banking.



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Table 1: Selected Financial Data

Year Ended December 31 (dollar amounts in millions, except per share data)	1998	1997	1996	1995	1994
Earnings Summary					
Total interest income	\$ 2,617	\$ 2,648	\$ 2,563	\$ 2,614	\$ 2,092
Net interest income	1,461	1,443	1,412	1,300	1,230
Provision for credit losses	113	146	114	87	56
Securities gains	6	5	14	12	3
Noninterest income (excluding securities gains)	597	523	493	487	447
Restructuring charge	(7)	—	90	—	7
Noninterest expenses (excluding restructuring charge)	1,027	1,008	1,069	1,086	1,035
Net income	607	530	417	413	387
Per Share of Common Stock					
Basic net income	\$ 3.79	\$ 3.24	\$ 2.41	\$ 2.38	\$ 2.20
Diluted net income	3.72	3.19	2.38	2.37	2.19
Cash dividends declared	1.28	1.15	1.01	0.91	0.83
Common shareholders' equity	17.94	16.02	14.70	15.17	13.64
Market value	68.19	60.17	34.92	26.67	16.25
Year-end Balances					
Total assets	\$36,601	\$36,292	\$34,206	\$35,470	\$33,430
Total earning assets	33,427	33,104	31,110	32,051	30,606
Total loans	30,605	28,895	26,207	24,442	22,209
Total deposits	24,313	22,586	22,367	23,167	22,432
Total borrowings	8,862	10,479	8,731	9,319	8,303
Medium- and long-term debt	5,282	7,286	4,242	4,644	4,098
Common shareholders' equity	2,797	2,512	2,366	2,608	2,392
Daily Average Balances					
Total assets	\$34,987	\$34,869	\$34,195	\$34,129	\$31,451
Total earning assets	32,113	32,025	31,370	31,537	29,038
Total loans	28,599	27,209	25,352	23,561	20,211
Total deposits	22,253	21,946	22,258	21,655	21,325
Total borrowings	9,452	9,798	8,850	9,639	7,527
Medium- and long-term debt	6,032	5,980	4,745	4,510	2,708
Common shareholders' equity	2,617	2,408	2,554	2,511	2,313
Ratios					
Return on average assets	1.74%	1.52%	1.22%	1.21%	1.23%
Return on average common shareholders' equity	22.54	21.32	15.98	16.46	16.74
Efficiency ratio	49.39	51.04	60.36	60.09	61.28
Dividend payout ratio	34	36	42	38	38
Common shareholders' equity as a percent of average assets	7.48	6.91	7.47	7.36	7.35

1998 Financial Highlights

Focused on Performance

- Earned 22.54 percent on average common shareholders' equity, compared to 21.32 percent in 1997.
- Returned 1.74 percent on average assets, compared to 1.52 percent in 1997.

Reported Record Earnings

- Reported net income of \$607 million, or \$3.72 per share, compared with \$530 million, or \$3.19 per share in 1997.

Sustained Growth

- Averaged \$35 billion in total assets in both 1998 and 1997 (increased 6 percent excluding the sale of \$2.0 billion of consumer assets).
- Reached \$25 billion in average business loans, a 17 percent increase.
- Averaged \$22 billion in total deposits in both 1998 and 1997.
- Increased average shareholders' equity to \$2.9 billion.

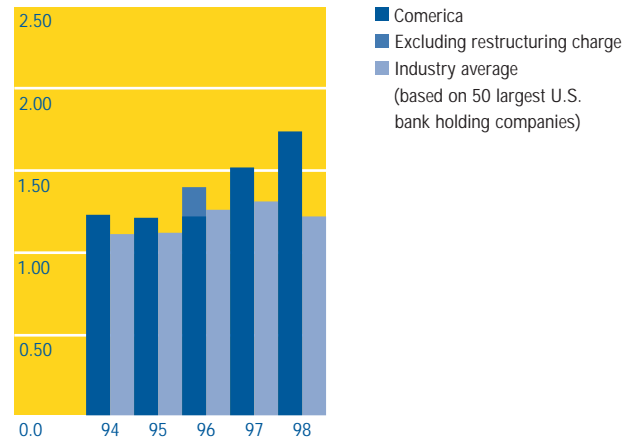
Enhanced Shareholders' Return

- Raised the quarterly cash dividend 12 percent to \$0.32 per share.
- Declared annual cash dividends of \$1.28 per share.
- Repurchased 2.3 million shares in 1998.

Implemented Key Strategies

- Divested the mortgage servicing business and \$2.0 billion of indirect consumer loans and non-relationship credit card receivables and recorded an \$11 million pre-tax gain.
- Invested technology in targeted strategic businesses.
- Upgraded and/or remediated most major systems as part of a plan to achieve year 2000 readiness.
- Opened a Canadian commercial banking subsidiary, Comerica Bank-Canada.

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 71 percent of net revenues in 1998, compared to 73 percent in 1997 and 74 percent in 1996. The sale of \$2.0 billion of indirect consumer loans and non-relationship credit card receivables in the second quarter affected net interest income and the net interest margin for 1998.

Net Interest Income

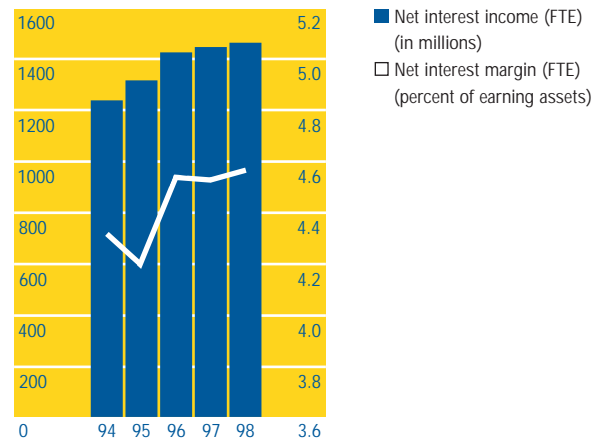


Table 2: Analysis of Net Interest Income—Fully Taxable Equivalent

(dollar amounts in millions)	1998			1997			1996		
	Average Balance	Average Interest	Average Rate	Average Balance	Average Interest	Average Rate	Average Balance	Average Interest	Average Rate
Commercial loans	\$16,973	\$1,365	8.04%	\$14,234	\$1,174	8.25%	\$12,686	\$1,041	8.21%
International loans	2,342	187	7.97	1,953	138	7.07	1,541	102	6.64
Real estate construction loans	989	91	9.24	866	81	9.38	707	65	9.22
Commercial mortgage loans	3,819	334	8.74	3,547	322	9.08	3,483	324	9.29
Residential mortgage loans	1,325	102	7.69	1,676	133	7.90	1,960	153	7.83
Consumer loans	2,575	263	10.20	4,486	440	9.81	4,624	457	9.88
Lease financing	576	44	7.65	447	33	7.48	351	24	6.82
Total loans (1)	28,599	2,386	8.34	27,209	2,321	8.53	25,352	2,166	8.54
Taxable securities	3,232	217	6.72	4,490	309	6.84	5,528	371	6.63
Securities exempt from federal income taxes	139	12	9.16	197	18	9.32	295	28	9.96
Total investment securities	3,371	229	6.81	4,687	327	6.94	5,823	399	6.79
Short-term investments	143	9	6.25	129	9	6.59	195	13	6.23
Total earning assets	32,113	2,624	8.17	32,025	2,657	8.29	31,370	2,578	8.20
Cash and due from banks	1,622			1,686			1,576		
Allowance for credit losses	(440)			(402)			(361)		
Accrued income and other assets	1,692			1,560			1,610		
Total assets	\$34,987			\$34,869			\$34,195		
Money market and NOW accounts	\$ 7,346	231	3.15	\$ 6,926	232	3.35	\$ 6,913	231	3.33
Savings deposits	1,584	28	1.79	1,701	34	2.02	2,026	44	2.18
Certificates of deposit	6,521	345	5.29	6,699	361	5.39	6,887	365	5.30
Foreign office deposits (2)	651	44	6.71	805	46	5.68	843	46	5.46
Total interest-bearing deposits	16,102	648	4.02	16,131	673	4.17	16,669	686	4.11
Federal funds purchased and securities sold under agreements to repurchase	2,510	137	5.44	2,017	111	5.49	2,106	112	5.31
Other borrowed funds	910	49	5.40	1,801	98	5.45	1,999	107	5.36
Medium- and long-term debt	6,032	368	6.10	5,980	374	6.26	4,745	295	6.22
Other (3)	—	(46)	—	—	(51)	—	—	(49)	—
Total interest-bearing sources	25,554	1,156	4.52	25,929	1,205	4.65	25,519	1,151	4.51
Noninterest-bearing deposits	6,151			5,815			5,589		
Accrued expenses and other liabilities	415			467			400		
Preferred stock	250			250			133		
Common shareholders' equity	2,617			2,408			2,554		
Total liabilities and shareholders' equity	\$34,987			\$34,869			\$34,195		
Net interest income/rate spread (FTE)		\$1,468	3.65		\$1,452	3.64		\$1,427	3.69
FTE adjustment (4)		\$ 7			\$ 9			\$ 15	
Impact of net noninterest-bearing sources of funds			0.92			0.89			0.85
Net interest margin (as a percent of average earning assets) (FTE)			4.57%			4.53%			4.54%

(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 primarily in excess of \$100,000.

(3) Net interest rate swap income. If swap income were allocated, average rates on total loans would have been 8.40% in 1998, 8.63% in 1997 and 8.66% in 1996; average rates on medium- and long-term debt would have been 5.77% in 1998, 5.85% in 1997 and 5.80% in 1996.

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

Table 3: Rate-Volume Analysis--Fully Taxable Equivalent

(in millions)	1998 / 1997			1997 / 1996		
	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	\$(29)	\$220	\$191	\$ 5	\$128	\$133
International loans	17	32	49	7	29	36
Real estate construction loans	(1)	11	10	1	15	16
Commercial mortgage loans	(12)	24	12	(7)	5	(2)
Residential mortgage loans	(4)	(27)	(31)	2	(22)	(20)
Consumer loans	18	(195)	(177)	(3)	(14)	(17)
Lease financing	1	10	11	2	7	9
Total loans	(10)	75	65	7	148	155
Taxable securities	(7)	(85)	(92)	10	(72)	(62)
Securities exempt from federal income taxes	(1)	(5)	(6)	(1)	(9)	(10)
Total investment securities	(8)	(90)	(98)	9	(81)	(72)
Short-term investments	—	—	—	1	(5)	(4)
Total interest income (FTE)	(18)	(15)	(33)	17	62	79
Interest expense						
Money market and NOW accounts	(14)	13	(1)	1	—	1
Savings deposits	(4)	(2)	(6)	(3)	(7)	(10)
Certificates of deposit	(6)	(10)	(16)	6	(10)	(4)
Foreign office deposits	8	(10)	(2)	2	(2)	—
Total interest-bearing deposits	(16)	(9)	(25)	6	(19)	(13)
Federal funds purchased and securities sold under agreements to repurchase	(1)	27	26	4	(5)	(1)
Other borrowed funds	(1)	(48)	(49)	2	(11)	(9)
Medium- and long-term debt	(9)	3	(6)	2	77	79
Other (1)	5	—	5	(2)	—	(2)
Total interest expense	(22)	(27)	(49)	12	42	54
Net interest income (FTE)	\$ 4	\$ 12	\$ 16	\$ 5	\$ 20	\$ 25

*Rate/volume variances are allocated to variances due to volume.

(1) Net interest rate swap income.

Net interest income (FTE) rose 1 percent to \$1,468 million in 1998. This increase was primarily due to a 5 percent increase in average total loans. A significant increase of 19 percent in average commercial loans was offset by the consumer loan divestitures cited previously and sales and runoff of investment securities.

The net interest margin for 1998 increased slightly to 4.57 percent from 4.53 percent last year. The increase in the net interest margin was primarily due to an increase in the level of noninterest-bearing sources of funds, the consumer loan divestitures and a reduced emphasis on investment securities in the mix of earning assets.

Comerica (the "Corporation") applied various asset and liability management strategies in 1998 to minimize exposure to net interest margin risk. Net interest margin risk 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 swap contracts entered into in 1998 effectively fixed the yields on certain variable rate loans and altered the interest rate characteristics of debt issued throughout the year. Refer to the Interest Rate Risk discussion on page 36 of this financial review for additional information regarding the Corporation's asset and liability management policies.

In 1997, net interest income (FTE) increased 2 percent over 1996, benefiting from strong growth in average earning assets, primarily commercial loans. The net interest margin for 1997 declined 1 basis point from 1996, principally due to higher funding costs from 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.

Provision and Allowance for Credit Losses

The provision for credit losses reflects management's evaluation of the adequacy of the allowance for credit losses. The allowance for credit losses represents management's assessment of possible losses inherent in the Corporation's on- and off-balance sheet credit portfolio. The amount attributable to the off-balance sheet credit portfolio is not material. The Corporation allocates the allowance for credit losses to each loan category based on a defined methodology, which has been in use, without material change, for several years. First, an internal risk rating is assigned to each commercial loan. Included in that risk rating is management's assessment of the potential failure of a customer to be adequately prepared for the year 2000, but only in those instances where management has significant information indicating a customer may not be adequately prepared (for more information on year 2000, see the section entitled "Other Matters"). Management then assigns a projected loss ratio to each risk rating based on numerous factors identified below. A detailed credit quality review is performed quarterly on certain commercial

loans which have deteriorated below certain levels of credit risk, resulting in an additional allocation of a specific portion of the allowance to such loans. The portion of the allowance allocated to consumer loans is determined by applying projected loss ratios to various segments of the loan portfolio. 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, actual loss ratios experienced in the future could vary from those projected. This uncertainty occurs because a loan's performance depends not only on economic factors but also other factors unique to each customer. In addition, the significant diversity in size of corporate loans means that even if the projected number of loans deteriorate, the dollar exposure could significantly vary from estimated amounts. Furthermore, for many economic events which have occurred, the impact on individual customers may be, as yet, unknown. Such events include, for example, the impact of the Asian economic problems both on assets in that region as well as domestic companies exporting to that region or doing business through subsidiaries in that region; depressed oil prices in the energy sector; and high real estate vacancy rates in selected markets. To ensure adequacy to a higher degree of confidence, an unallocated allowance is maintained. Management also considers industry norms and the expectations and input from rating agencies and banking regulators in determining the adequacy of the allowance. The allocation of the allowance for credit losses provided in Table 8 on page 32 is done for analytical purposes. The total allowance, including the unallocated amount, is available to absorb losses from any segment of the portfolio.

The provision for credit losses was \$113 million in 1998, compared to \$146 million in 1997 and \$114 million in 1996. The decrease in 1998 was primarily due to the consumer loan sale mentioned earlier.

