COMERICA INC /NEW/
Form 10-K
February 15, 2017
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K
Annual Report Pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934
For the fiscal year ended
December 31, 2016
Commission file number 1-10706
COMERICA INCORPORATED
(Exact Name of Registrant as Specified in Its Charter)

Delaware	38-1998421
(State or Other Jurisdiction of Incorporation)	(IRS Employer Identification Number)

Comerica Bank Tower
1717 Main Street, MC 6404
Dallas, Texas 75201
(Address of Principal Executive Offices) (Zip Code)
(214) 462-6831
(Registrant's Telephone Number, Including Area Code)
Securities registered pursuant to Section 12(b) of
the Exchange Act:
Common Stock, $5 par value
Warrants to Purchase Common Stock (expiring November 14, 2018)
These securities are registered on the New York Stock Exchange.
Securities registered pursuant to Section 12(g) of the
Exchange Act:
Warrants to Purchase Common Stock (expiring December 12, 2018)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ý No o

Indicate by check mark if registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No ý

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ý

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ý	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

At June 30, 2016 (the last business day of the registrant's most recently completed second fiscal quarter), the registrant's common stock, $5 par value, held by non-affiliates had an aggregate market value of approximately $7.0 billion based on the closing price on the New York Stock Exchange on that date of $41.13 per share. For purposes of this Form 10-K only, it has been assumed that all common shares Comerica's Trust Department holds for Comerica's employee plans, and all common shares the registrant's directors and executive officers hold, are shares held by affiliates.

At February 10, 2017, the registrant had outstanding 175,858,751 shares of its common stock, $5 par value.

Documents Incorporated by Reference:

Part III:

Items 10-14—Proxy Statement for the Annual Meeting of Shareholders to be held April 25, 2017.

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PART I

Item 1. Business.

GENERAL

Comerica Incorporated ("Comerica") is a financial services company, incorporated under the laws of the State of Delaware, and headquartered in Dallas, Texas. Based on total assets as reported in the most recently filed Consolidated Financial Statements for Bank Holding Companies (FR Y-9C), it was among the 25 largest commercial United States ("U.S.") financial holding companies. Comerica was formed in 1973 to acquire the outstanding common stock of Comerica Bank, which at such time was a Michigan banking corporation and one of Michigan's oldest banks (formerly Comerica Bank-Detroit). On October 31, 2007, Comerica Bank, a Michigan banking corporation, was merged with and into Comerica Bank, a Texas banking association ("Comerica Bank"). As of December 31, 2016, Comerica owned directly or indirectly all the outstanding common stock of 2 active banking and 33 non-banking subsidiaries. At December 31, 2016, Comerica had total assets of approximately \$73.0 billion, total deposits of approximately \$59.0 billion, total loans (net of unearned income) of approximately \$49.1 billion and shareholders' equity of approximately \$7.8 billion.

Business Segments

Comerica has strategically aligned its operations into three major business segments: the Business Bank, the Retail Bank, and Wealth Management. In addition to the three major business segments, Finance is also reported as a segment. We provide information about our business segments and the principal products and services provided by these segments in Note 23 on pages F-102 through F-105 of the Notes to Consolidated Financial Statements located in the Financial Section of this report.

Comerica operates in three primary geographic markets - Texas, California, and Michigan, as well as in Arizona and Florida, with select businesses operating in several other states, and in Canada and Mexico. We provide information about our market segments in Note 23 on pages F-102 through F-105 of the Notes to Consolidated Financial Statements located in the Financial Section of this report.

Activities with customers domiciled outside the U.S., in total or with any individual country, are not significant. We provide information on risks attendant to foreign operations: (1) under the caption "Concentration of Credit Risk" on page F-29 of the Financial Section of this report; and (2) under the caption "International Exposure" on pages F-31 through F-32 of the Financial Section of this report.

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

COMPETITION

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

Comerica competes in terms of products and pricing with large national and regional financial institutions and with smaller financial institutions. Some of Comerica's larger competitors, including certain nationwide banks that have a significant presence in Comerica's market area, may make available to their customers a broader array of product, pricing and structure alternatives and, due to their asset size, may more easily absorb credit losses in a larger overall portfolio. Some of Comerica's competitors (larger or smaller) may have more liberal lending policies and processes. Further, Comerica's banking competitors may be subject to a significantly different or reduced degree of regulation due to their asset size or types of products offered. They may also have the ability to more efficiently utilize resources to comply with regulations or may be able to more effectively absorb the costs of regulations into their existing cost structure. Comerica believes that the level of competition in all geographic markets will continue to increase in the future.

In addition to banks, Comerica's banking subsidiaries also face competition from other financial intermediaries, including savings and loan associations, consumer finance companies, leasing companies, venture capital funds, credit unions, investment banks, insurance companies and securities firms. Competition among providers of financial products and services continues to increase, with consumers having the opportunity to select from a growing variety of traditional and nontraditional alternatives. The ability of non-banking financial institutions to provide services previously limited to commercial banks has intensified competition. Because non-banking financial institutions are not subject to many of the same regulatory restrictions as banks and bank holding companies, they can often operate with greater flexibility and lower cost structures.

In addition, the industry continues to consolidate, which affects competition by eliminating some regional and local institutions, while strengthening the franchises of acquirers.

SUPERVISION AND REGULATION

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

Comerica Bank is chartered by the State of Texas and at the state level is supervised and regulated by the Texas Department of Banking under the Texas Finance Code. Comerica Bank has elected to be a member of the Federal Reserve System under the Federal Reserve Act and, consequently, is supervised and regulated by the Federal Reserve Bank of Dallas. Comerica Bank & Trust, National Association is chartered under federal law and is subject to supervision and regulation by the Office of the Comptroller of the Currency ("OCC") under the National Bank Act. Comerica Bank & Trust, National Association, by virtue of being a national bank, is also a member of the Federal Reserve System. The deposits of Comerica Bank and Comerica Bank & Trust, National Association are insured by the Deposit Insurance Fund of the Federal Deposit Insurance Corporation ("FDIC") to the extent provided by law. Certain transactions executed by Comerica Bank are also subject to regulation by the U.S. Commodity Futures Trading Commission. In Canada, Comerica Bank is supervised by the Office of the Superintendent of Financial Institutions and in Mexico, by the Banco de México.

The FRB supervises non-banking activities conducted by companies directly and indirectly owned by Comerica. In addition, Comerica's non-banking subsidiaries are subject to supervision and regulation by various state, federal and self-regulatory agencies, including, but not limited to, the Financial Industry Regulatory Authority, Inc. (in the case of Comerica Securities, Inc.), the Department of Insurance and Financial Services of the State of Michigan (in the case of Comerica Insurance Services, Inc.), the Department of Licensing and Regulatory Affairs (in the case of Comerica Securities, Inc.) and the Securities and Exchange Commission ("SEC") (in the case of Comerica Securities, Inc. and World Asset Management, Inc.).

Described below are material elements of selected laws and regulations applicable to Comerica and its subsidiaries. The descriptions are not intended to be complete and are qualified in their entirety by reference to the full text of the statutes and regulations described. Changes in applicable law or regulation, and in their application by regulatory agencies, cannot be predicted, but they may have a material effect on the business of Comerica and its subsidiaries.

Requirements for Approval of Acquisitions and Activities

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

The Community Reinvestment Act of 1977 (“CRA”) requires U.S. banks to help serve the credit needs of their communities. Comerica Bank's current rating under the “CRA” is “satisfactory”. If any subsidiary bank of Comerica were to receive a rating under the CRA of less than “satisfactory,” Comerica would be prohibited from engaging in certain activities.

In addition, Comerica, Comerica Bank and Comerica Bank & Trust, National Association, are each "well capitalized" and "well managed" under FRB standards. If any subsidiary bank of Comerica were to cease being "well capitalized" or "well managed" under applicable regulatory standards, the FRB could place limitations on Comerica's ability to conduct the broader financial activities permissible for financial holding companies or impose limitations or conditions on the conduct or activities of Comerica or its affiliates. If the deficiencies persisted, the FRB could order Comerica to divest any subsidiary bank or to cease engaging in any activities permissible for financial holding companies that are not permissible for bank holding companies, or Comerica could elect to conform its non-banking activities to those permissible for a bank holding company that is not also a financial holding company.

Further, the effectiveness of Comerica and its subsidiaries in complying with anti-money laundering regulations (discussed below) is also taken into account by the FRB when considering applications for approval of acquisitions.

Transactions with Affiliates

Various governmental requirements, including Sections 23A and 23B of the Federal Reserve Act and the FRB's Regulation W, limit borrowings by Comerica and its nonbank subsidiaries from its affiliate insured depository institutions, and also limit various other transactions between Comerica and its nonbank subsidiaries, on the one hand, and Comerica's affiliate insured depository institutions, on the other. For example, Section 23A of the Federal Reserve Act limits the aggregate outstanding amount of any insured depository institution's loans and other "covered transactions" with any particular nonbank affiliate to no more than 10% of the institution's total capital and limits the aggregate outstanding amount of any insured depository institution's covered transactions with all of its nonbank affiliates to no more than 20% of its total capital. "Covered transactions" are defined by statute to include a loan or extension of credit, as well as a purchase of securities issued by an affiliate, a purchase of assets (unless otherwise exempted by the FRB) from the affiliate, the acceptance of securities issued by the affiliate as collateral for a loan, and the issuance of a guarantee, acceptance or letter of credit on behalf of an affiliate. Section 23A of the Federal Reserve Act also generally requires that an insured depository institution's loans to its nonbank affiliates be, at a minimum, 100% secured, and Section 23B of the Federal Reserve Act generally requires that an insured depository institution's transactions with its nonbank affiliates be on terms and under circumstances that are substantially the same or at least as favorable as those prevailing for comparable transactions with nonaffiliates. The Dodd-Frank Act applied the 10% of capital limit on covered transactions to financial subsidiaries and amended the definition of "covered transaction" to include (i) securities borrowing or lending transactions with an affiliate, and (ii) all derivatives transactions with an affiliate, to the extent that either causes a bank or its affiliate to have credit exposure to the securities borrowing/lending or derivative counterparty.

Privacy

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

Anti-Money Laundering Regulations

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

Interstate Banking and Branching

The Interstate Banking and Branching Efficiency Act (the "Interstate Act"), as amended by the Dodd-Frank Act, permits a bank holding company, with FRB approval, to acquire banking institutions located in states other than the bank holding company's home state without regard to whether the transaction is prohibited under state law, but subject to any state requirement that the bank has been organized and operating for a minimum period of time, not to exceed five years, and the requirement that the bank holding company, prior to and following the proposed acquisition, control no more than 10% of the total amount of deposits of insured depository institutions in the U.S. and no more than 30% of such deposits in that state (or such amount as established by state law if such amount is lower than 30%). The Interstate Act, as amended, also authorizes banks to operate branch offices outside their home states by merging with out-of-state banks, purchasing branches in other states and by establishing de novo branches in other states, subject to various conditions. In the case of purchasing branches in a state in which it does not already have banking operations, the “host” state must have “opted-in” to the Interstate Act by enacting a law permitting such branch purchases. The

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

Comerica has consolidated the majority of its banking business into one bank, Comerica Bank, with banking centers in Texas, Arizona, California, Florida and Michigan, as well as Canada.

Dividends

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

Comerica Bank and Comerica Bank & Trust, National Association are required by federal law to obtain the prior approval of the FRB and/or the OCC, as the case may be, for the declaration and payment of dividends, if the total of all dividends declared by the board of directors of such bank in any calendar year will exceed the total of (i) such bank's retained net income (as defined and interpreted by regulation) for that year plus (ii) the retained net income (as defined and interpreted by regulation) for the preceding two years, less any required transfers to surplus or to fund the retirement of preferred stock. At January 1, 2017, Comerica's subsidiary banks could declare aggregate dividends of approximately $142 million from retained net profits of the preceding two years. Comerica's subsidiary banks declared dividends of $545 million in 2016, $437 million in 2015 and $380 million in 2014.

Further, federal regulatory agencies can prohibit a banking institution or bank holding company from engaging in unsafe and unsound banking practices and could prohibit the payment of dividends under circumstances in which such payment could be deemed an unsafe and unsound banking practice. Under the Federal Deposit Insurance Corporation Improvement Act (“FDICIA”), “prompt corrective action” regime discussed below, which applies to each of Comerica Bank and Comerica Bank & Trust, National Association, a subject bank is specifically prohibited from paying dividends to its parent company if payment would result in the bank becoming “undercapitalized.” In addition, Comerica Bank is also subject to limitations under Texas state law regarding the amount of earnings that may be paid out as dividends to its parent company, and requiring prior approval for payments of dividends that exceed certain levels.

Additionally, the payment of dividends by Comerica to its shareholders is subject to the non-objection of the FRB pursuant to the Comprehensive Capital Analysis and Review (CCAR) program. For more information, please see “The Dodd-Frank Wall Street Reform and Consumer Protection Act and Recent Legislative and Regulatory Developments” in this section.

Source of Strength and Cross-Guarantee Requirements

Federal law and FRB regulations require that bank holding companies serve as a source of strength to each subsidiary bank and commit resources to support each subsidiary bank. This support may be required at times when a bank holding company may not be able to provide such support without adversely affecting its ability to meet other obligations. Similarly, under the cross-guarantee provisions of the Federal Deposit Insurance Act, in the event of a loss suffered or anticipated by the FDIC (either as a result of the failure of a banking subsidiary or related to FDIC assistance provided to such a subsidiary in danger of failure), the other banking subsidiaries may be assessed for the FDIC's loss, subject to certain exceptions.

Federal Deposit Insurance Corporation Improvement Act

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

Regulations establishing the specific capital tiers provide that, for a depository institution to be well capitalized, it must have a total risk-based capital ratio of at least 10% and a Tier 1 risk-based capital ratio of at least 8%, a common equity Tier 1 risk-based capital measure of at least 6.5%, a Tier 1 leverage ratio of at least 5% and not be subject to any specific capital order or directive. For an institution to be adequately capitalized, it must have a total risk-based capital ratio of at least 8%, a Tier 1 risk-based capital ratio of at least 6%, a common equity Tier 1 risk-based capital measure of at least 4.5% and a Tier 1 leverage ratio of at least 4%. Under certain circumstances, the appropriate banking agency may treat a well capitalized, adequately capitalized or undercapitalized institution as if the institution were in the next lower capital category.

As of December 31, 2016, Comerica and its banking subsidiaries exceeded the ratios required for an institution to be considered “well capitalized” under these regulations.

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

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

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

FDICIA also contains a variety of other provisions that may affect the operations of depository institutions including reporting requirements, regulatory standards for real estate lending, “truth in savings” provisions, the requirement that a depository institution give 90 days prior notice to customers and regulatory authorities before closing any branch, and a prohibition on the acceptance or renewal of brokered deposits by depository institutions that are not well capitalized or are adequately capitalized and have not received a waiver from the FDIC.

Capital Requirements

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

For this purpose, a depository institution's or holding company's assets and certain specified off-balance sheet commitments are assigned to various risk categories defined by the FRB, each weighted differently based on the level of credit risk that is ascribed to such assets or commitments, based on counterparty type and asset class. A depository institution's or holding company's capital, in turn, is divided into three tiers: Common Equity Tier 1 (“CET1”), additional Tier 1, and Tier 2. CET1 capital predominantly includes common shareholders’ equity, less certain deductions for goodwill, intangible assets and deferred tax assets that arise from net operating losses and tax credit carry-forwards, if any. Additional Tier 1 capital primarily includes any outstanding noncumulative perpetual preferred stock and related surplus. Comerica has also made the election to permanently exclude accumulated other comprehensive income related to debt securities, cash flow hedges, and defined benefit postretirement plans from CET1 capital. Tier 2 capital primarily includes qualifying subordinated debt and qualifying allowance for credit losses. Certain deductions and adjustments to CET1 capital, Tier 1 capital and Tier 2 capital are subject to phase-in through December 31, 2017. Entities that engage in trading activities, whose trading activities exceed specified levels, also are required to maintain capital for market risk. Market risk includes changes in the market value of trading account, foreign exchange, and commodity positions, whether resulting from broad market movements (such as changes in the general level of interest rates, equity prices, foreign exchange rates, or commodity prices) or from position specific factors. From time to time, Comerica's trading activities may exceed specified regulatory levels, in which case Comerica maintains additional capital for market risk as required.

Comerica, like other bank holding companies, currently is required to maintain CET1, Tier 1 (the sum of CET1 and additional Tier 1 capital) and “total capital” (the sum of Tier 1 and Tier 2 capital) equal to at least 4.5%, 6% and 8% of its total risk-weighted assets (including certain off-balance-sheet items, such as standby letters of credit), respectively. In 2016, Comerica was also required to maintain a minimum capital conservation buffer of 0.625% in order to avoid restrictions on capital distributions and discretionary bonuses. The minimum required capital conservation buffer gradually increases to 2.5% in 2019. At December 31, 2016, Comerica met all requirements, with CET1, Tier 1 and total capital equal to 11.09%, 11.09% and 13.27% of its total risk-weighted assets, respectively, and a capital conservation buffer of 5.09% of its total risk-weighted assets.

Comerica is also required to maintain a minimum “leverage ratio” (Tier 1 capital to non-risk-adjusted total assets) of 4%. Comerica's leverage ratio of 10.18% at December 31, 2016 reflects the nature of Comerica's balance sheet and demonstrates a commitment to capital adequacy. At December 31, 2016, Comerica Bank had CET1, Tier 1 and total capital equal to 10.51%,

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10.51% and 12.40% of its total risk-weighted assets, respectively, a capital conservation buffer of 4.40% of its total risk-weighted assets, and a leverage ratio of 9.65%.

Additional information on the calculation of Comerica and its bank subsidiaries' CET1, Tier 1 capital, total capital and risk-weighted assets is set forth in Note 20 of the Notes to Consolidated Financial Statements located on pages F-99 through F-100 of the Financial Section of this report. Additional information on the timing and nature of the Basel III capital requirements is set forth below, under "Basel III: Regulatory Capital and Liquidity Regime."

FDIC Insurance Assessments

The FDIC Deposit Insurance Fund ("DIF") provides insurance coverage for certain deposits. Comerica's subsidiary banks are subject to FDIC deposit insurance assessments to maintain the DIF. The FDIC imposes a risk-based deposit premium assessment system, which was amended pursuant to the Federal Deposit Insurance Reform Act of 2005 and further amended by the Dodd-Frank Act. The Dodd-Frank Act also increased the DIF's minimum reserve ratio and permanently increased general deposit insurance coverage from $100,000 to $250,000. Under the risk-based deposit premium assessment system, the assessment rates for an insured depository institution are determined by an assessment rate calculator, which is based on a number of elements to measure the risk each institution poses to the DIF. The assessment rate is applied to total average assets less tangible equity. Under the current system, premiums are assessed quarterly and could increase if, for example, criticized loans and/or other higher risk assets increase or balance sheet liquidity decreases. For 2016, Comerica's FDIC insurance expense totaled $54 million, including the surcharge described below.

