

HUNTINGTON BANCSHARES INC/MD

Form 10-Q

October 29, 2010

**Table of Contents**

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-Q  
QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934  
QUARTERLY PERIOD ENDED September 30, 2010  
Commission File Number 1-34073  
Huntington Bancshares Incorporated**

**Maryland**  
(State or other jurisdiction of  
incorporation or organization)

**31-0724920**  
(I.R.S. Employer  
Identification No.)

**41 South High Street, Columbus, Ohio 43287**  
Registrant's telephone number (614) 480-8300

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 and (2) has been subject to such filing requirements for the past 90 days.  Yes  No

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

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

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

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

There were 717,132,197 shares of Registrant's common stock (\$0.01 par value) outstanding on September 30, 2010.

---

**HUNTINGTON BANCSHARES INCORPORATED**  
**INDEX**

**Part 1. FINANCIAL INFORMATION**

**Item 1. Financial Statements (Unaudited)**

Condensed Consolidated Balance Sheets at September 30, 2010, December 31, 2009, and September 30, 2009 85

Condensed Consolidated Statements of Income for the three and nine months ended September 30, 2010 and 2009 86

Condensed Consolidated Statements of Changes in Shareholders' Equity for the nine months ended September 30, 2010 and 2009 87

Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2010 and 2009 88

Notes to Unaudited Condensed Consolidated Financial Statements 89

**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations** 3

Executive Overview 4

Discussion of Results of Operations 6

Risk Management and Capital:

Credit Risk 32

Market Risk 58

Liquidity Risk 60

Operational Risk 63

Capital Adequacy 64

Business Segment Discussion 67

Additional Disclosures 80

**Item 3. Quantitative and Qualitative Disclosures about Market Risk** 129

**Item 4. Controls and Procedures** 129

**PART II. OTHER INFORMATION**

|  |     |
|--|-----|
| <u>Item 1. Legal Proceedings</u>             | 129 |
| <u>Item 1A. Risk Factors</u>                 | 129 |
| <u>Item 6. Exhibits</u>                      | 130 |
| <u>Signatures</u>                            | 131 |
| <u>Exhibit 12.1</u>                          |     |
| <u>Exhibit 12.2</u>                          |     |
| <u>Exhibit 31.1</u>                          |     |
| <u>Exhibit 31.2</u>                          |     |
| <u>Exhibit 32.1</u>                          |     |
| <u>Exhibit 32.2</u>                          |     |
| <u>EX-101 INSTANCE DOCUMENT</u>              |     |
| <u>EX-101 SCHEMA DOCUMENT</u>                |     |
| <u>EX-101 CALCULATION LINKBASE DOCUMENT</u>  |     |
| <u>EX-101 LABELS LINKBASE DOCUMENT</u>       |     |
| <u>EX-101 PRESENTATION LINKBASE DOCUMENT</u> |     |
| <u>EX-101 DEFINITION LINKBASE DOCUMENT</u>   |     |

**Table of Contents**

**PART 1. FINANCIAL INFORMATION**

**Item 2: Management's Discussion and Analysis of Financial Condition and Results of Operations**

**INTRODUCTION**

Huntington Bancshares Incorporated (we or our) is a multi-state diversified regional bank holding company headquartered in Columbus, Ohio. We have more than 144 years of serving the financial needs of our customers. Through our subsidiaries, including our banking subsidiary, The Huntington National Bank (the Bank), we provide full-service commercial and consumer banking services, mortgage banking services, equipment leasing, investment management, trust services, brokerage services, customized insurance service program, and other financial products and services. Our over 600 banking offices are located in Indiana, Kentucky, Michigan, Ohio, Pennsylvania, and West Virginia. We also offer retail and commercial financial services online at [huntington.com](http://huntington.com); through our 24-hour telephone bank; and through our network of over 1,300 ATMs. The Auto Finance and Dealer Services (AFDS) group offers automobile loans to consumers and commercial loans to automobile dealers within our six-state banking franchise area. During the quarter, we continued the expansion of our automobile lending operations eastward, complementing our Eastern Pennsylvania operations with expansion into five New England States. Selected financial service activities are also conducted in other states including: Private Financial Group (PFG) offices in Florida, Massachusetts, and New York and Mortgage Banking offices in Maryland and New Jersey. International banking services are available through the headquarters office in Columbus and a limited purpose office located in the Cayman Islands and another in Hong Kong.

This Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) provides information we believe necessary for understanding our financial condition, changes in financial condition, results of operations, and cash flows. It updates the discussion and analysis included in our Annual Report on Form 10-K for the year ended December 31, 2009 (2009 Form 10-K), and should be read in conjunction with our 2009 Form 10-K, as well as the financial statements, notes, and other information contained in this report.

Our discussion is divided into key segments:

**Executive Overview** Provides a summary of our current financial performance, financial condition, and/or business condition. This section also provides our outlook regarding our performance for the remainder of the year.

**Discussion of Results of Operations** - Reviews financial performance from a consolidated company perspective. It also includes a Significant Items section that summarizes key issues helpful for understanding performance trends. Key consolidated average balance sheet and income statement trends are also discussed in this section.

**Risk Management and Capital** - Discusses credit, market, liquidity, and operational risks, including how these are managed, as well as performance trends. It also includes a discussion of liquidity policies, how we obtain funding, and related performance. In addition, there is a discussion of guarantees and/or commitments made for items such as standby letters of credit and commitments to sell loans, and a discussion that reviews the adequacy of capital, including regulatory capital requirements.

**Business Segment Discussion** - Provides an overview of financial performance for each of our major business segments and provides additional discussion of trends underlying consolidated financial performance.

**Additional Disclosures** - Provides comments on important matters including risk factors, critical accounting policies and use of significant estimates, acquisitions, and other items.

A reading of each section is important to understand fully the nature of our financial performance and prospects.

**Table of Contents****EXECUTIVE OVERVIEW****Summary of 2010 Third Quarter Results**

For the quarter, we reported net income of \$100.9 million, or \$0.10 per common share, compared with \$48.8 million, or \$0.03 per common share, in the prior quarter (*see Table 1*). Total revenue for the 2010 third quarter was \$679.7 million, up 1% from the prior quarter driven by a \$10.4 million, or 3%, increase in fully-taxable equivalent net interest income. However, noninterest expense increased \$13.5 million, or 3%, from the prior quarter resulting primarily from continued implementation of our strategic initiatives via investments in people, product expansion, and distribution designed to grow revenues and improve long-term profitability.

Credit quality performance in the current quarter continued to show improvement as nonperforming assets (NPAs) and net charge-offs (NCOs) declined and reserve coverage increased. This improvement reflected the benefits of our focused actions taken in 2009 to address credit-related issues. Compared with the prior quarter, NPAs declined 30%. NCOs were \$184.5 million, or an annualized 1.98% of average total loans and leases, down from \$279.2 million, or 3.01%, in the 2010 second quarter. While the period end allowance for credit losses (ACL) as a percentage of loans and leases was 3.67%, down from 3.90% at June 30, 2010, the ACL as a percentage of total nonaccrual loans (NALs) increased to 140% from 120%.

At the end of the prior quarter, we transferred all remaining Franklin-related loans to loans held-for-sale at a lower of cost or fair value of \$323.4 million which resulted in 2010 second quarter NCOs of \$75.5 million. During the current quarter, the remaining Franklin-related loans were sold at essentially book value. As a result, the only Franklin-related assets remaining at September 30, 2010 were \$15.3 million of other-real-estate-owned (OREO) properties, which have been written down to the lower of cost or fair value less cost to sell.

Our period-end capital position remained solid with increases in all of our capital ratios. At September 30, 2010, our regulatory Tier 1 and Total risk-based capital were \$2.9 billion and \$2.2 billion, respectively, above the well-capitalized regulatory thresholds. Our tangible common equity ratio improved 8 basis points to 6.20% and our Tier 1 common risk-based capital ratio improved 33 basis points to 7.39% from June 30, 2010.

**Business Overview*****General***

Our general business objectives remain the same: (a) grow revenue and profitability, (b) grow key fee businesses (existing and new), (c) improve credit quality, including lower NCOs and NPAs, (d) improve cross sell and share-of-wallet across all business segments, (e) reduce commercial real estate noncore exposure, and (f) continue to explore opportunities to further reduce our overall risk profile.

Our main challenge to accomplishing our primary objectives results from an economy that remains weak and uncertain. This impairs our ability to grow loans as customers continue to reduce their debt and/or remain cautious about increasing debt until they have a higher degree of confidence in sustainable economic recovery. However, growth in our automobile loan portfolio continued with 2010 third quarter originations of over \$1.0 billion. Additionally, we were able to generate modest growth in commercial and industrial (C&I) loans during the quarter. We face strong competition from other banks and financial service firms in our markets. As such, we have placed strong strategic emphasis on, and continue to develop and expand resources devoted to improving cross-sell performance to take advantage of our loyal core customer base. One example of this emphasis is our recent agreement with Giant Eagle supermarkets to be its exclusive in-store bank in Ohio. When fully implemented, the partnership will give us nearly 500 branches in Ohio, providing us with the largest branch presence among Ohio banks, based on current data. In-store branches have a strong record for checking account acquisition that are expected to increase the number of our households and subsequently drive revenue. Additionally, it will give customers the convenience of seven days per week, and extended hours banking.

