COMERICA INC /NEW/
Form 10-Q
August 01, 2006

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

(Mark One)

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended June 30, 2006

or

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from __________ to __________

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 or organization)	(I.R.S. Employer Identification No.)

Comerica Tower at Detroit Center
Detroit, Michigan
48226
(Address of principal executive offices)
(Zip Code)
(248) 371-5000
(Registrant s telephone number, including area code)

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 þ No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act (Check one):

Large accelerated filer þ Accelerated filer o Non-accelerated filer 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 þ

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date.

$5 par value common stock:

Outstanding as of July 14, 2006: 162,211,468 shares

COMERICA INCORPORATED AND SUBSIDIARIES
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Form of Standard Comerica Incorporated Non-Qualified Stock Option Agreement
Form of Standard Comerica Incorporated Restricted Stock Award Agreement
Form of Employment Agreement (Senior Vice President - Version 2)
Schedule of Employees Party to Employment Agreement (Senior Vice President - Version 2)
Form of Non-Employee Director Restricted Stock Unit Agreement (Version 2)
Chairman, President and CEO Certification Pursuant to Section 302
Executive Vice President and CFO Certification Pursuant to Section 302
Section 1350 Certification Pursuant to Section 906

Forward-Looking Statements

This report includes forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995. In addition, the Corporation may make other written and oral communication from time to time that contain such statements. All statements regarding the Corporation s expected financial position, strategies and growth prospects and general economic conditions expected to exist in the future are forward-looking statements. The words, anticipates, believes, feels, expects, estimates, seeks, strives, plans, intends, outlook, forecast, position, t achievable, potential, strategy, goal, aspiration, outcome, continue, remain, maintain, trend, obj of such words and similar expressions, or future or conditional verbs such as will, would, should, could, might, may or similar expressions as they relate to the Corporation or its management, are intended to identify forward-looking statements.

The Corporation cautions that forward-looking statements are subject to numerous assumptions, risks and uncertainties, which change over time. Forward-looking statements speak only as of the date the statement is made, and the Corporation does not undertake to update forward-looking statements to reflect facts, circumstances, assumptions or events that occur after the date the forward-looking statements are made. Actual results could differ materially from those anticipated in forward-looking statements and future results could differ materially from historical performance.

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PART I. FINANCIAL INFORMATION
Item 1. Financial Statements
CONSOLIDATED BALANCE SHEETS
Comerica Incorporated and Subsidiaries

(in millions, except share data)	**June 30, 2006**	**December 31, 2005**	**June 30, 2005**
	(unaudited)		(unaudited)
ASSETS			
Cash and due from banks	$ 1,664	$ 1,609	$ 1,687
Short-term investments	2,381	1,159	3,402
Investment securities available-for-sale	3,980	4,240	3,947
Commercial loans	25,928	23,545	23,690
Real estate construction loans	3,958	3,482	3,168
Commercial mortgage loans	9,363	8,867	8,536
Residential mortgage loans	1,568	1,485	1,394
Consumer loans	2,493	2,697	2,701
Lease financing	1,325	1,295	1,296
International loans	1,764	1,876	2,239
Total loans	46,399	43,247	43,024
Less allowance for loan losses	(481)	(516)	(609)
Net loans	45,918	42,731	42,415
Premises and equipment	522	510	481
Customers liability on acceptances outstanding	74	59	35
Accrued income and other assets	2,541	2,705	2,722
Total assets	$57,080	$ 53,013	$54,689
LIABILITIES AND SHAREHOLDERS EQUITY			
Noninterest-bearing deposits	$15,199	$ 15,666	$19,236
Interest-bearing deposits	28,927	26,765	24,817
Total deposits	44,126	42,431	44,053
Short-term borrowings	442	302	108
Acceptances outstanding	74	59	35
Accrued expenses and other liabilities	1,162	1,192	1,067
Medium- and long-term debt	6,087	3,961	4,309
Total liabilities	51,891	47,945	49,572
Common stock $5 par value:			

Authorized - 325,000,000 shares			
Issued - 178,735,252 shares at 6/30/06, 12/31/05 and 6/30/05	894	894	894
Capital surplus	494	461	433
Accumulated other comprehensive loss	(226)	(170)	(99)
Retained earnings	4,978	4,796	4,546
Less cost of common stock in treasury - 16,534,470 shares at 6/30/06, 15,834,985 shares at 12/31/05 and 11,513,612 shares at 6/30/05	(951)	(913)	(657)
Total shareholders equity	5,189	5,068	5,117
Total liabilities and shareholders equity	$57,080	$ 53,013	$54,689

See notes to consolidated financial statements.

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CONSOLIDATED STATEMENTS OF INCOME (unaudited)
Comerica Incorporated and Subsidiaries

(in millions, except per share data)	Three Months Ended June 30, 2006	Three Months Ended June 30, 2005	Six Months Ended June 30, 2006	Six Months Ended June 30, 2005
INTEREST INCOME				
Interest and fees on loans	$ 794	$ 616	$1,517	$1,182
Interest on investment securities	45	34	89	69
Interest on short-term investments	8	5	13	11
Total interest income	847	655	1,619	1,262
INTEREST EXPENSE				
Interest on deposits	236	122	435	230
Interest on short-term borrowings	45	9	87	12
Interest on medium- and long-term debt	64	41	116	77
Total interest expense	345	172	638	319
Net interest income	502	483	981	943
Provision for loan losses	27	2		3
Net interest income after provision for loan losses	475	481	981	940
NONINTEREST INCOME				
Service charges on deposit accounts	54	54	108	108
Fiduciary income	45	43	90	89
Commercial lending fees	15	16	30	28
Letter of credit fees	15	18	31	38
Foreign exchange income	9	9	19	18
Brokerage fees	10	9	20	17
Investment advisory revenue, net	19	12	36	22
Card fees	12	9	23	18
Bank-owned life insurance	10	10	23	19
Warrant income	4	3	5	5
Net securities gains (losses)	1		(1)	
Other noninterest income	31	36	56	67
Total noninterest income	225	219	440	429
NONINTEREST EXPENSES				
Salaries	210	197	416	386
Employee benefits	46	44	97	91
Total salaries and employee benefits	256	241	513	477
Net occupancy expense	30	28	61	60
Equipment expense	15	14	29	28

Outside processing fee expense	22	20	43	37
Software expense	14	11	28	23
Customer services	9	10	22	21
Litigation and operational losses	3	7	4	10
Provision for credit losses on lending-related commitments	1	(3)	14	(6)
Other noninterest expenses	55	55	140	107
Total noninterest expenses	405	383	854	757
Income before income taxes and cumulative effect of change in accounting principle	295	317	567	612
Provision for income taxes	95	100	165	196
Income before cumulative effect of change in accounting principle	200	217	402	416
Cumulative effect of change in accounting principle, net of tax			(8)	
NET INCOME	$ 200	$ 217	$ 394	$ 416
Basic earnings per common share:				
Income before cumulative effect of change in accounting principle	$1.24	$1.29	$ 2.49	$ 2.47
Net income	1.24	1.29	2.44	2.47
Diluted earnings per common share:				
Income before cumulative effect of change in accounting principle	1.22	1.28	2.45	2.44
Net income	1.22	1.28	2.40	2.44
Cash dividends declared on common stock	96	92	192	185
Dividends per common share	0.59	0.55	1.18	1.10

See notes to consolidated financial statements.

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CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY (unaudited)
Comerica Incorporated and Subsidiaries

(in millions, except per share data)	Common Stock In Shares	Common Stock Amount	Capital Surplus	Accumulated Other Comprehensive Loss	Retained Earnings	Treasury Stock	Total Shareholders Equity
BALANCE AT JANUARY 1, 2005	170.5	$894	$421	$ (69)	$4,331	$(472)	$5,105
Net income					416		416
Other comprehensive loss, net of tax				(30)			(30)
Total comprehensive income							386
Cash dividends declared on common stock ($1.10 per share)					(185)		(185)
Purchase of common stock	(4.1)					(232)	(232)
Net issuance of common stock under employee stock plans	0.8		(9)		(16)	47	22
Recognition of share-based compensation expense			21				21
BALANCE AT JUNE 30, 2005	167.2	$894	$433	$ (99)	$4,546	$(657)	$5,117
BALANCE AT JANUARY 1, 2006	162.9	$894	$461	$(170)	$4,796	$(913)	$5,068
Net income					394		394
Other comprehensive loss, net of tax				(56)			(56)
Total comprehensive income							338
Cash dividends declared on common stock ($1.18 per share)					(192)		(192)
Purchase of common stock	(1.5)					(88)	(88)
Net issuance of common stock under employee stock plans	1.1		(17)		(20)	67	30
Recognition of share-based compensation expense			33				33
Employee deferred compensation obligations	(0.3)		17			(17)	
BALANCE AT JUNE 30, 2006	162.2	$894	$494	$(226)	$4,978	$(951)	$5,189

See notes to consolidated financial statements.