Net Loans Charged Off to Average Loans
(in percentages)

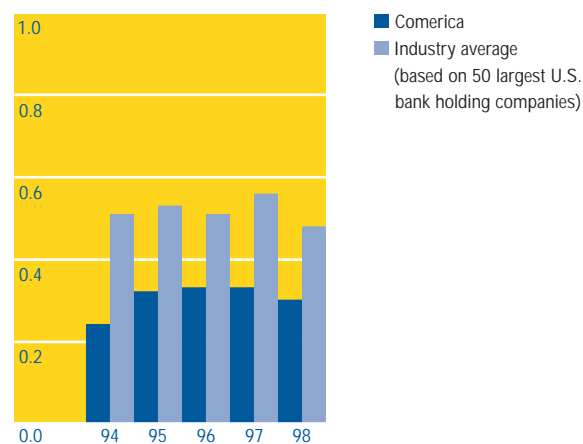


Table 4: Analysis of the Allowance for Credit Losses

Year Ended December 31 (dollar amounts in millions)	1998	1997	1996	1995	1994
Balance at beginning of period	\$424	\$367	\$341	\$326	\$299
Allowance of institutions purchased/sold	—	—	(3)	4	19
Loans charged off					
Domestic					
Commercial	49	33	33	33	25
Real estate construction	—	1	1	3	1
Commercial mortgage	1	4	5	8	17
Residential mortgage	—	—	1	2	—
Consumer	65	92	86	73	40
Lease financing	4	—	—	—	—
International	7	1	—	—	—
Total loans charged off	126	131	126	119	83
Recoveries					
Domestic					
Commercial	19	19	18	19	15
Real estate construction	—	1	1	3	—
Commercial mortgage	9	10	9	8	5
Consumer	13	12	13	13	14
International	—	—	—	—	1
Total recoveries	41	42	41	43	35
Net loans charged off	85	89	85	76	48
Provision for credit losses	113	146	114	87	56
Balance at end of period	\$452	\$424	\$367	\$341	\$326
Ratio of allowance for credit losses to total loans at end of period	1.48%	1.47%	1.40%	1.40%	1.47%
Ratio of net loans charged off during the period to average loans outstanding during the period	0.30%	0.33%	0.33%	0.32%	0.24%

Total net charge-offs decreased to \$85 million in 1998, compared to \$89 million in 1997 and \$85 million in 1996. The ratio of net loans charged off to average total loans was 0.30 percent in 1998 and 0.33 percent in 1997. Commercial loan net charge-offs as a percentage of average commercial loans were 0.18 percent for 1998 and 0.10 percent for 1997. Consumer loan net charge-offs as a percentage of average consumer loans were 2.03 percent for 1998 and 1.79 percent for 1997. Consumer loan net charge-offs declined \$28 million, primarily as a result of the consumer loan divestitures discussed previously.

At December 31, 1998, the allowance for credit losses was \$452 million, an increase of \$28 million since year-end 1997. The allowance as a percentage of total loans increased to 1.48 percent from 1.47 percent at December 31, 1997. The allowance as a percentage of total nonperforming assets decreased to 375 percent at December 31, 1998, from 413 percent at year-end 1997.

Noninterest Income

Year Ended December 31 (in millions)	1998	1997	1996
Fiduciary and investment management income	\$184	\$147	\$126
Service charges on deposit accounts	158	141	140
Commercial lending fees	43	32	23
Securities gains	6	5	14
Other	198	176	163
Subtotal	589	501	466
Consumer businesses sold	14	4	4
Bond indenture income	—	23	7
Customhouse broker fees	—	—	11
Other significant nonrecurring items	—	—	19
Total noninterest income	\$603	\$528	\$507

Noninterest income increased \$75 million, or 14 percent, to \$603 million in 1998, compared to \$528 million in 1997 and \$507 million in 1996. Noninterest income and noninterest expenses in the second half of 1998 include the consolidated financial results of Munder Capital Management (“Munder”), an investment advisory subsidiary in which a majority interest was obtained by the Corporation in July 1998. The Corporation accounted for its minority interest in periods prior to the third quarter of 1998 under the equity method. After adjusting for acquisitions, divestitures, securities gains and the large nonrecurring items discussed below, noninterest income rose \$71 million, or 14 percent, in 1998.

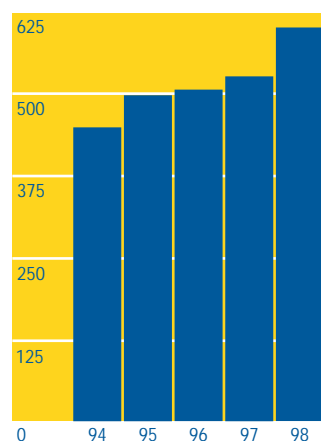
Fiduciary and investment management income increased \$37 million, or 25 percent, in 1998 compared to an increase of \$21 million, or 16 percent, in 1997 (after excluding bond indenture income). Excluding the net additional revenues from Munder of \$18 million, the increase of 13 percent in 1998 reflects 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 \$137 billion at December 31, 1998, from \$117 billion at year-end 1997. Discretionary funds, which represent trust assets over which the Corporation has investment management authority, increased to \$50 billion from \$30 billion in 1997. The consolidation of Munder contributed \$14 billion of trust assets.

Service charges on deposit accounts increased \$17 million, or 12 percent, in 1998 compared to an increase of \$1 million, or 1 percent, in 1997. The majority of the 1998 increase related to revisions of the commercial account fee structure, growth in demand deposit activity and lower earnings credit allowances.

Commercial lending fees increased \$11 million, or 38 percent, in 1998 compared to an increase of \$9 million, or 35 percent, in 1997. Continued strong commercial loan growth contributed to increases in commercial loan service charges and fees on unfunded commitments in 1998. Commercial loan syndication fees increased \$6 million in 1998.

Income from securities gains was essentially unchanged from the prior year, totaling \$6 million in 1998 and \$5 million in 1997.

Noninterest Income (in millions)



Other noninterest income increased \$9 million, or 4 percent, in 1998. Higher levels of foreign exchange income, brokerage service fees and automated teller machine surcharges accounted for the majority of this increase. Excluding the impact of acquisitions, divestitures and large nonrecurring items in both periods, other noninterest income increased 13 percent. Significant nonrecurring items in other noninterest income include an \$11 million net gain on the sale of the mortgage servicing business and consumer loans discussed previously in 1998, and a \$23 million gain on the sale of the Corporation’s bond indenture 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, Incorporated.

Noninterest Expenses

Year Ended December 31 (in millions)	1998	1997	1996
Salaries	\$ 500	\$ 464	\$ 475
Employee benefits	65	75	86
Total salaries and employee benefits	565	539	561
Net occupancy expense	90	89	99
Equipment expense	60	62	69
Outside processing fee expense	43	42	42
Other	269	271	280
Subtotal	1,027	1,003	1,051
Restructuring charge	(7)	—	90
Other significant nonrecurring items	—	5	18
Total noninterest expenses	\$1,020	\$1,008	\$1,159

Noninterest expenses increased 1 percent to \$1,020 million in 1998, compared to \$1,008 million in 1997 and \$1,159 million (\$1,069 million, excluding the restructuring charge) in 1996. Excluding the effect of acquisitions, divestitures and the large nonrecurring items discussed below, noninterest expenses increased \$25 million, or 3 percent, in 1998.

Total salaries expense increased \$36 million, or 8 percent, in 1998 versus a decrease of \$11 million, or 2 percent, in 1997. The increase in 1998 was primarily from the consolidation of Munder, annual merit increases and increased incentives tied to performance. The number of full-time equivalent employees increased 174, or 2 percent, from year-end 1997, primarily due to Munder.

Employee benefits expense decreased \$10 million, or 13 percent, in 1998 versus a decrease of \$11 million, or 12 percent, in 1997. The reduction in 1998 was primarily due to reduced pension expense as a result of benefits from reduced staff levels related to the Direction 2000 program and the consumer loan and mortgage servicing divestitures mentioned earlier, as well as higher levels of benefits from company-owned life insurance policies. Excluding the effect of acquisitions and divestitures, salaries and benefits increased 4 percent in 1998.

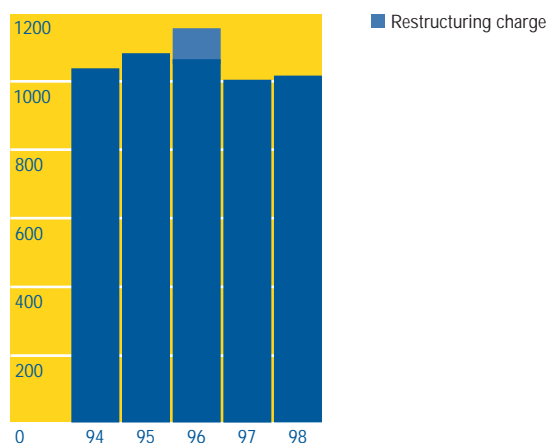
Net occupancy and equipment expenses, on a combined basis, decreased \$1 million, or 1 percent, in 1998 versus a decrease of \$17 million, or 10 percent, in 1997. After adjusting for acquisitions and divestitures, net occupancy and equipment expenses declined 2 percent in 1998.

Outside processing fees were essentially unchanged from the prior year, totaling \$43 million in 1998 and \$42 million in 1997.

Other noninterest expenses decreased \$7 million in 1998, compared to a \$22 million decrease in 1997. Other noninterest expenses included \$5 million of litigation accruals in 1997 and a loss of \$18 million in 1996 on the sale of a portion of the bankcard portfolio. Loss-sharing provisions in that bankcard sales agreement expose the Corporation to maximum additional losses of \$14 million over the last six months of the agreement. Management does not expect to incur significant additional losses as a result of these provisions. Excluding acquisitions, divestitures and the large nonrecurring items described above, other noninterest expenses increased \$4 million, or less than 2 percent. The minimal increase reflects management's continued efforts to control expenses.

The Corporation recorded a pre-tax restructuring charge of \$90 million in 1996 in connection with a major program (Direction 2000) 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) were anticipated from the program. The Corporation completed implementation during the first quarter of 1998. Full annual realization of the estimated benefits of the plan will not occur until 1999. As a result of the program, the Corporation eliminated 1,890 employee positions, about 15 percent of total positions at year-end 1996. Reinvestment opportunities during the implementation phase created 300 new positions. During 1998, the Corporation incurred \$22 million of termination benefits, occupancy and equipment write-offs and other costs which it charged against the restructuring reserve, compared to \$61 million in 1997. A reduction of \$7 million, netted against other noninterest expenses, was made to eliminate the restructuring liability in 1998. Additional information regarding the

Noninterest Expenses (in millions)



Corporation's restructuring reserve can be found in Note 15 on page 56.

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. The ratio was 49.39 percent in 1998, compared to 51.04 percent in 1997 and 60.36 percent in 1996 (55.67 percent excluding the restructuring charge).

Income Taxes

The provision for income taxes was \$324 million in 1998, compared to \$287 million in 1997 and \$229 million in 1996. The effective tax rate, computed by dividing the provision for income taxes by income before taxes, was 34.8 percent in 1998, 35.0 percent 1997 and 35.4 percent in 1996.

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. In addition to the three major lines of business the Finance Division is also reported as a segment. The Corporation's investment securities portfolio is included in the total assets of the Finance Division. Note 22 on page 63 describes how these segments were identified and presents the financial results of these business lines for the years ended December 31, 1998, 1997 and 1996.

Business Bank net income increased \$11 million, or 3 percent, in 1998, principally due to additional net interest income resulting from 18 percent average loan growth and a \$26 million increase in noninterest income. This was partially offset by a higher provision for credit losses resulting from loan growth.

Individual Bank net income increased \$42 million, or 19 percent, in 1998. Financial results for the Individual Bank for 1998 were affected by the sale of the mortgage servicing business and the sale of \$2.0 billion of consumer assets. Net interest income declined \$75 million, or 10 percent, from 1997, while the provision for credit losses decreased \$96 million, reflecting the results of the sale. Noninterest income in 1998 includes an \$11 million net gain related to the sale. Noninterest income in 1996 includes a \$13 million gain on the sale of the merchant services business.

Net income for the Investment Bank increased \$1 million in 1998, principally due to higher levels of institutional trust fees, discount brokerage fees and the consolidation of Munder.

Net income for Finance increased \$7 million in 1998, primarily due to a \$6 million increase in net interest income. This increase was due to the favorable impact of managing the Corporation's exposure to interest rate risk. This increase in swap income was partially offset by a reduction in interest income due to investment security runoff.

Net loss for Other decreased \$16 million in 1998, primarily due to a decline in the allowance for credit losses not assigned to specific business lines. An adjustment of \$7 million, netted against noninterest expenses, was made to eliminate the restructuring liability in 1998. Included in noninterest income for 1997 is 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 in connection with Direction 2000.

Table 5: Analysis of Investment Securities and Loans

December 31 (in millions)	1998	1997	1996	1995	1994
Investment securities available for sale					
U.S. government and agency securities	\$ 2,206	\$ 3,239	\$ 3,968	\$ 6,038	\$ 2,674
State and municipal securities	115	170	228	371	—
Other securities	391	597	604	450	232
Total investment securities available for sale	2,712	4,006	4,800	6,859	2,906
Investment securities held to maturity					
U.S. government and agency securities	—	—	—	—	4,462
State and municipal securities	—	—	—	—	422
Other securities	—	—	—	—	86
Total investment securities held to maturity	—	—	—	—	4,970
Total investment securities	\$ 2,712	\$ 4,006	\$ 4,800	\$ 6,859	\$ 7,876
Commercial loans	\$19,086	\$15,805	\$13,520	\$12,041	\$10,634
International loans					
Government and official institutions	12	6	11	6	18
Banks and other financial institutions	433	339	323	583	660
Other	2,268	1,740	1,372	796	517
Total international loans	2,713	2,085	1,706	1,385	1,195
Real estate construction loans	1,080	941	751	641	414
Commercial mortgage loans	4,179	3,634	3,446	3,254	3,056
Residential mortgage loans	1,038	1,565	1,744	2,221	2,436
Consumer loans	1,862	4,348	4,634	4,570	4,215
Lease financing	647	517	406	330	259
Total loans	\$30,605	\$28,895	\$26,207	\$24,442	\$22,209

Balance Sheet and Capital Funds Analysis

Total assets were \$36.6 billion at year-end 1998, representing a \$0.3 billion increase from \$36.3 billion on December 31, 1997. On an average basis, total assets remained relatively flat, with \$35.0 billion in 1998, compared to \$34.9 billion in 1997.

Earning Assets

Total earning assets were \$33.4 billion at year-end 1998, representing a \$0.3 billion increase from \$33.1 billion at December 31, 1997. On an average basis, total earning assets were \$32.1 billion in 1998, compared to \$32.0 billion in 1997. The average balance of commercial and commercial mortgage loans increased \$3.0 billion, or 17 percent, from 1997. Real estate construction loans rose an average \$123 million, or 14 percent in 1998. 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 5 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 \$389 million, consisting largely of loans originated to facilitate trade with limited cross-border risk. This growth reflects the increasing global activity of the Corporation's traditional customer base and an increased international presence. The Corporation undertakes risk management practices to minimize risk inherent in international lending arrangements. These practices 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 \$576 million, or 1.57 percent of assets and Canadian cross-border risk of \$380 million, or 1.04 percent of assets, were the only countries with exposure exceeding 1.00 percent of assets at December 31, 1998. There were no countries with exposure between 0.75 percent and 1.00 percent of total assets at year-end 1998. Canadian cross-border risk at year-end 1998 includes a \$14 million loan on nonaccrual status. Table 6 on page 32 provides additional information on the Corporation's Mexican and Canadian cross-border risk.

Table 6: Mexican and Canadian Cross-Border Risk

December 31 (in millions)		Governments and Official Institutions	Banks and Other Financial Institutions	Commercial and Industrial	Total
Mexico	1998	\$ 15	\$214	\$347	\$576
	1997	41	78	295	414
	1996	192	26	50	268
Canada	1998	—	—	380	380
	1997	—	—	256	256
	1996	—	—	128	128

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Table 7: Loan Maturities and Interest Rate Sensitivity

December 31, 1998 (in millions)	Within One Year*	After One	After Five Years	Total
		But Within Five Years		
Commercial loans	\$14,647	\$3,518	\$ 921	\$19,086
Commercial mortgage loans	1,286	1,961	932	4,179
International loans	2,516	172	25	2,713
Real estate construction loans	730	267	83	1,080
Total	\$19,179	\$5,918	\$1,961	\$27,058
Loans maturing after one year				
Predetermined interest rates		\$2,735	\$1,521	
Floating interest rates		3,183	440	
Total		\$5,918	\$1,961	

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

Table 8: Allocation of the Allowance for Credit Losses

December 31 (in millions)	1998		1997		1996		1995		1994		
	Allocated Allowance	Percent of Total Loans	Allocated Allowance	Percent of Total Loans	Allocated Allowance	Percent of Total Loans	Allocated Allowance	Percent of Total Loans	Allocated Allowance	Percent of Total Loans	
Domestic											
Commercial	\$131	62%	\$ 94	55%	\$ 98	52%	\$118	49%	\$119	48%	
Real estate construction	4	4	7	3	6	3	5	3	6	2	
Commercial mortgage	21	14	18	13	27	13	33	13	35	14	
Residential mortgage	—	3	1	5	2	7	2	9	2	11	
Consumer	48	6	116	15	120	18	84	19	60	19	
Lease financing	6	2	1	2	1	1	1	1	1	1	
International	17	9	5	7	3	6	2	6	3	5	
Unallocated	225	—	182	—	110	—	96	—	100	—	
Total	\$452	100%	\$424	100%	\$367	100%	\$341	100%	\$326	100%	

Average residential mortgage loans decreased \$351 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 \$1.9 billion, primarily as a result of the sale of \$2.0 billion of indirect consumer loans and non-relationship bankcard receivables. Average installment, revolving credit and bankcard loans decreased \$1,611 million, \$75 million and \$225 million, respectively, during the period.