***Legislative and Regulatory***

Legislative and regulatory reforms continue to be adopted which impose additional restrictions on current business practices. Recent actions affecting us included an amendment to Regulation E for allowable deposit service charges and the passage of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act).

Effective July 1, 2010, the Federal Reserve Board amended Regulation E to prohibit charging overdraft fees for ATM or point-of-sale debit card transactions unless the customer opts-in to the overdraft service. For us, such fees were

approximately \$90 million per year prior to the amendment. Our strategy is to mitigate the potential impact by alerting our customers we can no longer cover such overdrafts unless they opt-in to our overdraft service. To date, our opt-in results have surpassed our expectations. Also, during the quarter, we voluntarily reduced certain nonsufficient funds and overdraft fees (NSF/OD) and introduced 24-Hour Grace on overdrafts as part of our Fair Play banking philosophy designed to build on our foundation on service excellence by doing what is right and fair for customers. We will accelerate acquisition of new checking households, while improving retention of existing customers.

**Table of Contents**

The recently passed Dodd-Frank Act is complex and we continue to assess how this legislation and subsequent rule-making will affect us. As hundreds of regulations are promulgated, we will continue to evaluate impacts such as changes in regulatory costs and fees, modifications to consumer products or disclosures required by the Consumer Finance Protection Bureau, the requirements of the enhanced supervision provisions, among others. Two areas where we are focusing on the financial impact are: interchange fees and the eventual inability to include trust preferred capital as a component of our Tier 1 regulatory capital.

Currently, our annual interchange fees are approximately \$90 million per year. In the future, the Dodd-Frank Act gives the Federal Reserve, and no longer the banks or system owners, the ability to set the interchange rate charged to merchants for the use of debit cards. The ultimate impact to us cannot be estimated at this time, as there will likely be months of proposals and debate before any specific rules are written.

At September 30, 2010, we had \$569.9 million of outstanding trust-preferred-securities that, if disallowed, would reduce our regulatory Tier 1 risk-based capital ratio by approximately 133 basis points. Even with this reduction, our capital ratios would remain above well-capitalized levels. There is a 3-year phase-in period beginning on January 1, 2013, that we believe will provide sufficient time to evaluate and address the impacts of this new legislation on our capital structure. Accordingly, we do not anticipate this potential change would have a significant impact to our business.

During the 2010 third quarter, the Basel Committee on Banking Supervision revised the Capital Accord (Basel III), which narrows the definition of capital and increases capital requirements for specific exposures. The new capital requirements will be phased-in over six years beginning in 2013. If these revisions were adopted currently, we estimate they would have a negligible impact on our regulatory capital ratios based on our current understanding of the revisions to capital qualification. We await clarification from our banking regulators on their interpretation of Basel III and any additional requirements to the stated thresholds.

Prior legislative and regulatory actions that have affected us include the U.S. Department of Treasury's Troubled Asset Relief Program (TARP). We intend to repay our TARP capital as soon as it is prudent to do so. Additional discussion regarding TARP is located within the Capital section.

**Near-term expectations**

Our current expectation is the economy will remain relatively stable for the rest of the year. Revenue growth will remain challenging in the near-term due to implementing the amendment to Regulation E and our voluntary actions to reduce certain fees as part of implementing our Fair Play banking philosophy. We also anticipate noninterest expense to remain at current levels as we continue to make investments to grow the businesses.

Reflecting these factors, pretax pre-provision income levels are expected to be in line with recent reported performance. The net interest margin is expected to be flat to down slightly, reflecting the impact of the flatter, low yield curve. Our net interest margin will also be supported by disciplined loan and deposit pricing. We anticipate continued modest growth in C&I loans, as well as continued declines in commercial real estate (CRE) loans. The automobile loan portfolio is expected to continue its strong growth, though home equity and residential mortgages are likely to remain flat. Core deposits are expected to show continued growth, although at a slower rate due to the lack of reinvestment options at desirable spreads for any funds generated in excess of loan growth. Fee income will continue to be negatively impacted by lower service charges on deposit accounts, as well as lower mortgage banking revenues. In contrast, other fee categories are expected to grow at a faster rate reflecting the impact of our cross-sell initiatives throughout the company. Expense levels should be in line with current quarter performance. Positive credit quality trends are expected to continue, with declines in NCOs, NPAs, and provision for credit losses.



**Table of Contents**

**DISCUSSION OF RESULTS OF OPERATIONS**

This section provides a review of financial performance from a consolidated perspective. It also includes a Significant Items section that summarizes key issues important for a complete understanding of performance trends. Key condensed consolidated balance sheet and income statement trends are discussed. All earnings per share data are reported on a diluted basis. For additional insight on financial performance, please read this section in conjunction with the Business Segment Discussion .

Percent changes of 100% or more are typically shown as N.M. or Not Meaningful . Such large percent changes typically reflect the impact of unusual or particularly volatile items within the measured periods. Since the primary purpose of showing a percent change is to discern underlying performance trends, such large percent changes are typically not meaningful for such trend analysis purposes.

**Table of Contents****Table 1 Selected Quarterly Income Statement Data (1)**

| <i>(amounts in thousands, except per share amounts)</i>             | <b>2010</b>       | <b>2009</b>  |               |              |               |
|---|-------------------|--------------|---------------|--------------|---------------|
|   |                   | <b>Third</b> | <b>Second</b> | <b>First</b> | <b>Fourth</b> |
| Interest income   | <b>\$ 534,669</b> | \$ 535,653   | \$ 546,779    | \$ 551,335   | \$ 553,846    |
| Interest expense  | <b>124,707</b>    | 135,997      | 152,886       | 177,271      | 191,027       |
| Net interest income   | <b>409,962</b>    | 399,656      | 393,893       | 374,064      | 362,819       |
| Provision for credit losses   | <b>119,160</b>    | 193,406      | 235,008       | 893,991      | 475,136       |
| <b>Net interest income (loss) after provision for credit losses</b> | <b>290,802</b>    | 206,250      | 158,885       | (519,927)    | (112,317)     |
| Service charges on deposit accounts                                 | <b>65,932</b>     | 75,934       | 69,339        | 76,757       | 80,811        |
| Brokerage and insurance income                                      | <b>36,376</b>     | 36,498       | 35,762        | 32,173       | 33,996        |
| Mortgage banking income   | <b>52,045</b>     | 45,530       | 25,038        | 24,618       | 21,435        |
| Trust services  | <b>26,997</b>     | 28,399       | 27,765        | 27,275       | 25,832        |
| Electronic banking  | <b>28,090</b>     | 28,107       | 25,137        | 25,173       | 28,017        |
| Bank owned life insurance income                                    | <b>14,091</b>     | 14,392       | 16,470        | 14,055       | 13,639        |
| Automobile operating lease income                                   | <b>11,356</b>     | 11,842       | 12,303        | 12,671       | 12,795        |
| Securities gains (losses)   | <b>(296)</b>      | 156          | (31)          | (2,602)      | (2,374)       |
| Other noninterest income  | <b>32,552</b>     | 28,785       | 29,069        | 34,426       | 41,901        |
| <b>Total noninterest income</b>                                     | <b>267,143</b>    | 269,643      | 240,852       | 244,546      | 256,052       |
| Personnel costs   | <b>208,272</b>    | 194,875      | 183,642       | 180,663      | 172,152       |
| Outside data processing and other services                          | <b>38,553</b>     | 40,670       | 39,082        | 36,812       | 38,285        |
| Deposit and other insurance expense                                 | <b>23,406</b>     | 26,067       | 24,755        | 24,420       | 23,851        |
| Net occupancy   | <b>26,718</b>     | 25,388       | 29,086        | 26,273       | 25,382        |
| OREO and foreclosure expense  | <b>12,047</b>     | 4,970        | 11,530        | 18,520       | 38,968        |
| Equipment   | <b>21,651</b>     | 21,585       | 20,624        | 20,454       | 20,967        |
| Professional services   | <b>20,672</b>     | 24,388       | 22,697        | 25,146       | 18,108        |
| Amortization of intangibles   | <b>15,145</b>     | 15,141       | 15,146        | 17,060       | 16,995        |
| Automobile operating lease expense                                  | <b>9,159</b>      | 9,667        | 10,066        | 10,440       | 10,589        |
| Marketing   | <b>20,921</b>     | 17,682       | 11,153        | 9,074        | 8,259         |
| Telecommunications  | <b>5,695</b>      | 6,205        | 6,171         | 6,099        | 5,902         |
| Printing and supplies   | <b>4,062</b>      | 3,893        | 3,673         | 3,807        | 3,950         |
| Gain on early extinguishment of debt <sup>(2)</sup>                 |                   |              |               | (73,615)     | (60)          |
| Other noninterest expense   | <b>21,008</b>     | 23,279       | 20,468        | 17,443       | 17,749        |
| <b>Total noninterest expense</b>                                    | <b>427,309</b>    | 413,810      | 398,093       | 322,596      | 401,097       |
| Income (loss) before income taxes                                   | <b>130,636</b>    | 62,083       | 1,644         | (597,977)    | (257,362)     |
| Provision (benefit) for income taxes                                | <b>29,690</b>     | 13,319       | (38,093)      | (228,290)    | (91,172)      |
| <b>Net income (loss)</b>  | <b>\$ 100,946</b> | \$ 48,764    | \$ 39,737     | \$ (369,687) | \$ (166,190)  |
| Dividends on preferred shares                                       | <b>29,495</b>     | 29,426       | 29,357        | 29,288       | 29,223        |