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CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)
Comerica Incorporated and Subsidiaries

	Six Months Ended June 30,	
(in millions)	**2006**	**2005**
OPERATING ACTIVITIES		
Net income	$ 394	$ 416
Adjustments to reconcile net income to net cash provided by operating activities:		
Cumulative effect of change in accounting principle, net of tax	(8)	
Provision for loan losses		3
Provision for credit losses on lending-related commitments	14	(6)
Depreciation and software amortization	42	36
Share-based compensation expense	37	22
Excess tax benefits from share-based compensation arrangements	(7)	
Net amortization of securities		5
Net loss on settlement of investment securities available-for-sale	1	
Contributions to pension plan fund		(40)
Net decrease in trading securities	23	9
Net decrease (increase) in loans held-for-sale	9	(13)
Net increase in accrued income receivable	(30)	(22)
Net decrease in accrued expenses	(69)	
Other, net	85	48
Total adjustments	97	42
Net cash provided by operating activities	491	458
INVESTING ACTIVITIES		
Net increase in other short-term investments	(1,167)	(168)
Proceeds from sales of investment securities available-for-sale	1	
Proceeds from maturities of investment securities available-for-sale	635	559
Purchases of investment securities available-for-sale	(457)	(566)
Net increase in loans	(3,186)	(2,301)
Net increase in fixed assets	(69)	(56)
Net (increase) decrease in customers liability on acceptances outstanding	(15)	22
Net cash used in investing activities	(4,258)	(2,510)
FINANCING ACTIVITIES		
Net increase in deposits	1,695	3,117
Net increase (decrease) in short-term borrowings	140	(85)
Net increase (decrease) in acceptances outstanding	15	(22)
Proceeds from issuance of medium- and long-term debt	2,316	14
Repayments of medium- and long-term debt	(100)	(32)
Proceeds from issuance of common stock and other capital transactions	23	22
Excess tax benefits from share-based compensation arrangements	7	

Purchase of common stock for treasury	(88)	(232)
Dividends paid	(186)	(182)
Net cash provided by financing activities	3,822	2,600
Net increase in cash and due from banks	55	548
Cash and due from banks at beginning of period	1,609	1,139
Cash and due from banks at end of period	$ 1,664	$ 1,687
Interest paid	$ 599	$ 301
Income taxes paid	$ 133	$ 148
Noncash investing and financing activities:		
Loans transferred to other real estate	$ 5	$ 23
Purchase of building financed by assumption of mortgage		42

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements (unaudited)
Comerica Incorporated and Subsidiaries
Note 1 Basis of Presentation and Accounting Policies

The accompanying unaudited consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, the statements do not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. The results of operations for the six months ended June 30, 2006, are not necessarily indicative of the results that may be expected for the year ending December 31, 2006. Certain items in prior periods have been reclassified to conform to the current presentation. For further information, refer to the consolidated financial statements and footnotes thereto included in the Annual Report of Comerica Incorporated and Subsidiaries (the Corporation) on Form 10-K for the year ended December 31, 2005.

Derivative Instruments

The Corporation uses derivative instruments to manage exposure to interest rate and foreign currency risks. Derivative instruments are carried at fair value in either, accrued income and other assets or accrued expenses and other liabilities on the consolidated balance sheets. The accounting for changes in the fair value (i.e., gains or losses) of a derivative instrument is determined by whether it has been designated and qualifies as part of a hedging relationship and, further, on the type of hedging relationship. For those derivative instruments that are designated and qualify as hedging instruments, the Corporation designates the hedging instrument, based on the exposure being hedged, as either a fair value hedge, cash flow hedge or a hedge of a net investment in a foreign operation. For further information, refer to Note 10.

Share-Based Compensation

Comerica Incorporated Share-Based Compensation Plans

In the first quarter 2006, the Corporation adopted the provisions of Statement of Financial Accounting Standards (SFAS) No. 123 (revised 2004) (SFAS No. 123(R)), Share-Based Payment, using the modified-prospective transition method. The Corporation recognizes compensation expense under SFAS No. 123(R) using the straight-line method over the requisite service period. Measurement and attribution of compensation cost for awards that were granted prior to the date SFAS No. 123(R) was adopted continue to be based on the estimate of the grant-date fair value and attribution method used under prior accounting guidance. Prior to the adoption of SFAS No. 123(R), the benefit of tax deductions in excess of recognized compensation costs was reported in net cash provided by operating activities in the consolidated statements of cash flows. SFAS No. 123(R) requires such excess tax benefits be reported as a cash inflow from financing activities, rather than a cash flow from operating activities; therefore, these amounts for the six months ended June 30, 2006 are reported in net cash provided by financing activities in the consolidated statements of cash flows.

In 2002, the Corporation adopted the fair value recognition provisions of SFAS No. 123, Accounting for Stock-Based Compensation (as amended by SFAS No. 148, Accounting for Stock-Based Compensation Transition and Disclosure), which the Corporation applied prospectively to new share-based compensation awards granted to employees after December 31, 2001. Options granted prior to January 1, 2002 were accounted for under the intrinsic value method, as outlined in APB Opinion No. 25, Accounting for Stock Issued to Employees. Net income and earnings per share for the six months ended June 30, 2006 fully reflect the impact of applying the fair value recognition method to all outstanding and unvested awards. There would have been no effect on reported net income and earnings per share if the fair value method required by SFAS No. 123 (as amended by SFAS No. 148) had been applied to all outstanding and unvested awards in the six months ended June 30, 2005.

SFAS No. 123(R) requires that the expense associated with share-based compensation awards be recorded over the requisite service period. The requisite service period is the period an employee is required to provide service in order to vest in the award, which cannot extend beyond the retirement eligible date (the date at which the employee is no longer required to perform any service to receive the share-based compensation). Prior to the adoption of SFAS No. 123(R), the Corporation recorded the expense associated with share-based compensation awards over the explicit service period (vesting period). Upon retirement, any remaining unrecognized costs related to share-based compensation awards retained after retirement were expensed. Share-based compensation expense, net of related tax effects, would have decreased $3 million in the six months ended June 30, 2006 and increased $3 million in the same period in the prior year, had the requisite service period provisions of SFAS No. 123(R) been applied on a historical basis.

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Notes to Consolidated Financial Statements (unaudited)
Comerica Incorporated and Subsidiaries
Note 1 Basis of Presentation and Accounting Policies (continued)

Applying the requisite service period provisions to all 2006 share-based compensation awards is expected to result in a net increase of approximately $16 million in compensation expense ($10 million, or $0.06 per diluted share, net of related tax effects) related to these awards in 2006, of which $2 million ($1 million, or $0.01 per diluted share, net of related tax effects) was recorded and $12 million ($8 million, or $0.05 per diluted share, net of related tax effects) was recorded in the three and six month periods ended June 30, 2006, respectively.

The Corporation has elected to adopt the alternative transition method provided in the Financial Accounting Standards Board Staff Position No. FAS 123(R)-3, Transition Election Related to Accounting for Tax Effects of Share-Based Payment Awards, for calculating the tax effects of stock-based compensation under SFAS No. 123(R). The alternative transition method includes simplified methods to establish the beginning balance of the additional paid-in capital pool (APIC pool) related to the tax effects of employee stock-based compensation, and to determine the subsequent impact on the APIC pool and Consolidated Statements of Cash Flows of the tax effects of employee stock-based compensation awards that were outstanding and fully or partially unvested upon adoption of SFAS No. 123(R).

Share-Based Compensation Plans of the Corporation s Munder Subsidiary

Munder Capital Management (Munder), a 96 percent-owned subsidiary of the Corporation (approximately 90 percent owned on a fully diluted basis), had share-based compensation awards that were accounted for as liabilities at the time SFAS No. 123(R) was adopted. The liability reflected the fair value of ownership shares (points) held by minority-interest holders. SFAS No. 123(R) requires vested, unexercised option points and a pro-rata portion of unvested option and restricted points be classified as liabilities and recorded at current fair value. Fair value for option points was determined using an option pricing model. As a result of the adoption of SFAS No. 123(R), the Corporation incurred a transition expense of $8 million, net of related tax effects, on January 1, 2006, which was reported as cumulative effect of change in accounting principle, net of tax on the consolidated statements of income. After a further valuation change at the end of March 2006, Munder modified its share-based compensation plans such that the plans no longer have a mandatory redemption feature, which changed the accounting prospectively from liability accounting to temporary equity accounting. Temporary equity, which was not material, and was included in accrued expenses and other liabilities on the June 30, 2006 consolidated balance sheet, reflected the fair value of points owned and the intrinsic value of options held by minority-interest holders.

For further information on the Corporation s share-based compensation plans, refer to Note 8 to these consolidated financial statements and Notes 1 and 14 to the consolidated financial statements in the Corporation s 2005 Annual Report.

Note 2 Investment Securities

At June 30, 2006, investment securities having a carrying value of $1.9 billion were pledged where permitted or required by law to secure $637 million of liabilities, including public and other deposits, and derivative instruments. This included securities of $967 million pledged with the Federal Reserve Bank to secure actual treasury tax and loan borrowings of $5 million at June 30, 2006, and potential borrowings of up to an additional $845 million. The remaining pledged securities of $916 million are primarily with state and local government agencies to secure $633 million of deposits and other liabilities, including deposits of the State of Michigan of $178 million at June 30, 2006.

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Notes to Consolidated Financial Statements (unaudited)
Comerica Incorporated and Subsidiaries
Note 3 Allowance for Credit Losses

The following summarizes the changes in the allowance for loan losses:

	Six Months Ended June 30,	
(in millions)	2006	2005
Balance at beginning of period	$516	$673
Loans charged-off:		
Domestic		
Commercial	28	57
Real estate construction		
Real estate construction business line		
Other		
Total real estate construction		
Commercial mortgage		
Commercial real estate business line		4
Other	5	8
Total commercial mortgage	5	12
Residential mortgage		
Consumer	7	6
Lease financing	7	6
International	3	8
Total loans charged-off	50	89
Recoveries:		
Domestic		
Commercial	9	19
Real estate construction		
Commercial mortgage	2	1
Residential mortgage		
Consumer	2	1
Lease financing		
International	2	1
Total recoveries	15	22
Net loans charged-off	35	67
Provision for loan losses		3
Balance at end of period	$481	$609

Notes to Consolidated Financial Statements (unaudited)
Comerica Incorporated and Subsidiaries
Note 3 Allowance for Credit Losses (continued)

The following table provides an analysis of the changes in the allowance for credit losses on lending-related commitments.