Average investment securities declined to \$3.4 billion in 1998, compared to \$4.7 billion in 1997. This decline reflects 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 \$955 million and average state and municipal securities decreased \$58 million, while average other securities decreased \$303 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.

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. Average short-term investments increased slightly to \$143 million during 1998, from \$129 million during 1997.

Table 9: Maturity Distribution of Domestic Certificates of Deposit of \$100,000 and Over

December 31 (in millions)	1998
Three months or less	\$1,619
Over three months to six months	323
Over six months to twelve months	324
Over twelve months	179
Total	\$2,445

Deposits and Borrowed Funds

Average deposits increased \$307 million, or 1 percent, from 1997. Average noninterest-bearing deposits grew \$336 million, or 6 percent, from 1997, largely due to the growth in related commercial loan business. Average interest-bearing transaction, savings and money market deposits increased 4 percent during 1998, to \$8.9 billion. Average certificates of deposit decreased \$332 million, or 4 percent, from 1997.

Average federal funds purchased and securities sold under agreements to repurchase increased \$493 million, or 24 percent, from 1997.

The Corporation uses 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 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. Medium-term debt decreased \$2.2 billion, representing the net result of the issuance of \$3.0 billion and the maturity of \$5.2 billion of notes, during 1998. Long-term debt increased \$231 million during 1998, primarily from the issuance of \$250 million of subordinated notes offset by the maturity of \$75 million of subordinated debentures. Further information on medium- and long-term debt is included in Note 9 of the consolidated financial statements on page 52.

The increases in average deposits, federal funds purchased and securities sold under agreements to repurchase, and medium- and long-term debt balances were offset by a decline of \$891 million, or 49 percent, in other borrowed funds. The decline in other borrowed funds was attributable to more attractive short-term funding alternatives, such as federal funds purchased, and the reduced availability of treasury tax and loan deposits.

Capital

Shareholders' equity was \$3.0 billion at December 31, 1998. Comerica repurchased 2.3 million shares equaling \$149 million of capital during 1998. At December 31, 1998, the Corporation had remaining authorization to purchase 20 million shares of common stock.

Excluding share repurchases, the remaining change in capital is the net effect of increases in capital from retained earnings of \$391 million and \$47 million of common stock issued for employee stock plans and a decrease of \$5 million in nonowner equity, principally a change in value of available-for-sale securities.

The Corporation declared common dividends totaling \$199 million on net income applicable to common stock of \$590 million, representing a dividend payout ratio of 34 percent. The payout ratio in 1997 was 36 percent. The Corporation targeted a payout ratio between 30 to 40 percent, although the board of directors constantly reassesses this target 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 paid April 1, 1998, as well as increased the quarterly cash dividend 12 percent to \$0.32 per common share.

At December 31, 1998, 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 57 for the capital ratios.

RISK MANAGEMENT

The Corporation assumes various types of risk in the normal course of business. The most significant risk exposures are credit, interest rate and liquidity risk. In addition, like other large corporations, the Corporation is exposed to operating risk. The Corporation employs risk management processes to identify, measure, monitor and control these risks.

Credit Risk

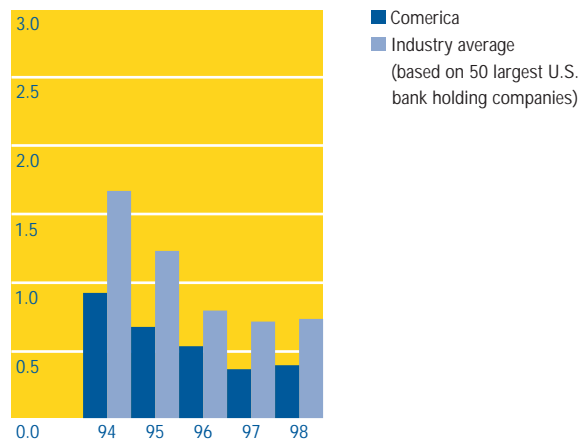
Credit risk represents the risk that a customer or counterparty may not perform in accordance with contractual terms. Credit risk is inherent in the financial services business and results from extending credit to customers, purchasing securities and entering into off-balance sheet financial derivative instruments. Policies and procedures for measuring and managing this risk are formulated, approved and communicated throughout the Corporation. Credit executives are involved in the origination and underwriting process to ensure adherence to risk policies and underwriting standards. The Corporation also manages credit risk through diversification, limiting exposure to any single industry or customer, selling participations to third parties and requiring collateral.

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, 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 to Loans and Other Real Estate (in percentages)



Nonperforming assets as a percent of total loans and other real estate were 0.39 percent and 0.36 percent at year-end 1998 and 1997, respectively.

Nonaccrual loans at December 31, 1998, increased 38 percent to \$108 million from an unusually low amount of \$78 million at year-end 1997.

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 \$5 million, primarily due to the sale of one large property.

Nonaccrual Loans

December 31 (dollar amounts in millions)	1998	1997
Carrying value	\$108	\$ 78
Contractual value	159	119
Carrying value as a percentage of contractual value	68%	66%

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, 1998. These loans totaled \$4.6 billion, or 15 percent of total loans at December 31, 1998, versus \$4.3 billion, or 15 percent, at December 31, 1997.

Table 10: Analysis of Investment Securities Portfolio—Fully Taxable Equivalent

December 31, 1998 (dollar amounts in millions)	Maturity [†]										Weighted Average Maturity Yrs./Mos.	
	Within 1 Year		1 - 5 Years		5 - 10 Years		After 10 Years		Total			
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield		
Available for sale												
U.S. Treasury	\$ 41	5.66%	\$ 21	5.40%	\$ —	—%	\$ —	—%	\$ 62	5.57%	1/0	
U.S. government and agency	31	6.58	74	7.63	809	6.21	1,230	6.53	2,144	6.45	10/2	
State and municipal securities	32	6.39	56	6.45	21	6.11	6	6.38	115	6.37	3/1	
Other bonds, notes and debentures	15	12.84	168	8.22	74	8.05	48	8.18	305	8.41	6/2	
Federal Reserve Bank stock and other investments*	—	—	—	—	—	—	—	—	86	—	—	
Total investment securities available for sale	\$119	6.88%	\$319	7.59%	\$904	6.36%	\$1,284	6.59%	\$2,712	6.65%	9/2	

*Balances are excluded in the calculation of total yield.

†Based on final contractual maturity.

Table 11: Summary of Nonperforming Assets and Past Due Loans

December 31 (dollar amounts in millions)	1998	1997	1996	1995	1994
Nonperforming assets					
Nonaccrual loans					
Commercial loans	\$ 77	\$ 59	\$ 72	\$ 87	\$ 89
International loans	20	1	—	—	—
Real estate construction loans	1	3	3	7	17
Real estate mortgage loans (principally commercial)	10	15	28	37	56
Total nonaccrual loans	108	78	103	131	162
Reduced-rate loans	8	8	8	3	2
Total nonperforming loans	116	86	111	134	164
Other real estate	5	17	29	29	40
Total nonperforming assets	\$121	\$103	\$140	\$163	\$204
Nonperforming loans as a percentage of total loans	0.38%	0.30%	0.42%	0.55%	0.74%
Nonperforming assets as a percentage of total loans and other real estate	0.39%	0.36%	0.53%	0.67%	0.92%
Allowance for credit losses as a percentage of total nonperforming assets	375%	413%	263%	209%	160%
Loans past due 90 days or more and still accruing	\$ 40	\$ 53	\$ 52	\$ 57	\$ 39

These totals include floor plan loans to automobile dealers of \$1,454 million and \$1,408 million at December 31, 1998 and 1997, respectively. All other industry concentrations individually represented less than 5 percent of total loans at year-end 1998.

The Corporation has successfully operated in the Michigan economy in spite of a loan concentration and several downturns in the auto industry. The largest automotive industry loan on nonaccrual status at December 31, 1998, was \$13 million. There were no other automotive industry-related loans larger than \$3 million on nonaccrual status as of year-end 1998. The Corporation incurred \$6 million of automotive industry-related charge-offs during 1998.

Commercial Real Estate Lending

The real estate construction loan portfolio contains loans primarily made to customers with satisfactory project completion experience. The portfolio has approximately 1,069 loans, of which 74 percent have balances of less than \$1 million. The largest real estate construction loan has a balance of approximately \$20 million.

The commercial mortgage loan portfolio, 56 percent of which relates to owner-occupied properties, also consists primarily of loans to long-time customers. Of the approximately 7,071 loans in the portfolio, 87 percent have balances under \$1 million and the largest loan has a balance of approximately \$30 million. Additionally, the Corporation's policy requires a 75 percent or less loan-to-value 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 factor in evaluating credit risk. The following table indicates the diversification of the portfolios throughout the markets served by the Corporation.

Geographic Distribution

December 31, 1998 (in millions)	Real Estate Construction	Commercial Mortgage
Michigan	\$ 460	\$2,540
California	170	706
Texas	328	440
Florida	66	150
Other	56	343
Total	\$1,080	\$4,179

Interest Rate Risk

Interest rate risk arises primarily through the Corporation's core business activities of extending loans and taking deposits. The Corporation actively manages its material exposure to interest rate risk. The principal 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. The Asset Liability Policy Committee (ALPC) establishes and the board of directors approve corporate policies and risk limits pertaining to asset and liability management activities. The ALPC monitors compliance with these policies, and is comprised of executive and senior management from various areas of the Corporation, including finance, lending, investments and deposit gathering. The ALPC meets regularly to discuss 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 ALPC regularly reviews the results of these interest rate risk measurements.

The Corporation frequently evaluates net interest income under various balance sheet and interest rate scenarios. The results of these analyses 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 1998 for a 200-basis-point decline in short-term interest rates identified approximately \$72 million of net interest income at risk during 1999. If short-term interest rates rise 200 basis points, the Corporation would have approximately \$49 million of net interest income benefit. Year-end 1997 net interest income at risk was measured at \$35 million for a 200-basis-point decline in interest rates and \$22 million for a 200-basis-point 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, anticipated

interest rate levels and yield curve differences create faster amortization on certain loans, securities and interest rate swaps in the 1998 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.

Most assets and liabilities reprice either at maturity or in accordance with their contractual terms. However, 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. 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 38 shows the interest sensitivity gap as of year-end 1998 and 1997. 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 \$540 million of rate sensitivity to the 1998 year-end gap. In addition, the schedule identifies the adjustment for the price elasticity on certain core deposits.

The Corporation remained asset sensitive throughout 1998, as asset sensitivity generated by the consumer divestitures cited previously and continued investment security amortization was primarily hedged through the use of interest rate swaps. The Corporation had a one-year asset sensitive gap of \$2,111 million, or 6 percent of earning assets, as of December 31, 1998. This compares to a \$1,156 million asset sensitive gap, or 3 percent of earning assets, on December 31, 1997. Management anticipates continued material growth in asset sensitivity throughout 1999, and will analyze 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 objective of managing the sensitivity of net interest income to changes in interest rates. To accomplish this objective, the Corporation uses interest rate swaps 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.

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, 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
Additions	3,402	7,218	10,620
Maturities/amortizations	(4,330)	(6,904)	(11,234)
Terminations	(755)	—	(755)
Balances at December 31, 1998	\$6,884	\$ 913	\$ 7,797

The notional amount of risk management interest rate swaps totaled \$6,869 million at December 31, 1998, and \$8,515 million at December 31, 1997. The fair value of risk management interest rate swaps at December 31, 1998, was a positive \$146 million, compared to a positive \$123 million at December 31, 1997. For the year ended December 31, 1998, risk management interest rate swaps generated \$46 million in net interest income, compared to \$51 million in net interest income for the year ended December 31, 1997. These off-balance sheet instruments represented 75 percent of total derivative financial instruments and foreign exchange contracts, including commitments, at year-end 1998 and 74 percent at year-end 1997.

The table on page 39 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, 1998. The swaps have been grouped by the assets and liabilities to which they have been designated.

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 and mortgages held for sale). 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, 1998 and 1997, were \$928 million and \$651 million, respectively.

Further information regarding risk management financial instruments and foreign currency exchange contracts is provided in Notes 1, 9, 18 and 25.

Table 12: Schedule of Rate Sensitive Assets and Liabilities

(dollar amounts in millions)	December 31, 1998			December 31, 1997		
	Interest Sensitivity Period			Interest Sensitivity Period		
	Within One Year	Over One Year	Total	Within One Year	Over One Year	Total
Assets						
Cash and due from banks	\$ —	\$ 1,773	\$ 1,773	\$ —	\$ 1,927	\$ 1,927
Short-term investments	103	7	110	196	7	203
Investment securities	881	1,831	2,712	1,223	2,783	4,006
Commercial loans (including lease financing)	17,555	2,178	19,733	14,742	1,580	16,322
International loans	2,713	—	2,713	2,085	—	2,085
Real estate related loans	3,856	2,441	6,297	3,907	2,233	6,140
Consumer loans	1,044	818	1,862	2,100	2,248	4,348
Total loans	25,168	5,437	30,605	22,834	6,061	28,895
Other assets	618	783	1,401	742	519	1,261
Total assets	\$26,770	\$ 9,831	\$36,601	\$24,995	\$11,297	\$36,292
Liabilities						
Deposits						
Noninterest-bearing	\$ 1,451	\$ 5,548	\$ 6,999	\$ 459	\$ 6,302	\$ 6,761
Savings	—	1,533	1,533	—	1,601	1,601
Money market and NOW	5,991	1,901	7,892	5,570	1,724	7,294
Certificates of deposit	5,275	1,232	6,507	5,562	1,059	6,621
Foreign office	1,382	—	1,382	309	—	309
Total deposits	14,099	10,214	24,313	11,900	10,686	22,586
Short-term borrowings	3,580	—	3,580	3,193	—	3,193
Medium- and long-term debt	3,771	1,511	5,282	5,961	1,325	7,286
Other liabilities	64	315	379	149	316	465
Total liabilities	21,514	12,040	33,554	21,203	12,327	33,530
Shareholders' equity	(8)	3,055	3,047	(1)	2,763	2,762
Total liabilities and shareholders' equity	\$21,506	\$15,095	\$36,601	\$21,202	\$15,090	\$36,292
Sensitivity impact of interest rate swaps	(5,549)	5,549	—	(4,377)	4,377	—
Interest sensitivity gap	(285)	285	—	(584)	584	—
Gap as a percentage of earning assets	(1)%	1%	—	(2)%	2%	—
Sensitivity impact from elasticity adjustments (1)	2,396	(2,396)	—	1,740	(1,740)	—
Interest sensitivity gap with elasticity adjustments	\$ 2,111	\$ (2,111)	—	\$ 1,156	\$ (1,156)	—
Gap as a percentage of earning assets	6%	(6)%	—	3%	(3)%	—

(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 13: Remaining Expected Maturity of Risk Management Interest Rate Swaps

(dollar amounts in millions)	1999	2000	2001	2002	2003	2004- 2026	Total	Dec. 31 1997
Variable Rate Asset Designation:								
Receive fixed swaps								
Generic	\$ —	\$ 700	\$3,250	\$ —	\$ —	\$ —	\$3,950	\$ 700
Amortizing	—	—	—	—	—	—	—	100
Index amortizing	1,221	573	133	182	60	—	2,169	3,504
Weighted average: (1)								
Receive rate	6.35%	6.35%	5.72%	6.49%	6.14%	—%	6.01%	6.33%
Pay rate	5.34%	5.33%	5.26%	5.52%	5.58%	—%	5.30%	5.90%
Floating/floating swaps	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 55
Fixed Rate Asset Designation:								
Pay fixed swaps								
Generic	\$ 2	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 2	\$ 2
Index amortizing	4	7	—	—	—	—	11	17
Weighted average: (1)								
Receive rate	5.44%	5.62%	—%	—%	—%	—%	5.54%	5.97%
Pay rate	6.55%	5.34%	—%	—%	—%	—%	5.88%	5.85%
Medium- and Long-term Debt Designation:								
Generic receive fixed swaps	\$ —	\$ 200	\$ —	\$150	\$ —	\$350	\$ 700	\$2,200
Weighted average: (1)								
Receive rate	—%	6.91%	—%	7.37%	—%	7.56%	7.33%	6.84%
Pay rate	—%	5.26%	—%	5.16%	—%	5.34%	5.28%	5.83%
Floating/floating swaps	\$ —	\$ 37	\$ —	\$ —	\$ —	\$ —	\$ 37	\$1,937
Weighted average: (2)								
Receive rate	—%	4.98%	—%	—%	—%	—%	4.98%	5.73%
Pay rate	—%	5.19%	—%	—%	—%	—%	5.19%	5.77%
Total notional amount	\$1,227	\$1,517	\$ 3,383	\$332	\$ 60	\$350	\$6,869	\$8,515

(1) Variable rates paid or received are based primarily on one-month and three-month LIBOR rates paid or received at December 31, 1998.