Effective July 1, 2016, the FDIC issued a final rule in order to implement section 334 of the Dodd-Frank Act (§334), which requires the FDIC to (1) raise the minimum reserve ratio for the DIF to 1.35 percent, from 1.15 percent, (2) assess premiums on banks to reach the 1.35 percent goal by September 30, 2020, and (3) offset the effect of the increase in the minimum reserve ratio on insured depository institutions with assets of less than $10 billion. The final rule imposes a surcharge on large banks, to be assessed over a period of eight quarters, as a means to implement §334. Comerica is subject to the surcharge assessment. If this surcharge is insufficient to increase the reserve ratio to 1.35 percent by December 31, 2018, a one-time shortfall assessment will be imposed on institutions with total consolidated assets of $10 billion or more on March 31, 2019. Management currently estimates that, based on the final rule, FDIC expense will increase by a total of approximately $20 million over the eight-quarter period that began July 1, 2016.

Enforcement Powers of Federal and State Banking Agencies

The FRB and other federal and state banking agencies have broad enforcement powers, including, without limitation, and as prescribed to each agency by applicable law, the power to terminate deposit insurance, impose substantial fines and other civil penalties and appoint a conservator or receiver. Failure to comply with applicable laws or regulations could subject Comerica or its banking subsidiaries, as well as officers and directors of these organizations, to administrative sanctions and potentially substantial civil and criminal penalties.

The Dodd-Frank Wall Street Reform and Consumer Protection Act and Recent Legislative and Regulatory Developments

The financial crisis led to significant changes in the legislative and regulatory landscape of the financial services industry, including the overhaul of that landscape with the passage of the Dodd-Frank Act, which was signed into law on July 21, 2010. Provided below is an overview of key elements of the Dodd-Frank Act relevant to Comerica, as well as recent legislative and regulatory developments. The estimates of the impact on Comerica discussed below are based on information currently available and, if applicable, are subject to change until final rulemaking is complete.

Incentive-Based Compensation. In June 2010, the FRB, OCC and FDIC issued comprehensive final guidance on incentive compensation policies intended to ensure that the incentive compensation policies of banking organizations do not undermine the safety and soundness of such organizations by encouraging excessive risk-taking. The guidance, which covers senior executives as well as other employees who, either individually or as part of a group, have the ability to expose the banking organization to material amounts of risk, is based upon the key principles that a banking organization's incentive compensation arrangements (i) should provide employees incentives that appropriately balance risk and financial results in a manner that does not encourage employees to expose their organizations to imprudent risk; (ii) should be compatible with effective controls and risk-management; and (iii) should be supported by strong corporate governance, including active and effective oversight by the organization's board of directors.

Banking organizations are expected to review regularly their incentive compensation arrangements based on these three principles. Where there are deficiencies in the incentive compensation arrangements, they should be promptly addressed. Enforcement actions may be taken against a banking organization if its incentive compensation arrangements, or related risk-management control or governance processes, pose a risk to the organization's safety and soundness, particularly if the organization is not taking prompt and effective measures to correct the deficiencies. Comerica is subject to this final guidance and, similar to other large banking organizations, has been subject to a continuing review of incentive compensation policies and practices by representatives of the FRB, the Federal Reserve Bank of Dallas and the Texas Department of Banking since 2011. As part of that review, Comerica has undertaken a thorough analysis of all the incentive compensation programs throughout the organization, the individuals covered by each plan and the risks inherent in each plan’s design and implementation. Comerica has determined that risks arising from employee compensation plans are not reasonably likely to have a material adverse effect on Comerica. Further, it is the Company’s intent to continue to evolve our processes going forward by monitoring regulations and best practices for sound incentive compensation.

In 2016, the FRB, OCC and several other federal financial regulators revised and re-proposed rules to implement Section 956 of the Dodd-Frank Act. The rules were first proposed in 2011. Section 956 directed regulators to jointly prescribe regulations or guidelines prohibiting incentive-based payment arrangements, or any feature of any such arrangement, at covered financial institutions that encourage inappropriate risks by providing excessive compensation or that could lead to a material financial loss. This proposal supplements the final guidance issued by the banking agencies in June 2010. Consistent with the Dodd-Frank Act, the proposed rule would not apply to institutions with total consolidated assets of less than $1 billion, and would impose heightened standards for institutions with $50 billion or more in total consolidated assets, which includes Comerica. For these larger institutions, the proposed rule would require the deferral of at least 40 percent of incentive-based payments for designated executives and significant risk-takers who individually have the ability to expose the institution to possible losses that are substantial in relation to the institution's size, capital or overall risk tolerance. Moreover, incentive-based compensation of these individuals would be subject to potential clawback for seven years following vesting. Further, the rule imposes enhanced risk management controls and governance and internal policy and procedure requirements with respect to incentive compensation. Comerica is monitoring the development of this rule.

Basel III: Regulatory Capital and Liquidity Regime. In December 2010, the Basel Committee on Banking Supervision (the “Basel Committee”) issued a framework for strengthening international capital and liquidity regulation (“Basel III”). In July 2013, U.S. banking regulators issued a final rule for the U.S. adoption of the Basel III regulatory capital framework. Basel III includes a more stringent definition of capital and introduces a new common equity Tier 1 ("CET1") capital requirement; sets forth two comprehensive methodologies for calculating risk-weighted assets ("RWA"), a standardized approach and an advanced approach; introduces two new capital buffers, a conservation buffer and a countercyclical buffer (applicable to advanced approach entities); establishes a new supplemental leverage ratio (applicable to advanced approach entities); and sets out minimum capital ratios and overall capital adequacy standards. As a banking organization subject to the standardized approach, the rules were effective for Comerica on January 1, 2015. Certain deductions and adjustments to regulatory capital (primarily related to intangible assets and surplus Tier 2 capital minority interest) phase in and will be fully implemented on January 1, 2018. The capital conservation buffer phases in at 0.625 percent beginning on January 1, 2016 and ultimately increases to 2.5 percent on January 1, 2019. Comerica is not subject to the countercyclical buffer or the supplemental leverage ratio. Comerica's December 31, 2016 CET1 and Tier 1 ratios were both 11.09 percent. Comerica's December 31, 2016 CET1 and Tier 1 capital ratios exceed the minimum required by the final rule (4.5 percent and 6 percent, respectively).

On September 3, 2014, U.S. banking regulators adopted the Liquidity Coverage Ratio ("LCR") rule, which set for U.S. banks the minimum liquidity measure established under the Basel III liquidity framework. Under the final rule, Comerica is subject to a modified LCR standard, which requires a financial institution to hold a minimum level of high-quality, liquid assets ("HQLA") to fully cover modified net cash outflows under a 30-day systematic liquidity stress scenario. The rule was effective for Comerica on January 1, 2016. During the transition year, 2016, Comerica was required to maintain a minimum LCR of 90 percent. Beginning January 1, 2017, and thereafter, the minimum required LCR will be 100 percent. At each quarter-end in 2016, Comerica was in compliance with the fully phased-in LCR requirement, plus a buffer.

In the second quarter 2016, U.S. banking regulators issued a notice of proposed rulemaking (the proposed rule) implementing a second quantitative liquidity requirement in the U.S. generally consistent with the Net Stable Funding Ratio (NSFR) minimum liquidity measure established under the Basel III liquidity framework. Under the proposed rule, Comerica will be subject to a modified NSFR standard effective January 1, 2018, which requires a financial institution to hold a minimum level of available longer-term, stable sources of funding to fully cover a modified amount of required longer-term stable funding, over a one-year period. Comerica does not currently expect the proposed rule to have a material impact on its liquidity needs.

Interchange Fees. On July 20, 2011, the FRB published final rules (Regulation II) pursuant to the Dodd-Frank Act establishing the maximum permissible interchange fee that an issuer may receive for an electronic debit transaction as the sum of 21 cents per transaction and 5 basis points multiplied by the value of the transaction and prohibiting network exclusivity arrangements and routing restrictions. Comerica is subject to the final rules.

Supervision and Regulation Assessment. Section 318 of the Dodd-Frank Act authorizes the federal banking agencies to assess fees against bank holding companies with total consolidated assets in excess of $50 billion equal to the expenses necessary or appropriate in order to carry out their supervision and regulation of those companies. Comerica expensed $1.9 million for 2016, which will be assessed in the first quarter 2017.

The Volcker Rule. The federal banking agencies and the SEC published approved joint final regulations to implement the Volcker Rule on December 10, 2013. The Volcker Rule generally prohibits banking entities from engaging in proprietary trading and from owning and sponsoring "covered funds" (e.g. hedge funds and private equity funds). The final regulations adopt

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a multi-faceted approach to implementing the Volcker Rule prohibitions that relies on: (i) detailed descriptions of prohibited and permitted activities; (ii) detailed compliance requirements; and (iii) for banking entities with large volumes of trading activity, detailed quantitative analysis and reporting obligations. In addition to rules implementing the core prohibitions and exemptions (e.g. underwriting, market-making related activities, risk-mitigating hedging and trading in certain government obligations) of the Volcker Rule, the regulations also include two appendices devoted to record-keeping and reporting requirements, including numerous quantitative data reporting obligations for banking entities with significant trading activities (Appendix A) and enhanced compliance requirements for banking entities with significant trading or covered fund activities (Appendix B). The final rule was effective April 1, 2014. The Volcker Rule generally required full compliance with the new restrictions by July 21, 2015; however, the FRB has extended the conformance period to July 21, 2017 for covered funds that were in place prior to December 31, 2013. Comerica is currently in compliance with the effective aspect of the Volcker Rule and expects to meet the final requirements adopted by regulators within the applicable regulatory timelines. Additional information on Comerica's portfolio of indirect (through funds) private equity and venture capital investments is set forth in Note 1 of the Notes to Consolidated Financial Statements located on page F-52 of the Financial Section of this report.

Annual Capital Plans and Stress Tests. Comerica is subject to the FRB’s annual Comprehensive Capital Analysis and Review (CCAR) process, as well as the Dodd-Frank Act Stress Testing (DFAST) requirements. As part of the CCAR process, the FRB undertakes a supervisory assessment of the capital adequacy of bank holding companies (BHCs), including Comerica, that have $50 billion or more in total consolidated assets. This capital adequacy assessment is based on a review of a comprehensive capital plan submitted by each participating BHC to the FRB that describes the company’s planned capital actions during the nine quarter review period, as well as the results of stress tests conducted by both the company and the FRB under different hypothetical macro-economic scenarios, including a supervisory baseline and an adverse and a severely adverse scenario provided by the FRB. The FRB reviews both quantitative factors (such as projected capital ratios under a hypothetical stress scenario) and qualitative factors (such as the strength of the company's capital planning process). On January 30, 2017, the FRB issued a final rule stating that going forward, large and noncomplex firms, such as Comerica, would remain subject to a quantitative assessment in CCAR, but would no longer be subject to the qualitative assessment as part of CCAR; instead, the qualitative assessment would be conducted through the regular ongoing supervisory review process.

After completing its review, the FRB may object or not object to the company’s proposed capital actions, such as plans to pay or increase common stock dividends, reinstate or increase common equity repurchase programs, or issue or redeem preferred stock or other regulatory capital instruments. In connection with the 2016 CCAR, Comerica submitted its 2016 capital plan to the FRB on April 4, 2016; on June 23, 2016, Comerica and the FRB released the revenue, loss and capital results from the annual stress testing exercises and on June 29, 2016, Comerica announced that the FRB had completed its CCAR 2016 capital plan review and did not object to the capital plan or capital distributions contemplated in the plan for the four-quarter period commencing in the third quarter 2016 and ending in the second quarter 2017. Comerica plans to submit its CCAR 2017 capital plan to the FRB, consistent with supervisory guidance (SR 15-19), in April 2017 and expects to receive the results of the FRB's review of the plan in June 2017 and to release its company-run stress tests results in June or July 2017.

FRB regulations also required that Comerica and other large bank holding companies conduct a separate mid-year stress test using financial data as of June 30th and three company-derived macro-economic scenarios (base, adverse and severely adverse) and publish a summary of the results under the severely adverse scenario. On October 20, 2016, Comerica released the results of its company-run mid-year stress tests. Stress test results are available in the Investor Relations section of Comerica's website at investor.comerica.com, on the “Regulatory Disclosures” page under "Financial Reports."

Enhanced Prudential Requirements. The Dodd-Frank Act created the Financial Stability Oversight Council (“FSOC”) to coordinate efforts of the primary U.S. financial regulatory agencies in establishing regulations to address financial stability concerns and to make recommendations to the FRB as to enhanced prudential standards that must apply to large, interconnected bank holding companies and nonbank financial companies supervised by the FRB under the Dodd-Frank Act, including capital, leverage, liquidity and risk management requirements.

On February 18, 2014, the FRB issued its final regulations to implement the enhanced prudential and supervisory requirements mandated by the Dodd-Frank Act. The final regulations address enhanced risk-based capital and leverage requirements, enhanced liquidity requirements, enhanced risk management and risk committee requirements, single-counterparty credit limits, semiannual stress tests (as described above under "Annual Capital Plans and Stress Tests"), and a debt-to-equity limit for companies determined to pose a grave threat to financial stability. They are intended to allow regulators to more effectively supervise large bank holding companies and nonbank financial firms whose failure could impact the stability of the US financial system, and generally build on existing US and international regulatory guidance. The rule also takes a multi-stage or phased approach to many of the requirements (such as the capital and liquidity requirements). Most of these requirements apply to Comerica because it has consolidated assets of more than $50 billion. Comerica has or will implement all requirements of the new rules within regulatory timelines.

Resolution (Living Will) Plans. Section 165(d) of the Dodd-Frank Act requires bank holding companies with total consolidated assets of $50 billion or more (“covered companies”) to prepare and submit to the federal banking agencies (e.g., FRB

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and FDIC) a plan for their rapid and orderly resolution under the U.S. Bankruptcy Code. Covered companies, such as Comerica, with less than $100 billion in total nonbank assets were required to submit their initial plans by December 31, 2013. In addition, Section 165(d) requires FDIC-insured depository institutions (like Comerica Bank) with assets of $50 billion or more to develop, maintain, and periodically submit plans outlining how the FDIC would resolve it through the FDIC's resolution powers under the Federal Deposit Insurance Act. The federal banking agencies have issued rules to implement these requirements. In addition, those rules require the filing of annual updates to the plans. Both Comerica and Comerica Bank filed their respective initial and updated resolution plans by the required due dates, and will submit their 2017 resolution plans prior to December 31, 2017.

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

Title VII of the Dodd-Frank Act establishes a comprehensive framework for over-the-counter ("OTC") derivatives transactions. The structure for derivatives set forth in the Dodd-Frank Act is intended to promote, among other things, exchange trading and centralized clearing of swaps and security-based swaps, as well as greater transparency in the derivatives markets and enhanced monitoring of the entities that use these markets. In this regard, the CFTC and SEC have issued several regulatory proposals, some of which are now effective or will become effective in 2017. Most of the requirements did not impact Comerica since the Bank does not meet the definition of swap dealer nor is it a "major swap participant."

On October 13, 2016, the CFTC issued an Order setting the de minimis threshold at $8 billion through December 31, 2018 with respect to the de minimis exception to the swap dealer definition. In taking this action, the de minimis threshold will not decrease to $3 billion on December 31, 2017, as initially proposed. At this time, Comerica will continue to track its dealing activity.

The variation margin requirements for non-centrally cleared swaps and security-based swaps are effective for Comerica on March 31, 2017. The variation margin requirements were issued for the purpose of ensuring safety and soundness of swap trading in light of the risk to the financial system associated with non-cleared swaps activity. Comerica is currently working toward meeting compliance with the variation margin requirements.

Consumer Finance Regulations. The Dodd-Frank Act made several changes to consumer finance laws and regulations. It contained provisions that have weakened the federal preemption rules applicable for national banks and give state attorneys general the ability to enforce federal consumer protection laws. Additionally, the Dodd-Frank Act created the Consumer Financial Protection Bureau ("CFPB"), which has a broad rule-making authority for a wide range of consumer protection laws that apply to all banks and savings institutions, including the authority to prohibit "unfair, deceptive or abusive" acts and practices, and possesses examination and enforcement authority over all banks and savings institutions with more than $10 billion in assets. In this regard, the CFPB has commenced issuing several new rules to implement various provisions of the Dodd-Frank Act that were specifically identified as being enforced by the CFPB, as well as those specified for supervisory and enforcement authority for very large depository institutions and non-depository (nonbank) entities. Comerica is subject to CFPB foreign remittance rules and home mortgage lending rules, in addition to certain other CFPB rules.

The foreign remittance rules fall under Section 1073 of the Dodd-Frank Act. The CFPB issued new regulations amending Regulation E, which implements the Electronic Fund Transfer Act, effective October 28, 2013. The regulations were designed to provide protections to consumers who transfer funds to recipients located in countries outside the United States (customer foreign remittance transfers). In general, the regulation requires remittance transfer providers, such as Comerica, to disclose to a consumer the exchange rate, fees, and amount to be received by the recipient when the consumer sends a remittance transfer. Although Comerica had implemented the model disclosures provided in Appendix A to the final rule, on September 18, 2014, the CFPB extended the compliance exception period for the rule's new disclosure requirements to July 21, 2020.

On October 5, 2016, effective October 1, 2017, the CFPB issued final regulations establishing new consumer protections and disclosure requirements on prepaid accounts. The final rule's definition of prepaid accounts specifically includes payroll card accounts and government benefit accounts. It also includes cards that are not linked to a deposit account to conduct person-to- person (P2P) transfers. The regulations include (i) the provision of either periodic statements or free online account information access; (ii) new account error and unauthorized transaction rights; (iii) new "Know Before You Choose" prepaid account disclosures; (iv) public disclosure of account agreements for prepaid accounts and (v) credit protection for linked credit accounts. Additionally, the final rule regulates overdraft credit features that may be offered in conjunction with prepaid accounts.

Comerica has positioned itself to be in compliance with the new requirements.

Truth in Lending Act ("TILA") and Real Estate Settlement Procedures Act ("RESPA"). In November 2013, the CFPB issued a rule implementing new TILA RESPA Integrated Disclosures ("TRID") to replace the initial Truth-in-Lending disclosure and Good Faith Estimate for most closed-end consumer mortgage loans. The effective date was October 3, 2015. Significant

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changes in TRID include: (1) expansion of the scope of loans that require RESPA early disclosures, including bridge loans, vacant land loans, and construction loans; (2) changes and additions to “waiting period” requirements to close a loan; (3) reduced tolerances for estimated fees and (4) the lender, rather than the closing agent, is responsible for providing final disclosures. Although Comerica outsources most of its consumer mortgage loans, consumer construction financing has been suspended. This regulation has also resulted in a suspension of consumer bridge loan financing. Such financing has not been a significant business for Comerica.

Home Mortgage Disclosure Act (HMDA), Equal Credit Opportunity Act (ECOA) and Uniform Residential Loan Application (URLA). A revised and redesigned URLA was approved by the CFPB on September 23, 2016. The official approval expands the Home Mortgage Disclosure Act information about Ethnicity and Race that can be collected from January 1, 2017 through December 31, 2017. Regulation C, as amended by the final rule published in the Federal Register at 80 FR 66127 on October 28, 2015 (2015 HMDA final rule), will require financial institutions to permit applicants to self-identify using disaggregated ethnic and racial categories beginning January 1, 2018 in conformance with the 2016 URLA. Most consumer-purpose transactions, including closed-end home-equity loans, home-equity lines of credit and reverse mortgages, are subject to the regulation. Most commercial-purpose transactions (i.e., loans or lines of credit not for personal, family, or household purposes) are subject to the regulation only if they are for the purpose of home purchase, home improvement, or refinancing. The final rule excludes from coverage home improvement loans that are not secured by a dwelling (i.e., home improvement loans that are unsecured or that are secured by some other type of collateral) and all agricultural-purpose loans and lines of credit. Comerica is monitoring and implementing changes as required.