Edgar Filing: HUNTINGTON BANCSHARES INC/MD - Form 10-Q

|   |                   |            |            |              |              |
|---|-------------------|------------|------------|--------------|--------------|
| <b>Net income (loss) applicable to common shares</b>          | <b>\$ 71,451</b>  | \$ 19,338  | \$ 10,380  | \$ (398,975) | \$ (195,413) |
| Average common shares basic                                   | <b>716,911</b>    | 716,580    | 716,320    | 715,336      | 589,708      |
| Average common shares diluted <sup>(3)</sup>                  | <b>719,567</b>    | 719,387    | 718,593    | 715,336      | 589,708      |
| Net income (loss) per common share basic                      | <b>\$ 0.10</b>    | \$ 0.03    | \$ 0.01    | \$ (0.56)    | \$ (0.33)    |
| Net income (loss) per common share diluted                    | <b>0.10</b>       | 0.03       | 0.01       | (0.56)       | (0.33)       |
| Cash dividends declared per common share                      | <b>0.01</b>       | 0.01       | 0.01       | 0.01         | 0.01         |
| Return on average total assets                                | <b>0.76%</b>      | 0.38%      | 0.31%      | (2.80)%      | (1.28)%      |
| Return on average total shareholders equity                   | <b>7.30</b>       | 3.60       | 3.00       | (25.60)      | (12.50)      |
| Return on average tangible shareholders equity <sup>(4)</sup> | <b>8.90</b>       | 4.90       | 4.20       | (27.90)      | (13.30)      |
| Net interest margin <sup>(5)</sup>                            | <b>3.45</b>       | 3.46       | 3.47       | 3.19         | 3.20         |
| Efficiency ratio <sup>(6)</sup>                               | <b>60.60</b>      | 59.40      | 60.10      | 49.00        | 61.40        |
| Effective tax rate (benefit)                                  | <b>22.7</b>       | 21.5       | N.M.       | (38.2)       | (35.4)       |
| <b>Revenue fully-taxable equivalent (FTE)</b>                 |                   |            |            |              |              |
| Net interest income   | <b>\$ 409,962</b> | \$ 399,656 | \$ 393,893 | \$ 374,064   | \$ 362,819   |
| FTE adjustment  | <b>2,631</b>      | 2,490      | 2,248      | 2,497        | 4,177        |
| Net interest income <sup>(5)</sup>                            | <b>412,593</b>    | 402,146    | 396,141    | 376,561      | 366,996      |
| Noninterest income  | <b>267,143</b>    | 269,643    | 240,852    | 244,546      | 256,052      |
| <b>Total revenue<sup>(5)</sup></b>                            | <b>\$ 679,736</b> | \$ 671,789 | \$ 636,993 | \$ 621,107   | \$ 623,048   |

N.M., not a meaningful value.

**Table of Contents**

- (1) Comparisons for presented periods are impacted by a number of factors. Refer to Significant Items for additional discussion regarding these key factors.
- (2) The 2009 fourth quarter gain related to the purchase of certain subordinated bank notes.
- (3) For all the quarterly periods presented above, the impact of the convertible preferred stock issued in 2008 was excluded from the diluted share calculation. It was excluded because the result would have been higher than basic earnings per common share (anti-dilutive) for the periods.
- (4) Net income (loss) excluding expense for amortization of

intangibles for the period divided by average tangible shareholders equity. Average tangible shareholders equity equals average total shareholders equity less average intangible assets and goodwill. Expense for amortization of intangibles and average intangible assets are net of deferred tax liability, and calculated assuming a 35% tax rate.

- (5) On a fully-taxable equivalent (FTE) basis assuming a 35% tax rate.
- (6) Noninterest expense less amortization of intangibles and goodwill impairment divided by the sum of FTE net interest income and noninterest income excluding securities gains (losses).



**Table of Contents****Table 2 Selected Year to Date Income Statement Data<sup>(4)</sup>**

| <i>(in thousands, except per share amounts)</i>                     | Nine Months Ended September |                       | Change              |              |
|---|-----------------------------|-----------------------|---------------------|--------------|
|   | 2010                        | 2009                  | Amount              | Percent      |
| Interest income   | \$ 1,617,101                | \$ 1,686,807          | \$ (69,706)         | (4)%         |
| Interest expense  | 413,590                     | 636,584               | (222,994)           | (35)         |
| Net interest income   | 1,203,511                   | 1,050,223             | 153,288             | 15           |
| Provision for credit losses   | 547,574                     | 1,180,680             | (633,106)           | (54)         |
| <b>Net interest income (loss) after provision for credit losses</b> | <b>655,937</b>              | <b>(130,457)</b>      | <b>786,394</b>      | <b>N.M.</b>  |
| Service charges on deposit accounts                                 | 211,205                     | 226,042               | (14,837)            | (7)          |
| Brokerage and insurance income                                      | 108,636                     | 105,996               | 2,640               | 2            |
| Mortgage banking income   | 122,613                     | 87,680                | 34,933              | 40           |
| Trust services  | 83,161                      | 76,364                | 6,797               | 9            |
| Electronic banking  | 81,334                      | 74,978                | 6,356               | 8            |
| Bank owned life insurance income                                    | 44,953                      | 40,817                | 4,136               | 10           |
| Automobile operating lease expense                                  | 35,501                      | 39,139                | (3,638)             | (9)          |
| Securities gains (losses)   | (171)                       | (7,647)               | 7,476               | (98)         |
| Other income  | 90,406                      | 117,730               | (27,324)            | (23)         |
| <b>Total noninterest income</b>                                     | <b>777,638</b>              | <b>761,099</b>        | <b>16,539</b>       | <b>2</b>     |
| Personnel costs   | 586,789                     | 519,819               | 66,970              | 13           |
| Outside data processing and other services                          | 118,305                     | 111,283               | 7,022               | 6            |
| Deposit and other insurance expense                                 | 74,228                      | 89,410                | (15,182)            | (17)         |
| Net occupancy   | 81,192                      | 79,000                | 2,192               | 3            |
| OREO and foreclosure expense  | 28,547                      | 75,379                | (46,832)            | (62)         |
| Equipment   | 63,860                      | 62,663                | 1,197               | 2            |
| Professional services   | 67,757                      | 51,220                | 16,537              | 32           |
| Amortization of intangibles   | 45,432                      | 51,247                | (5,815)             | (11)         |
| Automobile operating lease expense                                  | 28,892                      | 32,920                | (4,028)             | (12)         |
| Marketing   | 49,756                      | 23,975                | 25,781              | N.M.         |
| Telecommunications  | 18,071                      | 17,880                | 191                 | 1            |
| Printing and supplies   | 11,628                      | 11,673                | (45)                |              |
| Goodwill impairment   |                             | 2,606,944             | (2,606,944)         | N.M.         |
| Gain on early extinguishment of debt <sup>(2)</sup>                 |                             | (73,827)              | 73,827              | N.M.         |
| Other expense   | 64,756                      | 51,262                | 13,494              | 26           |
| <b>Total noninterest expense</b>                                    | <b>1,239,213</b>            | <b>3,710,848</b>      | <b>(2,471,635)</b>  | <b>(67)</b>  |
| Income (loss) before income taxes                                   | 194,362                     | (3,080,206)           | 3,274,568           | N.M.         |
| Provision (benefit) for income taxes                                | 4,915                       | (355,714)             | 360,629             | N.M.         |
| <b>Net income (loss)</b>  | <b>\$ 189,447</b>           | <b>\$ (2,724,492)</b> | <b>\$ 2,913,939</b> | <b>N.M.%</b> |

