THE STATE UNIVERSITY OF NEW JERSEY
RUTGERS

COMERICA Inc.

Ticker: CMA
Rating: SELL
Price on 4/17/06: $57.80
12-Month Target: $47.83

After enjoying three years of solid earnings growth, Detroit-based regional bank Comerica is about to get hurt by intense competition in mature commercial lending market, low net interest margin of below 3.80%, and, above all, immediate need to increase loan-loss provision by 10-20bps from current historically low level of 1.2%.

Key Statistics		Company: Comerica Inc.	Sector: Financial Services	Industry: Regional Banking - Midwest/West	
				Peers: Regional Banking - Midwest/West	
Fundamentals		**Share Data**		**Recommendation: SELL**	
P/E (06E)	10.9x	Price (4/17/06)	$57.80	06E/07E EPS	$ 4.44 / $3.84
P/E (07E)	12.6x	Shares Outstanding (mil)	162.73	06E ROE	14.0%
Book Balue/Share (06E)	$26.28	Market Capitalization (bil $)	9.41	Fair Value	$47.83
Price/Book Value (07E)	1.7x	Dividend per share	$2.20	Loss Reserve (06E/07E)	1.3% to 1.4%
Proj. Long-Term Growth	2.10%	Repurchase 05 (mil $)	525	Expected Return	17.2%
Proj. Long-Term ROE	14.0%	Repurchase 06E/07E (mil $)	225 to 350	Expected Div Yield	-3.8%
Asset / Equity (bil $)	53 / 5	Repurchase Dilution (06-07)	20% to 25%	Expected Total Return	13.4%
					Analyst: Santanu Chakraborty

Investment Summary:

- Comerica grew between 12% and 15% annually in a robust banking environment during FY02-05 (S&P Banks Index up 30%) buoyed by high single-digit commercial lending growth, faster growing Western market, low short-term interest, improved credit quality, and real-estate lending growth. Business bank did well, but poor sales culture persists in Retail Bank.

- But, expenses grew rapidly (efficiency ratio 58%) when organic growth is strangulated by growing competition (Internet Banking, Big banks, Money Mkt funds) in intensely competitive Mid-West and maturing West markets, especially in core commercial lending segment.

- CMA is forced to close deposit re-pricing lag aggressively to retain depositors, thereby reducing net interest margin (NIM) below 3.75%. Weak deposit franchise (25% of ROTA vs. peers 30% to 35%) and fee-based revenue (37% of ROTA vs. peers 45% to 50%) indicates poor ability to maximizing current business mix required to grow in highly competitive market.

- In an apparent effort to sustain net earnings growth in FY05, CMA reduced loan-loss reserve to below 1.2% (peers: 1.5%) of total loan, taking advantage of improved non-performing loans, at a time when its commercial lending in Auto and Airlines have been doing poorly.

- Low securitization, poor automation and limited cross-selling (Cash Mgmt in commercial lending) restrict building scale economies – an important Banking 'moat' in tight environment.

- Primary valuation (DDM/DCF) based on TSR (dividend/adjusted Repurchases – over 90% of NI), with 8.9% as cost of equity (beta 0.97), 14% ROE, 2.1% LT growth, 1.3 to 1.4% loan reserve ratio and moderate to poor growth, leads to price $46.02 (DDM) and $51.80(DCF). Secondary valuation is P/B based, assuming 1.7x (below 5-yr avg 1.8 for reasons mentioned earlier) on tangible 07E BVPS of $26.86, yielding $45.66. Averaging all three gives $47.83.

- Investment Risks: Institutional investors, lured by high div. yield may hang-on longer (flattish stock price). Contributing to risk is delay in increasing loan-loss (LL) ratio, unusually high middle-market commercial lending growth, quicker auto and airlines recovery, one-time gains (as in FY05). Aggressive re-pricing in Mid-West to lure in over $100K may prove successful.

Business Description:

Comerica Inc., a publicly traded mid-west regional Bank (NYSE: CMA) headquartered in Detroit, Michigan, offers financial services in four geographic markets: Midwest and Other (Canada and Mexico), Western, Texas, and Florida through three major business segments: Business Bank (BB), Retail Bank (RB), and Wealth & Institutional Management (WM). In 2005, CMA earned $861 million with EPS of $5.17, 16.9% ROE, and efficiency ratio of 57.5% (non-interest expense over net interest and non-interest income). To achieving strong results in 2004 and 2005, CMA has released loan-loss reserve into its income statement leading to a historically low loan-loss provision of 1.18% of total loans. Notwithstanding current robust credit environment in US, CMA must add additional reserve in ’06 and ’07 at a time when CMA’s business is facing low-growth in mature market with growing demand to expand in increasingly competitive and fast maturing Western and Texas markets.