FDIC Guidance on Brokered Deposits. On January 5, 2015, the FDIC issued guidance in the form of “Frequently Asked Questions” to promote consistency by insured depository institutions in identifying, accepting, and reporting brokered deposits. On November 13, 2015, the FDIC issued proposed updates to the FAQs. All insured depository institutions (including those that are well capitalized) must report brokered deposits in their Consolidated Reports of Condition and Income (Call Reports). Comerica has evaluated the impact of these FAQs, including the proposed updates, to various business units throughout the organization. The FAQs had only a nominal impact.

Flood Insurance Reform. The Biggert-Waters Flood Insurance Reform Act of 2012 (“Biggert-Waters Act”), as amended by the Homeowner Flood Insurance Affordability Act of 2014, modified the National Flood Insurance Program by: (i) increasing the maximum civil penalty for Flood Disaster Protection Act violations to $2,000 and eliminating the annual penalty cap; (ii) requiring certain lenders (including Comerica) to escrow premiums and fees for flood insurance on residential improved real estate; (iii) directing lenders to accept private flood insurance and to notify borrowers of its availability; (iv) amending the force placement requirement provisions; and (v) permitting lenders to charge borrowers costs for lapses in or insufficient coverage. These requirements will impact Comerica loans and extensions of credit secured with residential improved real estate. The civil penalty and force placed insurance provisions were effective immediately. The escrow provisions became effective on January 1, 2016.

On October 31, 2016, the federal agencies issued a Joint Notice of Proposed Rulemaking concerning the private flood insurance rules with request for additional public comments due on January 6, 2017. Comerica will continue to monitor the development and implementation of the private flood insurance rules.

Future Legislation and Regulatory Measures

The environment in which financial institutions have operated since the financial crisis, including legislative and regulatory changes affecting capital, liquidity, supervision, permissible activities, corporate governance and compensation, and changes in fiscal policy, may have long-term effects on the business model and profitability of financial institutions that cannot be foreseen. Further, it is too soon for Comerica to predict what legislative or regulatory changes may occur as a result of the recent change in the U.S. presidential administration, or, if changes occur, the ultimate effect they would have upon the financial condition or results of operations of Comerica.

UNDERWRITING APPROACH

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

- People: Including the competence, integrity and succession planning of customers.
- Purpose: The legal, logical and productive purposes of the credit facility.
- Payment: Including the source, timing and probability of payment.

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- Protection: Including obtaining alternative sources of repayment, securing the loan, as appropriate, with collateral and/or third-party guarantees and ensuring appropriate legal documentation is obtained.
- Perspective: The risk/reward relationship and pricing elements (cost of funds; servicing costs; time value of money; credit risk).

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

Credit Administration

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

Credit Policy

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

Commercial Loan Portfolio

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

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

For additional information specific to our Energy loan portfolio, please see the caption, “Energy Lending” on pages F-30 through F-31 of the Financial Section of this report.

Commercial Real Estate (CRE) Loan Portfolio

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

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Consumer and Residential Mortgage Loan Portfolios

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

EMPLOYEES

As of December 31, 2016, Comerica and its subsidiaries had 7,659 full-time and 490 part-time employees.

AVAILABLE INFORMATION

Comerica maintains an Internet website at www.comerica.com where the Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and all amendments to those reports are available without charge, as soon as reasonably practicable after those reports are filed with or furnished to the SEC. The Code of Business Conduct and Ethics for Employees, the Code of Business Conduct and Ethics for Members of the Board of Directors and the Senior Financial Officer Code of Ethics adopted by Comerica are also available on the Internet website and are available in print to any shareholder who requests them. Such requests should be made in writing to the Corporate Secretary at Comerica Incorporated, Comerica Bank Tower, 1717 Main Street, MC 6404, Dallas, Texas 75201.

In addition, pursuant to regulations adopted by the FRB, Comerica makes additional regulatory capital-related disclosures. Under these regulations, Comerica satisfies a portion of these requirements through postings on its website, and Comerica has done so and expects to continue to do so without also providing disclosure of this information through filings with the SEC.

Where we have included web addresses in this report, such as our web address and the web address of the SEC, we have included those web addresses as inactive textual references only. Except as specifically incorporated by reference into this report, information on those websites is not part hereof.

Item 1A. Risk Factors.

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

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

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

Local, domestic, and international events including economic, financial market, political and industry specific conditions affect the financial services industry, directly and indirectly. Conditions such as or related to inflation, recession, unemployment, volatile interest rates, international conflicts and other factors, such as real estate values, energy prices, state and local municipal budget deficits, government spending and the U.S. national debt, outside of our control may, directly and indirectly, adversely affect Comerica.

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

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

- Proposed revenue enhancements and efficiency improvements may not be achieved.

In July 2016 Comerica announced the implementation of its efficiency and revenue initiative, GEAR Up (the "initiative") and related financial targets. There may be changes in the scope or assumptions underlying the initiative, delays in the anticipated timing of activities related to the initiative and higher than expected or unanticipated costs to implement them, and some benefits may not be fully achieved. As well, even if the initiative is successful, many factors can influence the amount of core noninterest expenses, some of which are not wholly in our control, including changing regulations, benefits and health care costs, technology and cybersecurity investments, outside processing expenses and litigation.

Furthermore, the implementation of the initiative may have unintended impacts on Comerica's ability to attract and retain business, customers and employees, and could result in disruptions to systems, processes, controls and procedures. Any revenue enhancement ideas may not be successful in the marketplace. Accordingly, Comerica's results of operations and profitability may be negatively impacted, making it less competitive and potentially causing a loss of market share. Additionally, Comerica's future performance is subject to the various risks inherent to its business and operations.

- Comerica must maintain adequate sources of funding and liquidity to meet regulatory expectations, support its operations and fund outstanding liabilities.

Comerica’s liquidity and ability to fund and run its business could be materially adversely affected by a variety of conditions and factors, including financial and credit market disruptions and volatility or a lack of market or customer confidence in financial markets in general, which may result in a loss of customer deposits or outflows of cash or collateral and/or ability to access capital markets on favorable terms.

Other conditions and factors that could materially adversely affect Comerica’s liquidity and funding include a lack of market or customer confidence in, or negative news about, Comerica or the financial services industry generally which also may result in a loss of deposits and/or negatively affect the ability to access the capital markets; the loss of customer deposits to alternative investments; counterparty availability; interest rate fluctuations; general economic conditions; and the legal, regulatory, accounting and tax environments governing our funding transactions. Many of the above conditions and factors may be caused by events over which Comerica has little or no control. There can be no assurance that significant disruption and volatility in the financial markets will not occur in the future. Further, Comerica's customers may be adversely impacted by such conditions, which could have a negative impact on Comerica's business, financial condition and results of operations.

In September 2014, U.S. banking regulators issued a final rule implementing a quantitative liquidity requirement in the U.S. generally consistent with the Liquidity Coverage Ratio ("LCR") minimum liquidity measure established under the Basel III liquidity framework. Under the final rule, Comerica is subject to a modified LCR standard, which requires a financial institution to hold a minimum level of high-quality, liquid assets to fully cover modified net cash outflows under a 30-day systematic liquidity stress scenario. The rule was effective for Comerica on January 1, 2016. During the transition year, 2016, Comerica was required to maintain a minimum LCR of 90 percent. Beginning January 1, 2017, and thereafter, the minimum required LCR will be 100 percent. For more information regarding the LCR, please see the “Supervision and Regulation” section of this report. The inability to access capital markets funding sources as needed could adversely impact our level of regulatory-qualifying capital and ability to continue to comply with the LCR framework.

Further, if Comerica is unable to continue to fund assets through customer bank deposits or access funding sources on favorable terms, or if Comerica suffers an increase in borrowing costs or otherwise fails to manage liquidity effectively, Comerica’s liquidity, operating margins, financial condition and results of operations may be materially adversely affected.

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

Comerica is required to satisfy stringent capital and liquidity standards, including annual and mid-year stress testing and quantitative standards for liquidity management, as a result of capital and liquidity requirements in connection with Basel III and the Dodd-Frank Act. Additional information on the regulatory capital and liquidity requirements currently applicable to Comerica is set forth in the “Supervision and Regulation” section of this report. These requirements, and any other new laws or regulations related to capital and liquidity, could adversely affect Comerica's ability to pay dividends or make equity repurchases, or could require Comerica to reduce business levels or to raise capital, including in ways that may adversely affect its results of operations or financial condition and/or existing shareholders.

Further, our regulators may also require us to satisfy additional, more stringent capital adequacy and liquidity standards than those specified as part of the Dodd-Frank Act and the FRB's rules implementing Basel III. Maintaining higher levels of capital and liquidity may reduce Comerica's profitability and otherwise adversely affect its business, financial condition, or results of operations.

- Declines in the businesses or industries of Comerica's customers - in particular, the energy industry - could cause increased credit losses or decreased loan balances, which could adversely affect Comerica.

Comerica's business customer base consists, in part, of customers in volatile businesses and industries such as the energy industry, the automotive production industry and the real estate business. These industries are sensitive to global economic conditions, supply chain factors and/or commodities prices. Any decline in one of those customers' businesses or industries could cause increased credit losses, which in turn could adversely affect Comerica. Further, any decline in these businesses or industries could cause decreased borrowings, either due to reduced demand or reductions in the borrowing base available for each customer loan.

In particular, oil and gas prices have remained at lower levels since mid-2014. Loans in the Energy business line were $2.3 billion, or less than 5 percent of total loans, at December 31, 2016. If oil and gas prices become further depressed and remain depressed for an extended period of time, Comerica's energy portfolio could experience increased credit losses, which could adversely affect Comerica's financial results. Additionally, a prolonged period of further decreased oil prices could also have a negative impact on the Texas economy, which could have a material adverse effect on Comerica’s business, financial condition and results of operations. For more information regarding Comerica's energy portfolio, please see “Energy Lending” beginning on page F-30 of the Financial Section of this report.

- Unfavorable developments concerning credit quality could adversely affect Comerica's financial results.

Although Comerica regularly reviews credit exposure related to its customers and various industry sectors in which it has business relationships, default risk may arise from events or circumstances that are difficult to detect or foresee. Under such circumstances, Comerica could experience an increase in the level of provision for credit losses, nonperforming assets, net charge-offs and reserve for credit losses, which could adversely affect Comerica's financial results.

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

Comerica is exposed to many types of operational risk, including legal risk, the risk of fraud or theft by employees or outsiders, failure of Comerica's controls and procedures and unauthorized transactions by employees or operational errors, including clerical or recordkeeping errors or those resulting from computer or telecommunications systems malfunctions. Given the high volume of transactions at Comerica, certain errors may be repeated or compounded before they are identified and resolved. The occurrence of such operational risks can lead to other types of risks including reputational and compliance risks that may amplify the adverse impact to Comerica.

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

Comerica may also be subject to disruptions of its operating systems arising from events that are wholly or partially beyond its control, which may include, for example, computer viruses, cyber attacks (including cyber attacks resulting in the destruction or exfiltration of data and systems), spikes in transaction volume and/or customer activity, electrical or telecommunications outages, or natural disasters. Although Comerica has programs in place related to business continuity, disaster recovery and information security to maintain the confidentiality, integrity, and availability of its systems, business applications and customer information, such disruptions may give rise to interruptions in service to customers and loss or liability to Comerica, including loss of customer data. Comerica has not experienced a cyber attack which resulted in a loss of client data. However, future cyber attacks could be more disruptive and damaging, and Comerica may not be able to anticipate or prevent all such attacks.

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

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

Comerica is subject to extensive regulation, supervision and examination by the U.S. Treasury, the Texas Department of Banking, the FDIC, the FRB, the SEC, FINRA and other regulatory bodies. Such regulation and supervision governs the activities in which Comerica may engage. Regulatory authorities have extensive discretion in their supervisory and enforcement activities, including the imposition of restrictions on Comerica's operations, investigations and limitations related to Comerica's securities, the classification of Comerica's assets and determination of the level of Comerica's allowance for loan losses. Any change in such regulation and oversight, whether in the form of regulatory policy, regulations, legislation or supervisory action, may have a material adverse impact on Comerica's business, financial condition or results of operations. It is too soon for Comerica to predict what legislative or regulatory changes may occur as a result of the recent change in the U.S. presidential administration, or, if changes occur, the ultimate effect they would have upon the financial condition or results of operations of Comerica. The impact of any future legislation or regulatory actions may adversely affect Comerica's businesses or operations.

• Comerica relies on other companies to provide certain key components of its business infrastructure, and certain failures could materially adversely affect operations.

Comerica faces the risk of operational disruption, failure or capacity constraints due to its dependency on third party vendors for components of its business infrastructure. Third party vendors provide certain key components of Comerica's business infrastructure, such as data processing and storage, payment processing services, recording and monitoring transactions, internet connections and network access, clearing agency and card processing services. While Comerica conducts due diligence prior to engaging with third party vendors, it does not control their operations. Further, while Comerica's vendor management policies and practices are designed to comply with current vendor regulations, these policies and practices cannot eliminate this risk. In this context, any vendor failure to properly deliver these services could adversely affect Comerica’s business operations, and result in financial loss, reputational harm, and/or regulatory action.

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

The operations of financial institutions such as Comerica are dependent to a large degree on net interest income, which is the difference between interest income from loans and investments and interest expense on deposits and borrowings. Prevailing economic conditions, the trade, fiscal and monetary policies of the federal government and the policies of various regulatory agencies all affect market rates of interest and the availability and cost of credit, which in turn significantly affect financial institutions' net interest income and the market value of its investment securities. Interest rates over the past several years have remained at low levels, even following the Federal Open Market Committee's 25 basis point rate rises in December 2015 and 2016. A continued low interest rate environment may continue to adversely affect the interest income Comerica earns on loans and investments. For a discussion of Comerica's interest rate sensitivity, please see, “Market and Liquidity Risk” beginning on page F-32 of the Financial Section of this report.

Volatility in interest rates can also result in disintermediation, which is the flow of funds away from financial institutions into direct investments, such as federal government and corporate securities and other investment vehicles, which, because of the absence of federal insurance premiums and reserve requirements, generally pay higher rates of return than financial institutions. Comerica's financial results could be materially adversely impacted by changes in financial market conditions.

• Reduction in our credit ratings could adversely affect Comerica and/or the holders of its securities.

Rating agencies regularly evaluate Comerica, and their ratings are based on a number of factors, including Comerica's financial strength as well as factors not entirely within its control, including conditions affecting the financial services industry generally. There can be no assurance that Comerica will maintain its current ratings. In February 2016, Standard & Poor's downgraded Comerica's long-term senior credit ratings one notch to BBB+ and Comerica Bank's long and short-term credit ratings one notch to A- and A-2, respectively. In March 2015, Moody's Investors Service put global bank ratings on review following the publication of revised bank rating methodology and in May 2015, it downgraded Comerica Bank's long-term senior credit ratings one notch to A3. In February 2016, Moody's revised its outlook to "Negative." While recent credit rating actions have had little to no detrimental impact on Comerica's profitability, borrowing costs, or ability to access the capital markets, future downgrades to Comerica's or its subsidiaries' credit ratings could adversely affect Comerica's profitability, borrowing costs, or ability to access the capital markets or otherwise have a negative effect on Comerica's results of operations or financial condition. If such a reduction placed Comerica's or its subsidiaries' credit

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ratings below investment grade, it could also create obligations or liabilities under the terms of existing arrangements that could increase Comerica's costs under such arrangements. Additionally, a downgrade of the credit rating of any particular security issued by Comerica or its subsidiaries could negatively affect the ability of the holders of that security to sell the securities and the prices at which any such securities may be sold.

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

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

- The introduction, implementation, withdrawal, success and timing of business initiatives and strategies may be less successful or may be different than anticipated, which could adversely affect Comerica's business.

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

- Damage to Comerica’s reputation could damage its businesses.

With consumers increasingly interested in doing business with companies they admire and trust, reputational risk is an increasing concern for business. Such risks include compliance issues, operational challenges, or a strategic, high profile event. Comerica's business is based on the trust of its customers, communities, and entire value chain, which makes managing reputational risk extremely important. News or other publicity that impairs Comerica's reputation, or the reputation of the financial services industry generally, can therefore cause significant harm to Comerica’s business and prospects. Further, adverse publicity or negative information posted on social media websites regarding Comerica, whether or not true, may result in harm to Comerica’s prospects.

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

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

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

Comerica operates in a very competitive environment, which is characterized by competition from a number of other financial institutions in each market in which it operates. Comerica competes in terms of products and pricing with large national and regional financial institutions and with smaller financial institutions. Some of Comerica's larger competitors, including certain nationwide banks that have a significant presence in Comerica's market area, may make available to their customers a broader array of product, pricing and structure alternatives and, due to their asset size, may more easily absorb credit losses in a larger overall portfolio. Some of Comerica's competitors (larger or smaller) may have more liberal lending policies and processes.

Additionally, the financial services industry is subject to extensive regulation. For more information, see the “Supervision and Regulation” section of this report. Such regulations may require significant additional investments in technology, personnel or other resources or place limitations on the ability of financial institutions, including Comerica, to engage in certain activities. Comerica's competitors may be subject to a significantly different or reduced degree of regulation due

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to their asset size or types of products offered. They may also have the ability to more efficiently utilize resources to comply with regulations or may be able to more effectively absorb the costs of regulations into their existing cost structure.

If Comerica is unable to compete effectively in products and pricing in its markets, business could decline, which could have a material adverse effect on Comerica's business, financial condition or results of operations.

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

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

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

- Any future strategic acquisitions or divestitures may present certain risks to Comerica's business and operations.

Difficulties in capitalizing on the opportunities presented by a future acquisition may prevent Comerica from fully achieving the expected benefits from the acquisition, or may cause the achievement of such expectations to take longer to realize than expected.

Further, the assimilation of the acquired entity's customers and markets could result in higher than expected deposit attrition, loss of key employees, disruption of Comerica's businesses or the businesses of the acquired entity or otherwise adversely affect Comerica's ability to maintain relationships with customers and employees or achieve the anticipated benefits of the acquisition. These matters could have an adverse effect on Comerica for an undetermined period. Comerica will be subject to similar risks and difficulties in connection with any future decisions to downsize, sell or close units or otherwise change the business mix of Comerica.

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

The financial services industry is very competitive. Comerica not only vies for business opportunities with new customers, but also competes to maintain and expand the relationships it has with its existing customers. While management believes that it can continue to grow many of these relationships, Comerica will continue to experience pressures to maintain these relationships as its competitors attempt to capture its customers. Failure to create new customer relationships and to maintain and expand existing customer relationships to the extent anticipated may adversely impact Comerica's earnings.