(2) Variable rates paid are based on LIBOR at December 31, 1998, while variable rates received are based on prime.

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, 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
Additions	417	36,171	36,588
Maturities/amortizations	(232)	(37,335)	(37,567)
Balances at December 31, 1998	\$681	\$ 673	\$ 1,354

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, 1998 and 1997, customer-initiated activity represented 15 percent and 20 percent, respectively, of total derivative and foreign exchange contracts, including commitments. Refer to Note 18 on page 57 for further information regarding customer-initiated and other derivative financial instruments and foreign exchange contracts.

Liquidity Risk

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 with maturities between one month and 15 years. The Michigan bank has an additional \$2 billion European note program. At year-end 1998, unissued debt related to the two programs totaled \$5.7 billion. In addition, liquid assets totaled \$4.6 billion, at December 31, 1998. The Corporation also had available \$1.9 billion from a collateralized borrowing account with the Federal Reserve Bank at year-end 1998. Purchased funds at December 31, 1998, excluding certificates of deposit with maturities beyond one year and medium- and long-term debt, approximated \$7.2 billion.

The parent company had available a \$250 million commercial paper facility at December 31, 1998, all of which was unused. Another source of liquidity for the parent company is dividends from its subsidiaries. As discussed in Note 17 on page 57, subsidiary banks are subject to regulation and may be limited in their ability to pay dividends or transfer funds to the holding company. During 1999, the subsidiary banks can pay dividends up to \$543 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, 1998, the ratio was 108 percent.

Operational Risk

Operational risk is the risk of unexpected losses attributable to human error, system failures, fraud, unauthorized transactions and inadequate internal controls and procedures. The Corporation mitigates this risk through a system of internal controls that are designed to keep operating risks at appropriate levels. The Corporation's internal audit staff monitors and assesses the overall effectiveness of the system of internal controls on an ongoing basis and provides an opinion on the environment to management and the Audit Committee. Companies experience operational losses which are routinely incurred in business operations.

Comerica has established an Operational Risk Committee comprised of executives from several disciplines. This group is charged with surfacing significant operational risks which may impact customer service, reputation or result in financial loss if not adequately addressed.

The internal audit staff independently supports an active Audit Committee oversight process. The Audit Committee serves as an independent extension of the Board of Directors. Routine and special meetings are scheduled periodically to provide detail on relevant operational risks.

Other Matters

The Corporation initiated a company-wide project to prepare its computer systems, applications and infrastructure for year 2000 readiness. The following discussion of the implications of the year 2000 issue for the Corporation contains numerous forward-looking statements based on inherently uncertain information. The cost of the project and the planned date to complete the internal year 2000 modifications are based on management's best estimates, derived utilizing a number of assumptions of future events such as the continued availability of internal and external resources, including employees, third party modifications and other factors. However, there can be no guarantee that these estimates will be achieved and actual results could differ.

In addition, the Corporation places a high degree of reliance on the computer systems of third parties, such as customers, suppliers, and other financial and governmental institutions. Although the Corporation is assessing the readiness of these third parties and has prepared contingency plans, there can be no guarantee that business-critical third party vendors or other significant third parties, such as public utilities, will adequately address their year 2000 issues.

Readiness Preparation

Comerica will be ready to conduct business in the year 2000. The Corporation established an extensive enterprise-wide and centrally managed year 2000 program in early 1996. The year 2000 team includes the active involvement of senior executives as well as seasoned project managers and business unit liaisons from throughout the company. The Corporation is evaluating and monitoring the year 2000 readiness of vendors, customers and third party processors. At Comerica, completing a successful year 2000 program is our top priority so that the arrival of the 21st century will be a celebration of quality customer service. Many factors can affect a company's ability to deliver quality services at any given time. While we will be "ready" to do business in the year 2000, we of course cannot guarantee that our services will be uninterrupted due to the century date change or otherwise. To minimize customer service disruptions, the Corporation has implemented a no-vacation policy for the entire organization from December 27, 1999, through January 31, 2000. Additional guidelines are being implemented within business units prior- and post-event as required.

The Corporation's year 2000 program is comprised of numerous individual projects which address the following broad areas: data processing systems, telecommunications and data networks, building facilities and security systems, vendor risk, customer risk, contingency planning and communications. All mission critical applications and services were significantly year 2000 ready as of December 31, 1998, with the remaining systems planned for completion prior to the end of 1999. As of December 31, 1998, the Corporation has completed 75 percent of remediation effort and 45 percent of testing.

The Corporation has a major focus on completing testing for all components, having in place what is believed to be an extensive testing methodology, validation and verification process. To alleviate disruptions due to errors, state of the art data aging and testing tools are being utilized to validate year 2000 readiness for applications. The year 2000 program utilizes Comerica's Year 2000 Testing and Clean Management Guidelines for all components. The Corporation plans to conduct a complete systems test in the second quarter of 1999 to validate its findings. Furthermore, the Corporation is documenting contingency plans for all business critical applications to minimize any disruptions to customer service caused by year 2000 issues.

The Corporation does not significantly rely on embedded technology in its critical processes. Embedded technology does control some building security and operations such as power management, ventilation and elevator control. Building facilities are presently being evaluated, and it is management's plan to confirm year 2000 readiness or replace the embedded technology by approximately June 30, 1999.

Customers and vendors who have significant relationships with the Corporation continue to be evaluated to determine their preparation and readiness for the year 2000. The potential failure of those customers to be adequately prepared for year 2000 is included in management's credit and review process used to establish loss reserves. A high level risk reduction strategy is being implemented to manage and mitigate risks to our asset/liability position. There can be no guarantee that the remediation of the systems of the Corporation's vendors or customers will be completed on a timely basis.

The Corporation relies on suppliers and customers for certain information processing services, and is addressing year 2000 issues with both groups. Management has identified critical vendors and inquired as to their year 2000 readiness plans and status. The Corporation has completed written risk assessments on each and has asked those found to pose a significant risk to demonstrate how risks will be addressed. Measures to minimize risk are being undertaken with those that appear to pose a significant risk. There may be certain business-critical third parties, such as utilities or telecommunication companies, where alternative arrangements or sources are limited or unavailable.

The Corporation is also reliant on its customers to make the necessary preparations for year 2000 so that their business operations will not be interrupted, as an interruption could threaten their ability to honor financial commitments. The Corporation identified borrowers, capital market counterparties, funding sources and large depositors having financial volumes sufficiently large to warrant inquiry as to year 2000 preparation. Written risk assessments have been completed on each. Customers found to have a significant risk of not being ready for year 2000 are encouraged to make the necessary effort. The Corporation is undertaking measures to minimize risk with those that appear to pose a significant risk.

Comerica's senior executives, the board of directors and a project steering committee regularly review the year 2000 program and its progress. In addition, the federal and state agencies that regulate the banking industry regularly monitor our year 2000 program.

Cost

Included in the Corporation's estimate of year 2000 project cost are internal and external development costs, asset impairment write-offs and the cost of software and hardware for systems that are not ready, or would not have been ready by the new century as a result of normal replacement. The Corporation's current estimate is that year 2000 project cost, both internal and external, will total approximately \$50 million, of which the Corporation incurred approximately \$21 million in 1996, 1997 and 1998. The increase in the total estimate from previously reported numbers relates primarily to costs, not yet incurred, associated with expansion of the scope for personal computers and recently approved enhancements to the year 2000 retention incentive plan. Of the \$21 million incurred to date, \$5 million was for capital assets which the Corporation is expensing over their useful lives. The Corporation will fund the remaining year 2000 costs yet to be incurred by normal operating cash flow. The project is staffed with external resources as well as internal staff redeployed from less time-sensitive assignments. The Corporation does not believe the redeployment of existing staff will have a material adverse effect on its business, results of operations or financial position. Approximately \$8 million of the remaining cost is for capital assets which will be expensed over their useful lives. Estimated total project cost could change further as efforts continue.

Risks

The Corporation has grouped the principal risks associated with the year 2000 problem into three categories. The first is the risk that the Corporation does not successfully ready operations for the year 2000. The Corporation, like other financial institutions, is heavily dependent on computer systems. The complexity of these systems and dependence on one another makes it impossible to switch to other systems immediately as would be required if necessary corrections were not made in advance. Management believes it will be able to make the necessary corrections in advance.

Computer failure of third parties may jeopardize the Corporation's operations, but how seriously depends on the nature and duration of such failures. The most serious impact on the Corporation's operations from suppliers would result if basic services such as telecommunications, electric power suppliers, and services provided by other financial institutions and governmental agencies were disrupted. Significant public disclosure of the state of readiness among basic infrastructure and other suppliers has not generally been available. Although inquiries are underway, the Corporation does not yet have sufficient information to estimate the likelihood of significant disruptions among its suppliers.

Operational failures among the Corporation's sources of major funding, larger borrowers and capital market counterparties could affect their ability to continue to provide funding or meet obligations when due. Similar to the situation outlined above with suppliers, public information has not generally been available. At this time, it is not possible to accurately estimate the likelihood, or potential impact, of significant disruptions among the Corporation's funding sources and obligors.

Contingency Plans

The Corporation is developing remediation contingency plans and business resumption contingency plans specific to the year 2000. Remediation contingency plans address the actions to be taken if the current approach to remediating a system is falling behind schedule or otherwise appears in jeopardy of failing to deliver a year 2000 ready system when needed. Business resumption contingency plans address the actions that would be taken if critical business functions can not be carried out in the normal manner due to system or supplier failure.

The Corporation developed remediation contingency plans with trigger dates for review and implementation for critical data systems. The Corporation is also enhancing its existing business resumption plans to reflect year 2000 issues and is developing plans designed to coordinate the efforts of its personnel and resources in addressing any year 2000 problems that become known after December 31, 1999.

This annual report to shareholders includes forward-looking statements based on management's current expectations and/or the assumptions made in the earnings simulation analysis. Numerous factors could cause variances in these projections, and their underlying assumptions, such as changes in interest rates, the industries where the Corporation has a concentration of loans, changes in the level of fee income, year 2000 expenses, economic conditions and continuing consolidation in the banking industry.

Consolidated Balance Sheets
Comerica Incorporated and Subsidiaries

December 31 (in thousands, except share data)	1998	1997
Assets		
Cash and due from banks	\$ 1,773,100	\$ 1,927,087
Short-term investments	109,640	202,957
Investment securities available for sale	2,712,165	4,005,962
Commercial loans	19,086,541	15,805,549
International loans	2,713,259	2,085,090
Real estate construction loans	1,079,614	940,910
Commercial mortgage loans	4,179,271	3,633,785
Residential mortgage loans	1,037,941	1,565,445
Consumer loans	1,861,630	4,347,665
Lease financing	646,607	516,600
Total loans	30,604,863	28,895,044
Less allowance for credit losses	(452,409)	(424,147)
Net loans	30,152,454	28,470,897
Premises and equipment	352,650	380,157
Customers' liability on acceptances outstanding	12,335	18,392
Accrued income and other assets	1,488,487	1,286,946
Total assets	\$36,600,831	\$36,292,398
Liabilities and Shareholders' Equity		
Noninterest-bearing deposits	\$ 6,999,337	\$ 6,761,202
Interest-bearing deposits	17,313,796	15,825,115
Total deposits	24,313,133	22,586,317
Federal funds purchased and securities sold under agreements to repurchase	3,108,985	592,860
Other borrowed funds	471,168	2,600,041
Acceptances outstanding	12,335	18,392
Accrued expenses and other liabilities	366,338	446,625
Medium- and long-term debt	5,282,259	7,286,387
Total liabilities	33,554,218	33,530,622
Nonredeemable preferred stock—\$50 stated value		
Authorized—5,000,000 shares		
Issued—5,000,000 shares in 1998 and 1997	250,000	250,000
Common stock—\$5 par value		
Authorized—325,000,000 shares		
Issued—157,233,088 shares in 1998 and 156,815,367 shares in 1997	786,165	784,077
Capital surplus	24,649	—
Unrealized net losses on investment securities available for sale	(6,455)	(1,937)
Retained earnings	2,086,589	1,731,419
Deferred compensation	(5,202)	(1,783)
Less cost of common stock in treasury—1,351,997 shares in 1998	(89,133)	—
Total shareholders' equity	3,046,613	2,761,776
Total liabilities and shareholders' equity	\$36,600,831	\$36,292,398

See notes to consolidated financial statements.