	Six Months Ended June 30,	
(dollar amounts in millions)	2006	2005
Balance at beginning of period	$33	$21
Charge-offs on lending-related commitments*	6	
Provision for credit losses on lending-related commitments	14	(6)
Balance at end of period	$41	$15
Unfunded lending-related commitments sold	$68	$45

* Charge-offs result from the sale of unfunded lending-related commitments.

A loan is impaired when it is probable that interest and principal payments will not be made in accordance with the contractual terms of the loan agreement. Consistent with this definition, all nonaccrual and reduced-rate loans (with the exception of residential mortgage and consumer loans) are impaired. Impaired loans that are restructured and meet the requirements to be on accrual status are included with total impaired loans for the remainder of the calendar year of the restructuring. There were no loans included in the $153 million of impaired loans at June 30, 2006 that were restructured and met the requirements to be on accrual status. Impaired loans averaged $135 million and $133 million for the three and six month periods ended June 30, 2006, respectively, and $233 million and $263 million for the three and six month periods ended June 30, 2005, respectively. The following presents information regarding the period-end balances of impaired loans:

(in millions)	Six Months Ended June 30, 2006	Year Ended December 31, 2005
Total period-end nonaccrual business loans	$ 153	$ 134
Plus: Impaired loans restructured during the period on accrual status at period-end		15
Total period-end impaired loans	$ 153	$ 149
Period-end impaired loans requiring an allowance	$ 148	$ 129

Allowance allocated to impaired loans	$ 40	$ 42

Those impaired loans not requiring an allowance represent loans for which the fair value of expected repayments or collateral exceeded the recorded investments in such loans.

Notes to Consolidated Financial Statements (unaudited)
Comerica Incorporated and Subsidiaries
Note 4 Medium- and Long-term Debt

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

(in millions)	June 30, 2006	December 31, 2005
Parent company		
7.25% subordinated note due 2007	$ 152	$ 155
4.80% subordinated note due 2015	282	298
7.60% subordinated note due 2050	361	360
Total parent company	795	813
Subsidiaries		
Subordinated notes:		
7.25% subordinated note due 2007	202	205
6.00% subordinated note due 2008	252	257
6.875% subordinated note due 2008	102	104
8.50% subordinated note due 2009	100	103
7.125% subordinated note due 2013	156	160
5.70% subordinated note due 2014	243	255
5.20% subordinated notes due 2017	472	250
8.375% subordinated note due 2024	178	189
7.875% subordinated note due 2026	184	200
9.98% subordinated note due 2026	58	58
Total subordinated notes	1,947	1,781
Medium-term notes:		
Floating rate based on LIBOR indices due 2006 to 2011	1,700	100
Floating rate based on PRIME indices due 2007	350	
2.95% fixed rate note due 2006	99	98
2.85% fixed rate note due 2007	98	98
Variable rate secured debt financing due 2007	1,083	1,056
Variable rate note payable due 2009	15	15
Total subsidiaries	5,292	3,148
Total medium- and long-term debt	$ 6,087	$ 3,961

The carrying value of medium- and long-term debt has been adjusted to reflect the gain or loss attributable to the risk hedged with interest rate swaps.

In February 2006, Comerica Bank (the Bank), a subsidiary of the Corporation, issued an additional $250 million of 5.20% Subordinated Notes under a series initiated in August 2005. The notes are classified in medium- and long-term debt, pay interest on February 22 and August 22 of each year and mature August 22, 2017. The Bank used the net proceeds for general corporate purposes.

During the second quarter 2006, the Bank issued $2.1 billion of floating rate bank notes under an existing $15 billion medium-term senior note program. The Bank used the proceeds to fund loan growth.

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Notes to Consolidated Financial Statements (unaudited)
Comerica Incorporated and Subsidiaries

Note 5 Income Taxes and Tax-Related Items

The provision for income taxes is computed by applying statutory federal income tax rates to income before income taxes as reported in the consolidated financial statements after deducting non-taxable items, principally income on bank-owned life insurance and interest income on state and municipal securities. State and foreign taxes are then added to the federal tax provision. During the first quarter 2006, the Internal Revenue Service (IRS) completed the examination of the Corporation s federal tax returns for the years 1996 through 2000. Tax reserves and related interest accruals were adjusted in the first quarter 2006 to reflect resolution of those tax years and to reflect an updated assessment of reserves on certain types of structured lease transactions and a series of loans to foreign borrowers. The effect of these adjustments decreased federal taxes ($16 million) and increased interest on tax liabilities ($23 million, $15 million after-tax), recorded in other noninterest expenses on the consolidated statements of income. Second quarter 2006 included the settlement of various refund claims with the IRS which reduced interest on tax liabilities by $6 million.

Note 6 Accumulated Other Comprehensive Income (Loss)

Other comprehensive income (loss) includes the change in net unrealized gains and losses on investment securities available-for-sale, the change in accumulated net gains and losses on cash flow hedges, the change in the accumulated foreign currency translation adjustment and the change in the accumulated minimum pension liability adjustment. The Consolidated Statements of Changes in Shareholders Equity on page 5 include only combined other comprehensive income (loss), net of tax. The following table presents reconciliations of the components of the accumulated other comprehensive income (loss) for the six months ended June 30, 2006 and 2005. Total comprehensive income totaled $338 million and $386 million for the six months ended June 30, 2006 and 2005, respectively. The $48 million decrease in total comprehensive income in the six month period ended June 30, 2006, when compared to the same period in the prior year, resulted principally from an increase in net unrealized losses on investment securities available-for-sale ($46 million), due to changes in the interest rate environment, and a decrease in net income ($22 million), partially offset by a decrease in net losses on cash flow hedges ($19 million).

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Notes to Consolidated Financial Statements (unaudited)
Comerica Incorporated and Subsidiaries
Note 6 Accumulated Other Comprehensive Income (Loss) (continued)

(in millions)	Six Months Ended June 30, 2006	Six Months Ended June 30, 2005
Accumulated net unrealized gains (losses) on investment securities available-for-sale:		
Balance at beginning of period, net of tax	$ (69)	$ (34)
Net unrealized holding gains (losses) arising during the period	(71)	2
Less: Reclassification adjustment for gains (losses) included in net income	(1)	
Change in net unrealized gains (losses) before income taxes	(70)	2
Less: Provision for income taxes	(25)	1
Change in net unrealized gains (losses) on investment securities available-for-sale, net of tax	(45)	1
Balance at end of period, net of tax	$ (114)	$ (33)
Accumulated net gains (losses) on cash flow hedges:		
Balance at beginning of period, net of tax	$ (91)	$ (16)
Net cash flow hedges gains (losses) arising during the period	(76)	(28)
Less: Reclassification adjustment for gains (losses) included in net income	(58)	20
Change in cash flow hedges before income taxes	(18)	(48)
Less: Provision for income taxes	(6)	(17)
Change in cash flow hedges, net of tax	(12)	(31)
Balance at end of period, net of tax	$ (103)	$ (47)
Accumulated foreign currency translation adjustment:		
Balance at beginning of period	$ (7)	$ (6)
Net translation gains (losses) arising during the period	1	
Change in foreign currency translation adjustment	1	
Balance at end of period	$ (6)	$ (6)
Accumulated minimum pension liability adjustment:		
Balance at beginning of period, net of tax	$ (3)	$ (13)
Minimum pension liability adjustment arising during the period before income taxes	1	
Less: Provision for income taxes	1	
Change in minimum pension liability, net of tax		
Balance at end of period, net of tax	$ (3)	$ (13)

Total accumulated other comprehensive loss at end of period, net of tax	$ (226)	$ (99)

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Notes to Consolidated Financial Statements (unaudited)
Comerica Incorporated and Subsidiaries
Note 7 Net Income per Common Share

Basic and diluted net income per common share for the three and six month periods ended June 30, 2006 and 2005 were computed as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
(in millions, except per share data)	2006	2005	2006	2005
Basic				
Income applicable to common stock before cumulative effect of change in accounting principle	$ 200	$ 217	$ 402	$ 416
Net income applicable to common stock	200	217	394	416
Average common shares outstanding	161	168	162	168
Basic income per common share before cumulative effect of change in accounting principle	$1.24	$1.29	$2.49	$2.47
Basic net income per common share	1.24	1.29	2.44	2.47
Diluted				
Income applicable to common stock before cumulative effect of change in accounting principle	$ 200	$ 217	$ 402	$ 416
Net income applicable to common stock	200	217	394	416
Average common shares outstanding	161	168	162	168
Nonvested stock	1	1	1	1
Common stock equivalents:				
Net effect of the assumed exercise of stock options	1	1	1	1
Diluted average common shares	163	170	164	170
Diluted income per common share before cumulative effect of change in accounting principle	$1.22	$1.28	$2.45	$2.44
Diluted net income per common share	1.22	1.28	2.40	2.44

Options to purchase an average 8.6 million and 6.2 million shares of common stock at exercise prices ranging from $55.47 $71.58 and $56.74 $71.58 were outstanding during the three months ended June 30, 2006 and 2005, respectively, and options to purchase an average 7.5 million and 6.2 million shares of common stock at exercise prices ranging from $56.19 $71.58 and $57.15 - $71.58 were outstanding during the six months ended June 30, 2006 and 2005, respectively, but were not included in the computation of diluted net income per common share because the options exercise prices were greater than the average market price of common shares for the period.