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

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

Further, Comerica's ability to retain key officers and employees may be impacted by legislation and regulation affecting the financial services industry. In 2016, the FRB, OCC and several other federal financial regulators revised and re-proposed rules to implement Section 956 of the Dodd-Frank Act. Section 956 directed regulators to jointly prescribe regulations or guidelines prohibiting incentive-based payment arrangements, or any feature of any such arrangement, at covered financial institutions that encourage inappropriate risks by providing excessive compensation or that could lead to a material financial loss. Consistent with the Dodd-Frank Act, the proposed rule would not apply to institutions with total consolidated assets of less than $1 billion, and would impose heightened standards for institutions with $50 billion or more in total consolidated assets, which includes Comerica. For these larger institutions, the proposed rule would require the deferral of at least 40 percent of incentive-based payments for designated executives and significant risk-takers who individually have the ability to expose the institution to possible losses that are substantial in relation to the institution's size, capital or overall risk tolerance. Moreover, incentive-based compensation of these individuals would be subject to potential clawback for seven years following vesting. Further, the rule imposes enhanced risk management controls and governance and internal policy and procedure requirements with respect to incentive compensation. Accordingly, Comerica may be at a disadvantage to offer competitive compensation compared to other financial institutions (as referenced above) or companies in other industries, which may not be subject to the same requirements.

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

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

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

Comerica establishes reserves for legal claims when payments associated with the claims become probable and the costs can be reasonably estimated. Comerica may still incur legal costs for a matter even if it has not established a reserve. In addition, due to the inherent subjectivity of the assessments and unpredictability of the outcome of legal proceedings, the actual cost of resolving a legal claim may be substantially higher than any amounts reserved for that matter. The ultimate resolution of a pending legal proceeding, depending on the remedy sought and granted, could adversely affect Comerica's results of operations and financial condition.

- Methods of reducing risk exposures might not be effective.

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

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

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

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

Comerica has significant operations and a significant customer base in California, Texas, Florida and other regions where natural and other disasters may occur. These regions are known for being vulnerable to natural disasters and other risks, such as tornadoes, hurricanes, earthquakes, fires, droughts and floods, the nature and severity of which may be impacted by climate change. These types of natural catastrophic events at times have disrupted the local economy, Comerica's business and customers and have posed physical risks to Comerica's property. In addition, catastrophic events occurring in other regions of the world may have an impact on Comerica's customers and in turn, on Comerica. A significant catastrophic event could materially adversely affect Comerica's operating results.

- The tax treatment of corporations could be subject to potential legislative, administrative or judicial changes or interpretations.

The present federal income tax treatment of corporations may be modified by legislative, administrative or judicial changes or interpretations at any time. For example, the current administration has indicated it will propose reductions to the corporate statutory tax rate. A decline in the federal corporate tax rate may lower Comerica’s tax provision expense. However, it may also significantly decrease the value of Comerica’s deferred tax assets (“DTAs”), which would result in a reduction of net income in the period in which the tax change is enacted. At December 31, 2016, Comerica’s net DTAs were approximately $217 million.

As well, if the President and Congress approve comprehensive tax reform, low-income housing tax credits (LIHTCs), New Markets Tax Credits (NMTCs), the beneficial tax treatment of bank-owned life insurance or other current tax positions taken by Comerica could be at risk. We are unable to predict whether any of these changes, or other proposals, will ultimately be enacted. Any such changes could adversely affect Comerica.

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

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

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

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

Management has identified certain accounting policies as being critical because they require management's judgment to make difficult, subjective or complex judgments about matters that are uncertain. Materially different amounts could be reported under different conditions or using different assumptions or estimates. Comerica has established detailed policies and control procedures that are intended to ensure these critical accounting estimates and judgments are well controlled and applied consistently. In addition, the policies and procedures are intended to ensure that the process for changing methodologies occurs in an appropriate manner. Because of the uncertainty surrounding management's judgments and the estimates pertaining to these matters, Comerica cannot guarantee that it will not be required to adjust accounting policies or restate prior period financial statements. See “Critical Accounting Policies” on pages F-38 through F-41 of the Financial Section of this report and Note 1 of the Notes to Consolidated Financial Statements located on pages F-49 through F-61 of the Financial Section of this report.

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

The executive offices of Comerica are located in the Comerica Bank Tower, 1717 Main Street, Dallas, Texas 75201. Comerica Bank occupies six floors of the building, plus additional space on the building's lower level. Comerica does not own the Comerica Bank Tower space, but has naming rights to the building and leases the space from an unaffiliated third party. The lease for such space used by Comerica and its subsidiaries extends through September 2023. Comerica's Michigan headquarters are located in a 10-story building in the central business district of Detroit, Michigan at 411 W. Lafayette, Detroit, Michigan 48226. Such building is owned by Comerica Bank. As of December 31, 2016, Comerica, through its banking affiliates, operated at a total of 591 locations. This includes banking centers, trust services locations, and/or loan production or other financial services offices, primarily in the States of Texas, Michigan, California, Florida and Arizona. Of the 591 locations, 236 were owned and 355 were leased. As of December 31, 2016, affiliates also operated from leased spaces in Denver, Colorado; Wilmington, Delaware; Oakbrook Terrace, Illinois; Boston, Massachusetts; Minneapolis, Minnesota; Morristown, New Jersey; New York, New York; Rocky Mount, North Carolina; Memphis, Tennessee; McLean, Virginia; Bellevue and Seattle, Washington; Monterrey, Mexico; Toronto, Ontario, Canada and Windsor, Ontario, Canada. Comerica and its subsidiaries own, among other properties, a check processing center in Livonia, Michigan, and three buildings in Auburn Hills, Michigan, used mainly for lending functions and operations.

Item 3. Legal Proceedings.

Please see Note 21 of the Notes to Consolidated Financial Statements located on pages F-100 through F-101 of the Financial Section of this report.

Item 4. Mine Safety Disclosures.

Not applicable.

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PART II

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

Market Information and Holders of Common Stock

The common stock of Comerica Incorporated is traded on the New York Stock Exchange (NYSE Trading Symbol: CMA). At February 7, 2017, there were approximately 9,581 record holders of Comerica's common stock.

Sales Prices and Dividends

Quarterly cash dividends were declared during 2016 and 2015 totaling $0.89 and $0.83 per common share per year, respectively. The following table sets forth, for the periods indicated, the high and low sale prices per share of Comerica's common stock as reported on the NYSE Composite Transactions Tape for all quarters of 2016 and 2015, as well as dividend information.

Quarter	High	Low	Dividends Per Share	Dividend Yield*	
2016					
Fourth	$70.44	$46.75	$ 0.23	1.6	%
Third	47.81	38.39	0.23	2.1	
Second	47.55	36.27	0.22	2.1	
First	41.74	30.48	0.21	2.3	
2015					
Fourth	$47.44	$39.52	$ 0.21	1.9	%
Third	52.93	40.01	0.21	1.8	
Second	53.45	44.38	0.21	1.7	
First	47.94	40.09	0.20	1.8	

* 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.

A discussion of dividend restrictions is set forth in Note 20 of the Notes to Consolidated Financial Statements located on pages F-99 through F-100 of the Financial Section of this report, in the "Capital" section on pages F-19 through F-22 of the Financial Section of this report and in the "Supervision and Regulation" section of this report.

Performance Graph

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

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

On July 26, 2016, the Board of Directors of Comerica authorized the repurchase of up to an additional 10.0 million shares of Comerica Incorporated outstanding common stock, in addition to the 5.7 million shares remaining at June 30, 2016 under the Board's prior authorizations for the equity repurchase program initially approved in November 2010. Including the July 2016 authorization, a total of 50.3 million shares and 14.1 million warrants (12.1 million share-equivalents) have been authorized for repurchase under the equity repurchase program since its inception in 2010. There is no expiration date for Comerica's equity repurchase program.

The following table summarizes Comerica's equity repurchase activity for the year ended December 31, 2016.

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(shares in thousands)	Total Number of Shares and Warrants Purchased as Part of Publicly Announced Repurchase Plans or Programs (a)	Remaining Repurchase Authorization (b)		Total Number of Shares Purchased (c)	Average Price Paid Per Share
Total first quarter 2016	1,183	15,721		1,393	$ 35.26
Total second quarter 2016	1,483	14,238		1,488	43.78
Total third quarter 2016	2,123	22,114	(d)	2,134	45.66
October 2016	839	19,575		842	49.88
November 2016	644	17,834		645	57.10
December 2016	302	15,694		307	67.27
Total fourth quarter 2016	1,785	15,694		1,794	55.45
Total 2016	6,574	15,694		6,809	$ 45.70

(a) Comerica made no repurchases of warrants under the repurchase program during the year ended December 31, 2016. Upon exercise of a warrant, the number of shares with a value equal to the aggregate exercise price is withheld from an exercising warrant holder as payment (known as a "net exercise provision"). During the year ended December 31, 2016, Comerica withheld the equivalent of approximately 2,319,000 shares to cover an aggregate of $68.2 million in exercise price and issued approximately 2,317,000 shares to the exercising warrant holders. Shares withheld in connection with the net exercise provision are not included in the total number of shares or warrants purchased in the above table.

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

(c) Includes approximately 235,000 shares (including 9,000 shares in the quarter ended December 31, 2016) purchased pursuant to deferred compensation plans and shares purchased from employees to pay for taxes related to restricted stock vesting under the terms of an employee share-based compensation plan and 26 shares purchased by affiliated purchasers through employee benefits plan transactions during the year ended December 31, 2016. These transactions are not considered part of Comerica's repurchase program.

(d) Includes July 26, 2016 equity repurchase authorization for up to an additional 10.0 million shares.

Item 6. Selected Financial Data.

Reference is made to the caption “Selected Financial Data” on page F-3 of the Financial Section of this report.

Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations.

Reference is made to the sections entitled “2016 Overview and 2017 Outlook,” “Results of Operations," "Strategic Lines of Business," "Balance Sheet and Capital Funds Analysis," "Risk Management," "Critical Accounting Policies," "Supplemental Financial Data" and "Forward-Looking Statements" on pages F-4 through F-43 of the Financial Section of this report.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

Reference is made to the subheadings entitled “Market and Liquidity Risk,” “Operational Risk,” “Compliance Risk” and “Strategic Risk” on pages F-32 through F-37 of the Financial Section of this report.

Item 8. Financial Statements and Supplementary Data.

Reference is made to the sections entitled “Consolidated Balance Sheets,” “Consolidated Statements of Income,” “Consolidated Statements of Comprehensive Income,” “Consolidated Statements of Changes in Shareholders' Equity,” “Consolidated Statements of Cash Flows,” “Notes to Consolidated Financial Statements,” “Report of Management,” “Reports of Independent Registered Public Accounting Firm,” and “Historical Review” on pages F-44 through F-114 of the Financial Section of this report.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

Item 9A. Controls and Procedures.

Disclosure Controls and Procedures

As required by Rule 13a-15(b) of the Exchange Act, management, including the Chief Executive Officer and Chief Financial Officer, conducted an evaluation as of the end of the period covered by this Annual Report on Form 10-K, of the effectiveness of our disclosure controls and procedures as defined in Exchange Act Rule 13a-15(e). Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that Comerica's disclosure controls and procedures were effective as of the end of the period covered by this Annual Report on Form 10-K.

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Internal Control over Financial Reporting

Management's annual report on internal control over financial reporting and the related attestation report of Comerica's registered public accounting firm are included on pages F-109 and F-110 in the Financial Section of this report.

As required by Rule 13a-15(d) of the Exchange Act, management, including the Chief Executive Officer and Chief Financial Officer, conducted an evaluation of our internal control over financial reporting to determine whether any changes occurred during the period covered by this Annual Report on Form 10-K that have materially affected, or are reasonably likely to materially affect, Comerica's internal control over financial reporting. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that there has been no such change during the last quarter of the fiscal year covered by this Annual Report on Form 10-K that has materially affected, or is reasonably likely to materially affect, Comerica's internal control over financial reporting.

Item 9B. Other Information.

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance.

Comerica has a Senior Financial Officer Code of Ethics that applies to the Chief Executive Officer, the Chief Financial Officer, the Chief Accounting Officer and the Treasurer. The Senior Financial Officer Code of Ethics is available on Comerica's website at www.comerica.com. If any substantive amendments are made to the Senior Financial Officer Code of Ethics or if Comerica grants any waiver, including any implicit waiver, from a provision of the Senior Financial Officer Code of Ethics to the Chief Executive Officer, the Chief Financial Officer, the Chief Accounting Officer or the Treasurer, we will disclose the nature of such amendment or waiver on our website.

The remainder of the response to this item will be included under the sections captioned “Information About Nominees,” “Committees and Meetings of Directors,” “Committee Assignments,” “Executive Officers” and “Section 16(a) Beneficial Ownership Reporting Compliance” of Comerica's definitive Proxy Statement relating to the Annual Meeting of Shareholders to be held on April 25, 2017, which sections are hereby incorporated by reference.

Item 11. Executive Compensation.

The response to this item will be included under the sections captioned “Compensation Committee Interlocks and Insider Participation,” “Compensation Discussion and Analysis,” “Compensation of Directors,” “Governance, Compensation and Nominating Committee Report,” “2016 Summary Compensation Table,” “2016 Grants of Plan-Based Awards,” “Outstanding Equity Awards at Fiscal Year-End 2016,” “2016 Option Exercises and Stock Vested,” “Pension Benefits at Fiscal Year-End 2016,” “2016 Nonqualified Deferred Compensation,” and “Potential Payments upon Termination or Change of Control at Fiscal Year-End 2016” of Comerica's definitive Proxy Statement relating to the Annual Meeting of Shareholders to be held on April 25, 2017, which sections are hereby incorporated by reference.

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

The response to this item will be included under the sections captioned “Security Ownership of Certain Beneficial Owners,” “Security Ownership of Management” and "Securities Authorized for Issuance Under Equity Compensation Plans" of Comerica's definitive Proxy Statement relating to the Annual Meeting of Shareholders to be held on April 25, 2017, which sections are hereby incorporated by reference.

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

The response to this item will be included under the sections captioned “Director Independence and Transactions of Directors with Comerica,” “Transactions of Related Parties with Comerica,” and “Information about Nominees” of Comerica's definitive Proxy Statement relating to the Annual Meeting of Shareholders to be held on April 25, 2017, which sections are hereby incorporated by reference.

Item 14. Principal Accountant Fees and Services.

The response to this item will be included under the section captioned “Independent Registered Public Accounting Firm” of Comerica's definitive Proxy Statement relating to the Annual Meeting of Shareholders to be held on April 25, 2017, which section is hereby incorporated by reference.

PART IV

Item 15. Exhibits and Financial Statement Schedules
The following documents are filed as a part of this report:

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1. Financial Statements: The financial statements that are filed as part of this report are included in the Financial Section on pages F-44 through F-111.
2. All of the schedules for which provision is made in the applicable accounting regulations of the SEC are either not required under the related instruction, the required information is contained elsewhere in the Form 10-K, or the schedules are inapplicable and therefore have been omitted.
3. Exhibits: The exhibits listed on the Exhibit Index on pages E-1 through E-5 of this Form 10-K are filed with this report or are incorporated herein by reference.

Item 16. Form 10-K Summary

Not applicable.

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FINANCIAL REVIEW AND REPORTS
Comerica Incorporated and Subsidiaries

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PERFORMANCE GRAPH

The graph shown below compares the total returns (assuming reinvestment of dividends) of Comerica Incorporated common stock, the S&P 500 Index, and the KBW Bank Index. The graph assumes $100 invested in Comerica Incorporated common stock (returns based on stock prices per the NYSE) and each of the indices on December 31, 2011 and the reinvestment of all dividends during the periods presented.

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

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SELECTED FINANCIAL DATA
(dollar amounts in millions, except per share data)

Years Ended December 31	2016	2015	2014	2013	2012
EARNINGS SUMMARY					
Net interest income	$1,797	$1,689	$1,655	$1,672	$1,728
Provision for credit losses	248	147	27	46	79
Noninterest income (a)	1,051	1,035	857	874	863
Noninterest expenses (a)	1,930	(b) 1,827	1,615	1,714	1,750
Provision for income taxes	193	229	277	245	241
Net income	477	521	593	541	521
Net income attributable to common shares	473	515	586	533	515
PER SHARE OF COMMON STOCK					
Diluted earnings per common share	$2.68	$2.84	$3.16	$2.85	$2.67
Cash dividends declared	0.89	0.83	0.79	0.68	0.55
Common shareholders' equity	44.47	43.03	41.35	39.22	36.86
Tangible common equity (c)	40.79	39.33	37.72	35.64	33.36
Market value	68.11	41.83	46.84	47.54	30.34
Average diluted shares (in millions)	177	181	185	187	192
YEAR-END BALANCES					
Total assets	$72,978	$71,877	$69,186	$65,224	$65,066
Total earning assets	67,518	66,687	63,788	60,200	59,618
Total loans	49,088	49,084	48,593	45,470	46,057
Total deposits	58,985	59,853	57,486	53,292	52,191
Total medium- and long-term debt	5,160	3,058	2,675	3,543	4,720
Total common shareholders' equity	7,796	7,560	7,402	7,150	6,939
AVERAGE BALANCES					
Total assets	$71,743	$70,247	$66,336	$63,933	$62,569
Total earning assets	66,545	65,129	61,560	59,091	57,483
Total loans	48,996	48,628	46,588	44,412	43,306
Total deposits	57,741	58,326	54,784	51,711	49,533
Total medium- and long-term debt	4,917	2,905	2,963	3,972	4,818
Total common shareholders' equity	7,674	7,534	7,373	6,965	7,009
CREDIT QUALITY					
Total allowance for credit losses	$771	$679	$635	$634	$661
Total nonperforming loans	590	379	290	374	541
Foreclosed property	17	12	10	9	54
Total nonperforming assets	607	391	300	383	595
Net credit-related charge-offs	157	101	25	73	170
Net credit-related charge-offs as a percentage of average total loans	0.32 %	0.21 %	0.05 %	0.16 %	0.39 %
Allowance for loan losses as a percentage of total period-end loans	1.49	1.29	1.22	1.32	1.37
Allowance for loan losses as a percentage of total nonperforming loans	124	167	205	160	116
RATIOS					
Net interest margin (fully taxable equivalent)	2.71 %	2.60 %	2.70 %	2.84 %	3.03 %
Return on average assets	0.67	0.74	0.89	0.85	0.83
Return on average common shareholders' equity	6.22	6.91	8.05	7.76	7.43
Dividend payout ratio	32.48	28.33	24.09	23.29	20.52

Average common shareholders' equity as a percentage of average assets	10.70	10.73	11.11	10.90	11.21
Common equity tier 1 capital as a percentage of risk-weighted assets (d)	11.09	10.54	n/a	n/a	n/a
Tier 1 capital as a percentage of risk-weighted assets (d)	11.09	10.54	10.50	10.64	10.14
Common equity ratio	10.68	10.52	10.70	10.97	10.67
Tangible common equity as a percentage of tangible assets (c)	9.89	9.70	9.85	10.07	9.76

(a) Effective January 1, 2015, contractual changes to a card program resulted in a change to the accounting presentation of the related revenues and expenses. The effect of this change was an increase of $177 million in 2015 to both noninterest income and noninterest expenses. Amounts prior to 2015 reflect revenues from this card program net of related noninterest expenses.

(b) Noninterest expenses in 2016 included restructuring charges of $93 million.