CMA generates 70% of its revenue (as net-interest income) from a loan portfolio dominated by loans to commercial customers. Various sources of such net-interest income are: middle-market commercial loans, commercial mortgage, small business loans, real estate construction loans, consumer loans, residential mortgage loans, and international loans. Other major sources of income are: service charge on deposit accounts, fiduciary income, brokerage fees, and investment advisory fees. Salary and benefits constitutes over 60% of non-interest expenses, while net occupancy, processing fees, litigation fees, technology, and customer service take the bulk of remaining 40% of expenses. Business bank generates around 70% of net income, while Retail bank and WM generate around 20% and 10% respectively. In spite of consolidated corporate effort, CMA has unable to change its earnings mix from the three major geographic markets, namely Midwest (55%), Western (35%), and Texas (10%).

In addition, Comerica has a finance division (FSD) which offers assorted financial services, including advisory, brokerage. However, FSD has been a loss-making venture of its own, though providing vital services to other business segments. In 2005, loss narrowed from $178 mil to $52 mil, primarily due to rising short-term interest environment.

Industry Comparison and Low-valuation Catalyst:

Comerica competes against assorted regional banks in three primary markets – Midwest, Western, and Texas. Moreover, internet banking (from ING, Emigrant, Citigroup) and money market mutual funds, offering over 300 bps spread over FIDC insured funds, offer growing threat to deposit bases CMA depends on. Since, banking services to small and middle-market business are customer-centric and customer-need varies depending on macro as well as local business environment, CMA faces diverse competitive forces in primary markets. For example, commercial loans to automobile segment in Midwest are adversely affected by meltdown related to GM (General Motors), while loans to airlines segment are affected by macro environment. Therefore, timely market research based on macro and local business environment, and ability to take effective action is necessary evils in this business to stay competitive. Major competitors, such as Wachovia (WB), KeyCorp (KEY) and US Bancorp (USB) have been successful lately in lowering their exposure to auto, airlines, and technology sectors.

Banking has been essentially a scale business, where benefits, starting above $50 billion asset level, become integral part of efficiency at above $200 billion asset level. However, product differentiation, deposit re-pricing, cross selling, and relationship management aspects of banking are increasingly becoming competitive drivers. Since FED has started increasing short-term rate 50bps each quarter, deposit re-pricing lag had been a key determinant to increasing NIM (net interest margin). In order to force NIM around 4% to record higher profitability, CMA had been lagging in deposit re-pricing in mid-west market where competitors like Fifth Third (FITB) and KEY have aggressively taken new deposits, especially core deposits, during last one year. However, CMA has finally taken a note of this by hastening re-pricing (60% compared to average 46% in 1Q ’06) to attract new deposits, though at the expense of lower NIM and reduced profitability. This was evident in 1Q06 when CMA increased rate by 51bps for its 100k+ depositors.

Since over 90% of CMA’s loan portfolio is in commercial loan (C&I), CMA faces increasing competition in this growing but low spread (220 bps vs. 400 bps in consumer loans, 800 bps in credit cards), low risk business segment. Besides, cross-selling other products, such as cash management and processing services, to C&I customers is paramount contributing factor to attaining highest risk-adjusted returns on C&I loans. Wells Fargo (WFC) (130bps higher yield than average competitor), Wachovia, and Fifth Third are far ahead of CMA and offer considerable challenge in both mid-west and west markets.

Moreover, expense management is becoming increasingly important to higher NIM, unless deposit re-pricing can be checked with improved service and relationship management. Studies have shown that for asset size between $ 50 billion and $75 billion, banks needs 250 FTE ($60,000 annual salary) for each $1 billion marginal asset – most of which is in the back-office. Given narrowing spread in C&I loans (200 – 250 bps), CMA faces uphill task to profitably increase it dwindling loan portfolio. Here CMA faces steep competition from US Bancorp (USB), which is the lowest-cost producer (48% efficiency ratio vs. CMA’s 58%).

Furthermore, CMA is lagging in deposit franchise at a time when strong correlation exists between the banks maximizing from the current business mix and the best deposit franchises, which is a driver of bank's ROA. Biggest driver of ROA is fee-based businesses (45%) given lack of balance sheet usage in these segments. For example, Fees (as percentage of ROA): CMA 37% vs. WFC 58%, WB 45%, FITB 44%, KEY 42%, and Deposits (as percentage of ROA): CMA 25% vs. KEY 30%, USB 30%, FITB 28% WB 27%.