Edgar Filing: HUNTINGTON BANCSHARES INC/MD - Form 10-Q

|   |                     |                |              |       |
|---|---------------------|----------------|--------------|-------|
| Dividends declared on preferred shares                        | <b>88,278</b>       | 145,467        | (57,189)     | (39)  |
| <b>Net income (loss) applicable to common shares</b>          | <b>\$ 101,169</b>   | \$ (2,869,959) | \$ 2,971,128 | N.M.% |
| Average common shares basic                                   | <b>716,604</b>      | 471,958        | 244,646      | 52%   |
| Average common shares diluted <sup>(a)</sup>                  | <b>719,182</b>      | 471,958        | 247,224      | 52    |
| <b>Per common share</b>                                       |                     |                |              |       |
| Net income per common share basic                             | <b>\$ 0.14</b>      | \$ (6.08)      | \$ 6.22      | N.M.% |
| Net income (loss) per common share diluted                    | <b>0.14</b>         | (6.08)         | 6.22         | N.M.  |
| Cash dividends declared                                       | <b>0.03</b>         | 0.03           |              |       |
| Return on average total assets                                | <b>0.49%</b>        | (6.95)%        | 7.44         | N.M.% |
| Return on average total shareholders equity                   | <b>4.7</b>          | (62.7)         | 67.4         | N.M.  |
| Return on average tangible shareholders equity <sup>(4)</sup> | <b>6.1</b>          | (2.6)          | 8.7          | N.M.  |
| Net interest margin <sup>(5)</sup>                            | <b>3.46</b>         | 3.09           | 0.37         | 12    |
| Efficiency ratio <sup>(6)</sup>                               | <b>60.0</b>         | 57.6           | 2.4          | 4     |
| Effective tax rate (benefit)                                  | <b>2.5</b>          | (11.5)         | 14.0         | N.M.  |
| <b>Revenue fully taxable equivalent (FTE)</b>                 |                     |                |              |       |
| Net interest income   | <b>\$ 1,203,511</b> | \$ 1,050,223   | \$ 153,288   | 15%   |
| FTE adjustment  | <b>7,369</b>        | 8,975          | (1,606)      | (18)  |
| Net interest income   | <b>1,210,880</b>    | 1,059,198      | 151,682      | 14    |
| Noninterest income  | <b>777,638</b>      | 761,099        | 16,539       | 2     |
| <b>Total revenue</b>  | <b>\$ 1,988,518</b> | \$ 1,820,297   | \$ 168,221   | 9%    |

N.M., not a meaningful value.



**Table of Contents**

- (1) Comparisons for presented periods are impacted by a number of factors. Refer to the Significant Items discussion.
- (2) The 2009 gain included \$67.4 million related to the purchase of certain trust preferred securities.
- (3) For the presented periods, the impact of the convertible preferred stock issued in 2008 was excluded from the diluted share calculation because the result was more than basic earnings per common share (anti-dilutive) for the periods.
- (4) Net income excluding expense for amortization of intangibles for the period divided by average tangible shareholders equity. Average

tangible  
shareholders  
equity equals  
average total  
shareholders  
equity less  
average  
intangible assets  
and goodwill.  
Expense for  
amortization of  
intangibles and  
average  
intangible assets  
are net of  
deferred tax  
liability, and  
calculated  
assuming a 35%  
tax rate.

(5) On a  
fully-taxable  
equivalent  
(FTE) basis  
assuming a 35%  
tax rate.

(6) Noninterest  
expense less  
amortization of  
intangibles and  
goodwill  
impairment  
divided by the  
sum of FTE net  
interest income  
and noninterest  
income  
excluding  
securities gains  
(losses).

## **Significant Items**

### ***Definition of Significant Items***

From time-to-time, revenue, expenses, or taxes are impacted by items judged by us to be outside of ordinary banking activities and/or by items that, while they may be associated with ordinary banking activities, are so unusually large that their outsized impact is believed by us at that time to be infrequent or short-term in nature, or otherwise make period-to-period comparisons less meaningful. We refer to such items as Significant Items. Most often, these

Significant Items result from factors originating outside the company; e.g., regulatory actions/assessments, windfall gains, changes in accounting principles, one-time tax assessments/refunds, etc. In other cases they may result from our decisions associated with significant corporate actions out of the ordinary course of business; e.g.,

merger/restructuring charges, recapitalization actions, goodwill impairment, etc.

Even though certain revenue and expense items are naturally subject to more volatility than others due to changes in market and economic environment conditions, as a general rule volatility alone does not define a Significant Item. For example, changes in the provision for credit losses, gains/losses from investment activities, asset valuation writedowns, etc., reflect ordinary banking activities and are, therefore, typically excluded from consideration as a Significant Item.

We believe the disclosure of Significant Items in current and prior period results aids in better understanding our performance and trends to ascertain which of such items, if any, to include or exclude from an analysis of our performance; i.e., within the context of determining how that performance differed from expectations, as well as how, if at all, to adjust estimates of future performance accordingly. To this end, we adopted a practice of listing Significant Items in our external disclosure documents (e.g., earnings press releases, investor presentations, Forms 10-Q and 10-K).

Significant Items for any particular period are not intended to be a complete list of items that may materially impact current or future period performance. A number of items could materially impact these periods, including those described in our 2009 Annual Report on Form 10-K and other factors described from time-to-time in our other filings with the Securities and Exchange Commission.

#### ***Significant Items Influencing Financial Performance Comparisons***

Earnings comparisons were impacted by a number of Significant Items summarized below.

1. **Goodwill Impairment.** The impacts of goodwill impairment on our reported results were as follows:

During the 2009 first quarter, bank stock prices continued to decline significantly. Our stock price declined 78% from \$7.66 per share at December 31, 2008 to \$1.66 per share at March 31, 2009. Given this significant decline, we conducted an interim test for goodwill impairment. As a result, we recorded a noncash pretax charge of \$2,602.7 million (\$7.09 per common share) to noninterest expense.

**Table of Contents**

During the 2009 second quarter, a noncash pretax goodwill impairment charge of \$4.2 million (\$0.01 per common share) was recorded to noninterest expense relating to the sale of a small payments-related business.

2. **Franklin Relationship.** Our relationship with Franklin was acquired in the Sky Financial Group, Inc. (Sky Financial) acquisition in 2007. Significant events relating to this relationship, and the impacts of those events on our reported results, were as follows:

On March 31, 2009, we restructured our relationship with Franklin. As a result of this restructuring, a nonrecurring net tax benefit of \$159.9 million (\$0.44 per common share) was recorded in the 2009 first quarter. Also, and although earnings were not significantly impacted, commercial NCOs increased \$128.3 million as the previously established \$130.0 million Franklin-specific allowance for loan and lease losses (ALLL) was utilized to writedown the acquired mortgages and OREO collateral to fair value.

During the 2010 first quarter, a \$38.2 million (\$0.05 per common share) net tax benefit was recognized, primarily reflecting the increase in the net deferred tax asset relating to the assets acquired from the March 31, 2009 restructuring.

During the 2010 second quarter, the remaining portfolio of Franklin-related loans (\$333.0 million of residential mortgages, and \$64.7 million of home equity loans) was transferred to loans held for sale. At the time of the transfer, the loans were marked to the lower of cost or fair value less costs to sell of \$323.4 million, resulting in \$75.5 million of charge-offs, and the provision for credit losses commensurately increased \$75.5 million (\$0.07 per common share).

During the 2010 third quarter, the remaining residential mortgage and home equity loans were sold at essentially book value.

3. **Early Extinguishment of Debt.** The positive impacts relating to the early extinguishment of debt on our reported results were: \$73.6 million (\$0.07 per common share) in the 2009 fourth quarter and \$67.4 million (\$0.10 per common share) in the 2009 second quarter. These amounts were recorded to noninterest expense.
4. **Preferred Stock Conversion.** During the 2009 first and second quarters, we converted 114,109 and 92,384 shares, respectively, of Series A 8.50% Non-cumulative Perpetual Preferred Stock (Series A Preferred Stock) into common stock. As part of these transactions, there was a deemed dividend that did not impact net income, but resulted in a negative impact of \$0.08 per common share for the 2009 first quarter and \$0.06 per common share for the 2009 second quarter.
5. **Visa®.** Prior to the Visa® initial public offering (IPO) occurring in March 2008, Visa® was owned by its member banks, which included the Bank. As a result of this ownership, we received shares of Visa® stock at the time of the IPO. In the 2009 second quarter, we sold these Visa® stock shares, resulting in a \$31.4 million pretax gain (\$0.04 per common share). This amount was recorded to noninterest income.
6. **Other Significant Items Influencing Earnings Performance Comparisons.** In addition to the items discussed separately in this section, a number of other items impacted financial results. These included:

**2009 Fourth Quarter**

\$11.3 million (\$0.02 per common share) benefit to provision for income taxes, representing a reduction to the previously established capital loss carry-forward valuation allowance.

**2009 Second Quarter**

\$23.6 million (\$0.03 per common share) negative impact due to a special Federal Deposit Insurance Corporation (FDIC) insurance premium assessment. This amount was recorded to noninterest expense.

\$2.4 million (\$0.01 per common share) benefit to provision for income taxes, representing a reduction to the previously established capital loss carry-forward valuation allowance.