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

(d) Ratios calculated based on the risk-based capital requirements in effect at the time. The U.S. implementation of the Basel III regulatory capital framework became effective on January 1, 2015, with transitional provisions.

n/a - not applicable.

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2016 OVERVIEW AND 2017 OUTLOOK

Comerica Incorporated (the Corporation) is a financial holding company headquartered in Dallas, Texas. The Corporation's major business segments are the Business Bank, the Retail Bank and Wealth Management. The core businesses are tailored to each of the Corporation's three primary geographic markets: Michigan, California and Texas. Information about the activities of the Corporation's business segments is provided in Note 23 to the consolidated financial statements.

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

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

GROWTH IN EFFICIENCY AND REVENUE INITIATIVE

In the second quarter 2016, the Corporation launched the Growth in Efficiency and Revenue (GEAR Up) initiative in order to meaningfully enhance profitability. Actions identified under this initiative are expected to drive additional annual pre-tax income, before restructuring charges, of approximately $270 million for full-year 2018. Additional financial targets expected from GEAR Up include a double-digit return on equity and an efficiency ratio at or below 60 percent by year-end 2018.

- 2016 progress included a reduction in workforce and a significant reduction in retirement plan expense due to a new retirement program, which together resulted in 2016 expense savings of more than $25 million, as well as the consolidation of 19 banking centers. For additional information regarding retirement plan changes, refer to the "Critical Accounting Policies" section of this financial review and Note 17 to the consolidated financial statements.
- Expense reductions are expected to save an additional $125 million in full-year 2017, relative to the 2016 GEAR Up savings of more than $25 million, and increase to approximately $200 million in full-year 2018. This is to be achieved through continued savings from the reduction in workforce and the new retirement program, streamlining operational processes, real estate optimization, including consolidating an additional 19 banking centers in 2017 as well as reducing office and operations space, selective outsourcing of technology functions and reduction of technology system applications.
- Revenue enhancements are expected to ramp-up to approximately $30 million in full-year 2017, gradually increasing to approximately $70 million in full-year 2018, through expanded product offerings, enhanced sales tools and training and improved customer analytics to drive opportunities.
- Pre-tax restructuring charges of $140 million to $160 million in total are expected to be incurred through 2018. This includes restructuring charges totaling $93 million, which were incurred through December 31, 2016, and an additional $25 million to $50 million expected in 2017. For additional information regarding restructuring charges, refer to Note 22 to the consolidated financial statements.

OVERVIEW

- Net income was $477 million in 2016, a decrease of $44 million, or 8 percent, compared to $521 million in 2015. Net income per diluted common share was $2.68 in 2016, compared to $2.84 in 2015. Excluding the after-tax impact of restructuring charges associated with GEAR Up of $59 million, or $0.34 per share, net income increased $15 million, or 3 percent.
-

Average loans were $49.0 billion in 2016, an increase of $368 million, or 1 percent, compared to 2015. Excluding a $641 million decrease in Energy, average loans increased $1.0 billion, primarily reflecting increases in Commercial Real Estate, National Dealer Services and Mortgage Banker Finance, partially offset by decreases in general Middle Market and Corporate Banking.

- Average deposits decreased $585 million, or 1 percent, to $57.7 billion in 2016, compared to 2015. The decrease in average deposits reflected a decrease of $2.2 billion, or 7 percent, in interest-bearing deposits, partially offset by an increase of $1.7 billion, or 6 percent, in average noninterest-bearing deposits. The decrease in interest-bearing deposits reflected decreases of $1.3 billion, or 6 percent, in money market and interest-bearing checking deposits and $1.0 billion, or 24 percent, in customer certificates of deposit. The decrease in average deposits primarily reflected purposeful pricing discipline and strategic actions in light of new Liquidity Coverage Ratio (LCR) rules, with the largest decreases in

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Municipalities (a general Middle Market business), Corporate Banking and the Financial Services Division (a general Middle Market business), partially offset by increases in the remaining general Middle Market businesses and Retail Banking.

- Net interest income was $1.8 billion in 2016, an increase of $108 million, or 6 percent, compared to 2015. The increase in net interest income resulted primarily from higher interest rates, loan growth and a larger securities portfolio, partially offset by higher debt costs.
- The provision for credit losses was $248 million in 2016, an increase of $101 million compared to 2015, primarily reflecting increased reserves for Energy and energy-related loans recorded in the first quarter 2016, partially offset by improved credit quality in the remainder of the portfolio. Net credit-related charge-offs were $157 million, or 0.32 percent of average loans, for 2016, an increase of $46 million compared to 2015. The increase was primarily due to an increase in charge-offs in the Energy portfolio.
- Noninterest income increased $16 million, or 2 percent, in 2016, compared to 2015. Customer-driven fees increased $22 million and non-fee categories declined $6 million. An increase in card fees as well as growth in fiduciary, customer derivative and foreign exchange income was partially offset by lower commercial lending fees and investment banking income.
- Noninterest expenses increased $103 million, or 6 percent, in 2016, compared to 2015. Excluding $93 million of restructuring charges related to the GEAR Up initiative and $33 million from the net release of litigation reserves in 2015, noninterest expenses decreased $23 million. This primarily reflected a decrease of $48 million in salaries and benefits expense, including GEAR Up savings estimated to be in excess of $25 million as well as an additional decrease in pension expense, partially offset by the impact of merit increases and one additional day in 2016. Additionally, increases in technology expense, outside processing fees and FDIC insurance premiums were partially offset by decreases in state business taxes and gains from the early termination of leveraged lease transactions.
- The provision for income taxes decreased $36 million in 2016, compared to 2015. The effective tax rate was 28.8 percent in 2016, compared to 30.5 percent in 2015, primarily reflecting a $10 million increase in tax benefits from the early termination of certain leveraged lease transactions.
- The quarterly dividend was increased to 22 cents per share in April 2016 and to 23 cents per share in July 2016.
- The Corporation repurchased approximately 6.6 million shares of common stock during 2016 under the equity repurchase program. Together with dividends of $0.89 per share, $458 million, or 96 percent of 2016 net income, was returned to shareholders.

2017 OUTLOOK

Management expectations for 2017, compared to 2016, assuming a continuation of the current economic and low rate environment as well as contributions from the GEAR Up initiative of $30 million in revenue and $125 million in expense savings, are as follows:

- Average loans higher, in line with Gross Domestic Product growth, reflecting increases in most lines of business and reduced headwinds from a declining Energy portfolio.
- Net interest income higher, reflecting the benefit from the December 2016 short-term rate increase and loan growth, partially offset by higher funding costs and minor loan yield comparison.
Full-year benefit from the December rise in short-term rates expected to be more than $70 million, assuming a 25 percent deposit beta.
- Provision for credit losses lower, with continued solid performance of the overall portfolio.
Provision and net charge-offs in line with historical normal levels of 30-40 basis points.
- Noninterest income higher, with the execution of GEAR Up opportunities, modest growth in treasury management and card fees, as well as wealth management products such as fiduciary and brokerage services.
Increase of 4 percent to 6 percent.
- Noninterest expenses lower, reflecting lower restructuring charges and an additional $125 million in GEAR Up savings, relative to 2016 GEAR Up savings of more than $25 million. Outside processing is expected to increase in line with growing revenue. Headwinds include increased technology costs and higher FDIC insurance expense, as well as typical inflationary pressure. The gains of $13 million in 2016 from early terminations of certain leveraged lease transactions are not expected to repeat.

Restructuring charges of $25 million to $50 million, compared to $93 million in 2016.
Remaining noninterest expenses 1 percent to 2 percent lower.
Decrease of 4 percent to 5 percent including restructuring charges.

- Income tax expense to approximate 33 percent of pre-tax income excluding the impact of discrete items such as the tax benefit related to stock compensation of approximately $14 million recorded during January 2017.

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RESULTS OF OPERATIONS

The following provides a comparative discussion of the Corporation's consolidated results of operations for 2016 compared to 2015. A comparative discussion of results for 2015 compared to 2014 is provided at the end of this section. For a discussion of the Critical Accounting Policies that affect the Consolidated Results of Operations, see the "Critical Accounting Policies" section of this Financial Review.

ANALYSIS OF NET INTEREST INCOME
(dollar amounts in millions)

Years Ended December 31	2016			2015			2014		
	Average Balance	Interest	Average Rate (a)	Average Balance	Interest	Average Rate (a)	Average Balance	Interest	Average Rate (a)
Commercial loans	$31,062	$1,008	3.26 %	$31,501	$962	3.07 %	$29,715	$923	3.12 %
Real estate construction loans	2,508	91	3.63	1,884	66	3.48	1,909	65	3.41
Commercial mortgage loans	8,981	314	3.49	8,697	296	3.41	8,706	327	3.75
Lease financing	684	18	2.65	783	25	3.17	834	19	2.33
International loans	1,367	50	3.63	1,441	51	3.58	1,376	50	3.65
Residential mortgage loans	1,894	71	3.76	1,878	71	3.77	1,778	68	3.82
Consumer loans	2,500	83	3.32	2,444	80	3.26	2,270	73	3.20
Total loans (b) (c)	48,996	1,635	3.34	48,628	1,551	3.20	46,588	1,525	3.28
Mortgage-backed securities	9,356	203	2.19	9,113	202	2.24	8,970	209	2.33
Other investment securities	2,992	44	1.51	1,124	14	1.25	380	2	0.45
Total investment securities (d)	12,348	247	2.02	10,237	216	2.13	9,350	211	2.26
Interest-bearing deposits with banks	5,099	26	0.51	6,158	16	0.26	5,513	14	0.26
Other short-term investments	102	1	0.61	106	1	0.81	109	—	0.57
Total earning assets	66,545	1,909	2.88	65,129	1,784	2.75	61,560	1,750	2.85
Cash and due from banks	1,146			1,059			934		
Allowance for loan losses	(730)			(621)			(601)		
Accrued income and other assets	4,782			4,680			4,443		
Total assets	$71,743			$70,247			$66,336		
Money market and interest-bearing checking deposits	$22,744	27	0.11	$24,073	26	0.11	$22,891	24	0.11
Savings deposits	2,013	—	0.02	1,841	—	0.02	1,744	1	0.03
Customer certificates of deposit	3,200	13	0.40	4,209	16	0.37	4,869	18	0.36
Foreign office time deposits (e)	33	—	0.35	116	1	1.02	261	2	0.82
Total interest-bearing deposits	27,990	40	0.14	30,239	43	0.14	29,765	45	0.15
Short-term borrowings	138	—	0.45	93	—	0.05	200	—	0.04
Medium- and long-term debt (f)	4,917	72	1.45	2,905	52	1.80	2,963	50	1.68
Total interest-bearing sources	33,045	112	0.34	33,237	95	0.29	32,928	95	0.29
Noninterest-bearing deposits	29,751			28,087			25,019		
Accrued expenses and other liabilities	1,273			1,389			1,016		
Total shareholders’ equity	7,674			7,534			7,373		
Total liabilities and shareholders’ equity	$71,743			$70,247			$66,336		
Net interest income/rate spread		$1,797	2.54		$1,689	2.46		$1,655	2.56

Impact of net noninterest-bearing sources of funds	0.17	0.14	0.14
Net interest margin (as a percentage of average earning assets) (b) (d)	2.71 %	2.60 %	2.70 %

(a) Average rate is calculated on a fully taxable equivalent (FTE) basis using a federal tax rate of 35%. The FTE adjustment to net interest income was $4 million in each of the three years presented.

(b) Accretion of the purchase discount on the acquired loan portfolio of $4 million, $7 million and $34 million in 2016, 2015 and 2014, respectively, increased the net interest margin by 1 basis point in both 2016 and 2015 and 6 basis points in 2014.

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

(d) Includes investment securities available-for-sale and investment securities held-to-maturity. Average rate based on average historical cost. Carrying value exceeded average historical cost by $143 million, $100 million and $12 million in 2016, 2015 and 2014, respectively.

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

(f) Medium- and long-term debt average balances included $162 million, $160 million and $192 million in 2016, 2015 and 2014, respectively, for the gain attributed to the risk hedged with interest rate swaps. Interest expense on medium-and long-term debt was reduced by $60 million, $70 million, and $72 million in 2016, 2015 and 2014, respectively, for the net gains on these fair value hedge relationships.

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RATE/VOLUME ANALYSIS
(in millions)

Years Ended December 31	2016/2015			2015/2014		
	Increase (Decrease) Due to Rate	Increase (Decrease) Due to Volume (a)	Net Increase (Decrease)	Increase (Decrease) Due to Rate	Increase (Decrease) Due to Volume (a)	Net Increase (Decrease)
Interest Income:						
Commercial loans	$60	$ (14)	$ 46	$(15)	$ 54	$ 39
Real estate construction loans	2	23	25	2	(1)	1
Commercial mortgage loans	8	10	18	(31)	—	(31)
Lease financing	(4)	(3)	(7)	8	(2)	6
International loans	1	(2)	(1)	(1)	2	1
Residential mortgage loans	—	—	—	(1)	4	3
Consumer loans	1	2	3	1	6	7
Total loans	68	16	84	(37) (b)	63	26 (b)
Mortgage-backed securities	(4)	5	1	(8)	1	(7)
Other investment securities	3	27	30	3	9	12
Total investment securities (c)	(1)	32	31	(5)	10	5
Interest-bearing deposits with banks	15	(5)	10	—	2	2
Other short-term investments	—	—	—	—	1	1
Total interest income	82	43	125	(42)	76	34
Interest Expense:						
Money market and interest-bearing checking deposits	2	(1)	1	—	2	2
Savings deposits	—	—	—	(1)	—	(1)
Customer certificates of deposit	1	(4)	(3)	1	(3)	(2)
Foreign office time deposits	(1)	—	(1)	1	(2)	(1)
Total interest-bearing deposits	2	(5)	(3)	1	(3)	(2)
Medium- and long-term debt	9	11	20	3	(1)	2
Total interest expense	11	6	17	4	(4)	—
Net interest income	$71	$ 37	$ 108	$(46)	$ 80	$ 34

(a) Rate/volume variances are allocated to variances due to volume.
(b) Reflected a decrease of $27 million in accretion of the purchase discount on the acquired loan portfolio in 2015.
(c) Includes investment securities available-for-sale and investment securities held-to-maturity.

NET INTEREST INCOME

Net interest income is the difference between interest earned on assets and interest paid on liabilities. Gains and losses related to the effective portion of risk management interest rate swaps that qualify as hedges are included with the interest expense of the hedged item. Net interest income comprised 63 percent, 62 percent, and 66 percent of total revenues in 2016, 2015, and 2014, respectively. The decrease in net interest income as a percentage of total revenues in 2015 was due to an increase in noninterest income resulting from a change in the accounting presentation associated with contractual changes to a card program. Refer to the Analysis of Net Interest Income and the Rate Volume Analysis tables above for an analysis of net interest income for the years ended December 31, 2016, 2015, and 2014 and details of the components of the change in net interest income for 2016 compared to 2015 and 2015 compared to 2014.

Net interest income was $1.8 billion in 2016, an increase of $108 million compared to 2015. The increase in net interest income resulted primarily from higher yields on loans and Federal Reserve Bank (FRB) deposits, driven mainly by increases in short-term rates, and earning asset volume, partially offset by higher funding costs, primarily the result of higher costs on debt swapped to variable rate and new Federal Home Loan Bank (FHLB) borrowings in the second quarter 2016. For additional information regarding medium- and long-term debt, refer to Note 12 to the consolidated financial statements. Average earning assets increased $1.4 billion, or 2 percent, primarily reflecting increases of $2.1 billion in average investment securities and $368 million in average loans, partially offset by a decrease of $1.1 billion in average interest-bearing deposits with banks.

The net interest margin (FTE) in 2016 increased 11 basis points to 2.71 percent, from 2.60 percent in 2015, primarily due to higher loan yields and the reinvestment of FRB deposits into higher yielding Treasury securities, partially offset by the impact of higher funding costs. The increase in loan yields primarily reflected a benefit from an increase in short-term rates. Average balances deposited with the FRB were $4.9 billion and $6.0 billion in 2016 and 2015, respectively, and are included in “interest-

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bearing deposits with banks” on the consolidated balance sheets. Lower yielding FRB deposits decreased net interest margin by 17 basis points in 2016 and 23 basis points in 2015.

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

PROVISION FOR CREDIT LOSSES

The provision for credit losses was $248 million in 2016, compared to $147 million in 2015. The provision for credit losses includes both the provision for loan losses and the provision for credit losses on lending-related commitments. The provision for loan losses is recorded to maintain the allowance for loan losses at the level deemed appropriate by the Corporation to cover probable credit losses inherent in the portfolio. The provision for loan losses was $241 million in 2016, an increase of $99 million compared to $142 million in 2015, primarily reflecting increased reserves for Energy and energy-related loans recorded in the first quarter 2016, partially offset by improved credit quality in the remainder of the portfolio.

Net loan charge-offs in 2016 increased $46 million to $146 million, or 0.30 percent of average total loans, compared to $100 million, or 0.21 percent, in 2015. The increase primarily reflected an increase in charge-offs in Energy and a decrease in recoveries in Private Banking, partially offset by decreases in Technology and Life Sciences and Small Business (primarily due to the charge-off of a single large credit in 2015).

The provision for credit losses on lending-related commitments is recorded to maintain the allowance for credit losses on lending-related commitments at the level deemed appropriate by the Corporation to cover probable credit losses inherent in lending-related commitments. The provision for credit losses on lending-related commitments was $7 million in 2016 and $5 million in 2015. Lending-related commitment charge-offs were $11 million in 2016 and $1 million in 2015.

For further discussion of the allowance for loan losses and the allowance for credit losses on lending-related commitments, including the methodology used in the determination of the allowances and an analysis of the changes in the allowances, refer to Note 1 to the consolidated financial statements and the "Credit Risk" section of this financial review.

NONINTEREST INCOME

(in millions)

Years Ended December 31	2016		2015		2014
Card fees	$303	(a)	$276	(a)	$81
Service charges on deposit accounts	219		223		215
Fiduciary income	190		187		180
Commercial lending fees	89		99		98
Letter of credit fees	50		53		57
Bank-owned life insurance	42		40		39
Foreign exchange income	42		40		40
Brokerage fees	19		17		17
Net securities losses	(5	)	(2	)	—
Other noninterest income (b)	102		102		130
Total noninterest income	$1,051		$1,035		$857

(a) Effective January 1, 2015, contractual changes to a card program resulted in a change to the accounting presentation of the related revenues and expenses. The effect of this change was an increase to card fees of $182 million in 2016 and $177 million in 2015.

(b) The table below provides further details on certain categories included in other noninterest income.

Noninterest income increased $16 million to $1.1 billion in 2016, compared to $1.0 billion in 2015. An analysis of significant year over year changes by individual line item follows.