Above all, CMA has squeezed, above and beyond safety-level, its loan-loss reserve reducing loan-loss percentage to 1.19% of total loans (15-year low). Though non-performing assets have reduced significantly in '04-05, CMA does not leave any cushion for non-performance of its new C&I loans. Moreover, loans charged-off were only 0.25% of total loans, and in FY06-07 CMA might need to increase this to a range between 0.35% and 0.45%. Given CMA's preponderance of auto and airlines C&I loans (25% and 15% respectively) and threats from adverse macro environment (higher fuel prices, inflation fears, lower consumer spending with housing slow-downs) lurking in the horizon, Comerica faces double-whammy to increasing loan-loss reserve and managing non-performing assets should macro-downturn becomes a reality. Most of its competitors have safely set-aside over 1.5% loan-loss reserves. This fact, coupled with decreasing loan portfolio, NIM and increasing expenses, could fuel a downturn in EPS and become an effective catalyst to lowering equity price below 15% within one year from today.

Furthermore, recent studies have shown that CMA's ROTA (return on tangible asset) is below 100 bps worse-than-expected ROTA, which leaves CMA as unattractive acquisition candidate in the near-term. More attractive candidates, few are CMA's competitor as well, in the form of KeyCorp, Sovereign Bancorp, Synovus, do exist.

Recent Development:

- Comerica is acting aggressively to increase capital invested in hybrid securities (i.e., convertible bonds) from present 15% to maximum allowable of 25%. This could increase investment return on tangible capital.
- Comerica is expecting to sale its Mexican bank charter from Business Bank division in 2006. Loan portfolio of $43 million and liability (loan commitments) of $29 million are already reflected in '05 balance sheet.
- Below expectation 1Q06 earning results show lower EPS ($1.15) and NIM below 3.8%.

Financial Analysis:

Comerica earned $4.88 per share on continuous operations (excluding $0.19 per share on net gains of $55 million on sale of 90.8% interest in London-based Framlington Group Limited (FGL)) – an impressive 12% increase over '04 EPS of $4.36. However, this EPS was boosted by releasing $47 million from loan-loss reserve (also $9 million gain on exercising warrants on Tech stocks) – without which EPS ($4.72) growth would look quite ordinary in a robust banking environment observed in FY05. Moreover, net income in both Business and Retail bank division was lower than 2004, largely driven by larger employee expenses. Had loss in Finance division were not narrowed by $87 million in FY05 (largely due to rising short-term interest), FY05 net earning, in fact, would look quite depressive. Given that end of US Fed tightening by 2Q06 and best credit cycle is behind us, earning prospects in FY06 and FY07 look quite bleak for CMA. Furthermore, intense competition would narrow NIM to below 4% and 3.6% respectively for C&I and small business/consumer loans. With rising efficiency ratio at 43% and 68%, and in absence of enough cash ($1.6 billion) for acquisition, aggressive organic growth in Western markets seems to be the only lever to realizing higher earnings in '06 and '07. CMA has aggressive, though expensive, growth plans in Western markets as exemplified by opening 18 more branches in '05.

Results of Operation:

Net interest income (fully taxable equivalent) was $2 billion in 2005, an increase of $147 million, or 8%, from 2004. Rate/Volume analysis (from 2005 CMA 10K) shows that higher rate contributed 75% rise in interest income and 93% rise in interest expenses. Therefore, asset/liability structure affects negatively on net-interest income with rising interest rate. However, most of the gains attributable to higher rate came from Finance division, which entice customers to deposit large balances, primarily non-interest bearing (escrow, etc.), in lieu of customer service expenses, which showed as non-interest expense ($69 million). CMA has close to 40% non-interest bearing deposits (US Bancorp has 25%), which contributes to swelling NIM (4%) and higher efficiency ratio. Besides, stability of such most sought-after deposits is heavily depending on relationship management, and therefore, comes under intense competitive pressure.
Non-interest income, representing diversified nature of revenue sources (i.e., service charge, fiduciary, brokerage, lending/advisory/agent fees), was around $1 billion in 2005. Excluding gains on Framlington sale ($55 million) and warrant income ($9 million), this represents gain of only 3% from 2004. On the contrary, non-interest expenses rose 12% with employee expenses contributed over 50% of this increase. This had adverse impact on efficiency ratio (non-interest expense as percentage of net interest and non-interest income) leading to one of the highest in the industry. Given that 90% of CMA loans are in C&I, where 45% efficiency is common in the industry, high overall efficiency ratio of 58% is a proof of value-destroying proposition being offered by CMA.

Effective income tax ('05 provision: $418 million) rate went to 32.7% compared to 31.8% in '04, primarily due to increase in state tax expenses.