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Notes to Consolidated Financial Statements (unaudited)
Comerica Incorporated and Subsidiaries
Note 8 Share-Based Compensation

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(in millions)	2006	2005	2006	2005
Share-based compensation expense:				
Comerica Incorporated share-based plans	$ 14	$ 12	$ 33	$ 21
Munder share-based plans	2	1	4	1
Total share-based compensation expense	$ 16	$ 13	$ 37	$ 22
Related tax benefits recognized in net income	$ 5	$ 5	$ 13	$ 8

The following table summarizes unrecognized compensation expense for all share-based plans at June 30, 2006:

(dollar amounts in millions)	June 30, 2006
Comerica Incorporated share-based plans	$ 90
Munder share-based plans	12
Total unrecognized share-based compensation expense	$102
Weighted-average expected recognition period	2.7 years

Comerica Incorporated Share-Based Compensation Plans

The Corporation has share-based compensation plans under which it awards both shares of restricted stock to key executive officers and key personnel, and stock options to executive officers, directors and key personnel of the Corporation and its subsidiaries. Restricted stock vests over periods ranging from three to five years. Stock options vest over periods ranging from one to four years. The maturity of each option is determined at the date of grant; however, no options may be exercised later than ten years and one month from the date of grant. The options may have restrictions regarding exercisability. The plans provide for a grant of up to 13.2 million common shares, plus shares currently outstanding under certain plans that are forfeited, expire or cancelled. At June 30, 2006, 13.2 million shares remained available for grant. Substantially all restricted stock and stock option grants planned for 2006 occurred in the first quarter 2006, while substantially all restricted stock and stock option grants for 2005 occurred in the second quarter 2005.

The Corporation used a binomial model to value stock options granted subsequent to March 31, 2005. Previously, a Black-Scholes option-pricing model was used. Option valuation models require several inputs, including the expected stock price volatility, and changes in input assumptions can materially affect the fair value estimates. The model used may not necessarily provide a reliable single measure of the fair value of employee and director stock options. The risk-free interest rate assumption used in the binomial option-pricing model as outlined in the table below was based on the federal ten-year treasury interest rate. The expected dividend yield was based on the historical and projected dividend yield patterns of the Corporation. Expected volatility assumptions during the first six months of 2006 considered the historical volatility of the Corporation s common stock over a ten-year period and implied volatility based on actively traded options on the Corporation s common stock with pricing terms and trade dates similar to the stock options granted. Previously, only historical volatility was considered under the binomial model. The expected life of employee and director stock options, which is an output of the binomial model, considered the percentage of vested shares estimated to be cancelled over the life of the grant and was based on the historical exercise behavior of the option holders.

Notes to Consolidated Financial Statements (unaudited)
Comerica Incorporated and Subsidiaries
Note 8 Share-Based Compensation (continued)

The weighted-average assumptions used were as follows:

	Binomial Model	
	Six Months Ended June 30, 2006	Three Months Ended June 30, 2005
Risk-free interest rate	4.7%	4.4%
Expected dividend yield	3.9	3.9
Expected volatility factors of the market price of Comerica common stock	24.0	28.6
Expected option life (in years)	6.5	6.5

A summary of the Corporation s stock option activity and related information for the six months ended June 30, 2006 follows:

	Number of Options (in thousands)	Weighted-Average Exercise Price per Share	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value (in millions)
Outstanding-January 1, 2006	18,291	$53.64		
Granted (weighted-average grant-date fair value of $12.25 per share*)	2,580	56.47		
Forfeited or expired	(232)	53.40		
Exercised	(751)	31.85		
Outstanding-June 30, 2006	19,888	$54.80	6.0 years	$ 50
Outstanding, net of expected forfeitures June 30, 2006	19,412	$54.79	6.0 years	$ 50
Exercisable-June 30, 2006	13,369	$55.29	4.7 years	$ 43

* $13.56 per share for options granted during the six months ended June 30, 2005.

The aggregate intrinsic value of outstanding options shown in the table above represents the total pretax intrinsic value at June 30, 2006, based on the Corporation s closing stock price of $51.99 as of June 30, 2006. The total intrinsic value of stock options exercised was $19 million and $16 million for the six months ended June 30, 2006 and 2005, respectively.

Cash received from the exercise of stock options during the six months ended June 30, 2006 and 2005 totaled $23 million and $18 million, respectively. The excess income tax benefit realized for the tax deductions from the exercise of these options during the six months ended June 30, 2006 and 2005 totaled $7 million and $6 million, respectively.

A summary of the Corporation s restricted stock activity and related information for the six months ended June 30, 2006 follows:

	Number of Shares (in thousands)	Weighted-Average Grant-Date Fair Value per Share
Outstanding-January 1, 2006	838	$ 51.93
Granted	431	56.51
Forfeited	(18)	53.45
Vested	(91)	45.59
Outstanding-June 30, 2006	1,160	$ 54.11

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Notes to Consolidated Financial Statements (unaudited)
Comerica Incorporated and Subsidiaries
Note 8 Share-Based Compensation (continued)

The total fair value of restricted stock awards that fully vested during the six months ended June 30, 2006 and 2005 was $5 million and $1 million, respectively.

The Corporation expects to satisfy the exercise of stock options and future grants of restricted stock by issuing shares of common stock out of treasury. As of June 30, 2006, the Corporation held 16.5 million shares in treasury.

Share-Based Compensation Plans of the Corporation s Munder Subsidiary

The Corporation s Munder subsidiary has share-based compensation plans under which it awards ownership shares (points) in the subsidiary to key executive officers and key personnel. At June 30, 2006, no points remained available for grant under the plans.

For further information on the Corporation s share-based compensation plans, refer to Note 1 to these consolidated financial statements and Notes 1 and 14 to the consolidated financial statements in the Corporation s 2005 Annual Report.

Note 9 Employee Benefit Plans

Net periodic benefit costs are charged to employee benefits expense on the consolidated statements of income. The components of net periodic benefit cost for the Corporation s qualified pension plan, non-qualified pension plan and postretirement benefit plan are as follows:

Qualified Defined Benefit Pension Plan (in millions)	Three Months Ended June 30, 2006	2005	Six Months Ended June 30, 2006	2005
Service cost	$ 6	$ 6	$ 15	$ 15
Interest cost	12	12	29	27
Expected return on plan assets	(19)	(21)	(45)	(46)
Amortization of unrecognized prior service cost	1	2	3	3
Amortization of unrecognized net loss	4	5	11	10
Net periodic benefit cost	$ 4	$ 4	$ 13	$ 9

Non-Qualified Defined Benefit Pension Plan (in millions)	Three Months Ended June 30, 2006	2005	Six Months Ended June 30, 2006	2005
Service cost	$ 1	$ 1	$ 2	$ 2
Interest cost	2	2	3	3
Amortization of unrecognized prior service cost	(1)	(1)	(1)	(1)
Amortization of unrecognized net loss	2	1	3	2
Net periodic benefit cost	$ 4	$ 3	$ 7	$ 6

Postretirement Benefit Plan (in millions)	Three Months Ended June 30, 2006	2005	Six Months Ended June 30, 2006	2005
Interest cost	$ 1	$ 1	$ 2	$ 2

Expected return on plan assets		(1)		(1)		(2)		(2)
Amortization of unrecognized transition obligation		1		1		2		2
Net periodic benefit cost	$	1	$	1	$	2	$	2

For further information on the Corporation s employee benefit plans, refer to Note 15 to the consolidated financial statements in the Corporation s 2005 Annual Report.

Notes to Consolidated Financial Statements (unaudited)
Comerica Incorporated and Subsidiaries
Note 10 Derivative Instruments

The following table presents the composition of derivative instruments, excluding commitments, held or issued for risk management purposes, and in connection with customer-initiated and other activities.

	June 30, 2006				December 31, 2005			
(in millions)	Notional/ Contract Amount (1)	Unrealized Gains (2)	Unrealized Losses	Fair Value (3)	Notional/ Contract Amount (1)	Unrealized Gains (2)	Unrealized Losses	Fair Value (3)
Risk management								
Interest rate contracts:								
Swaps cash flow	$ 8,000	$	$176	$(176)	$ 9,205	$	$144	$(144)
Swaps fair value	2,354	58	41	17	2,250	107	4	103
Total interest rate contracts	10,354	58	217	(159)	11,455	107	148	(41)
Foreign exchange contracts:								
Spot and forwards	574	7	5	2	367	3	8	(5)
Swaps	36	2		2	44			
Total foreign exchange contracts	610	9	5	4	411	3	8	(5)
Total risk management	10,964	67	222	(155)	11,866	110	156	(46)
Customer-initiated and other								
Interest rate contracts:								
Caps and floors written	267		3	(3)	267		1	(1)
Caps and floors purchased	252	3		3	267	1		1
Swaps	3,683	53	44	9	3,270	30	22	8
Total interest rate contracts	4,202	56	47	9	3,804	31	23	8
Energy derivative contracts:								
Caps and floors written	346		31	(31)	344		32	(32)
Caps and floors purchased	346	31		31	344	32		32
Swaps	165	15	15		291	12	12	
Total energy derivative contracts	857	46	46		979	44	44	
Foreign exchange contracts:								
Spot, forwards, futures and options	2,275	26	22	4	5,453	32	34	(2)
Swaps	10				21			
Total foreign exchange contracts	2,285	26	22	4	5,474	32	34	(2)
Total customer-initiated and other	7,344	128	115	13	10,257	107	101	6
Total derivative instruments	$18,308	$195	$337	$(142)	$22,123	$217	$257	$ (40)

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

(2) Unrealized gains represent receivables from derivative counterparties, and therefore expose the Corporation to credit risk. Credit risk, which excludes the effects of any collateral or netting arrangements, is measured as the cost to replace, at current market rates, contracts in a profitable position.

(3) The fair values of derivative instruments represent the estimated amounts the Corporation would receive or pay to terminate or otherwise settle the contracts at the balance sheet date. The fair values of all derivative instruments are reflected in the consolidated balance sheets.