Card fees consist primarily of interchange and other fees earned on government card programs, commercial cards and debit/ATM cards, as well as, beginning in 2015, fees from providing merchant payment processing services. Card fees increased $27 million, or 9 percent, to $303 million in 2016, compared to $276 million in 2015. The increase in 2016

was primarily due to volume-driven increases from merchant payment processing services and government card programs.
Service charges on deposit accounts decreased $4 million, or 1 percent, to $219 million in 2016, compared to $223 million in 2015. The decrease in 2016 primarily reflected a decrease in retail service charges.
Fiduciary income increased $3 million, or 1 percent, to $190 million in 2016, compared to $187 million in 2015. Personal trust fees, institutional trust fees and investment advisory fees are the three major components of fiduciary income. These fees are based on services provided, assets under management and assets under administration. Fluctuations in the market values of the underlying assets managed or administered, which include both equity and fixed income securities, and net asset flows within

client accounts impact fiduciary income. The increase in 2016 was primarily due to an increase in institutional trust fees, largely driven by net asset inflows and increased activity in securities lending services.

Commercial lending fees decreased $10 million, or 11 percent, to $89 million in 2016, compared to $99 million in 2015, primarily reflecting a decrease in unused commitment fees, largely due to a decline in Energy commitments, and a decrease in syndication agent fees.

Letter of credit fees decreased $3 million, or 4 percent, to $50 million in 2016, compared to $53 million in 2015. The decrease in 2016 was primarily due to pricing actions taken based on changes in regulatory rules.

Other noninterest income was unchanged at $102 million in 2016, compared to 2015. The following table illustrates certain categories included in "other noninterest income" on the consolidated statements of income.

(in millions)

Years Ended December 31	2016	2015	2014
Customer derivative income	$27	$18	$22
Insurance commissions	10	10	13
Investment banking fees	7	12	18
Income from principal investing and warrants	7	6	10
Securities trading income	6	9	9
Deferred compensation asset returns (a)	3	—	6
Income from unconsolidated subsidiaries	(2)	2	8
All other noninterest income	44	45	44
Other noninterest income	$102	$102	$130

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

The increase in customer derivative income primarily reflected an increase in income from interest rate derivative contracts, in part due to net favorable derivative credit valuation adjustments in 2016, compared to net unfavorable adjustments in 2015. The decline in investment banking fees was largely due to decreased activity in the energy markets, while income from unconsolidated subsidiaries reflected the termination of a joint venture with a payment processor in the second quarter 2015 and was more than offset by the increase in merchant payment processing services revenue included in card fees.

NONINTEREST EXPENSES

(in millions)

Years Ended December 31	2016	2015	2014
Salaries and benefits expense	$961	$1,009	$980
Outside processing fee expense	336	(a) 318	(a) 111
Net occupancy expense	157	159	171
Equipment expense	53	53	57
Restructuring expense	93	—	—
Software expense	119	99	95
FDIC insurance expense	54	37	33
Advertising expense	21	24	23
Litigation-related expense	1	(32)	4
Gain on debt redemption	—	—	(32)
Other noninterest expenses	135	160	173
Total noninterest expenses	$1,930	$1,827	$1,615

(a) Effective January 1, 2015, contractual changes to a card program resulted in a change to the accounting presentation of the related revenues and expenses. The effect of this change was an increase to outside processing fee expense of $182 million in 2016 and $177 million in 2015.

Noninterest expenses increased $103 million to $1.9 billion in 2016, compared to $1.8 billion in 2015. Excluding $93 million of restructuring charges related to the GEAR Up initiative and $33 million from the net release of litigation reserves in 2015, noninterest expenses decreased $23 million, or 1 percent, in 2016. An analysis of significant increases and decreases by individual line item is presented below.

Salaries and benefits expense decreased $48 million, or 5 percent, to $961 million in 2016, compared to $1.0 billion in 2015. The decrease in salaries and benefits included GEAR Up savings estimated to be in excess of $25 million as well as an additional decrease in pension expense, partially offset by the impact of merit increases and one additional day in 2016.

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Outside processing fee expense increased $18 million to $336 million in 2016, compared to $318 million in 2015, primarily due to volume-driven increases related to processing for merchant services, a retirement savings program and other revenue-generating activities, as well as increases in certain outsourced services.

Restructuring charges in 2016 associated with the implementation of the GEAR Up initiative included $52 million of employee costs, $15 million of facilities costs and $26 million of other charges. For further information about restructuring charges, refer to Note 22 to the consolidated financial statements.

Software expense increased $20 million to $119 million in 2016, compared to $99 million in 2015, primarily reflecting continued investment in the Corporation's technology infrastructure.

FDIC insurance premiums increased $17 million to $54 million in 2016, compared to $37 million in 2015, in part due to federal rules implemented on July 1, 2016 in order to increase the statutorily required minimum level of the Deposit Insurance Fund, as well as higher risk-based assessment rates (due largely to impacts from the energy cycle) and an increase in the assessment base.

Litigation-related expense increased $33 million, reflecting the benefit to 2015 from the release of $33 million of litigation reserves. For further information about legal proceedings, refer to Note 21 to the consolidated financial statements.

Other noninterest expenses decreased $25 million, or 16 percent, to $135 million in 2016, from $160 million in 2015, primarily reflecting a $9 million decrease in state business taxes and a $6 million increase in gains from the early termination of certain leveraged lease transactions, as well as smaller decreases in many other categories.

INCOME TAXES AND RELATED ITEMS

The provision for income taxes was $193 million in 2016, compared to $229 million in 2015. The $36 million decrease in the provision for income taxes in 2016, compared to 2015, was due primarily to the decrease in pretax income as well as a $10 million increase in tax benefits from the early termination of certain leveraged leases.

Net deferred tax assets were $217 million at December 31, 2016, compared to $199 million at December 31, 2015. The increase of $18 million resulted primarily from increases in deferred tax assets related to the allowance for loan losses and net unrealized losses on investment securities available-for-sale and a decrease in deferred tax liabilities related to lease financing transactions, partially offset by a decrease in unrealized losses related to defined benefit plans and a decrease related to stock-based compensation. Deferred tax assets of $463 million were evaluated for realization and it was determined that a valuation allowance of $3 million, related to state net operating loss carryforwards, was needed at both December 31, 2016 and December 31, 2015. These conclusions were based on available evidence of loss carryback capacity, projected future reversals of existing taxable temporary differences and assumptions made regarding future events.

2015 RESULTS OF OPERATIONS COMPARED TO 2014

Net interest income was $1.7 billion in 2015, an increase of $34 million compared to 2014. The increase in net interest income in 2015 resulted primarily from higher earnings asset volume, partially offset by lower loan and investment yields. Lower loan yields were in part due to a $27 million decrease in the accretion of the purchase discount on the acquired loan portfolio, continued pressure on yields from the low-rate environment and changing loan portfolio dynamics.

The net interest margin (FTE) in 2015 decreased 10 basis points to 2.60 percent, from 2.70 percent in 2014, primarily due to lower loan yields and an increase in average balances deposited with the FRB, partially offset by higher average loan balances. The decrease in loan yields primarily reflected unfavorable portfolio dynamics and a decrease in accretion on the acquired loan portfolio, shifts in the average loan portfolio mix and the impact of a competitive low-rate environment, partially offset by a benefit from an increase in short-term rates. Accretion of the purchase discount on the acquired loan portfolio increased the net interest margin by 1 basis point in 2015, compared to 6 basis points in 2014. The "Analysis of Net Interest Income" and "Rate/Volume Analysis" tables under the "Net Interest Income" subheading in this section above provide an analysis of net interest income for 2015 and 2014 and details the components of the change in net interest income for 2015 compared to 2014.

The provision for credit losses, which includes both the provision for loan losses and the provision for credit losses on lending-related commitments, was $147 million in 2015, compared to $27 million in 2014. The provision for loan losses was $142 million in 2015 compared to $22 million in 2014. The increase primarily reflected increased provisions for Energy and energy-related loans, Technology and Life Sciences, Corporate Banking and Small Business. Net loan charge-offs in 2015 increased $75 million to $100 million, or 0.21 percent of average total loans, compared to $25 million, or 0.05 percent, in 2014. The increase primarily reflected increases in Energy, general Middle Market (largely due to an increase in charge-offs on energy-related loans), Small Business (primarily due to the charge-off of a single large credit in 2015), Corporate Banking and Technology and Life Sciences, partially offset by an increase in net recoveries in Private Banking. The provision for credit losses on lending-related commitments was $5 million in both 2015 and 2014. Lending-related commitment charge-offs were $1 million in 2015 and insignificant in 2014.

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Noninterest income increased $178 million to $1.0 billion in 2015, compared to $857 million in 2014. Excluding the $177 million impact of the change in accounting presentation on card fees as described in footnote (a) to the table provided under the "Noninterest Income" subheading previously in this section, noninterest income increased $1 million. Card fees increased $195 million to $276 million in 2015, compared to $81 million in 2014. Two significant developments impacted the comparability of card fees between 2015 and 2014. First, the Corporation entered into a new contract for an existing card program effective January 1, 2015, which resulted in the Corporation recognizing an additional $177 million of revenue related to card fees in 2015, with a corresponding amount being recorded to outside processing fees expense. Second, the Corporation changed its business model for providing merchant payment processing services, resulting in $17 million of additional revenue in 2015. Service charges on deposit accounts increased $8 million, or 4 percent, in 2015, primarily due to increased commercial service charges. Fiduciary income increased $7 million, or 4 percent in 2015, primarily due to an increase in investment advisory fees, largely driven by net asset inflows, as brokerage clients continued to transition from transactional services to investment advisory services, and the favorable impact on fees from market value increases. Letter of credit fees decreased $4 million, or 7 percent in 2015, primarily due to regulatory-driven decreases in the volume of letters of credit outstanding. Other noninterest income decreased $28 million, or 22 percent, in 2015, compared to 2014. The decrease primarily reflected decreases in investment banking fees, income from unconsolidated subsidiaries and deferred compensation plan asset returns. The decline in investment banking fees was largely due to decreased activity in the energy market. Income from unconsolidated subsidiaries reflected a decrease of $11 million in income from the merchant payment processing joint venture that concluded in the second quarter 2015, partially offset by a decrease in tax credit investment amortization expense. The decrease in deferred compensation plan asset returns was offset by a decrease in deferred compensation expense in salaries and benefits expense. Refer to the table provided under the “Noninterest Income” subheading previously in this section for the details of certain categories included in other noninterest income.
Noninterest expenses increased $212 million in 2015, compared to 2014. Excluding the $177 million impact of the change in accounting presentation on outside processing fees as described in footnote (a) to the table provided under the "Noninterest Expense" subheading previously in this section, noninterest expenses increased $35 million, or 2 percent. Salaries and benefits expense increased $29 million, or 3 percent, in 2015, primarily due to an increase in technology-related contract labor expenses, the impact of merit increases and higher defined benefit pension expense, partially offset by decreases in deferred compensation plan expense and lower severance and executive incentive compensation expense. Outside processing fee expense increased $207 million, to $318 million, in 2015. Excluding the impact of the above-described change in accounting principle, outside processing fee expense increased $29 million, or 24 percent, primarily due to increased third-party processing expenses, including up-front costs related to the new business model for providing merchant payment processing services, as well as an increase related to a retirement savings program and other expenses related to revenue-generating activities. Net occupancy and equipment expense decreased $16 million, or 7 percent, in 2015, primarily the result of lease termination charges of $10 million taken in 2014 as well as the 2015 benefit from those real estate optimization actions. Litigation-related expenses decreased $36 million in 2015, reflecting the release of $33 million of litigation reserves in 2015. The Corporation recognized a gain on debt redemption of $32 million in 2014 on the early redemption of a $150 million subordinated note, primarily from the recognition of the unamortized value of a related, previously terminated interest rate swap. Other noninterest expenses decreased $13 million, or 7 percent, in 2015, primarily reflecting a decrease in charitable contributions to the Comerica Charitable Foundation in 2015.
The provision for income taxes decreased $48 million to $229 million in 2015, primarily due to a decrease in pretax income as well as a $5 million tax benefit from the early termination of certain leveraged leases.

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STRATEGIC LINES OF BUSINESS

The Corporation's operations are strategically aligned into three major business segments: the Business Bank, the Retail Bank and Wealth Management. These business segments are differentiated based upon the products and services provided. In addition to the three major business segments, Finance is also reported as a segment. The Other category includes items not directly associated with these business segments or the Finance segment. The performance of the business segments is not comparable with the Corporation's consolidated results and is not necessarily comparable with similar information for any other financial institution. Additionally, because of the interrelationships of the various segments, the information presented is not indicative of how the segments would perform if they operated as independent entities. Market segment results are also provided for the Corporation's three primary geographic markets: Michigan, California and Texas. In addition to the three primary geographic markets, Other Markets is also reported as a market segment. Note 23 to the consolidated financial statements describes the Corporation's segment reporting methodology as well as the business activities of each business segment and presents financial results of these business segments for the years ended December 31, 2016, 2015 and 2014.

The Corporation's management accounting system assigns balance sheet and income statement items to each segment using certain methodologies, which are regularly reviewed and refined. These methodologies may be modified as the management accounting system is enhanced and changes occur in the organizational structure and/or product lines. Effective January 1, 2016, in conjunction with the effective date for regulatory Liquidity Coverage Ratio (LCR) requirements, the Corporation prospectively implemented an additional funds transfer pricing (FTP) charge, primarily for the cost of maintaining liquid assets to support potential draws on unfunded loan commitments and for the long-term economic cost of holding collateral for secured deposits.

BUSINESS SEGMENTS

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

(dollar amounts in millions)

Years Ended December 31	2016		2015		2014	
Business Bank	$638	88 %	$762	85 %	$822	86 %
Retail Bank	7	1	47	5	44	5
Wealth Management	76	11	85	10	84	9
	721	100%	894	100%	950	100%
Finance	(244)		(373)		(359)	
Other (a)	—		—		2	
Total	$477		$521		$593	

(a) Includes items not directly associated with the three major business segments or the Finance Division.

The Business Bank's net income of $638 million in 2016 decreased $124 million, compared to $762 million in 2015. Net interest income of $1.4 billion decreased $80 million in 2016, primarily reflecting an increase in net funds transfer pricing (FTP) charges, partially offset by the benefit provided by an increase in average loans of $184 million and one additional day in 2016. The increase in net FTP charges primarily reflected an increase in the cost of funds due to the increase in short-term market rates, lower funding credits due to a $1.2 billion decrease in average deposits, and the new 2016 FTP charges for LCR as described above. The increase in average loans primarily reflected increases in Commercial Real Estate, National Dealer Services and Mortgage Banker Finance, partially offset by decreases in general Middle Market, Energy and Corporate Banking. The decrease in average deposits primarily reflected purposeful pricing discipline and strategic actions in light of new liquidity coverage ratio rules, with the largest declines in Municipalities, Corporate Banking and the Financial Services Division. The provision for credit losses increased $59 million, to $217 million in 2016, compared to the prior year. The increase in the provision was primarily due to the increase in reserves for Energy and energy-related loans recorded in the first quarter of 2016. Corporate Banking and general Middle Market also contributed to the increase in the provision. These increases were partially offset by improvements in credit quality in the remainder of the portfolio. Net credit-related charge-offs of $145 million increased $66 million in 2016, compared to 2015, primarily reflecting an increase in Energy, partially offset by a decrease in Technology and Life Sciences. Noninterest income of $572 million in 2016 increased $1 million from the prior year, primarily reflecting a $19 million increase in card fees, partially offset by decreases of $11 million in commercial lending fees, $5 million in income from unconsolidated subsidiaries (largely related to the exit in the second quarter 2015 from a joint venture that provided merchant payment processing services), and $4 million in investment banking fees. Noninterest expenses of $839 million in 2016 increased $61 million compared to the prior year. Excluding restructuring charges of $43 million and the impact of a $30 million net release of litigation reserves in 2015, noninterest expenses decreased $12 million. The decrease was primarily due to a $12 million decrease in salaries and benefits, largely reflecting savings related to the GEAR Up initiative, an $8 million increase in gains, primarily from early terminations of certain leveraged lease transactions, and smaller decreases in several other noninterest expense categories, partially offset by increases of $8 million in outside processing fees, $6 million in allocated corporate overhead expense, largely due to increased technology expense, and $6 million in FDIC insurance expense.

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Net income for the Retail Bank of $7 million in 2016 decreased $40 million, compared to $47 million in 2015. Net interest income of $622 million decreased $4 million in 2016, primarily reflecting higher net FTP funding charges, reflecting higher FTP funding costs and the new FTP charges related to LCR, as well as lower FTP credits reflecting a lower deposit crediting rate, partially offset by the benefit provided by a $682 million increase in average deposits, an $89 million increase in average loans and one additional day in 2016. The provision for credit losses increased $27 million to $35 million in 2016, compared to $8 million in 2015, primarily reflecting an increase in Small Business. Net credit-related charge-offs of $12 million in 2016 decreased $17 million, compared to $29 million in 2015, mostly due to a charge-off of a single credit in Small Business in 2015. Noninterest income of $189 million in 2016 increased $4 million compared to 2015, primarily due to a $6 million increase in card fees and small increases in several other fee categories, partially offset by $4 million increase in securities losses and a $3 million decrease in service charges on deposit accounts. Noninterest expenses of $767 million in 2016 increased $33 million from the prior year. Excluding restructuring charges of $38 million, noninterest expense decreased $5 million, primarily reflecting a $14 million decrease in salaries and benefits, largely reflecting savings related to the GEAR Up initiative, and smaller decreases in other noninterest expense categories, partially offset by increases of $11 million in allocated corporate overhead expense, $4 million in outside processing expense and $4 million in FDIC insurance expense.

Wealth Management's net income of $76 million in 2016 decreased $9 million, compared to $85 million in 2015. Net interest income of $169 million in 2016 decreased $10 million compared to 2015, primarily reflecting an increase in net FTP funding charges due to an increase in the cost of funds and a lower FTP deposit crediting rate, partially offset by the benefit from a $95 million increase in average loans. Average deposits decreased $25 million. The provision for credit losses was a benefit of $4 million in 2016, compared to a benefit of $20 million in 2015, primarily due to the benefit to the prior year from net recoveries in Private Banking. There were no net credit-related charge-offs in 2016, compared to net recoveries of $17 million in 2015. Noninterest income of $243 million increased $8 million from the prior year, primarily reflecting a $3 million increase in fiduciary income, a $2 million securities loss in 2015, and small increases in several other categories of noninterest income. Noninterest expenses of $301 million in 2016 decreased $4 million from the prior year. Excluding restructuring charges of $12 million, noninterest expenses decreased $16 million, primarily reflecting an $8 million decrease in salaries and benefits expense, largely reflecting savings related to the GEAR Up initiative, and smaller decreases in several other noninterest expense categories, partially offset by a $3 million increase in allocated corporate overhead expenses.

The net loss in the Finance segment was $244 million in 2016, compared to a net loss of $373 million in 2015. Net interest expense of $435 million in 2016 decreased $194 million, compared to 2015, primarily reflecting a decrease in net FTP expense as a result of higher rates charged to the business segments under the Corporation's internal FTP methodology, as well as an increase due to a larger investment securities portfolio.

MARKET SEGMENTS

The table and narrative below present the market segment results, including prior periods, based on the structure and methodologies in effect at December 31, 2016. Note 23 to these consolidated financial statements presents a description of each of these market segments as well as the financial results for the years ended December 31, 2016, 2015 and 2014.