Consolidated Statements of Income
Comerica Incorporated and Subsidiaries

Year Ended December 31

(in thousands, except per share data)

	1998	1997	1996
Interest Income			
Interest and fees on loans	\$2,382,329	\$2,317,844	\$2,160,981
Interest on investment securities			
Taxable	218,378	310,399	372,331
Exempt from federal income tax	7,252	10,797	17,443
Total interest on investment securities	225,630	321,196	389,774
Interest on short-term investments	8,815	8,363	12,025
Total interest income	2,616,774	2,647,403	2,562,780
Interest Expense			
Interest on deposits	647,825	673,265	685,539
Interest on short-term borrowings			
Federal funds purchased and securities sold under agreements to repurchase	136,616	110,752	111,729
Other borrowed funds	49,095	98,258	107,155
Interest on medium- and long-term debt	367,777	374,022	294,990
Net interest rate swap income	(45,810)	(51,670)	(48,911)
Total interest expense	1,155,503	1,204,627	1,150,502
Net interest income	1,461,271	1,442,776	1,412,278
Provision for credit losses	113,000	146,000	114,000
Net interest income after provision for credit losses	1,348,271	1,296,776	1,298,278
Noninterest Income			
Fiduciary and investment management income	184,354	147,336	133,482
Service charges on deposit accounts	157,416	141,078	140,436
Commercial lending fees	43,326	31,342	23,249
Securities gains	6,116	5,195	13,588
Other noninterest income	211,936	203,001	196,199
Total noninterest income	603,148	527,952	506,954
Noninterest Expenses			
Salaries and employee benefits	565,303	538,926	560,784
Net occupancy expense	89,911	89,380	99,211
Equipment expense	60,147	61,759	68,827
Outside processing fee expense	42,785	41,683	42,481
Restructuring charge	(6,840)	—	90,000
Other noninterest expenses	268,738	276,238	297,723
Total noninterest expenses	1,020,044	1,007,986	1,159,026
Income before income taxes	931,375	816,742	646,206
Provision for income taxes	324,299	286,266	229,045
Net Income	\$ 607,076	\$ 530,476	\$ 417,161
Net income applicable to common stock	\$ 589,976	\$ 513,376	\$ 408,136
Basic net income per common share	\$3.79	\$3.24	\$2.41
Diluted net income per common share	3.72	3.19	2.38
Cash dividends declared on common stock	\$ 199,403	\$ 181,272	\$ 170,067
Dividends per common share	\$1.28	\$1.15	\$1.01

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, 1996	\$ —	\$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	—	—	—	<u>13,588</u>	—	—	—	<u>13,588</u>
Nonowner changes in equity before income taxes	—	—	—	(28,689)	—	—	—	(28,689)
Provision for income taxes related to nonowner changes in equity	—	—	—	<u>(10,041)</u>	—	—	—	<u>(10,041)</u>
Nonowner changes in equity, net of tax	—	—	—	<u>(18,648)</u>	—	—	—	<u>(18,648)</u>
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	—	—	—	37,275	—	—	—	37,275
Less: Reclassification adjustment for gains/(losses) included in net income	—	—	—	<u>5,195</u>	—	—	—	<u>5,195</u>
Nonowner changes in equity before income taxes	—	—	—	32,080	—	—	—	32,080
Provision for income taxes related to nonowner changes in equity	—	—	—	<u>11,228</u>	—	—	—	<u>11,228</u>
Nonowner changes in equity, net of tax	—	—	—	<u>20,852</u>	—	—	—	<u>20,852</u>
Net income and nonowner changes in equity	—	—	—	—	—	—	—	551,328
Cash dividends declared:								
Preferred stock	—	—	—	—	(17,100)	—	—	(17,100)
Common stock	—	—	—	—	(181,272)	—	—	(181,272)
Purchase and retirement of 3,618,479 shares of common stock	—	(18,092)	(30,750)	—	(193,451)	—	—	(242,293)
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
Net income for 1998	—	—	—	—	607,076	—	—	607,076
Nonowner changes in equity:								
Unrealized holding gains/(losses) arising during the period	—	—	—	(835)	—	—	—	(835)
Less: Reclassification adjustment for gains/(losses) included in net income	—	—	—	<u>6,116</u>	—	—	—	<u>6,116</u>
Nonowner changes in equity before income taxes	—	—	—	(6,951)	—	—	—	(6,951)
Provision for income taxes related to nonowner changes in equity	—	—	—	<u>(2,433)</u>	—	—	—	<u>(2,433)</u>
Nonowner changes in equity, net of tax	—	—	—	<u>(4,518)</u>	—	—	—	<u>(4,518)</u>
Net income and nonowner changes in equity	—	—	—	—	—	—	—	602,558
Cash dividends declared:								
Preferred stock	—	—	—	—	(17,100)	—	—	(17,100)
Common stock	—	—	—	—	(199,403)	—	—	(199,403)
Purchase and retirement of 60,000 shares of common stock	—	(300)	(3,182)	—	—	—	—	(3,482)
Purchase of 2,199,650 shares of common stock	—	—	—	—	—	—	(145,202)	(145,202)
Issuance of common stock under employee stock plans	—	2,388	27,831	—	(35,403)	(4,604)	56,069	46,281
Amortization of deferred compensation	—	—	—	—	—	1,185	—	1,185
Balances at December 31, 1998	\$250,000	\$786,165	\$ 24,649	\$ (6,455)	\$2,086,589	\$(5,202)	\$(89,133)	\$3,046,613

() Indicates deduction.

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows
Comerica Incorporated and Subsidiaries

Year Ended December 31
(in thousands)

	1998	1997	1996
Operating Activities			
Net income	\$ 607,076	\$ 530,476	\$ 417,161
Adjustments to reconcile net income to net cash provided by operating activities			
Provision for credit losses	113,000	146,000	114,000
Depreciation	57,633	58,529	66,776
Restructuring charge	(21,923)	(61,237)	90,000
Net (increase) decrease in trading account securities	2,796	(3,093)	4,659
Net (increase) decrease in loans held for sale	(5,236)	(2,666)	473,493
Net (increase) decrease in accrued income receivable	19,487	(23,730)	924
Net increase (decrease) in accrued expenses	2,973	54,330	(39,720)
Net amortization of intangibles	30,414	28,375	30,803
Funding for employee benefit plans	—	—	(25,000)
Other, net	(116,295)	(134,982)	187,438
Total adjustments	82,849	61,526	903,373
Net cash provided by operating activities	689,925	592,002	1,320,534
Investing Activities			
Net (increase) decrease in interest-bearing deposits with banks	(1,184)	24,010	(3,705)
Net (increase) decrease in federal funds sold and securities purchased under agreements to resell	96,941	(117,601)	4,898
Proceeds from sale of investment securities available for sale	111,511	238,506	1,211,250
Proceeds from maturity of investment securities available for sale	1,209,291	1,456,447	1,531,012
Purchases of investment securities available for sale	(126,239)	(924,509)	(643,796)
Net increase in loans (other than loans purchased)	(3,768,220)	(2,615,226)	(1,852,199)
Purchase of loans	(1,115)	(162,128)	(77,805)
Fixed assets, net	(35,609)	(31,023)	(46,038)
Net (increase) decrease in customers' liability on acceptances outstanding	6,057	14,710	(12,341)
Net cash provided by acquisitions/sales	1,878,907	—	200,459
Net cash provided by (used in) investing activities	(629,660)	(2,116,814)	311,735
Financing Activities			
Net increase (decrease) in deposits	1,726,816	219,144	(825,859)
Net increase (decrease) in short-term borrowings	387,252	(1,296,290)	(129,056)
Net increase (decrease) in acceptances outstanding	(6,057)	(14,710)	12,341
Proceeds from issuance of medium- and long-term debt	3,200,000	5,600,000	2,251,000
Repayments and purchases of medium- and long-term debt	(5,212,498)	(2,555,382)	(2,553,650)
Proceeds from issuance of preferred stock	—	—	246,744
Proceeds from issuance of common stock	50,885	35,082	35,206
Purchase of common stock for treasury and retirement	(148,684)	(242,293)	(622,196)
Dividends paid	(211,966)	(195,412)	(173,414)
Net cash provided by (used in) financing activities	(214,252)	1,550,139	(1,758,884)
Net increase (decrease) in cash and due from banks	(153,987)	25,327	(126,615)
Cash and due from banks at beginning of year	1,927,087	1,901,760	2,028,375
Cash and due from banks at end of year	\$1,773,100	\$1,927,087	\$1,901,760
Interest paid	\$1,188,599	\$1,161,812	\$1,201,146
Income taxes paid	\$ 256,880	\$ 266,428	\$ 212,530
Noncash investing and financing activities			
Loan transfers to other real estate	\$ 5,084	\$ 7,076	\$ 10,534
Stock issued for acquisitions	\$ —	\$ —	\$ 128,938

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 18 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 Credit Losses

The allowance for credit losses reflects management's assessment of possible losses inherent in the Corporation's on- and off-balance sheet credit portfolio. The allowance for credit losses attributable to the off-balance sheet credit portfolio is not material. The allowance for credit losses is allocated to each loan category based on a defined methodology, which has been in use, without material change, for several years. First, an internal risk rating is assigned to each commercial loan. Included in that risk rating is management's assessment of the potential failure of a customer to be adequately prepared for the year 2000, but only in those instances where management has significant information that a customer may not be adequately prepared. Management then assigns a projected loss ratio to each risk rating based on numerous factors identified below. A detailed credit quality review is performed quarterly on certain commercial loans which have deteriorated below certain levels of credit risk, resulting in an additional allocation of a specific portion of the allowance to such loans. The portion of the allowance allocated to consumer loans is determined by applying projected loss ratios to various segments of the loan portfolio. 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, actual loss ratios experienced in the future could vary from those projected. This uncertainty occurs because a loan's performance depends, not only on economic factors, but also other factors unique to each customer. In addition, the significant diversity in size of corporate loans means that even if the projected number of loans deteriorate, the dollar exposure could significantly vary from estimated amounts. Management also considers industry norms, and the expectations and input from rating agencies and banking regulators in determining the adequacy of the allowance. Loans which are deemed uncollectible are charged off and deducted from the allowance. The provision for credit 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.

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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. 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 credit losses. Subsequent write-downs, operating expenses and losses upon sale, if any, are charged to noninterest expenses.

Stock-Based Compensation

The Corporation elected to continue to apply Accounting Principles Board 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 Statement on Financial Accounting Standards (SFAS) No. 123, "Accounting for Stock-based Compensation." 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 noninterest 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 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 45. The caption "Net income and nonowner changes in equity," represents total comprehensive income as defined in the statement.

2 Acquisitions

During 1998, Comerica obtained a majority interest in Munder Capital Management, an investment advisory firm. Net income for the third and fourth quarter of 1998 includes the consolidated financial results of Munder. The Corporation's minority interest in periods prior to the third quarter of 1998 was accounted for under the equity method. Intangible assets increased \$133 million as a result of the consolidation. The fair market value of total assets acquired and total liabilities assumed was not material.

During 1996, Comerica acquired Metrobank, which was accounted for as a purchase. The fair market value of both total assets acquired and total liabilities assumed was \$1 billion. The purchase price of the transaction totaled \$125 million. Intangible assets recorded were \$62 million.

3 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, 1998				
U.S. government and agency securities	\$2,196,736	\$13,463	\$ 3,993	\$2,206,206
State and municipal securities	110,711	4,587	48	115,250
Other securities	415,901	2,129	27,321	390,709
Total securities available for sale	\$2,723,348	\$20,179	\$31,362	\$2,712,165
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

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, 1998 (in thousands)	Cost	Estimated Fair Value
Contractual maturity		
Within one year	\$ 86,471	\$ 86,698
Over one year to five years	229,832	232,735
Over five years to ten years	104,535	94,834
Over ten years	58,508	44,343
Subtotal securities	479,346	458,610
Mortgage-backed securities	2,158,400	2,167,837
Equity and other nondebt securities	85,602	85,718
Total securities available for sale	\$2,723,348	\$2,712,165

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

Year Ended December 31 (in thousands)	1998	1997
Securities gains	\$7,629	\$6,890
Securities losses	(1,513)	(1,695)
Total	\$6,116	\$5,195

Assets, principally securities, carried at approximately \$1.9 billion at December 31, 1998, were pledged to secure public deposits (including State of Michigan deposits of \$39 million at December 31, 1998) and for other purposes as required by law.

4 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)	1998	1997
Nonaccrual loans		
Commercial loans	\$ 77,175	\$ 58,914
International loans	20,350	1,000
Real estate construction loans	452	3,438
Commercial mortgage loans	6,788	11,088
Residential mortgage loans	3,468	3,719
Total	108,233	78,159
Reduced-rate loans	7,464	7,583
Total nonperforming loans	115,697	85,742
Other real estate	4,956	17,046
Total nonperforming assets	\$120,653	\$102,788
Loans past due 90 days and still accruing	\$ 40,209	\$ 52,805
Gross interest income that would have been recorded had the nonaccrual and reduced-rate loans performed in accordance with original terms	\$ 13,674	\$ 10,088
Interest income recognized	\$ 3,899	\$ 2,399

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)	1998	1997	1996
Average impaired loans for the year	\$ 85,500	\$73,502	\$114,253
Total period-end impaired loans	101,417	70,470	98,050
Period-end impaired loans requiring an allowance	87,494	60,376	59,960
Impairment allowance	21,951	20,358	19,528

Those impaired loans not requiring an allowance represent loans for which the fair value exceeded the recorded investment in the loan. Eighty-one percent of the total impaired loans at December 31, 1998, 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 Credit Losses

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

(in thousands)	1998	1997	1996
Balance at January 1	\$424,147	\$367,165	\$341,344
Allowance of institutions purchased/sold	—	—	(3,630)
Loans charged off	(125,627)	(131,140)	(125,912)
Recoveries on loans previously charged off	40,889	42,122	41,363
Net loans charged off	(84,738)	(89,018)	(84,549)
Provision for credit losses	113,000	146,000	114,000
Balance at December 31	\$452,409	\$424,147	\$367,165
As a percent of total loans	1.48%	1.47%	1.40%

6 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, 1998 and 1997, exposure from loan commitments and guarantees to companies related to the

automotive industry totaled \$9.0 billion and \$8.3 billion, respectively. Additionally, commercial real estate loans, including commercial mortgages and construction loans, totaled \$5.3 billion in 1998 and \$4.6 billion in 1997. Approximately \$2.4 billion of commercial real estate loans at December 31, 1998, 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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7 Premises and Equipment and Other Noncancelable Obligations

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

(in thousands)	1998	1997
Land	\$ 49,356	\$ 52,934
Buildings and improvements	341,260	353,308
Furniture and equipment	327,498	344,681
Total cost	718,114	750,923
Less accumulated depreciation and amortization	(365,464)	(370,766)
Net book value	\$352,650	\$380,157

Rental expense for leased properties and equipment amounted to \$41 million in 1998 and 1997, and \$44 million in 1996. Future minimum payments under noncancelable obligations are as follows:

(in thousands)	
1999	\$ 44,466
2000	44,113
2001	40,723
2002	36,497
2003	32,764
2004 and later	283,234

8 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, 1998 and 1997:

(in thousands)	Federal Funds Purchased and Securities Sold Under Agreements to Repurchase	Other Borrowed Funds
December 31, 1998		
Amount outstanding at year-end	\$3,108,985	\$ 471,168
Weighted average interest rate at year-end	4.83%	3.91%
December 31, 1997		
Amount outstanding at year-end	\$ 592,860	\$2,600,041
Weighted average interest rate at year-end	5.26%	5.30%

At December 31, 1998, the parent company had available a \$250 million commercial paper facility. This facility is supported by a \$250 million line of credit agreement, all of which was unused. Under the current agreement the line will expire in May of 1999.

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

(in thousands)	1998	1997
Parent Company		
7.25% subordinated notes due 2007	\$ 159,669	\$ 148,509
9.75% subordinated notes due 1999	74,970	74,877
10.125% subordinated debentures due 1998	—	74,965
Total parent company	234,639	298,351
Subsidiaries		
Subordinated notes:		
7.25% subordinated notes due 2007	198,301	198,100
8.375% subordinated notes due 2024	155,502	147,938
7.25% subordinated notes due 2002	149,404	149,246
6.875% subordinated notes due 2008	104,186	99,220
7.125% subordinated notes due 2013	155,181	148,224
7.875% subordinated notes due 2026	174,086	146,914
6.00% subordinated notes due 2008	247,798	—
Total subordinated notes	1,184,458	889,642
Medium-term notes:		
Floating rate based on LIBOR indices	3,612,076	2,811,793
Floating rate based on Treasury indices	37,000	487,000
Floating rate based on Prime indices	—	1,100,007
Floating rate based on Federal Funds indices	—	349,998
Fixed rate notes with interest rate of 6.65%	199,810	1,349,596
Total medium-term notes	3,848,886	6,098,394
Notes payable	14,276	—
Total subsidiaries	5,047,620	6,988,036
Total medium- and long-term debt	\$5,282,259	\$7,286,387

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 12/31/98
Subsidiaries			
Subordinated notes:			
7.25% subordinated notes	\$200,000	6-month LIBOR	5.16%
7.25% subordinated notes	150,000	6-month LIBOR	5.16
Medium-term notes:			
Floating rate based on LIBOR indices	108,000	3-month LIBOR	5.28
Floating rate based on Treasury indices	37,000	3-month LIBOR	5.28
Fixed rate notes with interest rate of 6.65%	200,000	3-month LIBOR	5.28

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

During 1998, the Corporation terminated certain swaps that hedged the fixed interest rate exposure of several debt instruments. In accordance with policy, the gain resulting from early termination was deferred and is being amortized over the remaining life of the debt. The unamortized balance is included in the carrying value of debt outstanding.

The Corporation currently has two medium-term note programs: a senior note program and a European note program. Under these programs, certain 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 1999 to 2002. The interest rate on the floating rate medium-term notes based on U.S. Treasury indices is equal to the two-year Constant Treasury Maturity Rate plus 0.01%. The notes are due in 2000. The fixed rate notes mature in 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)	
1999	\$2,826,907
2000	469,043
2001	316,517
2002	485,422
2003	2,587
2004 and later	1,181,783

10 Shareholders' Equity

The board of directors authorized the repurchase of up to 40.5 million shares of Comerica Incorporated common stock for general corporate purposes, acquisitions and employee benefit plans. At December 31, 1998, 20.5 million shares had been repurchased under this program.