Notes to Consolidated Financial Statements (unaudited)
Comerica Incorporated and Subsidiaries
Note 10 - Derivative Instruments (continued)

Risk Management

Fluctuations in net interest income due to interest rate risk result from the composition of assets and liabilities and the mismatches in the timing of the repricing of these assets and liabilities. In addition, external factors such as interest rates, and the dynamics of yield curve and spread relationships can affect net interest income. The Corporation utilizes simulation analyses to project the sensitivity of net interest income to changes in interest rates. Cash instruments, such as investment securities, as well as derivative instruments, are employed to manage exposure to these and other risks, including liquidity risk.

For hedge relationships accounted for under SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, at inception of the hedge the Corporation uses the short-cut method if it qualifies, or applies dollar offset or statistical regression analysis to assess effectiveness. The short-cut method is used for fair value hedges of medium and long-term debt. This method allows for the assumption of zero hedge ineffectiveness and eliminates the requirement to further assess hedge effectiveness on these transactions. For SFAS No. 133 hedge relationships to which the Corporation does not apply the short-cut method, dollar offset or statistical regression analysis is used at inception and for each reporting period thereafter to assess whether the derivative used has been and is expected to be highly effective in offsetting changes in the fair value or cash flows of the hedged item. All components of each derivative instrument s gain or loss are included in the assessment of hedge effectiveness. Net hedge ineffectiveness is recorded in other noninterest income on the consolidated statements of income.

The following table presents net hedge ineffectiveness gains (losses) by risk management hedge type:

	Three Months Ended June 30,		Six Months Ended June 30,	
(dollar amounts in millions)	2006	2005	2006	2005
Cash Flow Hedges	$	$ 3	$ (2)	$
Fair Value Hedges				
Foreign Currency Hedges				
Total	$	$ 3	$ (2)	$

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

As part of a cash flow hedging strategy, the Corporation entered into predominantly 2 to 3 year interest rate swap agreements (weighted-average original maturity of 2.9 years) that effectively convert a portion of its existing and forecasted floating-rate loans to a fixed-rate basis, thus reducing the impact of interest rate changes on future interest income over the next 2 to 3 years. Approximately 17 percent ($8 billion) of outstanding loans were designated as hedged items to interest rate swap agreements at June 30, 2006. During the three and six month periods ended June 30, 2006, interest rate swap agreements designated as cash flow hedges decreased interest and fees on loans by $33 million and $58 million, respectively, compared to an increase of $3 million and $20 million, respectively, for the comparable periods last year. If interest rates, interest yield curves and notional amounts remain at current levels, the Corporation expects to reclassify $75 million of net losses on derivative instruments from accumulated other comprehensive income to earnings during the next twelve months due to receipt of variable interest associated with existing and forecasted floating-rate loans.

Foreign exchange rate risk arises from changes in the value of certain assets and liabilities denominated in foreign currencies. The Corporation employs cash instruments, such as investment securities, as well as derivative instruments, to manage exposure to these and other risks. In addition, the Corporation uses foreign exchange forward and option contracts to protect the value of its foreign currency investment in foreign subsidiaries. Realized and unrealized gains and losses from foreign exchange forward and option contracts used to protect the value of investments in foreign subsidiaries are not included in the statement of income, but are shown in the accumulated foreign currency translation

Notes to Consolidated Financial Statements (unaudited)
Comerica Incorporated and Subsidiaries
Note 10 Derivative Instruments (continued)

adjustment account included in other comprehensive income, with the related amounts due to or from counterparties included in other liabilities or other assets. During the three and six month periods ended June 30, 2006, in accordance with SFAS No. 52, Foreign Currency Translation, the Corporation recognized net gains of $1 million and $2 million, respectively, in accumulated foreign currency translation adjustment, related to the forward foreign exchange contracts.

Management believes these strategies achieve the desired relationship between the rate maturities of assets and funding sources which, in turn, reduces the overall exposure of net interest income to interest rate risk, although there can be no assurance that such strategies will be successful. The Corporation also uses various other types of derivative instruments to mitigate interest rate and foreign currency risks associated with specific assets or liabilities, which are reflected in the preceding table. Such instruments include interest rate caps and floors, foreign exchange forward contracts, foreign exchange option contracts and foreign exchange cross-currency swaps.

The following table summarizes the expected maturity distribution of the notional amount of risk management interest rate swaps and provides the weighted-average interest rates associated with amounts to be received or paid on interest rate swap agreements as of June 30, 2006. Swaps have been grouped by asset and liability designation.

Remaining Expected Maturity of Risk Management Interest Rate Swaps:

(dollar amounts in millions)	2006	2007	2008	2009	2010	2011-2026	June 30, 2006 Total	Dec. 31, 2005 Total
Variable rate asset designation:								
Generic receive fixed swaps	$1,800	$3,000	$3,200	$	$	$	$ 8,000	$ 9,200
Weighted average: (1)								
Receive rate	3.47%	4.97%	7.02%	%	%	%	5.45%	5.37%
Pay rate	6.00	6.89	8.03				7.15	6.30
Fixed rate asset designation:								
Pay fixed swaps								
Amortizing	$ 1	$ 2	$ 1	$	$	$	$ 4	$ 5
Weighted average: (2)								
Receive rate	4.33%	4.32%	4.31%	%	%	%	4.32%	3.27%
Pay rate	3.54	3.53	3.52				3.53	3.53
Medium- and long-term debt designation:								
Generic receive fixed swaps	$ 100	$ 450	$ 350	$ 100	$	$1,350	$ 2,350	$ 2,250
Weighted average: (1)								
Receive rate	2.95%	5.82%	6.17%	6.06%	%	5.92%	5.82%	5.85%
Pay rate	5.24	5.17	5.08	4.99		5.18	5.16	4.34
Total notional amount	$1,901	$3,452	$3,551	$ 100	$	$1,350	$10,354	$11,455

(1) Variable rates paid on receive fixed swaps are based on prime and LIBOR (with various maturities) rates in effect at June 30, 2006

(2) Variable rates received are based on six-month LIBOR or one-month Canadian Dollar Offered Rates in effect at June 30, 2006

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Notes to Consolidated Financial Statements (unaudited)
Comerica Incorporated and Subsidiaries
Note 10 Derivative Instruments (continued)

The Corporation had commitments to purchase investment securities for its trading account portfolio totaling $3 million at June 30, 2006 and $6 million at December 31, 2005. Commitments to sell investment securities related to the trading account portfolio totaled $3 million at June 30, 2006 and $6 million at December 31, 2005. Outstanding commitments expose the Corporation to both credit and market risk.

Customer-Initiated and Other

Fee income is earned from entering into various transactions, principally foreign exchange contracts, interest rate contracts, and energy derivative contracts at the request of customers. The Corporation mitigates market risk inherent in customer-initiated interest rate and energy contracts by taking offsetting positions, except in those circumstances when the amount, tenor and/or contracted rate level results in negligible economic risk, whereby the cost of purchasing an offsetting contract is not economically justifiable. For customer-initiated foreign exchange contracts, the Corporation mitigates most of the inherent market risk by taking offsetting positions and manages the remainder through individual foreign currency position limits and aggregate value-at-risk limits. These limits are established annually and reviewed quarterly.

For those customer-initiated derivative contracts which were not offset or where the Corporation holds a speculative position within the limits described above, the Corporation recognized less than $0.5 million of net gains in both the three month periods ended June 30, 2006 and 2005, and $1 million of net gains in both the six month periods ended June 30, 2006 and 2005, which were included in other noninterest income in the consolidated statements of income. The fair value of derivative instruments held or issued in connection with customer-initiated activities, including those customer-initiated derivative contracts where the Corporation does not enter into an offsetting derivative contract position, is included in the table on page 18.

Fair values for customer-initiated and other derivative instruments represent the net unrealized gains or losses on such contracts and are recorded in the consolidated balance sheets. Changes in fair value are recognized in the consolidated income statements. The following table provides the average unrealized gains and losses, and noninterest income generated on customer-initiated and other interest rate contracts, energy derivative contracts and foreign exchange contracts.

(in millions)	Six Months Ended June 30, 2006	Year Ended December 31, 2005	Six Months Ended June 30, 2005
Average unrealized gains	102	$ 77	$ 78
Average unrealized losses	93	74	73
Noninterest income	20	39	19

Derivative Instrument Activity

The following table provides a reconciliation of the beginning and ending notional amounts for risk management and customer-initiated and other derivative instruments for the six months ended June 30, 2006.

	Risk Management			Customer-Initiated and Other			
(in millions)	Interest Rate Contracts	Foreign Exchange Contracts	Total	Interest Rate Contracts	Energy Derivative Contracts	Foreign Exchange Contracts	Total
Balance at January 1, 2006	$11,455	$ 411	$11,866	$3,804	$ 979	$ 5,474	$ 10,257

Additions	100	2,863	2,963	1,329	117	50,073	51,519
Maturities/amortizations	(1,201)	(2,660)	(3,861)	(921)	(79)	(53,262)	(54,262)
Terminations		(4)	(4)	(10)	(160)		(170)
Balance at June 30, 2006	$10,354	$ 610	$10,964	$4,202	$ 857	$ 2,285	$ 7,344

Additional information regarding the nature, terms and associated risks of derivative instruments can be found in the Corporation s 2005 Annual Report on page 50 and in Notes 1 and 19 to the consolidated financial statements.

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Notes to Consolidated Financial Statements (unaudited)
Comerica Incorporated and Subsidiaries

Note 11 Standby and Commercial Letters of Credit and Financial Guarantees

The total contractual amounts of standby letters of credit and financial guarantees and commercial letters of credit at June 30, 2006 and December 31, 2005, which represents the Corporation s credit risk associated with these instruments, are shown in the table below.