Balance Sheet

Comerica has total asset base of $53 billion comprised of: $3 billion cash and equivalents, $43 billion loans ($36 billion of C&I loans), $4.3 billion securities available for sale (includes portion Mexican loan portfolio), and $0.5 billion in loan-loss allowance (contra-asset). Liabilities of $48 billion include: $15.6 billion non-interest bearing deposits (38% of deposits), $26.7 billion interest bearing deposits, and debt of $4 billion. This leaves $5 billion as shareholders' equity, which includes $213 million of goodwill, resulting into a tangible book value per share (BVPS) of close to $29.83. However, performance of acquired Munder Fund at Wealth Management business segment is well below market standards, which demands further goodwill impairment of $76 million should asset value further drops another $206 million as valued by an independent investment banker. This will erode tangible BVPS to $29.38 pushing P/B ratio closer to 2.0, which is high for a mature bank facing tough competition at the late-end of banking market cycle.

Comerica distributed 43% of FY05 earning as dividend (compared to 48% and 53% in FY04 and FY03 respectively) growing at the rate of 5%. Without enough investing opportunity (i.e., issuing more loans) returning higher that cost of equity (around 9%), Comerica has aggressively resorted to stock-repurchase increasing total shareholder payout to 90%. Such low retention ratio will reduce long-term growth potential (loan growth requires additional capital to meet legal capital ratios), critical to retaining its strong institutional investor clientele-base (77%) at a time when most of its competitors are offering comparable dividend yield of 4%. However, Comerica has reduced its debt (financial leverage around 11x) and may fall back on issuing new long-term debts should growth opportunity suddenly appears.

Comerica was successful in reducing non-performing (NP) loans from $579 to $162 million during FY02-05 (0.32% of total loans; down from 1.34%). This was in most part due to better US and International business environment (C&I NP loans reduced $300 mil, while International NP loans reduced by $95 mil). Net non-accrual loans also reduced from $312 mill to $138 mil in FY05, which includes $154 mil charge-offs and $222 mil new non-accruals. However, adverse effect on dependence on Auto and Airlines is evident as 43% of new non-accruals came from these two sectors. In fact, outstanding loan to Auto sector increased in FY05 (25% of C&I loans). Should business environment deteriorates due to macro factors (mostly energy price, inflation, GM-related mid-west auto-meltdown), Comerica may experience rise in NP and non-accrual loans.

Improved internal risk management practices in 2005 might allow Comerica to allocate risk-adjusted capital across its business more efficiently. However, we have sincere doubt that capital allocation efficiency and stronger balance sheet alone bring new business for a Bank with medium asset-base around $50 billion, especially in a market deluged with excess capital. This is particularly prominent in risk-averse middle-market commercial lending business, which requires lesser risk-adjusted capital anyway (Business Banks' ROE was 24% in FY05). Arguing further, this can stifle Comerica's growth given its lack of diversity in loan portfolio, in that Comerica won't be able to venture into riskier lending deploying higher risk-adjusted capital in search of higher returns.

Forward-looking assumptions leading to lower valuation in ’06 and ’07

Category meaningful to valuation	2005 values	2006 assumption	2007 assumption
C&I Loan Growth	10%	6.5% to 8%	4% to 5%
Consumer Loan Growth	4.6%	4.25% to 5%	4% to 4.5%
Int-bearing Deposit Growth	-2%(6)	3.6% to 4%	4% to 4.5% (1)
Non-Int bearing Deposit Growth	6%	2.6% to 3%	2.25% to 2.75%(2)
Interest Rate on C&I Loan	5.95%	6%	6.15%
Interest Rate on Consumer Loan	6%	6.15% to 6.50%	6% to 6.5%
Interest Rate paid on Deposits	2.15%(4)	2.75% to 3%	3.15% to 3.55%
Loss Provision as % of Loan	1.2%	1.25% to 1.35%	1.3% to 1.4%
Employee Expenses growth(3)	12%	4%	3%
Share Repurchases ($ million)	525	300 to 350	225 to 350 (5)
Dilution factor (due to ESOP etc)	0.17	0.20	0.25(6)
Tax Rate	32.7%	32% to 32.4%	32% to 32.4%

Comments:

(1) After lagging for over one year, CMA is aggressively re-pricing deposits (30bps compared to average 23 bps in 4Q ’05) which could bring new deposits in competitive Western market. In fact, Management expectation is mid-to-high single digit range.
(2) Intensely competitive segment of non-interest bearing deposit leaves very little room for growth.
(3) Employee expenses constitute over 65% of non-interest expense. This estimation assumes sufficient FTEs to support additional growth in earnings asset.
(4) Fall in interest-bearing deposit growth is related to low interest rate paid on these deposits
(5) Higher repurchase assumes high growth scenario.
(6) Higher dilution than ’05 due to lower total share repurchases (major portion of ESOP is fixed).