**Table of Contents**

The following table reflects the earnings impact of the above-mentioned significant items for periods affected by this Results of Operations discussion:

**Table 3 Significant Items Influencing Earnings Performance Comparison**

|  | Three Months Ended |                |                  |                |                     |                  |
|--|--------------------|----------------|------------------|----------------|---------------------|------------------|
|  | September 30, 2010 |                | June 30, 2010    |                | September 30, 2009  |                  |
|  | After-tax          | EPS            | After-tax        | EPS            | After-tax           | EPS              |
| <i>(dollar amounts in thousands, except per share amounts)</i> |                    |                |                  |                |                     |                  |
| <b>Net income (loss) GAAP</b>                                  | <b>\$ 100,946</b>  |                | <b>\$ 48,764</b> |                | <b>\$ (166,190)</b> |                  |
| <b>Earnings per share, after-tax</b>                           |                    | <b>\$ 0.10</b> |                  | <b>\$ 0.03</b> |                     | <b>\$ (0.33)</b> |
| Change from prior quarter \$                                   |                    | <b>0.07</b>    |                  | <b>0.02</b>    |                     | <b>0.07</b>      |
| Change from prior quarter %                                    |                    | <b>N.M.%</b>   |                  | <b>N.M.%</b>   |                     | <b>18.0%</b>     |
| Change from year-ago \$  |                    | <b>\$ 0.43</b> |                  | <b>\$ 0.43</b> |                     | <b>\$ (0.50)</b> |
| Change from year-ago %   |                    | <b>N.M.%</b>   |                  | <b>N.M.%</b>   |                     | <b>N.M.%</b>     |

| <b>Significant items - favorable (unfavorable) impact:</b> | Earnings |     | Earnings    |         | Earnings |     |
|--|----------|-----|-------------|---------|----------|-----|
|  | (1)      | EPS | (1)         | EPS     | (1)      | EPS |
| Franklin-related loans transferred to held for sale        | \$       | \$  | \$ (75,500) | \$ 0.07 | \$       | \$  |

|  | Nine Months Ended  |                |                       |                  |
|--|--------------------|----------------|-----------------------|------------------|
|  | September 30, 2010 |                | September 30, 2009    |                  |
|  | After-tax          | EPS            | After-tax             | EPS              |
| <i>(in thousands)</i>                      |                    |                |                       |                  |
| <b>Net income (loss) reported earnings</b> | <b>\$ 189,447</b>  |                | <b>\$ (2,724,492)</b> |                  |
| <b>Earnings per share, after-tax</b>       |                    | <b>\$ 0.14</b> |                       | <b>\$ (6.08)</b> |
| Change from a year-ago \$                  |                    | <b>6.22</b>    |                       | <b>(6.84)</b>    |
| Change from a year-ago %                   |                    | <b>N.M.%</b>   |                       | <b>N.M.%</b>     |

| <b>Significant items - favorable (unfavorable) impact:</b> | Earnings      |             | Earnings (1) |        |
|--|---------------|-------------|--------------|--------|
|  | (1)           | EPS         | (1)          | EPS    |
| Franklin-related loans transferred to held for sale        | \$ (75,500)   | \$ (0.07)   | \$           | \$     |
| Net tax benefit recognized (2)                             | <b>38,222</b> | <b>0.05</b> |              |        |
| Franklin relationship restructuring (2)                    |               |             | 159,895      | 0.34   |
| Gain on redemption of junior subordinated debt             |               |             | 73,827       | 0.10   |
| Gain related to Visa® stock                                |               |             | 31,362       | 0.04   |
| Deferred tax valuation allowance benefit (2)               |               |             | 1,505        | 0.01   |
| Goodwill impairment  |               |             | (2,606,944)  | (5.52) |
| FDIC special assessment                                    |               |             | (23,555)     | (0.03) |
| Preferred stock conversion deemed dividend                 |               |             |              | (0.12) |

N.M., not a meaningful value.

(1) Pretax unless otherwise noted.

(2) After-tax.

**Pretax, Pre-provision Income Trends**

One non-GAAP performance measurement that we believe is useful in analyzing our underlying performance trends is pretax, pre-provision income. This is the level of pretax earnings adjusted to exclude the impact of: (a) provision expense, (b) investment securities gains/losses, which are excluded because securities market valuations may become particularly volatile in times of economic stress, (c) amortization of intangibles expense, which is excluded because the return on tangible common equity is a key measurement we use to gauge performance trends, and (d) certain other items identified by us (*see Significant Items* ) that we believe may distort our underlying performance trends.

**Table of Contents**

The following table reflects pretax, pre-provision income for the each of the past five quarters:

**Table 4 Pretax, Pre-provision Income (1)**

| <i>(dollar amounts in thousands)</i>          | <b>Third</b>      | <b>2010<br/>Second</b> | First      | Fourth       | 2009<br>Third |
|---|-------------------|------------------------|------------|--------------|---------------|
| <b>Income (loss) before income taxes</b>      | <b>\$ 130,636</b> | \$ 62,083              | \$ 1,644   | \$ (597,977) | \$ (257,362)  |
| Add: Provision for credit losses              | <b>119,160</b>    | 193,406                | 235,008    | 893,991      | 475,136       |
| Less: Securities (losses) gains               | <b>(296)</b>      | 156                    | (31)       | (2,602)      | (2,374)       |
| Add: Amortization of intangibles              | <b>15,145</b>     | 15,141                 | 15,146     | 17,060       | 16,995        |
| Less: Significant Items                       |                   |                        |            |              |               |
| Gain on early extinguishment of debt (2)      |                   |                        |            | 73,615       |               |
| <b>Total pretax, pre-provision income</b>     | <b>\$ 265,237</b> | \$ 270,474             | \$ 251,829 | \$ 242,061   | \$ 237,143    |
| Change in total pretax, pre-provision income: |                   |                        |            |              |               |
| Prior quarter change amount                   | <b>\$ (5,237)</b> | \$ 18,645              | \$ 9,768   | \$ 4,918     | \$ 7,809      |
| Prior quarter change percent                  | <b>(2)%</b>       | 7%                     | 4%         | 2%           | 3%            |

(1) Pretax, pre-provision income is a non-GAAP financial measure. Any ratio utilizing this financial measure is also non-GAAP. This financial measure has been included as it is considered to be an important metric with which to analyze and evaluate our results of operations and financial strength. Other companies may calculate this financial

measure  
differently.

- (2) Related to the  
purchase of  
certain  
subordinated  
bank notes.

As shown in the table above, pretax, pre-provision income was \$265.2 million in the 2010 third quarter, down 2% from the prior quarter. As discussed in the sections that follow, the decline from the prior quarter primarily reflected higher noninterest expense due to strategic growth initiatives, partially offset by higher revenue.

**Net Interest Income / Average Balance Sheet**

*(This section should be read in conjunction with Significant Item 2.)*

***2010 Third Quarter versus 2009 Third Quarter***

Fully-taxable equivalent net interest income increased \$45.6 million, or 12%, from the year-ago quarter. This reflected the favorable impact of the significant increase in the net interest margin to 3.45% from 3.20%. This also reflected the benefit of a \$2.0 billion, or 4%, increase in average total earning assets due to a \$2.6 billion, or 39%, increase in average total investment securities, partially offset by a \$0.6 billion, or 2%, decline in average total loans and leases.



**Table of Contents**

The following table details the change in our reported loans and deposits:

**Table 5 Average Loans/Leases and Deposits 2010 Third Quarter vs. 2009 Third Quarter**

| <i>(dollar amounts in millions)</i>      | Third Quarter |           | Change   |         |
|--|---------------|-----------|----------|---------|
|  | 2010          | 2009      | Amount   | Percent |
| <b>Loans/Leases</b>                      |               |           |          |         |
| Commercial and industrial                | \$ 12,393     | \$ 12,922 | \$ (529) | (4)%    |
| Commercial real estate                   | 7,073         | 8,879     | (1,806)  | (20)    |
| Total commercial                         | 19,466        | 21,801    | (2,335)  | (11)    |
| Automobile loans and leases              | 5,140         | 3,230     | 1,910    | 59      |
| Home equity                              | 7,567         | 7,581     | (14)     |         |
| Residential mortgage                     | 4,389         | 4,487     | (98)     | (2)     |
| Other consumer                           | 653           | 756       | (103)    | (14)    |
| Total consumer                           | 17,749        | 16,054    | 1,695    | 11      |
| Total loans and leases                   | \$ 37,215     | \$ 37,855 | \$ (640) | (2)%    |
| <b>Deposits</b>                          |               |           |          |         |
| Demand deposits noninterest-bearing      | \$ 6,768      | \$ 6,186  | \$ 582   | 9%      |
| Demand deposits interest-bearing         | 5,319         | 5,140     | 179      | 3       |
| Money market deposits                    | 12,336        | 7,601     | 4,735    | 62      |
| Savings and other domestic time deposits | 4,639         | 4,771     | (132)    | (3)     |
| Core certificates of deposit             | 8,948         | 11,646    | (2,698)  | (23)    |
| Total core deposits                      | 38,010        | 35,344    | 2,666    | 8       |
| Other deposits                           | 2,636         | 4,249     | (1,613)  | (38)    |
| Total deposits                           | \$ 40,646     | \$ 39,593 | \$ 1,053 | 3%      |

The \$0.6 billion, or 2%, decrease in average total loans and leases primarily reflected:

\$2.3 billion, or 11%, decrease in average total commercial loans. The \$0.5 billion, or 4%, decline in average C&I loans reflected a general decrease in borrowing as evidenced by a decline in line-of-credit utilization, charge-off activity, and the reclassification in the 2010 first quarter of variable rate demand notes to municipal securities. These negatives were partially offset by the impact of the 2009 reclassifications of certain CRE loans, primarily representing owner occupied properties, to C&I loans. The \$1.8 billion, or 20%, decrease in average CRE loans reflected these reclassifications, as well as our ongoing commitment to lower our overall CRE exposure. We continue to execute on our plan to reduce the CRE exposure while maintaining a commitment to our core CRE borrowers. The decrease in average balances is associated with the noncore portfolio, as we have maintained relatively consistent balances with good performance in the core portfolio.