At December 31, 1998, the Corporation had reserved 8.4 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 paid April 1, 1998. All per share data included in the consolidated financial statements and in the related notes have been retroactively adjusted to reflect the split.

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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11 Net Income per Common 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)	1998	1997	1996
Basic			
Average shares outstanding	155,859	158,333	169,076
Net income	\$607,076	\$530,476	\$417,161
Less preferred stock dividends	17,100	17,100	9,025
Net income applicable to common stock	\$589,976	\$513,376	\$408,136
Basic net income per common share	\$3.79	\$3.24	\$2.41
Diluted			
Average shares outstanding	155,859	158,333	169,076
Nonvested stock	191	204	195
Common stock equivalents			
Net effect of the assumed exercise of stock options	2,707	2,503	1,956
Diluted average shares	158,757	161,040	171,227
Net income	\$607,076	\$530,476	\$417,161
Less preferred stock dividends	17,100	17,100	9,025
Net income applicable to common stock	\$589,976	\$513,376	\$408,136
Diluted net income per common share	\$3.72	\$3.19	\$2.38

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 Corporation has elected to follow Accounting Principles Board opinion No. 25, "Accounting For Stock Issued to Employees" (APB 25) and related Interpretations in accounting for its employee and director stock options. Under APB 25, no compensation expense is recognized because the exercise price of the Corporation's employee and director stock options equals the market price of the underlying stock on the date of grant. The maturity of each option is determined at the date of grant; however, no options may be exercised later than ten years from the date of grant. The options may have restrictions regarding exercisability.

Pro forma information regarding net income and earnings per share is required under SFAS No. 123, "Accounting for Stock-Based Compensation," and has been determined as if the Corporation had accounted for its employee and director stock options under the fair value method of that Statement. The fair value of options was estimated at the date of grant using a Black-Scholes option pricing model. The Black-Scholes model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. The Black-Scholes model may not necessarily provide a reliable single measure of the fair value of employee and director stock options. The Corporation's employee and director stock options have characteristics significantly different from those of traded options and changes in the subjective input assumptions can materially affect the fair value estimate.

The fair value of the options was estimated using a Black-Scholes option valuation model with the following weighted-average assumptions for 1998, 1997 and 1996, respectively: risk-free interest rates of 5.54%, 6.49% and 6.07%; expected dividend yields of 3.45%, 3.77% and 4.00%; expected volatility factors of the market price of Comerica Common Stock of 21%, 20% and 21%; and an expected life of the options of 4.3, 4.4 and 5.0 years. For purposes of pro forma disclosures, the estimated fair value of the options granted in 1995 and thereafter is amortized to expense over the options' vesting period. Since the Corporation's options generally vest over a four-year period, the pro forma disclosures are not indicative of future amounts until SFAS No. 123 is applied to all outstanding nonvested options.

Had compensation cost for the Corporation's stock-based compensation plans been determined in accordance with the fair value provisions of SFAS No. 123, net income and earnings per share would have been as follows:

(in thousands, except per share data)	1998	1997	1996
Pro forma net income	\$578,335	\$506,875	\$404,121
Pro forma earnings per share:			
Basic	\$3.71	\$3.20	\$2.39
Diluted	3.64	3.15	2.36

	Number	Average per Share	
		Exercise Price	Market Price
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
Granted	2,058,542	71.37	71.37
Cancelled	(232,617)	42.92	64.33
Exercised	(1,213,818)	21.33	64.07
Expired	—	—	—
Outstanding—December 31, 1998	8,249,450	\$36.39	\$68.19
Exercisable—December 31, 1998	4,173,748		
Available for grant— December 31, 1998	104,458		

The following table summarizes information about stock options outstanding at December 31, 1998:

Exercise Price Range	Outstanding			Exercisable		
	Shares	Average Life (a)	Average Exercise Price	Shares	Average Exercise Price	
\$ 8.59 - \$18.00	1,264,438	3.3	\$13.70	1,263,912	\$13.70	
18.59 - 21.00	1,453,242	5.4	19.01	1,147,004	19.11	
21.59 - 25.42	1,817,533	6.3	24.43	1,073,750	23.75	
28.33 - 52.67	1,719,856	8.1	39.86	689,082	39.30	
65.13 - 71.58	1,994,381	9.2	71.37	—	—	
Total	8,249,450	6.8	\$36.39	4,173,748	\$22.00	

(a) Average contractual life remaining in years.

The Corporation has a defined benefit pension plan in effect for substantially all full-time employees. Staff expense includes income of \$3.0 million in 1998, \$0.3 million in 1997 and \$1.4 million in 1996 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.

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.

The following tables set forth reconciliations of the Corporation's pension and postretirement plan obligations and plan assets:

	Defined Benefit Pension Plan		Postretirement Benefit Plan	
(in thousands)	1998	1997	1998	1997
Change in benefit obligation:				
Benefit obligation at January 1	\$525,329	\$462,776	\$81,584	\$76,420
Service cost	13,924	12,400	262	273
Interest cost	36,039	33,823	5,509	5,710
Curtailment	(5,518)	—	—	—
Actuarial (gain)/loss	(3,631)	39,720	(423)	5,979
Benefits paid	(23,202)	(23,390)	(6,222)	(6,798)
Benefit obligation at December 31	\$542,941	\$525,329	\$80,710	\$81,584
Change in plan assets:				
Fair value of plan assets at January 1	\$585,215	\$515,164	\$86,727	\$80,547
Actual return on plan assets	66,181	89,527	4,226	7,941
Employer contributions	—	3,914	3,581	5,037
Benefits paid	(23,202)	(23,390)	(6,222)	(6,798)
Fair value of plan assets at December 31	\$628,194	\$585,215	\$88,312	\$86,727

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

	Defined Benefit Pension Plan		Postretirement Benefit Plan	
(in thousands)	1998	1997	1998	1997
Funded status at December 31	\$85,253	\$59,886	\$ 7,602	\$ 5,143
Unrecognized net gain	(44,829)	(22,834)	(7,115)	(8,294)
Unrecognized net transition (asset)/obligation	(10,524)	(15,358)	64,477	69,105
Unrecognized prior service cost	(2,394)	(2,956)	—	—
Prepaid benefit cost	\$27,506	\$18,738	\$64,964	\$65,954

Components of net periodic benefit cost/(income):

Defined Benefit Pension Plan (in thousands)	1998	1997	1996
Service cost	\$13,924	\$12,400	\$11,675
Interest cost	36,039	33,823	31,572
Expected return on plan assets	(48,887)	(42,313)	(39,654)
Amortization of unrecognized transition asset	(4,834)	(4,834)	(4,834)
Amortization of unrecognized prior service cost	(331)	(353)	(338)
Amortization of unrecognized net loss	1,071	978	188
Net periodic benefit income	\$ (3,018)	\$ (299)	\$ (1,391)
Postretirement Benefit Plan (in thousands)			
	1998	1997	1996
Service cost	\$ 262	\$ 273	\$ 402
Interest cost	5,509	5,710	5,597
Expected return on plan assets	(5,829)	(5,413)	(5,205)
Amortization of unrecognized transition obligation	4,628	4,628	4,628
Amortization of unrecognized net gain	—	(56)	(377)
Net periodic benefit cost	\$4,570	\$5,142	\$5,045

Actuarial assumptions were as follows:

Defined Benefit Pension Plan	1998	1997	1996
Discount rate used in determining benefit obligation	7.0%	7.0%	7.5%
Long-term rate of return on assets	9.0%	9.0%	9.0%
Rate of compensation increase	5.0%	5.0%	5.0%
Postretirement Benefit Plan			
	1998	1997	1996
Discount rate used in determining benefit obligation	7.0%	7.0%	7.5%
Long-term rate of return on assets	6.7%	6.7%	6.7%

A 6 percent health care cost trend rate was projected for 1998 and is assumed to decrease gradually to 5 percent during 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, 1998, and the aggregate of the service and interest cost components by \$392 thousand for the year ended December 31, 1998. Decreasing each health care rate by one percentage point would decrease the accumulated postretirement benefit obligation by \$5 million at December 31, 1998, and the aggregate of the service and interest cost components by \$341 thousand for the year ended December 31, 1998.

The Corporation also maintains defined contribution plans (including 401(k) plans) for various groups of its employees. All of the Corporation's salaried and regular part-time employees are eligible to participate in one or more of the plans. The Corporation makes matching contributions, most of which are 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 \$10.3 million in 1998, \$9.7 million in 1997 and \$10.4 million in 1996 for the plans.

14 Income Taxes

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

(in thousands)	1998	1997	1996
Currently payable			
Federal	\$245,486	\$239,680	\$225,863
Foreign	27,263	30,723	5,912
State and local	13,847	15,584	11,039
	286,596	285,987	242,814
Deferred federal, state and local	37,703	279	(13,769)
Total	\$324,299	\$286,266	\$229,045

There were \$2.1 million, \$1.8 million and \$4.8 million of income taxes provided on securities transactions in 1998, 1997 and 1996, respectively.

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

(in thousands)	1998	1997
Allowance for credit losses	\$(142,889)	\$(132,990)
Lease financing transactions	165,974	122,127
Allowance for depreciation	10,899	15,567
Deferred loan origination fees and costs	(25,554)	(20,088)
Investment securities available for sale	(3,507)	(149)
Employee benefits	(6,824)	(7,625)
Restructuring charge	—	(10,150)
Other temporary differences, net	(35,563)	(34,440)
Total	\$ (37,464)	\$ (67,748)

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)	1998	1997	1996
Tax based on federal statutory rate	\$325,981	\$285,860	\$226,172
Effect of tax-exempt interest income	(4,039)	(5,687)	(8,842)
Other	2,357	6,093	11,715
Provision for income taxes	\$324,299	\$286,266	\$229,045

15 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 table at right provides details on the restructuring-related reserve which was eliminated in 1998.

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.

An adjustment of \$7 million, netted against noninterest expenses, was made to eliminate the restructuring liability in 1998.

(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
Activity	(10,000)	(6,000)	(6,000)	(22,000)
Adjustment	—	(5,000)	(2,000)	(7,000)
Balances at 12/31/98	\$ —	\$ —	\$ —	\$ —

16 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, 1998, approximated \$177 million at the beginning and \$309 million at the end of 1998. During 1998, new loans to related parties aggregated \$304 million and repayments totaled \$172 million.

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 \$543 million at January 1, 1999, 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 \$442 million in 1998, \$354 million in 1997 and \$322 million in 1996.

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, 1998, 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). At December 31, 1997, the Corporation and its Comerica Bank subsidiary exceeded the ratios required to be considered "adequately capitalized" (total capital ratio greater than 8 percent). Comerica Bank-Texas and Comerica Bank-California exceeded the ratios required to be "well capitalized" at year-end 1997. 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, 1998				
Tier 1 capital	\$2,699,143	\$2,263,522	\$310,743	\$330,998
Total capital	4,435,977	3,740,843	407,268	453,387
Tier 1 capital to average assets (minimum-3.0%)	7.68%	8.02%	8.12%	8.04%
Tier 1 capital to risk-weighted assets (minimum-4.0%)	6.26	6.42	8.07	7.35
Total capital to risk-weighted assets (minimum-8.0%)	10.28	10.60	10.58	10.07
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%)	6.28	6.20	9.43	9.03
Total capital to risk-weighted assets (minimum-8.0%)	9.90	9.87	10.42	10.14

18 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 nec-

essary, 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 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 37 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, 1998 and 1997.

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.

During 1998, the Corporation terminated its portfolio of zero-coupon interest rate swaps. The notional amount of these swaps totaled \$700 million. A portion of these swaps were replaced with paying swaps. The Corporation also terminated its portfolio of principal only total return swaps in conjunction with divesting the mortgage servicing business. The notional amount of these swaps was \$55 million.

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.

(in millions)	Notional/ Contract Amount	Unrealized Gains	Unrealized Losses	Fair Value
December 31, 1998				
Risk management				
Interest rate contracts:				
Swaps	\$6,869	\$152	\$ (6)	\$146
Options, caps and floors purchased	15	—	—	—
Caps written	—	—	—	—
Total interest rate contracts	6,884	152	(6)	146
Foreign exchange contracts:				
Spot and forwards	782	32	(29)	3
Swaps	131	12	—	12
Total foreign exchange contracts	913	44	(29)	15
Total risk management	\$7,797	\$196	\$(35)	\$161
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

Bilateral collateral agreements with counterparties covered 94 percent and 93 percent of the notional amount of interest rate derivative contracts at December 31, 1998 and 1997, respectively. 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, 1998, 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 material credit losses associated with derivative or foreign exchange contracts.

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, 1998, unrealized gains and unrealized losses on customer-initiated and other foreign exchange contracts averaged \$14 million and \$9 million, respectively. For the year ended December 31, 1997, unrealized gains and unrealized losses averaged \$23 million and \$18 million, respectively. These contracts also generated noninterest income of \$9 million in 1998 and \$7 million in 1997. Average positive and negative fair values and income related to customer-initiated and other interest rate contracts were not material for 1998 and 1997.

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, 1998 and 1997.

(in millions)	Notional/ Contract Amount	Unrealized Gains	Unrealized Losses	Fair Value
December 31, 1998				
Customer-initiated and other				
Interest rate contracts:				
Caps and floors written	\$ 241	\$ —	\$ (1)	\$ (1)
Caps and floors purchased	176	1	—	1
Swaps	264	7	(6)	1
Total interest rate contracts	681	8	(7)	1
Foreign exchange contracts:				
Spot, forwards, futures and options	673	20	(13)	7
Total customer-initiated and other	\$1,354	\$ 28	\$(20)	\$ 8
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

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.

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, 1998 and 1997. Commitments to purchase and sell U.S. Treasury and municipal bond securities related to the Corporation's trading account totaled \$17 million and \$2 million at December 31, 1998 and 1997, respectively. At December 31, 1997, \$30 million 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. No such commitments were outstanding at year-end 1998. Outstanding commitments expose the Corporation to both credit and market risk.

Available credit lines on fixed rate credit card and check product accounts, which have characteristics similar to option contracts, totaled \$1.6 billion and \$1.8 billion at December 31, 1998 and 1997, 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)	1998	1997
Unused commitments to extend credit	\$28,393	\$27,528
Standby letters of credit and financial guarantees	3,632	3,088
Commercial letters of credit	328	449
Credit default swaps	44	26

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, 1998 and 1997, included \$3 billion and \$4 billion, respectively, of variable and fixed rate revolving credit commitments. Other unused loan commitments, primarily variable rate, totaled \$25 billion at December 31, 1998, and \$24 billion at December 31, 1997.

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 \$1,432 million and \$1,309 million at December 31, 1998 and 1997, respectively. The remaining standby letters of credit and financial guarantees, which mature within one year, totaled \$2,200 million and \$1,779 million at December 31, 1998 and 1997, respectively. Commercial letters of credit are issued to finance foreign or domestic trade transactions.

Credit Default Swaps

Credit default swaps allow the Corporation to diversify its loan portfolio by assuming credit exposure from different borrowers or industries without actually extending credit in the form of a loan. Credit risk associated with credit default swaps was \$44 million at December 31, 1998 and \$26 million at December 31, 1997.

19 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 material adverse effect on the Corporation's consolidated financial position.

In addition, management cannot predict with reasonable certainty the likelihood, or the impact, of any future claims that may be brought against the Corporation. For example, although the Corporation is not currently a named defendant in any lawsuits involving year 2000 readiness, it is impossible to know whether any claims in connection with the year 2000 will be asserted in the future, and the potential liability, if any, that may arise from such claims.

Cash and due from banks may include 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, 1998 and 1997, the Federal Reserve balances were \$269 million and \$587 million, respectively.

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.