Valuation

Primary valuation methodology to derive target price utilizes a dividend discount (DDM) valuation model that uses both dividend and share re-purchase (after adjusting for employee stock purchase and other dilution effects) as proxy cash-flow to the shareholders. Comerica has repurchased $525 million and $370 million of its own stock in 2005 and 2004 respectively, pushing payout ratio to between 80% and 90%. Since ROE got a 2% lift from 15% in ’04, primarily due to release of $157 million loan-loss reserve and one time gain of $55 million from sale of Framlington, future ROE will stabilize between 12 and 16%, depending on various growth and profitability assumptions discussed earlier. Perpetual growth assumption, likewise, was between 1.8 and 2.4%, because of lack of diversification of loan portfolio, namely concentration in auto and airlines sectors, limited revenue sources (70% from interest income, limited cross-selling), and limited market expansion possibilities (Mid-west market is stagnant, while further penetration into intensely competitive Western market demands opening new branches and aggressive deposit re-pricing, thereby eroding profitability). As a result efficiency ratio would climb up (thus, reducing profitability) from 57.5% in FY05 to 60% and 64% in FY06 and FY07 respectively. Above all, future earnings potential is further curbed due to necessary build-up of loan-loss reserve from 1.2% in FY05 to decent industry-standard ratio between 1.3% and 1.5%. Since valuation model depends on both legs of shareholder return (EPS and Share-buyback) and future growth assumptions, our assumption that Comerica can re-purchase between $225 and $350 million of stock in ’06 – ’07 is based on required long-term retention ratio around 15% and long-term ROE between 12% and 16%. These assumptions are verified against similar data for other participants in Banking segments where Comerica operates.

Four scenarios are discussed – Pessimistic (low growth in both ’06 and ’07), Normal (moderate growth in ’06 followed by low growth in ’07), Optimistic (high growth in ’06 and moderate growth in ’07), and Safety Margin (high growth in both ’06 and ‘07). Growth of business in various segments is discussed in “Forward-looking” section earlier. In the CAPM model, cost of equity is 8.9% based on risk-free rate of 5% (short-term rate), equity premium of 4%, and beta of 0.97 (4 year beta as per Bloomberg relative to S&P 500). Table 1 below shows valuation results.

For both DDM and DCF valuations, long-term growth pattern is assumed to set-in after 2008.

Growth Scenarios		2006 - 2007	LT Growt	LT ROE	LT Retenti	**Fair Price**
Pessimistic		Low - Low	1.80%	12.00%	15.00%	$ 44.21
Normal		**Mid - Low**	**2.10%**	**14.00%**	**15.00%**	**$ 46.02**
Optimistic		High - Mid	2.25%	15.00%	15.00%	$ 51.65
Safety of Margin		High - High	2.40%	16.00%	15.00%	$ 55.84
Estimated Earnings (EPS)		Pessimistic	**Normal**	Optimistic	Safety of Margin	
[2005 earnings: $5.09]	2006	$ 3.92	**$ 4.44**	$ 4.77	$ 4.98	
	2007	$ 3.90	**$ 3.84**	$ 4.41	$ 4.77	
	Under "Normal" Growth Scenario					
1. DDM Valuation	2006	2007	2008	Thereafter	**PRICE**	2005
To Shareholder (mil)	$ 635.95	$ 539.52				808.00
ROE %	14.16%	12.06%	13.00%	14.00%		16.93%
Retention Ratio	11.4%	11.8%	15.0%	15.0%		6.2%
TOTAL EPS $	$ 3.89	$ 3.35	$ 3.08	$ 46.37		$ 4.84
Cost of Equity	8.9%	8.9%	8.9%	8.9%		
Current Value	$ 3.68	$ 2.91	$ 2.46	$ 36.98	**$ 46.02**	**<-- Price using DDM**
Growth (ROE * Retention)	1.612%	1.418%	1.950%	2.100%		
Decrease in TOTAL EPS	-19.59%	-13.98%	-8.00%			
2. BVPS Valuation	2006	2007				2005
Tangible BVPS	$ 26.28	$ 26.86				$ 26.13
P/B (5-year average)	1.7					$ 1.87
		Value = 26.86 * 1.7 =			**$ 45.66**	**<-- Price using P/B**
3. DCF Valuation (Net Income)	2006	2007	2008	Thereafter		2005
Net Income (EPS)	4.44	3.84	3.45653	$ 52.05		5.09
Decrease in Net Income	-12.76%	-13.59%	-10.00%			
Current Value	4.20	3.33	2.76	41.51	**$ 51.80**	**<-- Price using DCF**
		Average FINAL PRICE			**$ 47.83**	
CAPM Assumptions						
Risk-Free Rate	5.00%	5.00%	5.00%	5.00%		
4-yr Beta (Bloomberg)	0.97	0.97	0.97	0.97		
Equity Premium	4.00%	4.00%	4.00%	4.00%		

Table1: Valuation under three methods.