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

(dollar amounts in millions)

Years Ended December 31	2016		2015		2014	
Michigan	$247	34 %	$324	36 %	$287	30 %
California	270	38	295	33	272	28
Texas	(21)	(3)	78	9	167	18
Other Markets	225	31	197	22	224	24
	721	100 %	894	100%	950	100%
Finance & Other (a)	(244)		(373)		(357)	
Total	$477		$521		$593	

(a) Includes items not directly associated with the market segments.

The Michigan market's net income of $247 million in 2016 decreased $77 million, compared to net income of $324 million in 2015. Net interest income of $672 million in 2016 decreased $43 million, primarily due to an increase in net FTP funding charges, reflecting higher FTP funding costs and the new FTP charges related to LCR, as well as lower FTP credits reflecting a lower deposit crediting rate and the impact of a $566 million decrease in average loans and a $66 million decrease in average deposits, partially offset by one more day in 2016. The decrease in average loans resulted primarily from a decrease in general Middle Market, partially offset by an increase in National Dealer Services. The decrease in average deposits primarily reflected decreases in general Middle Market, Corporate Banking and Private Banking, partially offset by an increase in Retail Banking. The provision for credit losses was $9 million in 2016, an increase of $36 million compared to a benefit of $27 million in the prior year. The increase in the provision primarily reflected increases in Corporate Banking and Small Business, partially offset by a decrease in general Middle Market. Net credit related charge-offs were $15 million for 2016, compared to $8 million in the prior year, primarily reflecting an increase in Corporate Banking, partially offset by decreases in general Middle Market and Commercial Real Estate. Noninterest income of $320 million in 2016 decreased $9 million from 2015, primarily reflecting small decreases in several noninterest income categories, partially offset by a $5 million increase in card fees. Noninterest expenses of $620 million in 2016 increased $26 million from the prior year. Excluding restructuring charges of $24 million and the impact of a $30 million net release of litigation reserves in 2015, noninterest expense decreased $28 million, primarily reflecting a $10 million decrease in salaries and benefits, largely reflecting savings related to the GEAR Up initiative, an $8 million increase in gains, primarily from early terminations of certain leveraged lease transactions, and smaller decreases in most other noninterest expense categories.

The California market's net income of $270 million decreased $25 million in 2016, compared to $295 million in 2015. Net interest income of $715 million for 2016 decreased $17 million from the prior year, primarily due to an increase in net FTP funding charges, primarily for the same reasons as discussed above, partially offset by the benefits provided by a $1.0 billion increase in average loans and one more day in 2016. Average deposits decreased $355 million. The increase in average loans reflected increases in nearly all lines of business, with the largest increases in National Dealer Services and Commercial Real Estate. The decrease in average deposits primarily reflected decreases in general Middle Market, Technology and Life Sciences and Corporate Banking, partially offset by an increase in Retail Banking. The provision for credit losses of $21 million in 2016 increased $4 million from the prior year, primarily reflecting an increase in general Middle Market, partially offset by a decrease in Technology and Life Sciences. Net credit-related charge-offs of $26 million in 2016 increased $8 million compared to 2015, primarily reflecting increases in general Middle Market and Private Banking, partially offset by a decrease in Technology and Life Sciences. Noninterest income of $162 million in 2016 increased $12 million from the prior year, primarily due to increases of $5 million each in card fees and warrant income. Noninterest expenses of $434 million in 2016 increased $29 million from the prior year. Excluding restructuring charges of $26 million, noninterest expense increased $3 million, primarily reflecting a $7 million increase in allocated corporate overhead expense, partially offset by a $5 million decrease in salaries and benefits, largely reflecting savings related to the GEAR Up initiative.

The Texas market's net income decreased $99 million to a net loss of $21 million in 2016, compared to net income of $78 million in 2015. Net interest income of $471 million in 2016 decreased $48 million from the prior year, primarily due to an increase in net FTP funding charges, for the same reasons as discussed above, as well as the impact of a $531 million decrease in average loans and a $714 million decrease in average deposits, partially offset by one additional day in 2016. The decrease in average loans primarily reflected decreases in Energy, general Middle Market and Technology and Life Sciences, partially offset by an increase in Commercial Real Estate.The decrease in average deposits resulted primarily from decreases in general Middle Market, Corporate Banking and Technology and Life Sciences, partially offset by an increase in Retail Banking. The provision for credit losses of $225 million in 2016 increased $94 million from the prior year, primarily reflecting increased reserves for Energy and energy-related loans in the first quarter 2016, partially offset by a decrease in Technology and Life Sciences. Net credit-related charge-offs of $118 million for 2016 increased $72 million from the prior year, primarily reflecting an increase in Energy. Noninterest income of $129 million in 2016 decreased $2 million from the prior year, primarily due to a $4 million decrease in commercial lending fees and small decreases in several other noninterest income categories, partially offset by a $4 million increase in card fees. Noninterest expenses of $408 million in 2016 increased $21 million from 2015. Excluding restructuring charges of $27 million, noninterest expense decreased $6 million, primarily due to a $14 million decrease in salaries and benefits, largely reflecting savings related to the GEAR Up initiative, and smaller decreases in most noninterest expense categories, partially offset by an $11 million increase in allocated corporate overhead expenses.

Net income in Other Markets of $225 million in 2016 increased $28 million compared to $197 million in 2015. Net interest income of $351 million in 2016 increased $14 million from the prior year, primarily due to the FTP benefit provided by a $602 million increase in average deposits and a higher deposit crediting rate, the benefit provided from an increase in average loans of $504 million and one additional day in 2016, partially offset by higher FTP funding costs. The increase in average loans primarily reflected increases in Mortgage Banker Finance, Technology and Life Sciences and Commercial Real Estate, partially offset by a decrease in Corporate Banking. Average deposits increased in nearly all business lines, with the largest increases in Technology and Life Sciences, Corporate Banking, general

Middle Market and Mortgage Banker Finance. The provision for credit losses was a benefit of $7 million in 2016, a decrease of $32 million compared to a provision of $25 million in the prior year, reflecting decreases in almost all business lines, with the largest declines in Small Business and Corporate Banking, partially offset by an increase in Private Banking. Net loan charge-offs were $4 million in 2016, a decrease of $25 million compared to 2015, primarily reflecting decreases in Small Business and Corporate Banking, partially offset by an increase in Private Banking, primarily due to a benefit from net loan recoveries in the prior year. Noninterest income of $393 million in 2016 increased $12 million from the prior year, primarily reflecting a $12 million increase in card fees and smaller increases in other noninterest income categories, partially offset by a $4 million decrease in warrant income. Noninterest expenses of $445 million in 2016 increased $14 million compared to the prior year. Excluding restructuring charges of $16 million, noninterest expense decreased $2 million, primarily due to a $5 million decrease in salaries and benefits, largely reflecting savings related to the GEAR Up initiative, and smaller decreases in other noninterest expense categories, partially offset by a $14 million increase in outside processing expense related to revenue generating activities.

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The net loss for the Finance & Other category of $244 million in 2016 decreased $129 million compared to 2015. For further information, refer to the Finance segment discussion in the "Business Segments" subheading above.
The following table lists the Corporation's banking centers by geographic market segment.

December 31	2016	2015	2014
Michigan	209	214	214
Texas	127	133	135
California	97	103	104
Other Markets:			
Arizona	17	19	18
Florida	7	7	9
Canada	1	1	1
Total Other Markets	25	27	28
Total	458	477	481

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BALANCE SHEET AND CAPITAL FUNDS ANALYSIS
ANALYSIS OF INVESTMENT SECURITIES AND LOANS
(in millions)

December 31	2016	2015	2014		2013	2012
Investment securities available-for-sale:						
U.S. Treasury and other U.S. government agency securities	$2,779	$2,763	$526		$45	$35
Residential mortgage-backed securities (a)	7,872	7,545	7,274	(b)	8,926	9,920
State and municipal securities	7	9	23		22	23
Corporate debt securities	—	1	51		56	58
Equity and other non-debt securities	129	201	242		258	261
Total investment securities available-for-sale	10,787	10,519	8,116		9,307	10,297
Investment securities held to maturity:						
Residential mortgage-backed securities (a)	1,582	1,981	1,935	(b)	—	—
Total investment securities	$12,369	$12,500	$10,051		$9,307	$10,297
Commercial loans	$30,994	$31,659	$31,520		$28,815	$29,513
Real estate construction loans	2,869	2,001	1,955		1,762	1,240
Commercial mortgage loans	8,931	8,977	8,604		8,787	9,472
Lease financing	572	724	805		845	859
International loans:						
Banks and other financial institutions	2	—	31		4	2
Commercial and industrial	1,256	1,368	1,465		1,323	1,291
Total international loans	1,258	1,368	1,496		1,327	1,293
Residential mortgage loans	1,942	1,870	1,831		1,697	1,527
Consumer loans:						
Home equity	1,800	1,720	1,658		1,517	1,537
Other consumer	722	765	724		720	616
Total consumer loans	2,522	2,485	2,382		2,237	2,153
Total loans	$49,088	$49,084	$48,593		$45,470	$46,057

(a) Issued and/or guaranteed by U.S. government agencies or U.S. government-sponsored enterprises.

(b) During the fourth quarter 2014, the Corporation transferred residential mortgage-backed securities from available-for-sale to held-to-maturity.

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EARNING ASSETS

Loans

On a period-end basis, total loans were unchanged at $49.1 billion at December 31, 2016 and 2015. Average total loans increased $368 million, or 1 percent, to $49.0 billion in 2016, compared to $48.6 billion in 2015. The following tables provide information about the changes in the Corporation's average loan portfolio in 2016, compared to 2015.

(dollar amounts in millions) Years Ended December 31	2016	2015	Change	Percent Change
Average Loans:				
Commercial loans by business line:				
General Middle Market	$9,759	$10,289	$(530)	(5)%
National Dealer Services	4,728	4,333	395	9
Energy	2,736	3,365	(629)	(19)
Technology and Life Sciences	3,061	2,933	128	4
Environmental Services	844	845	(1)	—
Entertainment	665	618	47	8
Total Middle Market	21,793	22,383	(590)	(3)
Corporate Banking	2,863	3,088	(225)	(7)
Mortgage Banker Finance	2,180	1,843	337	18
Commercial Real Estate	913	884	29	3
Total Business Bank commercial loans	27,749	28,198	(449)	(2)
Total Retail Bank commercial loans	1,910	1,931	(21)	(1)
Total Wealth Management commercial loans	1,403	1,372	31	2
Total commercial loans	31,062	31,501	(439)	(1)
Real estate construction loans	2,508	1,884	624	33
Commercial mortgage loans	8,981	8,697	284	3
Lease financing	684	783	(99)	(13)
International loans	1,367	1,441	(74)	(5)
Residential mortgage loans	1,894	1,878	16	1
Consumer loans:				
Home equity	1,767	1,693	74	4
Other consumer	733	751	(18)	(2)
Consumer loans	2,500	2,444	56	2
Total loans	$48,996	$48,628	$368	1 %
Average Loans By Geographic Market:				
Michigan	$12,614	$13,180	$(566)	(4)%
California	17,574	16,613	961	6
Texas	10,637	11,168	(531)	(5)
Other Markets	8,171	7,667	504	7
Total loans	$48,996	$48,628	$368	1 %

Middle Market business lines generally serve customers with annual revenue between $20 million and $500 million. National Dealer Services primarily provides floor plan inventory financing to auto dealerships, and the $395 million increase in average National Dealer Services commercial loans largely reflected the continued strong new car sales activity in 2016 and expansion of existing relationships. Customers in the Energy business line are engaged in three segments of the oil and gas business: exploration and production (E&P), midstream and energy services. The $629 million decrease in average Energy commercial loans in 2016, compared to 2015, primarily reflected Energy customers taking actions to reduce their bank borrowings through asset sales, capital market activities and reduced capital expenditures. For more information on Energy and related loans, refer to "Energy Lending" in the "Risk Management section of this financial review. The Technology and Life Sciences business line serves two segments: (1) private equity and venture capital firms, referred to as equity fund services, and (2) companies that are typically owned by venture-capital firms, where significant equity is invested to create products and build companies around new intellectual property. The $128 million increase in average Technology and Life Sciences commercial loans primarily reflected growth of $321 million in equity fund services, where the line of business provides capital call or subscription lines, along with other financial services.

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Corporate Banking generally serves customers with revenue over $500 million, and the $225 million decrease in average Corporate Banking commercial loan balances generally reflected the Corporation's continued pricing and structure discipline in the competitive environment. Mortgage Banker Finance provides short-term, revolving lines of credit to independent mortgage banking companies and therefore balances tend to reflect the level of home sales and refinancing activity in the market as a whole. The $337 million increase in average Mortgage Banker Finance commercial loans reflected higher average home sales volume and increased refinancing activity in 2016, compared to 2015, as well as new and expanded relationships.

Commercial real estate loans comprise real estate construction loans and commercial mortgage loans. Real estate construction loans primarily include loans in the Commercial Real Estate business line, which generally serves commercial real estate developers. Commercial mortgage loans are loans where the primary collateral is a lien on any real property and are primarily loans secured by owner occupied real estate. Real property is generally considered primary collateral if the value of that collateral represents more than 50 percent of the commitment at loan approval. The $908 million increase in average commercial real estate loans primarily reflected construction draws and term financing, mainly with existing customers who are proven developers on projects with favorable risk profiles.

ANALYSIS OF INVESTMENT SECURITIES PORTFOLIO (FTE)

	Maturity (a)										Weighted
(dollar amounts in millions)	Within 1 Year		1 - 5 Years		5 - 10 Years		After 10 Years		Total		Average Maturity
December 31, 2016	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Years
U.S. Treasury and other U.S. government agency securities	$30	0.83 %	$2,749	1.58 %	$—	— %	$—	— %	$2,779	1.57 %	3.0
Residential mortgage-backed securities (b)	—	—	98	2.10	1,763	2.74	7,593	1.98	9,454	2.12	18.0
State and municipal securities (c)	—	—	—	—	2	1.83	5	1.83	7	1.83	11.6
Equity and other non-debt securities:											
Auction-rate preferred securities (d)	—	—	—	—	—	—	47	1.52	47	1.52	—
Money market and other mutual funds (e)	—	—	—	—	—	—	82	—	82	—	—
Total investment securities	$30	0.83 %	$2,847	1.60 %	$1,765	2.73 %	$7,727	1.98 %	$12,369	2.00 %	14.7

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

Investment Securities

Investment securities decreased $131 million to $12.4 billion at December 31, 2016, from $12.5 billion at December 31, 2015, including a $70 million decline in fair value. Net unrealized losses on investment securities available-for-sale were $42 million at December 31, 2016, compared to net unrealized gains of $28 million at December 31, 2015. At December 31, 2016, the weighted-average expected life of the Corporation's residential mortgage-backed securities portfolio was approximately 4.0 years. On an average basis, investment securities increased $2.1 billion to $12.3 billion in 2016, compared to $10.2 billion in 2015, primarily reflecting the purchase of approximately $2.2 billion of U.S. Treasury securities in the fourth quarter 2015, largely from the reinvestment of Federal Reserve Bank deposits into higher yielding securities.

As of December 31, 2016, the Corporation's auction-rate securities portfolio was carried at an estimated fair value of $54 million, compared to $77 million at December 31, 2015. During 2016, auction-rate securities with a par value of $23 million were redeemed or sold, resulting in an insignificant amount of net securities gains. As of December 31, 2016, approximately 96 percent of the aggregate auction-rate securities par value had been redeemed or sold since the portfolio was acquired in 2008, for a cumulative net gain of $52 million.

Interest-Bearing Deposits with Banks and Other Short-Term Investments

Interest-bearing deposits with banks primarily include deposits with the FRB and also include deposits with banks in developed countries or international banking facilities of foreign banks located in the United States. Other short-term investments include federal funds sold, trading securities and loans held-for-sale. Substantially all trading securities are deferred compensation plan assets. Loans held-for-sale typically represent residential mortgage loans originated with management's intention to sell and, from time to time, other loans that are transferred to held-for-sale. Federal funds sold offer supplemental earnings opportunities and serve correspondent banks. Interest-bearing deposits with banks and federal funds sold provide a range of maturities of less than one year and are mostly used to manage liquidity requirements of the Corporation. Interest-bearing deposits with banks increased $1.0 billion to $6.0 billion at December 31, 2016. Other short-term investments decreased $21 million to $92 million at December 31, 2016. On an average basis, interest-bearing deposits decreased $1.1 billion to $5.1 billion in 2016, compared to $6.2 billion in 2015, primarily reflecting a $1.1 billion decrease in average deposits with the FRB.

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DEPOSITS AND BORROWED FUNDS

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

(dollar amounts in millions)				Percent
Years Ended December 31	2016	2015	Change	Change
Noninterest-bearing deposits	$29,751	$28,087	$1,664	6 %
Money market and interest-bearing checking deposits	22,744	24,073	(1,329)	(6)
Savings deposits	2,013	1,841	172	9
Customer certificates of deposit	3,200	4,209	(1,009)	(24)
Foreign office time deposits	33	116	(83)	(72)
Total deposits	$57,741	$58,326	$(585)	(1)%
Short-term borrowings	$138	$93	$45	48 %
Medium- and long-term debt	4,917	2,905	2,012	69
Total borrowed funds	$5,055	$2,998	$2,057	69 %

Average deposits decreased $585 million, or 1 percent, to $57.7 billion in 2016, compared to $58.3 billion in 2015, reflecting a $1.7 billion, or 6 percent, increase in noninterest-bearing deposits and a $2.2 billion, or 7 percent, decrease in interest-bearing deposits. The decrease in average deposits primarily reflected purposeful pricing discipline and strategic actions in light of new LCR rules, with the largest decreases in Municipalities ($1.1 billion) (a general Middle Market business), Corporate Banking ($460 million) and the Financial Services Division ($359 million) (a general Middle Market business), partially offset by increases in the remaining general Middle Market businesses ($645 million) and Retail Banking ($682 million). By market, average deposits decreased in Texas ($714 million), California ($355 million), and Michigan ($66 million), partially offset by an increase in Other Markets ($602 million).

At December 31, 2016, total deposits were $59.0 billion, a decrease of $868 million, or 1 percent, compared to $59.9 billion at December 31, 2015, reflecting a $701 million, or 2 percent, increase in noninterest-bearing deposits and a $1.6 billion, or 5 percent, decrease in interest-bearing deposits.

Short-term borrowings primarily include federal funds purchased, short-term Federal Home Loan Bank (FHLB) advances, and securities sold under agreements to repurchase. Average short-term borrowings increased $45 million, to $138 million in 2016, compared to $93 million in 2015, primarily reflecting the January 2016 issuance of $500 million of 3-month FHLB advances, partially offset by a decrease in securities sold under agreements to repurchase. Total short-term borrowings at December 31, 2016 were $25 million, an increase of $2 million compared to $23 million at December 31, 2015.

Average medium- and long-term debt increased $2.0 billion, or 69 percent, to $4.9 billion in 2016, compared to $2.9 billion in 2015. The Corporation uses medium- and long-term debt to provide funding to support earning assets, liquidity and regulatory capital. Total medium- and long-term debt at December 31, 2016 increased $2.1 billion to $5.2 billion, compared to $3.1 billion at December 31, 2015. The increase resulted primarily from the addition of $2.8 billion of 10-year FHLB advances in the second quarter 2016.

Further information on medium- and long-term debt is provided in Note 12 to the consolidated financial statements.