\$1.7 billion, or 11%, increase in average total consumer loans. This growth reflected a \$1.9 billion, or 59%, increase in average automobile loans and leases. On January 1, 2010, we adopted the new accounting standard ASC 810 Consolidation, resulting in the consolidation of a 2009 first quarter \$1.0 billion automobile loan securitization. At September 30, 2010, these securitized loans had a remaining balance of \$0.6 billion. Underlying growth in automobile loans continued to be strong, reflecting a significant increase

in loan originations for the first nine months of 2010 from the comparable year-ago period. The growth has come while maintaining our commitment to excellent credit quality and an appropriate return. Average home equity loans were little changed as lower origination volume was offset by slower runoff experience and slightly higher line utilization. We continue to see the utilization increase associated with higher credit quality borrowers and very little funding associated with historically unfunded lines. Average residential mortgages declined \$0.1 billion, or 2%, reflecting the impact of loan sales, as well as the continued refinancing of portfolio loans and the related increased sale of fixed-rate originations.

The \$2.6 billion, or 39%, increase in average total investment securities reflected the deployment of the cash from core deposit growth and loan runoff over this period, as well as the proceeds from 2009 capital actions.

**Table of Contents****2010 Third Quarter versus 2010 Second Quarter**

Compared with the 2010 second quarter, fully-taxable equivalent net interest income increased \$10.3 million, or 3%. This reflected an annualized 8% increase in average earning assets as the fully-taxable equivalent net interest margin declined only slightly to 3.45% from 3.46%. The increase in average earning assets reflected a combination of activities including:

- \$0.5 billion, or 6%, increase in average investment securities, reflecting the deployment of cash from asset sales and seasonal deposit growth into short- and intermediate-term securities,
- \$0.3 billion, or doubling of average loans held for sale, reflecting strong mortgage originations during the quarter due to low interest rates, and
- \$0.1 billion, or less than 1%, increase in average total loans and leases.

The net interest margin declined 1 basis point. Favorable trends in the mix and pricing of deposits were offset by a lower contribution on Franklin-related loans, a lower contribution from asset/liability management strategies, and one more day in the third quarter.

The following table details the change in our loans and deposits:

**Table 6 Average Loans/Leases and Deposits 2010 Third Quarter vs. 2010 Second Quarter**

| <i>(dollar amounts in millions)</i>      | 2010          |                | Change  |         |
|--|---------------|----------------|---------|---------|
|  | Third Quarter | Second Quarter | Amount  | Percent |
| <b>Loans/Leases</b>                      |               |                |         |         |
| Commercial and industrial                | \$ 12,393     | \$ 12,244      | \$ 149  | 1%      |
| Commercial real estate                   | 7,073         | 7,364          | (291)   | (4)     |
| Total commercial                         | 19,466        | 19,608         | (142)   | (1)     |
| Automobile loans and leases              | 5,140         | 4,634          | 506     | 11      |
| Home equity                              | 7,567         | 7,544          | 23      |         |
| Residential mortgage                     | 4,389         | 4,608          | (219)   | (5)     |
| Other consumer                           | 653           | 695            | (42)    | (6)     |
| Total consumer                           | 17,749        | 17,481         | 268     | 2       |
| Total loans and leases                   | \$ 37,215     | \$ 37,089      | \$ 126  | %       |
| <b>Deposits</b>                          |               |                |         |         |
| Demand deposits noninterest-bearing      | \$ 6,768      | \$ 6,849       | \$ (81) | (1)%    |
| Demand deposits interest-bearing         | 5,319         | 5,971          | (652)   | (11)    |
| Money market deposits                    | 12,336        | 11,103         | 1,233   | 11      |
| Savings and other domestic time deposits | 4,639         | 4,677          | (38)    | (1)     |
| Core certificates of deposit             | 8,948         | 9,199          | (251)   | (3)     |
| Total core deposits                      | 38,010        | 37,799         | 211     | 1       |
| Other deposits                           | 2,636         | 2,568          | 68      | 3       |
| Total deposits                           | \$ 40,646     | \$ 40,367      | \$ 279  | 1%      |

The \$0.1 billion increase in average total loans and leases primarily reflected:

\$0.3 billion, or 2%, increase in total average consumer loans, led by a \$0.5 billion, or 11%, increase in average automobile loans and leases. This growth reflected record production in the quarter. We have consistently maintained historical high credit quality standards on this production while achieving an appropriate return. During the quarter, we benefited from the expansion of our automobile lending operations into Eastern Pennsylvania. We are also in the process of expansion into five New England states. The recent expansions incorporate new experienced colleagues with existing dealer relationships in those markets. Average residential mortgages decreased \$0.2 billion, or 5%.

**Table of Contents**

Partially offset by:

\$0.1 billion, or 1%, decrease in average total commercial loans as average CRE loans declined \$0.3 billion, or 4%, primarily as a result of our on-going strategy to reduce our exposure to the commercial real estate market. The 4% decline in the quarter was driven by continuing paydowns and charge-off activity associated with our noncore CRE portfolio. The portion of the CRE portfolio designated as core continued to perform very well as expected, with average balances consistent with the prior quarter. Average C&I loans increased \$0.1 billion, or 1%. Underlying growth was mitigated by a combination of on-going lower line-of-credit utilization and paydowns on term debt, as well as the sale of \$43.2 million of SBA loans. The economic environment continued to cause many customers to actively reduce their leverage position. Our line-of-credit utilization percentage was 42%, consistent with the prior quarter. We continue to believe that we have opportunities to expand our customer base within our markets and are focused on expanding our C&I pipeline. Average residential mortgages decreased \$0.2 billion, or 5%, reflecting run-off and portfolio loan sales.

Average total deposits increased \$0.3 billion from the prior quarter reflecting:

\$0.2 billion, or 1%, growth in average total core deposits. The primary driver of this growth was an 11% increase in average money market deposits. Partially offsetting this growth was an 11% decline in average interest-bearing demand deposits and a 3% decline in average core certificates of deposit.

Tables 7 and 8 reflect quarterly average balance sheets and rates earned and paid on interest-earning assets and interest-bearing liabilities.