(in millions)	June 30, 2006	December 31, 2005
Standby letters of credit and financial guarantees	$ 6,473	$ 6,433
Commercial letters of credit	337	269

Standby and commercial letters of credit and financial guarantees represent conditional obligations of the Corporation, which guarantee the performance of a customer to a third party. Standby letters of credit and financial guarantees are primarily issued to support public and private borrowing arrangements, including commercial paper, bond financing and similar transactions. These contracts expire in decreasing amounts through the year 2015. Commercial letters of credit are issued to finance foreign or domestic trade transactions and are short-term in nature. The Corporation may enter into participation arrangements with third parties, which effectively reduce the maximum amount of future payments which may be required under standby letters of credit. These risk participations covered $656 million of the $6,473 million of standby letters of credit and financial guarantees outstanding at June 30, 2006. At June 30, 2006, the carrying value of the Corporation s standby and commercial letters of credit and financial guarantees, which is included in accrued expenses and other liabilities on the consolidated balance sheet, totaled $81 million.

Note 12 Contingent Liabilities

Legal Proceedings

The Corporation and certain of its subsidiaries are subject to various pending or threatened legal proceedings arising out of the normal course of business or operations. In view of the inherent difficulty of predicting the outcome of such matters, the Corporation cannot state what the eventual outcome of these matters will be. However, based on current knowledge and after consultation with legal counsel, management believes that current reserves, determined in accordance with SFAS No. 5, Accounting for Contingencies, are adequate, and the amount of any incremental liability arising from these matters is not expected to have a material adverse effect on the Corporation s consolidated financial condition or results of operations.

Tax Contingency

In the ordinary course of business, the Corporation enters into certain transactions that have tax consequences. From time to time, the IRS questions and/or challenges the tax position taken by the Corporation with respect to those transactions. The Corporation engaged in certain types of structured leasing transactions and a series of loans to foreign borrowers that the IRS disallowed in its examination of the Corporation s federal tax returns for the years 1996 through 2000. The Corporation believes that its tax position related to both transaction groups referred to above is proper based upon applicable statutes, regulations and case law in effect at the time of the transactions. The Corporation intends to defend its position vigorously in accordance with its view of the law controlling these activities. However, a court, or administrative authority, if presented with the transactions, could disagree with the Corporation s interpretation of the tax law. The ultimate outcome is not known.

Based on current knowledge and probability assessment of various potential outcomes, management believes that the current tax reserves, determined in accordance with SFAS No. 5, are adequate to cover the above matters, and the amount of any incremental liability arising from these matters is not expected to have a material adverse effect on the Corporation s consolidated financial condition or results of operations. Probabilities and outcomes are reviewed as events unfold, and adjustments to the reserves are made when necessary.

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Comerica Incorporated and Subsidiaries
Note 13 Business Segment Information

The Corporation has strategically aligned its operations into three major business segments: the Business Bank, the Retail Bank (formerly known as Small Business & Personal Financial Services), and Wealth & Institutional Management. These business segments are differentiated based on the type of customer and the related products and services provided. In addition to the three major business segments, the Finance Division is also reported as a segment. The Finance segment includes the Corporation s securities portfolio and asset and liability management activities. This segment is responsible for managing the Corporation s funding, liquidity and capital needs, performing interest sensitivity analysis and executing various strategies to manage the Corporation s exposure to liquidity, interest rate risk, and foreign exchange risk. The Other category includes the income and expense impact of equity, cash and the unallocated allowance for loan losses, tax benefits not assigned to specific business segments and miscellaneous other expenses of a corporate nature. Business segment results are produced by the Corporation s internal management accounting system. This system measures financial results based on the internal business unit structure of the Corporation. Information presented is not necessarily comparable with similar information for any other financial institution. The management accounting system assigns balance sheet and income statement items to each business segment using certain methodologies, which are regularly reviewed and refined. For comparability purposes, amounts in all periods are based on business segments and methodologies in effect at June 30, 2006. These methodologies may be modified as the management accounting system is enhanced and changes occur in the organizational structure and/or product lines.

In the first quarter 2006, the Corporation began allocating the portion of the allowance for loan losses and the associated provision for loan losses based on industry-specific and international risks, previously included in the Other category, to the three major business segments. Therefore, only the unallocated allowance continues to be reflected in the Other category. For a description of the business activities of each business segment and further information on the methodologies, which form the basis for these results, refer to Note 23 to the consolidated financial statements in the Corporation s 2005 Annual Report.

Notes to Consolidated Financial Statements (unaudited)
Comerica Incorporated and Subsidiaries
Note 13 Business Segment Information (continued)

Business segment financial results for the six months ended June 30, 2006 and 2005 are shown in the table below.

(dollar amounts in millions)	Business Bank		Retail Bank		Wealth & Institutional Management	
Six Months Ended June 30,	2006	2005	2006	2005	2006	2005
Earnings summary:						
Net interest income (expense) (FTE)	$ 647	$ 689	$ 316	$ 298	$ 77	$ 73
Provision for loan losses	8	18	14	(4)	(1)	(1)
Noninterest income	133	141	104	103	170	158
Noninterest expenses	364	301	297	258	193	167
Provision (benefit) for income taxes (FTE)	124	169	36	52	19	23
Cumulative effect of change in accounting principle, net of tax					(8)	
Net income (loss)	$ 284	$ 342	$ 73	$ 95	$ 28	$ 42
Net loans charged-off	$ 22	$ 50	$ 13	$ 9	$	$ 8
Selected average balances:						
Assets	$ 38,778	$ 34,662	$ 6,728	$ 6,421	$ 3,871	$ 3,622
Loans	37,532	33,544	6,025	5,773	3,531	3,351
Deposits	18,412	20,116	16,723	16,835	2,485	2,433
Liabilities	19,327	20,859	16,724	16,824	2,514	2,439
Attributed equity	2,583	2,489	827	786	457	414
Statistical data:						
Return on average assets (1)	1.46%	1.97%	0.82%	1.08%	1.46%	2.33%
Return on average attributed equity	21.98	27.48	17.50	24.10	12.34	20.37
Net interest margin (2)	3.47	4.12	3.80	3.58	4.40	4.36
Efficiency ratio	46.71	36.25	70.86	64.48	78.10	72.09

	Finance		Other		Total	
Six Months Ended June 30,	2006	2005	2006	2005	2006	2005
Earnings summary:						
Net interest income (expense) (FTE)	$ (57)	$ (115)	$	$	$ 983	$ 945
Provision for loan losses			(21)	(10)		3
Noninterest income	32	31	1	(4)	440	429
Noninterest expenses				31	854	757
Provision (benefit) for income taxes (FTE)	(15)	(36)	3	(10)	167	198
Cumulative effect of change in accounting principle, net of tax					(8)	
Net income (loss)	$ (10)	$ (48)	$ 19	$ (15)	$ 394	$ 416

Net loans charged-off	$	$	$	$	$ 35	$ 67
Selected average balances:						
Assets	$ 5,456	$ 5,354	$ 1,114	$ 1,136	$ 55,947	$ 51,195
Loans	15	(15)	41	45	47,144	42,698
Deposits	4,106	474	(115)	34	41,611	39,892
Liabilities	12,047	5,618	226	369	50,838	46,109
Attributed equity	467	528	775	869	5,109	5,086
Statistical data:						
Return on average assets (1)	N/M	N/M	N/M	N/M	1.41%	1.63%
Return on average attributed equity	N/M	N/M	N/M	N/M	15.42	16.36
Net interest margin (2)	N/M	N/M	N/M	N/M	3.82	4.04
Efficiency ratio	N/M	N/M	N/M	N/M	60.03	55.08

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

(2) Net interest margin is calculated based on the greater of average earning assets or average deposits and purchased funds.

FTE Fully Taxable Equivalent

N/M Not Meaningful

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Notes to Consolidated Financial Statements (unaudited)
Comerica Incorporated and Subsidiaries
Note 13 Business Segment Information (continued)

The Corporation s management accounting system also produces market segment results for the Corporation s four primary geographic markets: Midwest & Other Markets, Western, Texas and Florida.

Midwest & Other Markets includes all markets in which the Corporation has operations, except for the Western, Texas and Florida markets, as described below. Substantially all of the Corporation s international operations are included in the Midwest & Other Markets segment. Currently, Michigan operations represent the significant majority of this geographic market.

The Western market consists of the states of California, Arizona, Nevada, Colorado and Washington. Currently, California operations represent the significant majority of the Western market.

The Texas and Florida markets consist of the states of Texas and Florida, respectively.

The Finance & Other Businesses segment includes the Corporation s securities portfolio, asset and liability management activities, the income and expense impact of cash and loan loss reserves not assigned to specific business/market segments, tax benefits not assigned to specific business/market segments and miscellaneous other expenses of a corporate nature. This segment includes responsibility for managing the Corporation s funding, liquidity and capital needs, performing interest sensitivity analysis and executing various strategies to manage the Corporation s exposure to liquidity, interest rate risk and foreign exchange risk.

In the first quarter 2006, the Corporation began allocating the portion of the allowance for loan losses and the associated provision for loan losses based on industry-specific and international risks, previously included in the Finance & Other Businesses segment, to the four primary geographic markets. Therefore, only the unallocated allowance continues to be reflected in the Finance & Other Businesses segment.

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Notes to Consolidated Financial Statements (unaudited)
Comerica Incorporated and Subsidiaries
Note 13 Business Segment Information (continued)

Market segment financial results for the six months ended June 30, 2006 and 2005 are shown in the table below.