CAPITAL

Total shareholders' equity increased $236 million to $7.8 billion at December 31, 2016, compared to $7.6 billion at December 31, 2015. The following table presents a summary of changes in total shareholders' equity in 2016.

(in millions)		
Balance at January 1, 2016		$7,560
Net income		477
Cash dividends declared on common stock		(154)
Purchase of common stock		(310)
Other comprehensive income (loss):		
Investment securities available-for-sale	$(42)	
Defined benefit and other postretirement plans	88	
Total other comprehensive income (loss)		46
Issuance of common stock under employee stock plans		143

Share-based compensation	34
Balance at December 31, 2016	$7,796

Further information about other comprehensive income (loss) is provided in the consolidated statements of comprehensive income and Note 14 to the consolidated financial statements.

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During January 2017, 1.5 million shares were issued under share-based compensation plans as a result of employee stock option exercises and vesting of restricted shares. The discrete tax benefit recognized as a result of these issuances was approximately $14 million. Tax benefits that will be recognized for the remainder of the year will depend upon employee stock option activity and the market value of the Corporation’s stock on the option exercise and stock award vesting dates. Additionally during January 2017, the Corporation repurchased approximately 600,000 common shares under its share repurchase program.

Diluted net income per share includes the net effect of the assumed exercise of outstanding stock options and warrants. The Corporation’s average stock price for January 2017 was $68 compared to $46 for full-year 2016, resulting in an increase of approximately 2 million diluted average common shares. The impact on diluted net income per share from exercisable stock options and warrants outstanding for the remainder of the year will depend upon the Corporation’s stock price and exercise activity.

The Federal Reserve completed its 2016 Comprehensive Capital Analysis and Review (CCAR) in June 2016 and did not object to the Corporation's 2016/2017 capital plan and the capital distributions contemplated in the plan for the period ending June 30, 2017. The plan includes equity repurchases of up to $440 million for the four-quarter period ending June 30, 2017. At December 31, 2016, up to $244 million remained available for equity repurchases under the plan. Share repurchases totaled $303 million (6.6 million shares) in 2016. The timing and ultimate amount of future equity repurchases will be subject to various factors, including the Corporation's overall capital position, financial performance and market conditions, including interest rates. Restructuring charges associated with the GEAR Up initiative are not expected to impact the pace of repurchases. The 2017 capital plan will be submitted to the Federal Reserve for review in April 2017 and a response is expected in June 2017.

In July 2016, the Board of Directors of the Corporation (the Board) authorized the repurchase of up to an additional 10.0 million shares of Comerica Incorporated outstanding common stock, in addition to the 5.7 million shares remaining at June 30, 2016 under the Board's prior authorizations for the equity repurchase program initially approved in November 2010. Including the July 2016 authorization, a total of 50.3 million shares and 14.1 million warrants (12.1 million share-equivalents) have been authorized for repurchase under the equity repurchase program since its inception in 2010. There is no expiration date for the Corporation's equity repurchase program.

In April 2016, the Board approved a 1-cent increase in the quarterly common dividend, to $0.22 per share, and in July 2016, the Board further increased the quarterly dividend to $0.23 per share. The Corporation declared common dividends in 2016 totaling $154 million, or $0.89 per share, on net income of $477 million, compared to common dividends totaling $0.83 per share in 2015. The dividend payout ratio, calculated on a per share basis, was 32 percent in 2016, compared to 28 percent in 2015. Including share repurchases under the equity repurchase program, the total payout to shareholders was 96 percent in 2016, compared to 75 percent in 2015.

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The following table summarizes the Corporation’s equity repurchase activity for the year ended December 31, 2016.

(shares in thousands)	Total Number of Shares and Warrants Purchased as Part of Publicly Announced Repurchase Plans or Programs (a)	Remaining Repurchase Authorization (b)	Total Number of Shares Purchased (c)	Average Price Paid Per Share
Total first quarter 2016	1,183	15,721	1,393	$ 35.26
Total second quarter 2016	1,483	14,238	1,488	43.78
Total third quarter 2016	2,123	22,114 (d)	2,134	45.66
October 2016	839	19,575	842	49.88
November 2016	644	17,834	645	57.10
December 2016	302	15,694	307	67.27
Total fourth quarter 2016	1,785	15,694	1,794	55.45
Total 2016	6,574	15,694	6,809	$ 45.70

(a) The Corporation made no repurchases of warrants under the repurchase program during the year ended December 31, 2016. Upon exercise of a warrant, the number of shares with a value equal to the aggregate exercise price is withheld from an exercising warrant holder as payment (known as a "net exercise provision"). During the year ended December 31, 2016, the Corporation withheld the equivalent of approximately 2,319,000 shares to cover an aggregate of $68.2 million in exercise price and issued approximately 2,317,000 shares to the exercising warrant holders. Shares withheld in connection with the net exercise provision are not included in the total number of shares or warrants purchased in the above table.

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

(c) Includes approximately 235,000 shares (including 9,000 shares for the quarter ended December 31, 2016) purchased pursuant to deferred compensation plans and shares purchased from employees to pay for taxes related to restricted stock vesting under the terms of an employee share-based compensation plan and 26 shares purchased by affiliated purchasers through employee benefits plan transactions during the year ended December 31, 2016. These transactions are not considered part of the Corporation's repurchase program.

(d) Includes July 26, 2016 equity repurchase authorization for up to an additional 10 million shares.

The Corporation periodically conducts stress tests to evaluate potential impacts to the Corporation's forecasted financial condition under various economic scenarios and business conditions. These stress tests are a normal part of the Corporation's overall risk management and capital planning process and are part of the forecasting process used by the Corporation to conduct the enterprise-wide stress test that was part of CCAR. For additional information about risk management processes, refer to the "Risk Management" section of this financial review.

The U.S. adoption of the Basel III regulatory capital framework (Basel III) became effective for the Corporation on January 1, 2015. Basel III includes a more stringent definition of capital and introduces a new common equity Tier 1 (CET1) capital requirement; sets forth two comprehensive methodologies for calculating risk-weighted assets (RWA), a standardized approach and an advanced approach; introduces two new capital buffers, a conservation buffer and a countercyclical buffer (applicable to advanced approach entities); establishes a new supplemental leverage ratio (applicable to advanced approach entities); and sets out minimum capital ratios and overall capital adequacy standards. Certain deductions and adjustments to regulatory capital phase in and will be fully implemented on January 1, 2018. The capital conservation buffer is being phased in beginning January 1, 2016 and will be fully implemented on January 1, 2019.

Under Basel III, CET1 capital predominantly includes common shareholders' equity, less certain deductions for goodwill, intangible assets and deferred tax assets that arise from net operating losses and tax credit carry-forwards. Additionally, the Corporation has elected to permanently exclude capital in accumulated other comprehensive income (AOCI) related to debt and equity securities classified as available-for-sale as well as for defined benefit postretirement plans from CET1, an option available to standardized approach entities under Basel III. Tier 1 capital incrementally includes noncumulative perpetual preferred stock. Tier 2 capital includes Tier 1 capital as well as subordinated debt qualifying as Tier 2 and qualifying allowance for credit losses. Certain deductions and adjustments to CET1 capital, Tier 1 capital and Tier 2 capital are subject to phase-in through December 31, 2017.

The Corporation computes RWA using the standardized approach. Under the standardized approach, RWA is generally based on supervisory risk-weightings which vary by counterparty type and asset class. Under the Basel III standardized approach, capital is required for credit risk RWA, to cover the risk of unexpected losses due to failure of a customer or counterparty to meet its financial obligations in accordance with contractual terms; and if trading assets and liabilities exceed certain thresholds, capital is also required for market risk RWA, to cover the risk of losses due to adverse market movements or from position-specific factors.

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The following table presents the minimum ratios required to be considered "adequately capitalized" as of December 31, 2016 and December 31, 2015.

	December 31, 2016		December 31, 2015
Common equity tier 1 capital to risk-weighted assets	4.50 %	(a)	4.50 %
Tier 1 capital to risk-weighed assets	6.00	(a)	6.00
Total capital to risk-weighted assets	8.00	(a)	8.00
Capital conservation buffer	0.625	(a)	—
Tier 1 capital to adjusted average assets (leverage ratio)	4.00		4.00

(a) In addition to the minimum risk-based capital requirements, the Corporation is required to maintain a minimum capital conservation buffer in the form of common equity, in order to avoid restrictions on capital distributions and discretionary bonuses. The required amount of the capital conservation buffer, is being phased in beginning at 0.625% on January 1, 2016 and ultimately increasing to 2.5% on January 1, 2019.

The Corporation's capital ratios exceeded minimum regulatory requirements as follows:

	December 31, 2016		December 31, 2015	
(dollar amounts in millions)	Capital/Assets	Ratio	Capital/Assets	Ratio
Common equity tier 1 and tier 1 risk-based	$7,540	11.09%	$7,350	10.54%
Total risk-based	9,018	13.27	8,852	12.69
Leverage	7,540	10.18	7,350	10.22
Common equity	7,796	10.68	7,560	10.52
Tangible common equity (a)	7,151	9.89	6,911	9.70
Risk-weighted assets	67,966		69,731	

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

At December 31, 2016, the Corporation and its U.S. banking subsidiaries exceeded the capital ratios required for an institution to be considered “well capitalized” by the standards developed under the Federal Deposit Insurance Corporation Improvement Act of 1991. Refer to Note 20 to the consolidated financial statements for further discussion of regulatory capital requirements and capital ratio calculations.

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RISK MANAGEMENT

As a result of conducting business in the normal course, the Corporation assumes various types of risk. The Corporation's enterprise risk framework provides a process for identifying, measuring, controlling and managing these risks. This framework incorporates a risk assessment process, a collection of risk committees that manage the Corporation's major risk elements, and a risk appetite statement that outlines the levels and types of risks the Corporation accepts. The Corporation continuously enhances its enterprise risk framework with additional processes, tools and systems designed to not only provide management with deeper insight into the Corporation's various existing and emerging risks in accordance with its appetite for risk, but also to improve the Corporation's ability to control those risks and ensure that appropriate consideration is received for the risks taken.

The Corporation’s front line employees, the first line of defense, are responsible for the day to day management of risks including the identification, assessment, measurement and control of risks encountered as a part of the normal course of business. Risks are further monitored, measured and controlled by the second line of defense, specialized risk managers for each of the major risk categories who aid in the identification, measurement, and control of organizational risks. The majority of these risk managers report into the Office of Enterprise Risk. The Office of Enterprise Risk, led by the Chief Risk Officer, is responsible for designing and managing the Corporation’s enterprise risk framework and ensures effective risk management oversight. Risk management committees serve as a point of review and escalation for those risks which may have risk interdependencies or where risk levels may be nearing the limits outlined in the Corporation’s risk appetite statement. These committees comprise senior and executive management that represent views from both the lines of business and risk management. Internal Audit, the third line of defense, monitors and assesses the overall effectiveness of the risk management framework on an ongoing basis and provides an independent assessment of the Corporation’s ability to manage and control risk to management and the Audit Committee of the Board.

The Enterprise-Wide Risk Management Committee, established by the Enterprise Risk Committee of the Board, is responsible for governance over the risk management framework, providing oversight in managing the Corporation's aggregate risk position and reporting on the comprehensive portfolio of risks as well as the potential impact these risks can have on the Corporation's risk profile and resulting capital level. The Enterprise-Wide Risk Management Committee is principally composed of senior officers and executives representing the different risk areas and business units who are appointed by the Chairman and Chief Executive Officer of the Corporation.

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

Further discussion and analyses of each major risk area are included in the following sub-sections of the Risk Management section in this financial review.

CREDIT RISK

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

Credit Administration manages credit policy and provides the resources to manage the line of business transactional credit risk, assuring that all exposure is risk rated according to the requirements of the credit risk rating policy and providing business segment reporting support as necessary. The Corporation's Asset Quality Review function, a division of Internal Audit, audits the accuracy of internal risk ratings that are assigned by the lending and credit groups. The Special Assets Group is responsible for managing the recovery process on distressed or defaulted loans and loan sales.

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

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

Years Ended December 31	2016	2015	2014	2013	2012
Balance at beginning of year	$634	$594	$598	$629	$726
Loan charge-offs:					
Commercial	181	139	59	91	112
Real estate construction	—	—	—	3	8
Commercial mortgage	3	3	22	36	89
Lease financing	—	1	—	—	—
International	23	14	6	—	3
Residential mortgage	—	1	2	4	13
Consumer	7	10	13	19	20
Total loan charge-offs	214	168	102	153	245
Recoveries:					
Commercial	43	33	34	42	39
Real estate construction	—	1	4	7	6
Commercial mortgage	20	21	28	20	18
Lease financing	—	—	2	1	—
International	—	—	—	—	2
Residential mortgage	1	2	4	4	2
Consumer	4	11	5	6	8
Total recoveries	68	68	77	80	75
Net loan charge-offs	146	100	25	73	170
Provision for loan losses	241	142	22	42	73
Foreign currency translation adjustment	1	(2)	(1)	—	—
Balance at end of year	$730	$634	$594	$598	$629
Net loan charge-offs during the year as a percentage of average loans outstanding during the year	0.30 %	0.21 %	0.05 %	0.16 %	0.39 %

Allowance for Credit Losses

The allowance for credit losses includes both the allowance for loan losses and the allowance for credit losses on lending-related commitments. The allowance for loan losses represents management's assessment of probable, estimable losses inherent in the Corporation's loan portfolio. The allowance for credit losses on lending-related commitments, included in "accrued expenses and other liabilities" on the consolidated balance sheets, provides for probable losses inherent in lending-related commitments, including unused commitments to extend credit and standby letters of credit. Refer to Note 1 to the consolidated financial statements for a discussion of the methodology used in the determination of the allowance for credit losses.

After a weak first half of 2016, U.S. economic growth improved in the second half of the year. Real Gross Domestic Product (GDP) growth stepped up to 3.5 percent in third quarter 2016. The Federal Reserve responded to the improving U.S. economic data in the third quarter 2016 by raising the federal funds rate range by 25 basis points in December 2016. There is significant economic and financial market uncertainty associated with the expected policies of the Trump Administration. Overall, the expectations are the policies will be positive for the economy and support stronger growth in 2017. Labor market indicators remain positive at the start of 2017. Pricing conditions for commodity-based industries continue to be stressed due to the strengthening U.S. dollar; however, petroleum-related prices are increasing due to more coordination from OPEC countries to constrain the supply of oil. The gain in oil prices through the second half of 2016 has helped to stabilize parts of the energy sector. Measurements of both consumer and business confidence have improved. U.S. auto sales were strong at year-end reaching an 18.4 million unit pace in December 2016. Auto sales are expected to ease from that pace but remain strong in 2017.

An analysis of the coverage of the allowance for loan losses is provided in the following table.

Years Ended December 31	2016	2015	2014
Allowance for loan losses as a percentage of total loans at end of year	1.49%	1.29%	1.22 %
Allowance for loan losses as a percentage of total nonperforming loans at end of year	124	167	205
Allowance for loan losses as a multiple of total net loan charge-offs for the year	5.0x	6.3x	23.5x

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The allowance for loan losses was $730 million at December 31, 2016, compared to $634 million at December 31, 2015, an increase of $96 million, or 15 percent. The increase in the allowance for loan losses primarily reflected an increase in reserves allocated for Energy and energy-related loans, partially offset by improved credit quality in the remainder of the portfolio. The increase in reserves for Energy and energy-related exposure reflected additional negative migration into criticized loans, primarily in the first quarter 2016, due to the deteriorating financial condition and increased leverage of these borrowers, as well as an increased loss estimate in the event of default.

ALLOCATION OF THE ALLOWANCE FOR LOAN LOSSES

(dollar amounts in millions)	2016			2015		2014		2013		2012	
December 31	Allocated Allowance	Allowance Ratio (a)	% (b)	Allocated Allowance	% (b)	Allocated Allowance	% (b)	Allocated Allowance	% (b)	Allocated Allowance	% (b)
Business loans											
Commercial	$547	1.77 %	63 %	$448	65 %	$379	65 %	$340	63 %	$293	63 %
Real estate construction	21	0.72	6	12	4	20	4	16	4	16	3
Commercial mortgage	93	1.05	18	93	18	120	18	159	19	227	21
Lease financing	5	0.81	1	3	1	2	1	4	2	4	2
International	16	1.30	3	23	3	13	3	12	3	12	3
Total business loans	682	1.53	91	579	91	534	91	531	91	552	92
Retail loans											
Residential mortgage	11	0.54	4	14	4	14	4	17	4	20	3
Consumer	37	1.49	5	41	5	46	5	50	5	57	5
Total retail loans	48	1.08	9	55	9	60	9	67	9	77	8
Total loans	$730	1.49 %	100%	$634	100%	$594	100%	$598	100%	$629	100%

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

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

The allowance for credit losses on lending-related commitments was $41 million at December 31, 2016 compared to $45 million at December 31, 2015. The $4 million decrease in the allowance for credit losses on lending-related commitments primarily reflected the impact of decreases in unfunded commitments and letters of credit exposure, partially offset by credit quality deterioration in Energy and energy-related unfunded commitments and issued letters of credit. An analysis of changes in the allowance for credit losses on lending-related commitments is presented below.

(dollar amounts in millions)					
Years Ended December 31	2016	2015	2014	2013	2012
Balance at beginning of year	$45	$41	$ 36	$ 32	$ 26
Charge-offs on lending-related commitments (a)	(11)	(1)	—	—	—
Provision for credit losses on lending-related commitments	7	5	5	4	6
Balance at end of year	$41	$45	$ 41	$ 36	$ 32

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

For additional information regarding the allowance for credit losses, refer to the "Critical Accounting Policies" section of this financial review and Notes 1 and 4 to the consolidated financial statements. For additional information regarding Energy and energy-related exposures, refer to "Energy Lending" subheading later in this section.

Nonperforming Assets

Nonperforming assets include loans on nonaccrual status, troubled debt restructured loans (TDRs) which have been renegotiated to less than the original contractual rates (reduced-rate loans) and foreclosed property. TDRs include performing and nonperforming loans. Nonperforming TDRs are either on nonaccrual or reduced-rate status.

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

December 31	2016	2015	2014	2013	2012
Nonaccrual loans:					
Business loans:					
Commercial	$445	$238	$109	$81	$103
Real estate construction	—	1	2	21	33
Commercial mortgage	46	60	95	156	275
Lease financing	6	6	—	—	3
International	14	8	—	4	—
Total nonaccrual business loans	511	313	206	262	414
Retail loans:					
Residential mortgage	39	27	36	53	70
Consumer:					
Home equity	28	27	30	31	31
Other consumer	4	—	1	4	4
Total consumer	32	27	31	35	35
Total nonaccrual retail loans	71	54	67	88	105
Total nonaccrual loans	582	367	273	350	519
Reduced-rate loans	8	12	17	24	22
Total nonperforming loans	590	379	290	374	541
Foreclosed property	17	12	10	9	54
Total nonperforming assets	$607	$391	$300	$383	$595
Gross interest income that would have been recorded had the nonaccrual and reduced-rate loans performed in accordance with original terms	$38	$27	$25	$34	$62
Interest income recognized	6	5	6	5	5
Nonperforming loans as a percentage of total loans	1.20 %	0.77 %	0.60 %		