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, 1998 and 1997 are as follows:

(in millions)	1998		1997	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Assets				
Cash and short-term investments	\$ 1,830	\$ 1,830	\$ 2,080	\$ 2,080
Trading account securities	6	6	9	9
Loans held for sale	46	46	41	41
Investment securities available for sale	2,712	2,712	4,006	4,006
Commercial loans	19,086	19,016	15,805	15,743
International loans	2,713	2,696	2,085	2,080
Real estate construction loans	1,080	1,075	941	933
Commercial mortgage loans	4,179	4,216	3,634	3,617
Residential mortgage loans	1,038	1,071	1,565	1,608
Consumer loans	1,862	1,807	4,348	4,231
Lease financing	647	648	517	518
Total loans	30,605	30,529	28,895	28,730
Less allowance for credit losses	(452)	—	(424)	—
Net loans	30,153	30,529	28,471	28,730
Customers' liability on acceptances outstanding	12	12	18	18
Loan servicing rights	4	4	28	31
Liabilities				
Demand deposits (noninterest-bearing)	6,999	6,999	6,761	6,761
Interest-bearing deposits	17,314	17,340	15,825	15,840
Total deposits	24,313	24,339	22,586	22,601
Short-term borrowings	3,580	3,580	3,193	3,193
Acceptances outstanding	12	12	18	18
Medium- and long-term debt	5,282	5,355	7,286	7,395
Off-balance Sheet Financial Instruments				
Derivative financial instruments and foreign exchange contracts				
Risk management:				
Unrealized gains	—	196	—	154
Unrealized losses	—	(35)	—	(23)
Customer-initiated and other:				
Unrealized gains	28	28	43	43
Unrealized losses	(20)	(20)	(39)	(39)
Credit-related financial instruments	—	(13)	—	(13)

The Corporation has strategically aligned its operations into three major lines of business: the Business Bank, the Individual Bank and the Investment Bank. These lines of business are differentiated based on the products and services provided. 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; 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, amounts in all periods are based on methodologies in effect at December 31, 1998. 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. In addition to the three major lines of business, the Finance Division is also reported as a segment.

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 credit loss provision is assigned based on the amount necessary to maintain an allowance for credit 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' noninterest 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 the activities of each line of business. A discussion of the financial results and the factors impacting 1998 performance can be found in the section entitled "Strategic Lines of Business" in the financial review on page 30.

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.

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).

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.

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

The Other category includes divested business lines, the income and expense impact of cash and credit loss reserves not assigned to specific business lines, miscellaneous other items of a corporate nature and certain direct expenses not allocated to business lines.

Information in this note complies with SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information" as of December 31, 1998, which established standards for the way public business enterprises report information about operating segments in annual financial statements and interim financial reports issued to shareholders.

Lines of business/segment financial results were as follows:

(dollar amounts in millions)	Business Bank			Individual Bank			Investment Bank*		
	1998	1997	1996	1998	1997	1996	1998	1997	1996
Earnings Summary									
Net interest income (FTE)	\$ 746	\$ 658	\$ 621	\$ 679	\$ 754	\$ 776	\$ (3)	\$ (2)	\$ (1)
Provision for credit losses	79	(11)	2	(14)	82	109	—	—	—
Noninterest income	154	128	122	300	269	277	122	107	94
Noninterest expenses	308	299	294	586	598	659	113	101	90
Restructuring charge	—	—	—	—	—	—	—	—	—
Provision for income taxes	185	181	163	142	120	101	2	1	1
Net income (loss)	328	317	284	265	223	184	4	3	2
Selected Average Balances									
Assets	\$22,908	\$19,884	\$17,397	\$ 7,651	\$ 9,534	\$ 9,881	\$ 33	\$ 28	\$22
Loans	21,555	18,276	16,156	7,076	8,936	9,201	1	—	—
Deposits	4,332	3,929	3,914	17,213	17,055	17,262	34	41	48
Common equity	1,340	1,062	941	736	769	707	27	23	17
Statistical Data									
Return on average assets	1.43%	1.60%	1.63%	1.47%	1.24%	1.02%	5.62%	4.15%	2.67%
Return on average common equity	24.49	29.93	30.18	35.98	28.95	26.09	14.29	12.84	11.01
Efficiency ratio	34.51	38.35	39.74	59.82	58.39	62.73	n/m	n/m	n/m
	Finance			Other			Total		
	1998	1997	1996	1998	1997	1996	1998	1997	1996
Earnings Summary									
Net interest income (FTE)	\$ 46	\$ 40	\$ 27	\$ —	\$ 2	\$ 4	\$ 1,468	\$ 1,452	\$ 1,427
Provision for credit losses	—	—	—	48	75	3	113	146	114
Noninterest income	8	4	6	19	20	8	603	528	507
Noninterest expenses	3	3	3	17	7	23	1,027	1,008	1,069
Restructuring charge	—	—	—	(7)	—	90	(7)	—	90
Provision for income taxes	18	15	10	(16)	(21)	(31)	331	296	244
Net income (loss)	33	26	20	(23)	(39)	(73)	607	530	417
Selected Average Balances									
Assets	\$4,320	\$5,152	\$7,375	\$ 75	\$271	\$(480)	\$34,987	\$34,869	\$34,195
Loans	280	70	224	(313)	(73)	(229)	28,599	27,209	25,352
Deposits	704	902	931	(30)	19	103	22,253	21,946	22,258
Common equity	333	294	364	181	260	525	2,617	2,408	2,554
Statistical Data									
Return on average assets	0.28%	0.22%	0.17%	n/m%	n/m%	n/m%	1.74%	1.52%	1.22%
Return on average common equity	10.01	8.99	5.39	n/m	n/m	n/m	22.54	21.32	15.98
Efficiency ratio	n/m	n/m	n/m	n/m	n/m	n/m	49.39	51.04	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 \$8 million in 1998, \$6 million in 1997 and \$2 million in 1996. Return on average common equity would have been 31.49% in 1998, 27.89% in 1997 and 11.01% in 1996.

n/m - not meaningful

BALANCE SHEETS—Comerica Incorporated
December 31 (in thousands, except share data)

	1998	1997
Assets		
Cash and due from banks	\$ 2,728	\$ 372
Time deposits with banks	22,600	80,400
Investment securities available for sale	22,392	20,822
Investment in subsidiaries, principally banks	3,280,384	3,017,058
Premises and equipment	5,855	6,566
Other assets	57,235	40,009
Total assets	\$3,391,194	\$3,165,227
Liabilities and Shareholders' Equity		
Long-term debt	\$ 234,639	\$ 298,351
Other liabilities	109,942	105,100
Total liabilities	344,581	403,451
Nonredeemable preferred stock—\$50 stated value		
Authorized—5,000,000 shares		
Issued—5,000,000 shares in 1998 and 1997	250,000	250,000
Common stock—\$5 par value		
Authorized—325,000,000 shares		
Issued—157,233,088 shares in 1998 and 156,815,367 shares in 1997	786,165	784,077
Capital surplus	24,649	—
Unrealized net losses on investment securities available for sale	(6,455)	(1,937)
Retained earnings	2,086,589	1,731,419
Deferred compensation	(5,202)	(1,783)
Less cost of common stock in treasury—1,351,997 shares in 1998	(89,133)	—
Total shareholders' equity	3,046,613	2,761,776
Total liabilities and shareholders' equity	\$3,391,194	\$3,165,227

STATEMENTS OF INCOME—Comerica Incorporated
Year Ended December 31 (in thousands)

	1998	1997	1996
Income			
Income from subsidiaries			
Dividends from subsidiaries	\$442,495	\$353,500	\$322,000
Other interest income	3,899	3,626	3,372
Intercompany management fees	157,393	166,952	264,368
Other interest income	545	559	1,773
Other noninterest income	2,628	2,070	5,278
Total income	606,960	526,707	596,791
Expenses			
Interest on long-term debt and other borrowed funds	22,214	26,129	26,328
Net interest rate swap income	(1,648)	(2,818)	(2,794)
Salaries and employee benefits	61,583	65,766	123,271
Occupancy expense	6,630	9,373	22,483
Equipment expense	1,873	2,053	24,806
Restructuring charge	100	—	27,000
Other noninterest expenses	36,002	54,262	63,310
Total expenses	126,754	154,765	284,404
Income before income taxes and equity			
in undistributed net income of subsidiaries	480,206	371,942	312,387
Income tax expense (credit)	13,279	6,111	(1,931)
	466,927	365,831	314,318
Equity in undistributed net income of			
subsidiaries, principally banks	140,149	164,645	102,843
Net Income	\$607,076	\$530,476	\$417,161

STATEMENTS OF CASH FLOWS—Comerica Incorporated
Year Ended December 31 (in thousands)

	1998	1997	1996
Operating Activities			
Net income	\$607,076	\$530,476	\$417,161
Adjustments to reconcile net income to net cash provided by operating activities			
Undistributed earnings of subsidiaries, principally banks	(140,149)	(164,645)	(102,843)
Depreciation	1,755	1,800	20,595
Restructuring charge	(6,008)	(20,992)	27,000
Other, net	4,908	7,465	23,091
Total adjustments	(139,494)	(176,372)	(32,157)
Net cash provided by operating activities	467,582	354,104	385,004
Investing Activities			
Purchase of investment securities available for sale	(11,640)	(4,092)	(4,820)
Proceeds from sale of investment securities available for sale	1,983	427	—
Proceeds from sales of fixed assets and other real estate	136	28,958	603
Purchases of fixed assets	(1,222)	(1,424)	(20,345)
Net decrease in bank time deposits	57,800	25,300	25,100
Net increase in receivables from subsidiaries	—	(375)	—
Capital transactions with subsidiaries	(134,752)	(3,283)	131,871
Net cash provided by (used in) investing activities	(87,695)	45,511	132,409
Financing Activities			
Net increase (decrease) in advances from subsidiaries	(4,054)	3,818	(3,523)
Repayments and purchases of long-term debt	(63,712)	141	(259)
Net decrease in short-term borrowings	—	(842)	—
Proceeds from issuance of preferred stock	—	—	246,744
Proceeds from issuance of common stock	50,885	35,082	35,206
Purchase of common stock for treasury and retirement	(148,684)	(242,293)	(622,196)
Dividends paid	(211,966)	(195,412)	(173,414)
Net cash used in financing activities	(377,531)	(399,506)	(517,442)
Net increase (decrease) in cash on deposit at bank subsidiary	2,356	109	(29)
Cash on deposit at bank subsidiary at beginning of year	372	263	292
Cash on deposit at bank subsidiary at end of year	\$ 2,728	\$ 372	\$ 263
Interest paid	\$ 15,290	\$ 25,799	\$ 25,942
Income taxes recovered (paid)	\$ 975	\$ (1,145)	\$ 11,150
Noncash investing and financing activities			
Stock issued for acquisitions	\$ —	\$ —	\$128,938

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.

24 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.

1998				
(in thousands, except per share data)	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
Interest income	\$652,121	\$639,562	\$651,230	\$673,861
Interest expense	281,371	279,127	286,752	308,253
Net interest income	370,750	360,435	364,478	365,608
Provision for credit losses	36,000	21,000	28,000	28,000
Securities gains/(losses)	6,081	174	11	(150)
Noninterest income (excluding securities gains)	161,306	151,940	148,784	135,002
Noninterest expenses	263,051	253,821	253,299	249,873
Net income	157,820	154,490	150,383	144,383
Basic net income per common share	\$0.99	\$0.97	\$0.94	\$0.89
Diluted net income per common share	0.97	0.95	0.92	0.88
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 credit losses	37,000	34,000	34,000	41,000
Securities gains/(losses)	3,836	1,096	(234)	497
Noninterest income (excluding securities gains)	136,928	135,251	121,681	128,897
Noninterest expenses	257,368	252,622	249,259	248,737
Net income	139,927	137,067	129,710	123,772
Basic net income per common share	\$0.86	\$0.84	\$0.79	\$0.75
Diluted net income per common share	0.85	0.83	0.78	0.74

25 Pending Accounting Pronouncements

In June 1998, the Financial Accounting Standards Board issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," which is required to be adopted in years beginning after June 15, 1999. The Statement permits early adoption as of the beginning of any fiscal quarter. The Corporation expects to adopt the new Statement effective January 1, 2000. The Statement will require the Corporation to recognize all derivatives on the balance sheet at fair value. Derivatives that are not hedges must be adjusted to fair value through income. If the derivative is a hedge,

depending on the nature of the hedge, changes in fair value of derivatives will either be offset against the change in fair value of the hedged assets, liabilities, or firm commitments through earnings or recognized in other comprehensive income until the hedged item is recognized in earnings. The ineffective portion of a derivative's change in fair value will be immediately recognized in earnings. The Corporation has not yet determined what the effect of SFAS No. 133 will be on the earnings and financial position of the Corporation.


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.

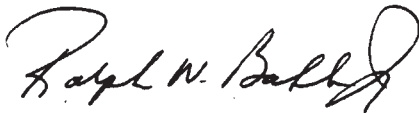
In meeting its responsibility for the reliability of the financial statements, management develops and maintains systems of internal accounting controls. These controls are designed to provide reasonable assurance that assets are safeguarded and transactions are executed and recorded in accordance with 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
Senior Vice President and Controller

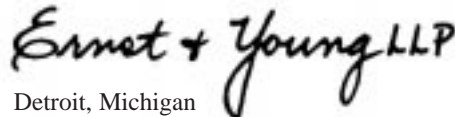
Report of Independent Auditors

Board of Directors,
Comerica Incorporated

We have audited the accompanying consolidated balance sheets of Comerica Incorporated and subsidiaries as of December 31, 1998 and 1997, 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, 1998. 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, 1998 and 1997, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 1998, in conformity with generally accepted accounting principles.



Detroit, Michigan
January 19, 1999

**Historical Review—Average Balance Sheets
Comerica Incorporated and Subsidiaries**

Consolidated Financial Information
(in millions)

	1998	1997	1996	1995	1994
Assets					
Cash and due from banks	\$ 1,622	\$ 1,686	\$ 1,576	\$ 1,500	\$ 1,532
Short-term investments	143	129	195	351	823
Investment securities	3,371	4,687	5,823	7,625	8,004
Commercial loans	16,973	14,234	12,686	11,302	9,598
International loans	2,342	1,953	1,541	1,257	1,107
Real estate construction loans	989	866	707	541	403
Commercial mortgage loans	3,819	3,547	3,483	3,157	2,916
Residential mortgage loans	1,325	1,676	1,960	2,450	2,175
Consumer loans	2,575	4,486	4,624	4,569	3,795
Lease financing	576	447	351	285	217
Total loans	28,599	27,209	25,352	23,561	20,211
Less allowance for credit losses	(440)	(402)	(361)	(340)	(322)
Net loans	28,159	26,807	24,991	23,221	19,889
Accrued income and other assets	1,692	1,560	1,610	1,432	1,203
Total assets	\$34,987	\$34,869	\$34,195	\$34,129	\$31,451
Liabilities and Shareholders' Equity					
Noninterest-bearing deposits	\$ 6,151	\$ 5,815	\$ 5,589	\$ 4,767	\$ 4,700
Interest-bearing deposits	16,102	16,131	16,669	16,888	16,625
Total deposits	22,253	21,946	22,258	21,655	21,325
Federal funds purchased and securities sold under agreements to repurchase	2,510	2,017	2,106	2,816	2,817
Other borrowed funds	910	1,801	1,999	2,313	2,002
Accrued expenses and other liabilities	415	467	400	324	286
Medium- and long-term debt	6,032	5,980	4,745	4,510	2,708
Total liabilities	32,120	32,211	31,508	31,618	29,138
Shareholders' equity	2,867	2,658	2,687	2,511	2,313
Total liabilities and shareholders' equity	\$34,987	\$34,869	\$34,195	\$34,129	\$31,451

Historical Review—Statements of Income
Comerica Incorporated and Subsidiaries

Consolidated Financial Information
(in millions, except per share data)