Under most probable circumstances (‘Normal’), fair value for Comerica stock stands at $46.02, which is worse than 15% of its price on the date of this report. Since, DDM is very sensitive to the assumption of both ROE and Retention Rate (growth = ROE * Retention rate), assumptions are based on industry segment and US GDP growth level.

Secondary valuation is based on tangible book value (BVPS) comparable. Tangible BVPS for year 2005 was $26.13. Expected BVPS under “Normal” growth assumptions, tangible BVPS for ’06 and ’07 are $26.28 and $26.86. Comerica is now trading at P/B of 1.87 (5-yr average 1.8), but expected to trade at 1.7x due to lower valuation catalysts discussed in this report, which gives fair value of $45.66.

In order to strengthen lower-valuation arguments further, I choose to employ a third valuation using DCF. Assuming net income as proxy for cash-flow, a value of $51.80 is obtained. Averaging these three results yields fair valuation of $47.83.

Investment Risk:

Dividend Yield: CMA has attractive dividend yield of 3.8%. Most of its peers also have similar yields, as FITB 3.9%, KEY 3.7%. Given at par tax-treatment with capital gains in US, most mature banks have aggressively increased dividend yield over past two years. However, with historically high dividend yield and rising short-term rate, there is little room for further dividend growth in absolute terms without either reducing buy-backs or hurting growth potentials.

Credit Quality: Further credit improvement in US could delay expected loss provision to rising 20 bps over current 1.2% in the next two years, which is one of the most important investment thesis put forward in this report.

Middle-market business growth in US: If US medium-size business grows (particularly in Midwest and West) better than anticipated loan growth assumption of 6% to 8% used in this report. However, this risk is somewhat precipitated by the fact that for CMA's earning asset level of $50 billion, each additional $1 billion asset growth needs additional 300 FTEs which consumes around 30% of additional net-interest revenue. In other words, CMA is somewhat constrained in terms of leveraging economies of scale should business grows beyond anticipated here. Besides aggressively re-pricing, especially to attract over $100k deposits, may prove effective to expanding deposit franchise.

One-time gains: If sale of Mexican bank charter loan portfolio ($43 million) – not expected to add any gains to '06 net income – generates substantial gains, '06 earnings may get inflated as happened in '05 as a result $55 million gain recorded in Framlington sale.

Appendix A: Growth Scenario and assumption Details.