(dollar amounts in millions)	Midwest & Other		Western		Texas	
Six Months Ended June 30,	2006	2005	2006	2005	2006	2005
Earnings summary:						
Net interest income (expense) (FTE)	$ 543	$ 537	$ 348	$ 383	$ 126	$ 119
Provision for loan losses	20	38	(3)	(19)	(2)	(9)
Noninterest income	301	298	62	60	37	37
Noninterest expenses	515	436	219	188	104	88
Provision (benefit) for income taxes (FTE)	87	112	70	102	20	26
Cumulative effect of change in accounting principle, net of tax	(8)					
Net income (loss)	$ 214	$ 249	$ 124	$ 172	$ 41	$ 51
Net loans charged-off	$ 26	$ 41	$ 5	$ 15	$ 2	$ 8
Selected average balances:						
Assets	$ 25,259	$ 24,883	$ 16,494	$ 13,340	$ 5,884	$ 5,056
Loans	23,862	23,585	15,886	12,794	5,621	4,876
Deposits	18,467	18,893	15,166	16,537	3,678	3,672
Liabilities	19,318	19,627	15,255	16,548	3,684	3,668
Attributed equity	2,176	2,134	1,091	1,032	514	456
Statistical data:						
Return on average assets (1)	1.69%	2.01%	1.51%	1.96%	1.39%	2.00%
Return on average attributed equity	19.67	23.38	22.77	33.30	15.87	22.19
Net interest margin (2)	4.56	4.55	4.41	4.67	4.49	4.90
Efficiency ratio	61.00	52.20	53.34	42.45	64.06	56.59

	Florida		Finance & Other Businesses		Total	
Six Months Ended June 30,	2006	2005	2006	2005	2006	2005
Earnings summary:						
Net interest income (expense) (FTE)	$ 23	$ 21	$ (57)	$ (115)	$ 983	$ 945
Provision for loan losses	6	3	(21)	(10)		3
Noninterest income	7	7	33	27	440	429
Noninterest expenses	16	14		31	854	757
Provision (benefit) for income taxes (FTE)	2	4	(12)	(46)	167	198
Cumulative effect of change in accounting principle, net of tax					(8)	
Net income (loss)	$ 6	$ 7	$ 9	$ (63)	$ 394	$ 416

Net loans charged-off	$ 2	$ 3	$	$	$ 35	$ 67
Selected average balances:						
Assets	$ 1,740	$ 1,426	$ 6,570	$ 6,490	$ 55,947	$ 51,195
Loans	1,719	1,413	56	30	47,144	42,698
Deposits	309	282	3,991	508	41,611	39,892
Liabilities	308	279	12,273	5,987	50,838	46,109
Attributed equity	86	67	1,242	1,397	5,109	5,086
Statistical data:						
Return on average assets (1)	0.63%	0.97%	N/M	N/M	1.41%	1.63%
Return on average attributed equity	12.73	20.63	N/M	N/M	15.42	16.36
Net interest margin (2)	2.70	2.95	N/M	N/M	3.82	4.04
Efficiency ratio	54.31	49.28	N/M	N/M	60.03	55.08

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

(2) Net interest margin is calculated based on the greater of average earning assets or average deposits and purchased funds.

FTE Fully Taxable Equivalent

N/M Not Meaningful

Notes to Consolidated Financial Statements (unaudited)
Comerica Incorporated and Subsidiaries
Note 14 Pending Transactions

In May 2006, the Corporation reached an agreement to sell its Mexican bank charter. The cash sale is subject to regulatory approvals, and is currently expected to close in the third quarter 2006. Subject to market effects, the Corporation expects that the sale will not result in a significant gain or loss. The effects of the sale will be reflected in the Corporation s Business Bank business segment. As a result of this transaction, in accordance with SFAS 144, Accounting for the Impairment or Disposal of Long-Lived Assets, approximately $25 million of loans have been classified as assets held-for-sale which are included in short-term investments on the consolidated balance sheet at June 30, 2006. In addition, approximately $15 million of liabilities have been classified as liabilities held-for-sale which are included in accrued expenses and other liabilities on the consolidated balance sheet at June 30, 2006.

Note 15 Pending Accounting Pronouncements

In July 2006, the FASB issued FASB Staff Position No. FAS 13-2, Accounting for a Change or Projected Change in the Timing of Cash Flows Relating to Income Taxes Generated by a Leveraged Lease Transaction, (FSP 13-2). FSP 13-2 requires a recalculation of the lease income from the inception of a leveraged lease if, during the lease term, the expected timing of the income tax cash flows generated from a leveraged lease is revised. Recalculations of affected leveraged leases would result in a one-time non-cash charge to be recognized as a change in accounting principle via a cumulative adjustment to the opening balance of retained earnings in the period of adoption. The amount of the charge, if any, related to the previously recognized lease income would be recognized as income over the remaining lives of the leveraged leases affected by the provision of FSP 13-2. FSP 13-2 is effective for fiscal years beginning after December 15, 2006. Accordingly, the Corporation will adopt the provisions of FSP 13-2 in the first quarter 2007. The Corporation is currently evaluating the guidance contained in FSP 13-2 to determine the effect adoption of the guidance will have on the Corporation s financial condition and results of operations.

In July 2006, the FASB also issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109, (FIN 48). FIN 48 clarifies the accounting for uncertain tax positions in accordance with SFAS 109, Accounting for Income Taxes, and requires the Corporation to recognize, in its financial statements, the impact of a tax position, if it is more likely than not that the tax position is valid and would be sustained on audit, including resolution of related appeals or litigation processes, if any. Only tax positions that meet the more likely than not recognition criteria at the effective date may be recognized or continue to be recognized in the financial statements upon the adoption of FIN 48. The Interpretation provides guidance on measurement, de-recognition of tax benefits, classification, accounting disclosure, and transition requirements in accounting for uncertain tax positions. Changes in the amount of tax benefits recognized resulting from the application of the provisions of this Interpretation would result in a one-time non-cash charge to be recognized as a change in accounting principle via a cumulative adjustment to the opening balance of retained earnings in the period of adoption. FIN 48 is effective for fiscal years beginning after December 15, 2006. Accordingly, the Corporation will adopt the provisions of FIN 48 in the first quarter 2007 and is currently evaluating the guidance contained in FIN 48 to determine the effect adoption of the guidance will have on the Corporation s financial condition and results of operations.

Note 16 Subsequent Event

On July 20, 2006, the Corporation announced that it is considering the sale of its stake in Munder Capital Management (Munder), which provides investment advisory services to institutions, municipalities, unions, charitable organizations and private investors, and also serves as investment advisor for Munder Funds. The Corporation has retained Morgan Stanley and Co., Incorporated to act as financial advisor. There is no assurance that a transaction will occur. As of June 30, 2006, Munder had approximately $41 billion in total assets under management. These assets include $9 billion in actively managed equity securities; $6 billion in fixed income securities; $10 billion in cash management assets; and $16 billion in index assets. Munder s contribution to the Corporation s pre-tax income was $8 million for the first six months of 2006, which excludes the $12 million pre-tax cumulative effect of adopting SFAS No. 123(R), related to the accounting for options and restricted shares of Munder. Munder s contribution to the Corporation s pre-tax income for 2005 was $18 million, which excludes the $53 million pre-tax gain on the sale of its interest in Framlington Group Limited. The Corporation intends to use the proceeds from any sale of Munder to advance its strategy of investing in growth markets and businesses, and to repurchase shares.

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Notes to Consolidated Financial Statements (unaudited)
Comerica Incorporated and Subsidiaries
Note 16 Subsequent Event (continued)

In accordance with SFAS 144, Accounting for the Impairment or Disposal of Long-Lived Assets, approximately $65 million of goodwill and an immaterial amount of other assets and liabilities will become assets held-for-sale. The income statement impact associated with the Munder operations held-for-sale, currently included in the Corporation s Wealth & Institutional Management segment, will be included in discontinued operations in the consolidated statements of income in future reports.

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ITEM 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

Results of Operations

Net income for the three months ended June 30, 2006 was $200 million, a decrease of $17 million, or eight percent, from $217 million reported for the three months ended June 30, 2005. Quarterly diluted net income per share decreased five percent to $1.22 in the second quarter 2006, compared to $1.28 in the same period a year ago. Return on average common shareholders equity was 15.50 percent and return on average assets was 1.41 percent for the second quarter 2006, compared to 16.99 percent and 1.68 percent, respectively, for the comparable quarter last year. The decrease in net income in the second quarter 2006 from the comparable quarter last year resulted primarily from a $25 million increase in the provision for loan losses and a $22 million increase in noninterest expenses, resulting principally from an increase in salaries and employee benefits expense, partially offset by a $19 million increase in net interest income.

Net income for the first six months of 2006 was $394 million, or $2.40 per diluted share, compared to $416 million, or $2.44 per diluted share, for the comparable period last year, decreases of five percent and two percent, respectively. Net income in the first six months of 2006 was reduced by $8 million, or $0.05 per diluted share, due to a cumulative effect of a change in accounting principle. Return on average common shareholders equity was 15.42 percent and return on average assets was 1.41 percent for the first six months of 2006, compared to 16.36 percent and 1.63 percent, respectively, for the first six months of 2005. The $22 million decrease in net income for the six months ended June 30, 2006 from the comparable period a year ago resulted primarily from a $97 million increase in noninterest expenses, resulting principally from increases in salaries expense, the provision for credit losses on lending-related commitments and interest expense on tax liabilities, partially offset by a $38 million increase in net interest income and an $11 million increase in noninterest income, resulting principally from an increase in net investment advisory revenue. In addition, the provision for federal income taxes was reduced by a $16 million adjustment in the first six months of 2006.