**Table of Contents****Table 7 Consolidated Quarterly Average Balance Sheets**

| <i>(dollar amounts in millions)</i>                                | Average Balances |                        |              |                        |              | Change                          |                |
|--|------------------|------------------------|--------------|------------------------|--------------|---------------------------------|----------------|
|  | <b>Third</b>     | <b>2010<br/>Second</b> | <b>First</b> | <b>2009<br/>Fourth</b> | <b>Third</b> | <b>3Q10 vs. 3Q09<br/>Amount</b> | <b>Percent</b> |
| <b>Assets</b>  |                  |                        |              |                        |              |                                 |                |
| Interest-bearing deposits in banks                                 | \$ 282           | \$ 309                 | \$ 348       | \$ 329                 | \$ 393       | \$ (111)                        | (28)%          |
| Trading account securities   | 110              | 127                    | 96           | 110                    | 107          | 3                               | 3              |
| Federal funds sold and securities purchased under resale agreement |                  |                        |              | 15                     | 7            | (7)                             | N.M.           |
| Loans held for sale  | 663              | 323                    | 346          | 470                    | 524          | 139                             | 27             |
| Investment securities:   |                  |                        |              |                        |              |                                 |                |
| Taxable  | 8,876            | 8,369                  | 8,027        | 8,698                  | 6,511        | 2,365                           | 36             |
| Tax-exempt   | 365              | 389                    | 443          | 136                    | 128          | 237                             | N.M.           |
| Total investment securities  | 9,241            | 8,758                  | 8,470        | 8,834                  | 6,639        | 2,602                           | 39             |
| Loans and leases: (1)  |                  |                        |              |                        |              |                                 |                |
| Commercial:  |                  |                        |              |                        |              |                                 |                |
| Commercial and industrial  | 12,393           | 12,244                 | 12,314       | 12,570                 | 12,922       | (529)                           | (4)            |
| Commercial real estate:  |                  |                        |              |                        |              |                                 |                |
| Construction   | 989              | 1,279                  | 1,409        | 1,651                  | 1,808        | (819)                           | (45)           |
| Commercial   | 6,084            | 6,085                  | 6,268        | 6,807                  | 7,071        | (987)                           | (14)           |
| Commercial real estate   | 7,073            | 7,364                  | 7,677        | 8,458                  | 8,879        | (1,806)                         | (20)           |
| Total commercial   | 19,466           | 19,608                 | 19,991       | 21,028                 | 21,801       | (2,335)                         | (11)           |
| Consumer:  |                  |                        |              |                        |              |                                 |                |
| Automobile loans   | 5,030            | 4,472                  | 4,031        | 3,050                  | 2,886        | 2,144                           | 74             |
| Automobile leases  | 110              | 162                    | 219          | 276                    | 344          | (234)                           | (68)           |
| Automobile loans and leases  | 5,140            | 4,634                  | 4,250        | 3,326                  | 3,230        | 1,910                           | 59             |
| Home equity  | 7,567            | 7,544                  | 7,539        | 7,561                  | 7,581        | (14)                            |                |
| Residential mortgage   | 4,389            | 4,608                  | 4,477        | 4,417                  | 4,487        | (98)                            | (2)            |
| Other loans  | 653              | 695                    | 723          | 757                    | 756          | (103)                           | (14)           |
| Total consumer   | 17,749           | 17,481                 | 16,989       | 16,061                 | 16,054       | 1,695                           | 11             |
| Total loans and leases   | 37,215           | 37,089                 | 36,980       | 37,089                 | 37,855       | (640)                           | (2)            |
| Allowance for loan and lease losses                                | (1,384)          | (1,506)                | (1,510)      | (1,029)                | (950)        | (434)                           | 46             |
| Net loans and leases   | 35,831           | 35,583                 | 35,470       | 36,060                 | 36,905       | (1,074)                         | (3)            |
| Total earning assets   | 47,511           | 46,606                 | 46,240       | 46,847                 | 45,525       | 1,986                           | 4              |
| Cash and due from banks  | 1,618            | 1,509                  | 1,761        | 1,947                  | 2,553        | (935)                           | (37)           |

Edgar Filing: HUNTINGTON BANCSHARES INC/MD - Form 10-Q

|   |                  |                  |                  |                  |                  |                 |           |
|---|------------------|------------------|------------------|------------------|------------------|-----------------|-----------|
| Intangible assets                                 | 695              | 710              | 725              | 737              | 755              | (60)            | (8)       |
| All other assets                                  | 4,277            | 4,384            | 4,486            | 3,956            | 3,797            | 480             | 13        |
| <b>Total assets</b>                               | <b>\$ 52,717</b> | <b>\$ 51,703</b> | <b>\$ 51,702</b> | <b>\$ 52,458</b> | <b>\$ 51,680</b> | <b>\$ 1,037</b> | <b>2%</b> |
| <b>Liabilities and Shareholders Equity</b>        |                  |                  |                  |                  |                  |                 |           |
| Deposits:   |                  |                  |                  |                  |                  |                 |           |
| Demand deposits noninterest-bearing               | \$ 6,768         | \$ 6,849         | \$ 6,627         | \$ 6,466         | \$ 6,186         | \$ 582          | 9%        |
| Demand deposits interest-bearing                  | 5,319            | 5,971            | 5,716            | 5,482            | 5,140            | 179             | 3         |
| Money market deposits                             | 12,336           | 11,103           | 10,340           | 9,271            | 7,601            | 4,735           | 62        |
| Savings and other domestic deposits               | 4,639            | 4,677            | 4,613            | 4,686            | 4,771            | (132)           | (3)       |
| Core certificates of deposit                      | 8,948            | 9,199            | 9,976            | 10,867           | 11,646           | (2,698)         | (23)      |
| Total core deposits                               | 38,010           | 37,799           | 37,272           | 36,772           | 35,344           | 2,666           | 8         |
| Other domestic time deposits of \$250,000 or more | 690              | 661              | 698              | 667              | 747              | (57)            | (8)       |
| Brokered deposits and negotiable CDs              | 1,495            | 1,505            | 1,843            | 2,353            | 3,058            | (1,563)         | (51)      |
| Deposits in foreign offices                       | 451              | 402              | 410              | 422              | 444              | 7               | 2         |
| Total deposits                                    | 40,646           | 40,367           | 40,223           | 40,214           | 39,593           | 1,053           | 3         |
| Short-term borrowings                             | 1,739            | 966              | 927              | 879              | 879              | 860             | 98        |
| Federal Home Loan Bank advances                   | 188              | 212              | 179              | 681              | 924              | (736)           | (80)      |
| Subordinated notes and other long-term debt       | 3,672            | 3,836            | 4,062            | 3,908            | 4,136            | (464)           | (11)      |
| Total interest-bearing liabilities                | 39,477           | 38,532           | 38,764           | 39,216           | 39,346           | 131             |           |
| All other liabilities                             | 952              | 924              | 947              | 1,042            | 863              | 89              | 10        |
| Shareholders equity                               | 5,520            | 5,398            | 5,364            | 5,734            | 5,285            | 235             | 4         |
| <b>Total liabilities and shareholders equity</b>  | <b>\$ 52,717</b> | <b>\$ 51,703</b> | <b>\$ 51,702</b> | <b>\$ 52,458</b> | <b>\$ 51,680</b> | <b>\$ 1,037</b> | <b>2%</b> |

N.M., not a meaningful value.

- (1) For purposes of this analysis, nonaccrual loans are reflected in the average balances of loans.





**Table of Contents****Table 8 Consolidated Quarterly Net Interest Margin Analysis**

| Fully-taxable equivalent basis (1)                                 | Third        | Average Rates (2) |       |        |       | Third |
|--|--------------|-------------------|-------|--------|-------|-------|
|  |              | 2010<br>Second    | First | Fourth | 2009  |       |
| <b>Assets</b>  |              |                   |       |        |       |       |
| Interest-bearing deposits in banks                                 | <b>0.21%</b> | 0.20%             | 0.18% | 0.16%  | 0.28% |       |
| Trading account securities   | <b>1.20</b>  | 1.74              | 2.15  | 1.89   | 1.96  |       |
| Federal funds sold and securities purchased under resale agreement |              |                   |       | 0.03   | 0.14  |       |
| Loans held for sale  | <b>5.75</b>  | 5.02              | 4.98  | 5.13   | 5.20  |       |
| Investment securities:   |              |                   |       |        |       |       |
| Taxable  | <b>2.77</b>  | 2.85              | 2.94  | 3.20   | 3.99  |       |
| Tax-exempt   | <b>4.70</b>  | 4.62              | 4.37  | 6.42   | 6.81  |       |
| Total investment securities  | <b>2.84</b>  | 2.93              | 3.01  | 3.25   | 4.04  |       |
| Loans and leases: (3)  |              |                   |       |        |       |       |
| Commercial:  |              |                   |       |        |       |       |
| Commercial and industrial  | <b>5.14</b>  | 5.31              | 5.60  | 5.20   | 5.19  |       |
| Commercial real estate:  |              |                   |       |        |       |       |
| Construction   | <b>2.83</b>  | 2.61              | 2.66  | 2.63   | 2.61  |       |
| Commercial   | <b>3.91</b>  | 3.69              | 3.60  | 3.40   | 3.43  |       |
| Commercial real estate   | <b>3.76</b>  | 3.49              | 3.43  | 3.25   | 3.26  |       |
| Total commercial   | <b>4.64</b>  | 4.63              | 4.76  | 4.41   | 4.40  |       |
| Consumer:  |              |                   |       |        |       |       |
| Automobile loans   | <b>5.77</b>  | 6.46              | 6.64  | 7.15   | 7.34  |       |
| Automobile leases  | <b>6.71</b>  | 6.58              | 6.41  | 6.40   | 6.25  |       |
| Automobile loans and leases  | <b>5.79</b>  | 6.46              | 6.63  | 7.09   | 7.22  |       |
| Home equity  | <b>4.74</b>  | 5.26              | 5.59  | 5.82   | 5.75  |       |
| Residential mortgage   | <b>4.97</b>  | 4.70              | 4.89  | 5.04   | 5.03  |       |
| Other loans  | <b>7.10</b>  | 6.84              | 7.00  | 6.90   | 7.21  |       |
| Total consumer   | <b>5.19</b>  | 5.49              | 5.73  | 5.92   | 5.91  |       |
| Total loans and leases   | <b>4.90</b>  | 5.04              | 5.21  | 5.07   | 5.04  |       |
| Total earning assets   | <b>4.49%</b> | 4.63%             | 4.82% | 4.70%  | 4.86% |       |
| <b>Liabilities and Shareholders</b>                                |              |                   |       |        |       |       |
| <b>Equity</b>  |              |                   |       |        |       |       |
| Deposits:  |              |                   |       |        |       |       |
| Demand deposits  |              |                   |       |        |       |       |
| noninterest-bearing  |              | %                 | %     | %      | %     |       |
| Demand deposits interest-bearing                                   | <b>0.17</b>  | 0.22              | 0.22  | 0.22   | 0.22  |       |