Scenario Analysis	Assumptions	2007-High	2007 - Mid	2007- Low	**Current Value(2007)**	2006- High	2006- Mid	2006- Low	**Current Value (2006)**
	C&I Loan Growth	5.00%	4.50%	4.00%	**4.00%**	8.00%	7.00%	6.50%	**7.00%**
	Consumer Loan Growth	4.50%	4.25%	4.00%	**4.00%**	5.00%	4.50%	4.25%	**4.50%**
	Real Estate Construction Growth	5.00%	4.50%	4.00%	**4.00%**	7.00%	6.50%	6.00%	**6.50%**
	Other Loan Growth	4.50%	4.25%	4.00%	**4.00%**	5.00%	4.50%	4.50%	**4.50%**
	Interest-bearing Deposit Growth	4.50%	4.25%	4.00%	**4.00%**	4.00%	3.75%	3.60%	**3.75%**
	Non-Int bearing Deposit Growth	2.75%	2.50%	2.25%	**2.25%**	3.00%	2.75%	2.60%	**2.75%**
	Securities and ST Growth	-4.00%	-4.50%	-5.00%	**-5.00%**	-5.00%	-6.00%	-6.50%	**-6.00%**
	Rate on C&I Loans	6.15%	6.15%	6.15%	**6.15%**	6.00%	6.00%	6.00%	**6.00%**
	Rate on Consumer Loans	6.50%	6.25%	6.00%	**6.00%**	6.50%	6.35%	6.15%	**6.35%**
	Rate on Other Loans	5.00%	5.00%	5.00%	**5.00%**	5.00%	5.00%	5.00%	**5.00%**
	Avg Rate Paid on Deposits	3.15%	3.35%	3.55%	**3.55%**	2.75%	2.75%	3.00%	**2.75%**
	Rate on Securities/ST	4.25%	4.00%	4.00%	**4.00%**	4.75%	4.50%	4.50%	**4.50%**
	ST Borrow Amount (million)	$ 1,400	$ 1,400	$ 1,400	**$ 1,400**	$ 1,400	$ 1,400	$ 1,400	**$ 1,400**
	Mid/LT Debt Amount (million)	$ 4,000	$ 4,000	$ 4,000	**$ 4,000**	$ 4,000	$ 4,000	$ 4,000	**$ 4,000**
	Rate paid on ST Borrow	4.75%	4.75%	5.00%	**5.00%**	4.75%	4.75%	5.00%	**4.75%**
	Rate paid on Mid/LT Borrow	5.25%	5.25%	5.25%	**5.25%**	5.00%	5.00%	5.00%	**5.00%**
	LL Provision as % of Loan	1.30%	1.35%	1.40%	**1.40%**	1.25%	1.30%	1.35%	**1.30%**
	NII - Service Charge Loss	-3.00%	-3.50%	-4.00%	**-4.00%**	-5.00%	-6.00%	-8.00%	**-6.00%**
	NII - Invst Advisory Gains	15.00%	10.00%	8.00%	**8.00%**	20.00%	15.00%	10.00%	**15.00%**
	Employee Expense Growth	3.00%	3.00%	3.00%	**3.00%**	4.00%	4.00%	4.00%	**4.00%**
	Other Expenses Growth	5.00%	5.00%	5.00%	**5.00%**	5.00%	5.00%	5.00%	**5.00%**
	NII - Other Sources	4.00%	4.00%	4.00%	**4.00%**	4.00%	4.00%	4.00%	**4.00%**
	TAX Rate	32.00%	32.20%	32.40%	**32.40%**	32.00%	32.20%	32.40%	**32.20%**
	Dividend per share ($)	$ 2.30	$ 2.30	$ 2.30	2.30	$ 2.30	$ 2.30	$ 2.30	$ 2.30
	Shares Repurchased (mil)	7.00	6.00	4.50	4.50	6.36	5.91	5.45	$ 5.91
	Dilution Factor (Empl Stock Purch)	0.25	0.25	0.25	0.25	0.20	0.20	0.20	$ 0.20
	NET Shares Repurchased (mil)	5.25	4.50	3.38	3.38	5.09	4.73	4.36	$ 4.73
	Share Purchased $ Amount (mil)	350	300	225	225.00	350	325	300	$ 325.00
	Purchase Factor (annualized)	0.5	0.5	0.5	0.50	0.6	0.6	0.6	$ 0.60
	Dilution Factor	10%	10%	10%	10%	10.00%	10.00%	10.00%	10.00%
	Avg. Share Price	$ 50.00	$ 50.00	$ 50.00		$ 55.00	$ 55.00	$ 55.00	

Appendix B: Earning Calculation: FY02-05 (Actual) and FY06-07 (Estimated)						
(in million USD, unless per-share data)		2007	2006	2005	2004	2003
Interest Income	Avg Rate on Loan	6.37%	6.36%	5.95%		
	C&I Loans	2,486	2,332			
	Consumer & Other Loans	451	448			
	Total Loan	2,937	2,780	2554	2054	2211
	Securities	138	163	148	147	165
	Short-term	20	23	24	36	36
	Total	3,094	2,967	2726	2237	2412
Interest Expense	Avg Rate on Deposits	3.55%	2.75%	2.14%	1.21%	1.34%
	Deposits	982	731	548	315	370
	ST Borrowings	70	67	52	4	7
	Medium/LT	210	200	170	108	109
	Total	1262	998	770	427	486
Net Interest Income		1832	1969	1956	1810	1926
Loss Provison (LP) and Additional Charge-off		73	91	-47	64	377
NIM - LP		1760	1878	2003	1746	1549
Net Interest Margin		3.35%	3.70%	3.99%	3.56%	3.05%
Non-Interest Income						
	Service Charge	196.72	**204.92**	218	231	238
	Fiduciary	219.83	203.55	177	171	169
	CommercialLending	68.14	65.52	63	55	63
	LC Fee	75.71	72.8	70	66	65
	FX	40.02	38.48	37	37	36
	Investment Advisory	**63.34**	**58.65**	51	35	30
	Brokerage	38.94	37.44	36	36	34
	Sale of Business	0.00	0	56	7	50
	Card Fees	42.18	40.56	39	32	27
	Life Ins	41.10	39.52	38	34	42
	Equ in Uncols Subs	17.31	16.64	16	12	6
	Warrant	4.16	4	9	7	4
	Others	142.77	137.28	132	134	123
	Total	950.23	919.36	942	857	887
Non-Interest Expens	Salaries			820	760	736
	Employee Benefit			184	159	161
	Total Salaries and Benefits	**1075.48**	**1044.16**	1004	919	897
	Net Occupancy	133.40	127.05	121	125	128
	Equipment	61.74	58.8	56	58	61
	Outside Processing	86.00	81.9	78	68	71
	Software	54.02	51.45	49	43	37
	Customer Service	76.07	72.45	69	23	25
	Litigation Operation Losses	19.85	18.9	18	24	18
	Provision on Lending Commitment	19.85	18.9	18	-12	-2
	Others	278.93	265.65	253	245	248
	Total	1805.34	1739.26	1666	1493	1483
Income bf Income Tax		904.49	1058.46	1279	1110	953
Income Tax Provision		293.06	340.82	418	353	292
NET INCOME		611.44	717.64	861	757	661
Weighted Shares Outstanding		161.20	163.45	167	172	175
Weighted Shares Outstanding - diluted		159.20	161.45	169	174	176
Net Shares Buyback		3.38	4.73	5	3	
Earnings per Share		**3.84**	**4.44**	**5.09**	**4.35**	**3.76**
Dividend		370.77045	375.9455	367	356	350
Dividend per Share		2.30	2.30	2.20	2.07	2.00
Net Repurchase (mil $)		168.75	260.00	441	257	-16
Total Payout		539.52	635.95	808.00	613.00	334.00
Payout Ratio		88.2%	88.6%	93.8%	81.0%	50.5%
Total Payout		539.52	635.95	808.00	613.00	334.00
EFFICIENCY		64.9%	60.2%	57.5%	56.0%	52.7%
Shares end of year		154.90	158.27	163		
Net Income Growth		-14.80%	-16.65%	13.74%	14.52%	