Net Interest Income

The rate-volume analysis in Table I details the components of the change in net interest income on a fully taxable equivalent (FTE) basis for the three months ended June 30, 2006. On a FTE basis, net interest income increased $19 million to $503 million for the three months ended June 30, 2006, from $484 million for the comparable period in 2005, resulting primarily from loan growth and a greater contribution to rate spreads from noninterest-bearing deposits in a higher rate environment. Average earning assets increased $5.0 billion, or 10 percent, to $52.4 billion in the second quarter 2006, compared to the second quarter 2005, primarily due to a $4.6 billion, or 11 percent, increase in average loans to $47.8 billion in the second quarter 2006. The net interest margin (FTE) for the three months ended June 30, 2006 was 3.83 percent, compared to 4.09 percent for the comparable period in 2005. The decrease in the net interest margin (FTE) resulted from an increase of $1.4 billion in average loans (primarily low-rate) to the Corporation s Financial Services Division (FSD) customers and a decrease of $1.2 billion in average FSD noninterest-bearing deposits, as well as competitive loan pricing and the margin impact of loan growth in excess of deposit growth. These decreases in the net interest margin (FTE) were partially offset by the greater contribution from noninterest-bearing deposits in a higher rate environment as discussed above. For further discussion of the effects of market rates on net interest income, refer to Item 3. Quantitative and Qualitative Disclosures about Market Risk.

Table II provides an analysis of net interest income for the first six months of 2006. On a FTE basis, net interest income for the six months ended June 30, 2006 was $983 million, compared to $945 million for the same period in 2005, an increase of $38 million. Average earning assets increased $4.6 billion, or 10 percent, to $51.7 billion, in the six months ended June 30, 2006, when compared to the same period in the prior year, primarily due to a $4.4 billion, or 10 percent, increase in average loans to $47.1 billion in the six months ended June 30, 2006. The net interest margin (FTE) for the six months ended June 30, 2006 decreased to 3.82 percent from 4.04 percent for the same period in 2005, due to the reasons cited in the quarterly discussion above.

Net interest income and net interest margin are impacted by the operations of the Corporation s Financial Services Division. FSD customers deposit large balances (primarily noninterest-bearing) and the Corporation pays certain customer services expenses (included in noninterest expenses on the consolidated statements of income) and/or makes low-rate loans (included in net interest income on the consolidated statements of income) to such customers. Footnote

(1) to Tables I and II displays average FSD loans and deposits, with related interest income/expense and average rates. As shown in footnote (2) to Tables I and II, the impact of FSD loans (primarily low-rate) on net interest margin (assuming the loans were funded by FSD noninterest-bearing deposits) was a decrease of 18 basis points and 20 basis points in the three and six month periods ended June 30, 2006, respectively, compared to a decrease of nine basis points and 11 basis points for the comparable periods in the prior year.

Management currently expects average full-year 2006 net interest margin of about 3.80 percent.

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Table I Quarterly Analysis of Net Interest Income & Rate/Volume Fully Taxable Equivalent (FTE)

	Three Months Ended					
	June 30, 2006			June 30, 2005		
(dollar amounts in millions)	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate
Commercial loans (1) (2)	$ 27,587	$ 467	6.80%	$ 24,122	$ 329	5.46%
Real estate construction loans	3,816	82	8.63	3,101	54	6.99
Commercial mortgage loans (1)	9,229	166	7.24	8,513	129	6.06
Residential mortgage loans	1,537	23	6.02	1,357	20	5.75
Consumer loans	2,533	45	7.07	2,673	38	5.75
Lease financing	1,299	14	4.10	1,283	13	4.08
International loans	1,801	31	6.88	2,185	31	5.77
Business loan swap income (expense)		(33)			3	
Total loans (2)	47,802	795	6.67	43,234	617	5.72
Investment securities available-for-sale	4,088	45	4.27	3,681	34	3.67
Short-term investments	481	8	6.31	497	5	4.54
Total earning assets	52,371	848	6.47	47,412	656	5.54
Cash and due from banks	1,561			1,697		
Allowance for loan losses	(485)			(645)		
Accrued income and other assets	3,164			3,171		
Total assets	$ 56,611			$ 51,635		
Money market and NOW deposits (1)	$ 15,330	106	2.78	$ 17,190	77	1.80
Savings deposits (1)	1,480	3	0.75	1,568	1	0.42
Certificates of deposit (1) (3)	6,216	60	3.83	5,409	35	2.56
Institutional certificates of deposit	4,327	54	5.04	100	1	3.17
Foreign office time deposits	1,093	13	4.87	738	8	4.23
Total interest-bearing deposits	28,446	236	3.33	25,005	122	1.96
Short-term borrowings	3,720	45	4.90	1,182	9	3.06
Medium- and long-term debt	4,538	64	5.65	4,314	41	3.83
Total interest-bearing sources	36,704	345	3.77	30,501	172	2.26

Noninterest-bearing deposits (1)	13,575			14,995		
Accrued expenses and other liabilities	1,186			1,039		
Common shareholders equity	5,146			5,100		
Total liabilities and shareholders equity	$ 56,611			$ 51,635		
Net interest income/rate spread (FTE)		$ 503	2.70		$ 484	3.28
FTE adjustment		$ 1			$ 1	
Impact of net noninterest-bearing sources of funds			1.13			0.81
Net interest margin (as a percentage of average earning assets) (FTE) (2)			3.83%			4.09%

(1) FSD balances included above:						
Loans (primarily low-rate)	$ 2,557	$ 4	0.60%	$ 1,139	$ 1	0.55%
Interest-bearing deposits	1,764	17	3.88	2,569	18	2.77
Noninterest-bearing deposits	4,793			5,949		
(2) Impact of FSD loans (primarily low-rate) on the following:						
Commercial loans			(0.63)%			(0.24)%
Total loans			(0.34)			(0.14)
Net interest margin (FTE) (assuming loans were funded by noninterest-bearing deposits)			(0.18)			(0.09)
(3) Excludes institutional certificates of deposit						

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Table I Quarterly Analysis of Net Interest Income & Rate/Volume Fully Taxable Equivalent (FTE) (continued)

		Three Months Ended June 30, 2006/June 30, 2005	
(in millions)	Increase (Decrease) Due to Rate	Increase (Decrease) Due to Volume*	Net Increase (Decrease)
Loans	$ 98	$ 80	$178
Investment securities available-for-sale	6	5	11
Short-term investments	3		3
Total earning assets	107	85	192
Interest-bearing deposits	61	(1)	60
Short-term borrowings	5	31	36
Medium- and long-term debt	20	3	23
Total interest-bearing sources	86	33	119
Net interest income/rate spread (FTE)	$ 21	$ 52	$ 73

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

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Table II Year-to-date Analysis of Net Interest Income & Rate/Volume Fully Taxable Equivalent (FTE)

	Six Months Ended					
	June 30, 2006			June 30, 2005		
(dollar amounts in millions)	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate
Commercial loans (1) (2)	$ 27,106	$ 879	6.54%	$ 23,688	$ 615	5.23%
Real estate construction loans	3,674	154	8.44	3,077	103	6.74
Commercial mortgage loans (1)	9,114	321	7.11	8,415	247	5.92
Residential mortgage loans	1,515	45	5.95	1,333	38	5.67
Consumer loans	2,596	90	6.94	2,703	74	5.53
Lease financing	1,298	27	4.06	1,272	26	4.10
International loans	1,841	61	6.72	2,210	61	5.60
Business loan swap income (expense)		(58)			20	
Total loans (2)	47,144	1,519	6.49	42,698	1,184	5.59
Investment securities available-for-sale	4,121	89	4.19	3,735	69	3.64
Short-term investments	413	13	6.25	598	11	3.92
Total earning assets	51,678	1,621	6.30	47,031	1,264	5.41
Cash and due from banks	1,604			1,668		
Allowance for loan losses	(498)			(665)		
Accrued income and other assets	3,163			3,161		
Total assets	$ 55,947			$ 51,195		
Money market and NOW deposits (1)	$ 15,959	211	2.67	$ 17,499	146	1.68
Savings deposits (1)	1,478	5	0.70	1,575	3	0.41
Certificates of deposit (1) (3)	6,053	111	3.68	5,301	64	2.42
Institutional certificates of deposit	3,480	84	4.89	232	3	2.68
Foreign office time deposits	1,050	24	4.58	725	14	3.98
Total interest-bearing deposits	28,020	435	3.13	25,332	230	1.83
Short-term borrowings	3,736	87	4.71	814	12	2.97
Medium- and long-term debt	4,285	116	5.45	4,295	77	3.61
Total interest-bearing sources	36,041	638	3.57	30,441	319	2.11

Noninterest-bearing deposits (1)	13,591			14,560		
Accrued expenses and other liabilities	1,206			1,108		
Common shareholders equity	5,109			5,086		
Total liabilities and shareholders equity	$ 55,947			$ 51,195		
Net interest income/rate spread (FTE)		$ 983	2.73		$ 945	3.30
FTE adjustment		$ 2			$ 2	
Impact of net noninterest-bearing sources of funds			1.09			0.74
Net interest margin (as a percentage of average earning assets) (FTE) (2)			3.82%			4.04%

(1) FSD balances included above:						
Loans (primarily low-rate)	$ 2,732	$ 7	0.51%	$ 1,224	$ 3	0.54%
Interest-bearing deposits	2,024	38	3.80	2,605	34	2.61
Noninterest-bearing deposits	4,738			5,549		
(2) Impact of FSD loans (primarily low-rate) on the following:						
Commericial loans			(0.68)%			(0.26)%
Total loans			(0.37)			(0.15)
Net interest margin (FTE) (assuming loans were funded by noninterest-bearing deposits)			(0.20)			(0.11)
(3) Excludes institutional certificates of deposit						

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Table II Year-to-date Analysis of Net Interest Income & Rate/Volume Fully Taxable Equivalent (FTE) (continued)

	Six Months Ended June 30, 2006/June 30, 2005		
(in millions)	Increase (Decrease) Due to Rate	Increase (Decrease) Due to Volume*	Net Increase (Decrease)
Loans	$ 184	$ 151	$335
Investment securities available-for-sale			