	1998	1997	1996	1995	1994
Interest Income					
Interest and fees on loans	\$2,382	\$2,318	\$2,161	\$2,091	\$1,577
Interest on investment securities					
Taxable	219	310	372	474	446
Exempt from federal income tax	7	11	18	26	31
Total interest on investment securities	226	321	390	500	477
Interest on short-term investments	9	9	12	23	38
Total interest income	2,617	2,648	2,563	2,614	2,092
Interest Expense					
Interest on deposits	648	673	686	721	543
Interest on short-term borrowings					
Federal funds purchased and securities sold under agreements to repurchase	137	111	112	166	121
Other borrowed funds	49	98	107	136	79
Interest on medium- and long-term debt	368	374	295	289	148
Net interest rate swap (income)/expense	(46)	(51)	(49)	2	(29)
Total interest expense	1,156	1,205	1,151	1,314	862
Net interest income	1,461	1,443	1,412	1,300	1,230
Provision for credit losses	113	146	114	87	56
Net interest income after provision for credit losses	1,348	1,297	1,298	1,213	1,174
Noninterest Income					
Fiduciary and investment management income	184	147	133	125	122
Service charges on deposit accounts	158	141	140	130	124
Commercial lending fees	43	32	23	21	20
Securities gains	6	5	14	12	3
Other noninterest income	212	203	197	211	181
Total noninterest income	603	528	507	499	450
Noninterest Expenses					
Salaries and employee benefits	565	539	561	562	549
Net occupancy expense	90	89	99	99	99
Equipment expense	60	62	69	68	68
Outside processing fee expense	43	42	42	49	46
Restructuring charge	(7)	—	90	—	7
Other noninterest expenses	269	276	298	308	273
Total noninterest expenses	1,020	1,008	1,159	1,086	1,042
Income before income taxes	931	817	646	626	582
Provision for income taxes	324	287	229	213	195
Net Income	\$ 607	\$ 530	\$ 417	\$ 413	\$ 387
Net income applicable to common stock	\$ 590	\$ 513	\$ 408	\$ 413	\$ 387
Basic net income per common share	\$3.79	\$3.24	\$2.41	\$2.38	\$2.20
Diluted net income per common share	3.72	3.19	2.38	2.37	2.19
Cash dividends declared on common stock	\$199	\$181	\$170	\$158	\$145
Dividends per common share	\$1.28	\$1.15	\$1.01	\$0.91	\$0.83

**Historical Review-Statistical Data
Comerica Incorporated and Subsidiaries**

Consolidated Financial Information	1998	1997	1996	1995	1994
Average Rates (Fully Taxable Equivalent Basis)					
Short-term investments	6.25%	6.59%	6.23%	6.61%	4.57%
Investment securities	6.81	6.94	6.79	6.72	6.15
Commercial loans	8.04	8.25	8.21	8.75	7.38
International loans	7.97	7.07	6.64	7.06	5.58
Real estate construction loans	9.24	9.38	9.22	9.52	7.85
Commercial mortgage loans	8.74	9.08	9.29	9.40	8.52
Residential mortgage loans	7.69	7.90	7.83	7.80	7.46
Consumer loans	10.20	9.81	9.88	10.10	9.44
Lease financing	7.65	7.48	6.82	6.65	6.48
Total loans	8.34	8.53	8.54	8.90	7.84
Interest income as a percent of earning assets	8.17	8.29	8.20	8.35	7.28
Domestic deposits	3.91	4.09	4.04	4.05	3.14
Deposits in foreign offices	6.71	5.68	5.46	6.07	4.28
Total interest-bearing deposits	4.02	4.17	4.11	4.27	3.26
Federal funds purchased and securities sold under agreements to repurchase	5.44	5.49	5.31	5.88	4.31
Other borrowed funds	5.40	5.45	5.36	5.87	3.92
Medium- and long-term debt	6.10	6.26	6.22	6.41	5.46
Interest expense as a percent of interest-bearing sources	4.52	4.65	4.51	4.95	3.57
Interest rate spread	3.65	3.64	3.69	3.40	3.71
Impact of net noninterest-bearing sources of funds	0.92	0.89	0.85	0.79	0.61
Net interest margin as a percent of earning assets	4.57	4.53	4.54	4.19	4.32
Return on Average Common Shareholders' Equity	22.54	21.32	15.98	16.46	16.74
Return on Average Assets	1.74	1.52	1.22	1.21	1.23
Efficiency Ratio	49.39	51.04	60.36	60.09	61.28
Per Share Data					
Book value at year-end	\$17.94	\$16.02	\$14.70	\$15.17	\$13.64
Market value at year-end	68.19	60.17	34.92	26.67	16.25
Market value—high and low for year	73-47	62-34	39-24	29-16	21-16
Other Data					
Number of banking offices	334	350	358	395	398
Number of employees (full-time equivalent)	10,134	9,960	11,079	12,876	13,077

Economic Outlook

At year-end 1998, the current U.S. economic expansion broke a record for peacetime longevity, a record that dates back to 1854. The economy now is well on its way to breaking the all-time record of 106 months for an unbroken period of economic expansion—during peace or war. February of 2000 would mark the 107th month.

Can we sustain this growth mode for one more year and make economic history?

Comerica has two gauges to address this question. One such measure is the Recession Watch Index, which forecasts the chance of a recession occurring in the next 12 months. The other gauge is Comerica's Economic Vulnerability Sentinel, which tells us how healthy, or recession-resistant, the current expansion happens to be.

A Seesaw Year

During the first half of 1998, both of Comerica's forecasting indices were giving strong signals for a favorable year ahead: Chances for a recession were only 28 percent through mid-year 1999, and the current expansion was shown to be the most durable since the good economic growth of the early and mid-1960s.

Then came the third quarter, with a combination of major strike activity in the airline and auto industries, growing distress in Asian and Latin financial markets, and accompanying contraction in U.S. equities markets. These events caused the Recession Watch Index to rise to 39 percent probability of recession for the coming year. Fortunately for 1999's prospects, this index must exhibit readings in excess of 50 percent for at least a quarter before it makes the recession call. Even more encouraging, the latest index readings have moved the index toward even safer levels.

As for the Economic Vulnerability Sentinel, this measure of economic health is constantly taking the pulse of the economy's real growth rate versus inflation. As long as real GDP growth is out-pacing the inflation rate by a comfortable margin, there is both continuing strength and resilience in the recovery.

GDP vs. Inflation

For example, during the first quarter of 1998, real GDP growth was 5.5 percent. This covered the inflation rate—listed at 0.9 percent—by six-to-one. In the second quarter, real GDP growth slipped badly to only 1.8 percent, but happily, the inflation rate remained at 0.9, yielding two-to-one coverage of inflation by real GDP.

The third quarter was even more impressive, despite stock market volatility and interruptions to output due to work stoppages. Real GDP was up 3.7 percent, and inflation inched up to 1.0 percent—still better than three-to-one coverage. The best performance was saved for the fourth quarter: 6.1 percent real growth and 0.7 percent inflation, an eight-to-one multiple.

What's the bottom line on these faithful monitors of U.S. economic health? The Economic Vulnerability Sentinel cannot tolerate rising inflation, and the Recession Watch Index cannot bear rising expectations of inflation. Chances are the U.S. economy will continue being the envy of the world and will remain on an expansion track as long as business plans and consumer indebtedness are not thrown off course by the distorted and misleading signals of accelerating inflation.

Economic Enemy #1

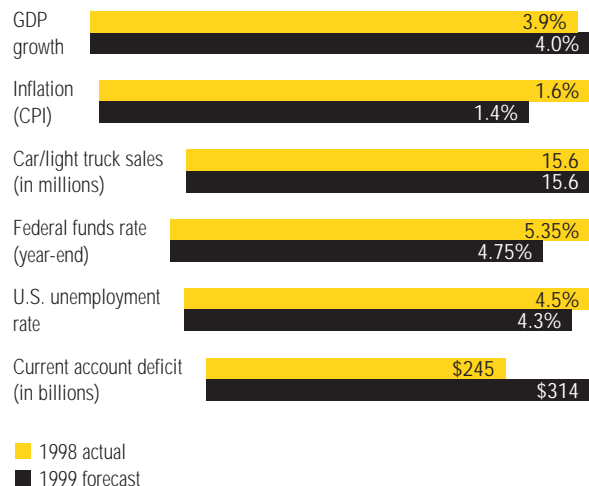
Contrary to 1998's conventional wisdom, the greatest threat to the continuity of the current eight-year expansion does not emanate from the so-called Asian implosion, the tortured markets of Latin nations, the European slowdown, or computer glitches associated with the "Y2K" situation. The biggest threat always remains the monetary danger of rising inflation.

Inflation is always and everywhere a monetary phenomenon. It typically is caused by a nation's central bank (in the U.S., the Federal Reserve system). For the past two years, the Alan Greenspan Federal Reserve has been warning our financial markets about the dangers of "irrational exuberance" as a reason why the Fed might feel compelled to raise interest rates and slow the GDP. Instead, the Fed did precisely the opposite last year. They lowered short-term interest rates by three-quarter percent and exceeded nearly every targeted growth range they themselves had set for safe money growth.

An Exuberant Fed

In fact, the expansion rate for new money has exceeded growth of real GDP by a factor of three and four times. This means that for the better part of 16 months, the Fed has been creating too much money chasing too few goods. This is a classic precursor of rising inflation if it is left unchecked.

The Fed evidently felt compelled by the on-going weakness abroad and a high-profile failure at home related to hedge fund activity to provide "insurance" in the form of extra money stimulation to the very same financial markets it had six months earlier warned of exuberance. By November, the stock market was back in record territory.



Interest Rate Forecasts

	Fed Funds	Prime Rate	3 Month LIBOR	1 Month Commercial Paper	Treasury Bills		
					3 Month	6 Month	1 Year
2nd Quarter 1999	4.75%	7.75%	5.25%	5.33%	4.70%	4.75%	4.80%
3rd Quarter 1999	4.75	7.75	5.30	5.40	4.80	4.85	4.90
4th Quarter 1999	4.75	7.75	5.35	5.45	4.90	4.95	5.00
1st Quarter 2000	5.00	8.00	5.40	5.55	5.00	5.05	5.10
2nd Quarter 2000	5.25	8.25	5.45	5.60	5.10	5.15	5.20

	Treasury Notes			Treasury Bonds		Corp Aaa Bonds	A Utility Bonds
	2 Year	3 Year	5 Year	10 Year	30 Year		
2nd Quarter 1999	4.85%	4.90%	4.95%	5.15%	5.65%	6.30%	6.60%
3rd Quarter 1999	4.95	5.00	5.05	5.25	5.75	6.40	6.60
4th Quarter 1999	5.10	5.15	5.20	5.40	5.90	6.55	6.80
1st Quarter 2000	5.25	5.35	5.40	5.60	6.10	6.70	7.30
2nd Quarter 2000	5.35	5.45	5.50	5.70	6.20	6.90	7.50

	Home Mortgage Rates FHLMC	Federal Reserve Trade-Weighted Dollar Index	Annualized Percent Changes Real GDP	GDP Deflator	CPI
	2nd Quarter 1999	6.70%	90.0%	3.2%	1.0%	1.2%
3rd Quarter 1999	6.80	85.5	2.7	1.4	1.6
4th Quarter 1999	7.00	85.5	3.0	1.7	2.0
1st Quarter 2000	7.30	90.0	2.5	2.0	2.5
2nd Quarter 2000	7.50	92.0	2.0	2.2	2.5

Indeed, another such policy reversal could occur in 1999. The Fed at some point around mid-year 1999 could determine that the greater threat is not recession, but rising inflation. After all, a dynamic U.S. economy has thus far shrugged off most economic problems of foreign origin. This is not surprising, given that foreign trade constitutes only 13 to 15 percent of U.S. GDP.

Watch the Dollar

Another worrisome facet to Fed exuberance is that as monetary stimulation causes short-term interest rates to fall, the dollar weakens against foreign currencies, leading to the rise in import prices. Once import prices begin rising, it becomes considerably easier for U.S. retailers to raise prices. If domestic firms raise prices and financing rates, then the purchasing power of households will shrink, leading to a pronounced slowdown of the economy. The parade of good consumer news about the falling cost of vehicles, gas, oil, food, clothing, credit and electronic equipment would end.

Fed stimulation already has sown the seeds of rising inflation in late 1999. As a consequence, the environment of lower interest rates will be limited to the first half of 1999. By year-end, long-term interest rates will be on the uptick. For the year, the economy will slow to 3.4 percent GDP growth, down from 3.9 percent in 1998.

Comerica Markets

Here's how Comerica's primary domestic regional markets of Michigan, California, Texas and Florida are expected to fare in 1999, along with Canada and Mexico:

- Michigan's interest-rate sensitive economy, already constrained by exceptionally tight labor markets, should remain in growth mode during 1999, albeit lagging the national growth rate.

- California's economy seems to be quite balanced in its expansion and has prospered from the boom in imports. This has offset some declining demand for exports from the beleaguered nations in Asia and Latin America.
- Texas has a rapidly expanding labor market and an increasingly vibrant construction sector. However, Latin economic recessions will temper growth this year.
- Florida's labor markets are expanding, and more growth is expected in technology, tourism and construction.
- Canada's ongoing fiscal reforms are driving unemployment rates lower and keeping inflation rates below U.S. rates. Lower interest rates and stability in world commodity prices will accelerate Canada's GDP in 1999.
- Mexico will experience the adverse impact of Latin economic weakness and Brazilian recession in 1999, and the peso will weaken. Fortunately, U.S. economic growth and Canadian acceleration will expand Mexican exports.



So, can we keep the economic party going strong? Prospects for economic stability in the years ahead depend upon a more proper and logically consistent mix of policies from Washington. If policy makers truly want to guard against the twin evils of inflation and recession, then, in stark contrast to recent initiatives, they would lower tax rates and curb monetary stimulation.

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 Mailings

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 January 1, April 1, July 1 and October 1.

Annual Meeting

The Annual Meeting of Shareholders of Comerica Incorporated will be held on Friday, May 21, 1999, at 9:30 a.m. at the Detroit Institute of Arts, 5200 Woodward Avenue, 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
1998				
Fourth	\$69.00	\$46.50	\$0.32	2.2%
Third	71.94	51.00	0.32	2.1
Second	73.00	61.94	0.32	1.9
First	72.13	54.33	0.32	2.0
1997				
Fourth	\$61.88	\$50.17	\$0.29	2.1%
Third	53.25	45.04	0.29	2.4
Second	46.75	35.92	0.29	2.8
First	42.08	34.17	0.29	3.0

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

At January 31, 1999, there were approximately 17,030 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
1-248-371-5000 (metro Detroit)
1-800-521-1190 (outside Detroit area)
www.comerica.com

Investor Relations on the Internet

Go to www.comerica.com to find the latest investor relations information about Comerica, including stock quotes, news releases and customized financial data.

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.

Year 2000 Updates

Call 1-877-789-2573 or go to www.comerica.com for the latest information about Comerica's year 2000 program.

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-California	Satisfactory
Comerica Bank, N.A.	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.

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Design and production:
The Davis Design Group

Historical text and photography:
PROMISES KEPT
The Story of Comerica
1849-1999

Photography:
Frenak Photo & Imaging
Jim Secreto Photography
Baditoli Photographic

Printer:
Winton-Swan Associates

Company Milestones

1849

Comerica forerunner
Detroit Savings Fund
Institute founded by Elon
Farnsworth, March 5, 1849,
in the building at the rear
of the original location
of Mariners' Church at
Griswold and Woodbridge.
First day of business was
August 17.

1871

Name changed to
The Detroit Savings Bank.

1933

Manufacturers National
Bank of Detroit founded;
Comerica 1992 merger
partner.

1936

Detroit Savings Bank
name changed to
The Detroit Bank.

1956

The Detroit Bank & Trust
Company formed
through consolidation of
The Detroit Bank,
Birmingham National
Bank, Ferndale National
Bank, and Detroit Wabeek
Bank & Trust.

1973

Holding company
DETROITBANK
Corporation formed.

1982

Corporation name changed
to Comerica Incorporated
to reflect national scope of
company.

1982

Comerica entered Florida
market.

1988

Comerica entered Texas
market.

1991

Comerica entered
California market.

1992

Comerica merged with
Manufacturers National
Corporation.

1999

Comerica marks the 150th
anniversary of its founding.

MAKING IT WORK

150
YEARS

Comerica