Appendix C: Stockholder Equity (SE) and ROE Expansion
(All figures in million USD, unless per-share data, percentages, or specified otherwise.)

SE						
	SE Last Year	5068.84512	5068	5105	5110	4947
	Net Income	611.44	717.64	861.00	757.00	661.0
	Comprehensive Income	(70.00)	(80.00)	(101.00)	(143.00)	(163.0)
	Cash Dividends	(370.77)	(375.95)	(367.00)	(356.00)	(350.0)
	Repurchase	(225.00)	(325.00)	-525	-370	-27
	Net issuance to ESOP	56.25	65	51	72	16
	Stock based Compensation	0	0	44	35	26
	TOTAL	5071	5070	5068	5105	5110
	Average SE	5070.22674	5068.8451	5086.5	5107.5	5110
	ROE (average equity)	12.06%	14.16%	16.93%	14.82%	12.94%
	Goodwill (Munder impared in 07	137	213	213		
	Book Value (BVPS)	$ 31.46	$ 31.02	$ 30.35	$ 29.68	$ 29.20
	Tangible BV (SE-Goodwill-PPE)	$ 26.86	$ 26.28	$ 26.13		
	PPE	603	561	510	415	

Appendix D: Asset and Liability in FY03-05 (Actual), FY06-07 (Estimated)
(All figures in million USD, unless per-share data, percentages, or specified otherwise.)

Assets						
	Commercial Loans	27347.06	26295.25	24575	22139	23764
	Commercial Mortgage	9532.2448	9165.62	8566	7991	7521
	Real Estate Construction	3537.6744	3401.61	3194	3264	3540
	Residential	1508.4784	1450.46	1388	1237	1192
	Consumer	2930.0128	2817.32	2696	2668	2474
	Lease Financing	1394.3644	1340.735	1283	1272	1283
	International Loans	2297.4952	2209.13	2114	2162	2596
	Total LOANS	48547.33	46680.125	45821	42737	44373
	Securities Available for Sale	3447.873	3629.34	3861	4321	4529
	ST Investments	495.615	521.7	555	1921	1942
	Total EARNING Assets	52490.818	50831.165	50237	48979	50844
	Cash and Due from Banks	1721	1721	1721	1685	1811
	Loan Loss Provision - Average	-643.25212	-561.4208	-623	-787	-831
	Loan Loss Provision - Year	-679.66262	-606.8416	-516	-673	-803
	Accrued Income, Others	3176	3176	3176	3075	3159
	Total ASSETs	56744.5659	55166.744	54511	52952	54983
	LL Prov % of Loan	**1.40%**	**1.30%**	**1.13%**	**1.57%**	**1.81%**
Liabilities						
	Money Mkt. And NOW deposits			17282	17768	17359
	Savings			1545	1629	1571
	CD			5929	5962	8061
	Foreign Time			877	664	618
	Total Interest-bearing Deposits	27658.007	26594.238	25633	26023	27609
	ST Borrowings	1,400	1,400.00	1451	275	550
	Medium/Long Term debt	4,000	4,000.00	4186	4540	5074
	Total Interest-bearing Sources	33058.007	31994.238	31270	30838	33233
	Non-Interest Bearing	15766.6356	15419.693	15007	14122	13910
	Accrued Expenses	1132	1132	1132	947	804
	Total LIABILITY	49956.6426	48545.93	47409	45907	47947