Edgar Filing: HUNTINGTON BANCSHARES INC/MD - Form 10-Q

|   |              |       |       |       |       |
|---|--------------|-------|-------|-------|-------|
| Money market deposits                             | <b>0.86</b>  | 0.93  | 1.00  | 1.21  | 1.20  |
| Savings and other domestic deposits               | <b>0.99</b>  | 1.07  | 1.19  | 1.27  | 1.33  |
| Core certificates of deposit                      | <b>2.31</b>  | 2.68  | 2.93  | 3.07  | 3.27  |
| Total core deposits                               | <b>1.18</b>  | 1.33  | 1.51  | 1.71  | 1.88  |
| Other domestic time deposits of \$250,000 or more | <b>1.28</b>  | 1.37  | 1.44  | 1.88  | 2.24  |
| Brokered deposits and negotiable CDs              | <b>2.21</b>  | 2.56  | 2.49  | 2.52  | 2.49  |
| Deposits in foreign offices                       | <b>0.22</b>  | 0.19  | 0.19  | 0.18  | 0.20  |
| Total deposits                                    | <b>1.21</b>  | 1.37  | 1.55  | 1.75  | 1.92  |
| Short-term borrowings                             | <b>0.22</b>  | 0.21  | 0.21  | 0.24  | 0.25  |
| Federal Home Loan Bank advances                   | <b>1.25</b>  | 1.93  | 2.71  | 1.01  | 0.92  |
| Subordinated notes and other long-term debt       | <b>2.15</b>  | 2.05  | 2.25  | 2.67  | 2.58  |
| Total interest-bearing liabilities                | <b>1.25%</b> | 1.41% | 1.60% | 1.80% | 1.93% |
| Net interest rate spread                          | <b>3.24%</b> | 3.22% | 3.22% | 2.90% | 2.93% |
| Impact of noninterest-bearing funds on margin     | <b>0.21</b>  | 0.24  | 0.25  | 0.29  | 0.27  |
| <b>Net interest margin</b>                        | <b>3.45%</b> | 3.46% | 3.47% | 3.19% | 3.20% |

(1) Fully-taxable equivalent (FTE) yields are calculated assuming a 35% tax rate.

(2) Loan and lease and deposit average rates include impact of applicable derivatives, non-deferrable fees, and amortized deferred fees.

(3) For purposes of this analysis, nonaccrual loans are

reflected in the  
average  
balances of  
loans.

**Table of Contents****2010 First Nine Months versus 2009 First Nine Months**

Fully-taxable equivalent net interest income for the first nine-month period of 2010 increased \$153.3 million, or 15%, from the comparable year-ago period. This increase primarily reflected the favorable impact of the significant increase in the net interest margin to 3.46% from 3.09% and, to a lesser degree, a 2% increase in average total earning assets. A significant portion of the increase in the net interest margin reflected a shift in our deposit mix from higher-cost time deposits to lower-cost transaction-based accounts. Although average total earning assets increased only slightly compared with the year-ago period, this change reflected a \$3.4 billion, or 61%, increase in average total investment securities, mostly offset by a \$2.1 billion, or 5%, decline in average total loans and leases.

The following table details the change in our reported loans and deposits:

**Table 9 Average Loans/Leases and Deposits 2010 First Nine Months vs. 2009 First Nine Months**

| <i>(dollar amounts in millions)</i> | Nine Months Ended September |             | Change     |         |
|-------------------------------------|-----------------------------|-------------|------------|---------|
|                                     | 2010                        | 30,<br>2009 | Amount     | Percent |
| <b>Loans/Leases</b>                 |                             |             |            |         |
| Commercial and industrial           | \$ 12,317                   | \$ 13,327   | \$ (1,010) | (8)%    |
| Commercial real estate              | 7,369                       | 9,392       | (2,023)    | (22)    |
| Total commercial                    | 19,686                      | 22,719      | (3,033)    | (13)    |
| Automobile loans and leases         | 4,678                       | 3,620       | 1,058      | 29      |
| Home equity                         | 7,550                       | 7,600       | (50)       | (1)     |
| Residential mortgage                | 4,491                       | 4,584       | (93)       | (2)     |
| Other consumer                      | 690                         | 709         | (19)       | (3)     |
| Total consumer                      | 17,409                      | 16,513      | 896        | 5       |
| Total loans and leases              | \$ 37,095                   | \$ 39,232   | \$ (2,137) | (5)%    |
| <b>Deposits</b>                     |                             |             |            |         |
| Demand deposits noninterest-bearing | \$ 6,748                    | \$ 5,919    | \$ 829     | 14%     |
| Demand deposits interest-bearing    | 5,667                       | 4,591       | 1,076      | 23      |
| Money market deposits               | 11,267                      | 6,524       | 4,743      | 73      |
| Savings and other domestic deposits | 4,643                       | 4,946       | (303)      | (6)     |
| Core certificates of deposit        | 9,371                       | 12,308      | (2,937)    | (24)    |
| Total core deposits                 | 37,696                      | 34,288      | 3,408      | 10      |
| Other deposits                      | 2,717                       | 4,822       | (2,105)    | (44)    |
| Total deposits                      | \$ 40,413                   | \$ 39,110   | \$ 1,303   | 3%      |

The \$2.1 billion, or 5%, decrease in average total loans and leases primarily reflected:

\$3.0 billion, or 13%, decline in average total commercial loans as C&I loans declined \$1 billion, or 8%, and CRE loans declined \$2 billion, or 22%. The decline in C&I loans reflected a general decrease in borrowing as reflected in a decline in line-of-credit utilization, charge-off activity, the 2009 first quarter Franklin restructuring, and the 2010 first quarter reclassification of variable rate demand notes to municipal securities. These declines were partially offset by the impact of the 2009 reclassifications of certain CRE loans, primarily representing owner-occupied properties, to C&I loans. The decline in CRE loans reflected these

reclassifications, as well as our continuing commitment to lower our overall CRE exposure. We continue to execute our plan to reduce the CRE exposure while maintaining a commitment to our core CRE borrowers.

Partially offset by:

\$0.9 billion, or 5%, increase in average total consumer loans. This growth reflected a \$1.1 billion, or 29%, increase in average automobile loans and leases primarily as a result of the adoption of a new accounting standard in which, on January 1, 2010, we consolidated a 2009 first quarter \$1.0 billion automobile loan securitization (see Note 5 of the Notes to the Unaudited Condensed Consolidated Financial Statements). At September 30, 2010, these securitized loans had a remaining balance of \$0.6 billion. Additionally, underlying growth in automobile loans continued to be strong, reflecting a \$1.6 billion increase in loan originations compared with the year-ago period. These increases were partially offset by a \$0.3 billion, or 62%, decline in average automobile leases due to the continued run-off of that portfolio. Average home equity loans were little changed as lower origination volume was offset by slower runoff experience and slightly higher line-of-credit utilization. Average residential mortgages declined slightly reflecting the impact of loan sales, as well as the continued refinance of portfolio loans and the related increased sale of fixed-rate originations, partially offset by the additions related to the 2009 first quarter Franklin restructuring.

**Table of Contents**

Offsetting the decline in average total loans and leases was a \$3.4 billion, or 61%, increase in average total investment securities, reflected the deployment of the cash from core deposit growth and loan run-off throughout the current period, as well as the proceeds from the 2009 capital actions.

The \$1.3 billion, or 3%, increase in average total deposits reflected:

\$3.4 billion, or 10%, growth in average total core deposits, primarily reflecting our focus on growing money market and demand deposit accounts. Our MMA average deposit balances continue to grow across all segments as we execute our lower cost deposit strategy. The growth in noninterest-bearing demand deposits reflects improved sales execution of our commercial products, while the growth in interest-bearing demand deposits is driven primarily by consumer products.

Partially offset by:

\$1.8 billion, or 53%, decline in brokered and negotiable CDs, and a \$0.2 billion, or 24%, decline in average other domestic deposits over \$250,000, primarily reflecting a reduction of noncore funding sources.

**Table of Contents****Table 10 Consolidated YTD Average Balance Sheets and Net Interest Margin Analysis**

| Fully-taxable equivalent basis (1)<br>(dollar amounts in millions)    | YTD Average Balances         |        |         |         | YTD Average Rates (2)        |       |
|---|------------------------------|--------|---------|---------|------------------------------|-------|
|   | Nine Months Ended            |        | Change  |         | Nine Months Ended            |       |
|   | September 30,<br><b>2010</b> | 2009   | Amount  | Percent | September 30,<br><b>2010</b> | 2009  |
| <b>Assets</b>   |                              |        |         |         |                              |       |
| Interest-bearing deposits in banks                                    | \$ <b>313</b>                | \$ 372 | \$ (59) | (16)%   | <b>0.20%</b>                 | 0.36% |
| Trading account securities  | <b>111</b>                   | 157    | (46)    | (29)    | <b>1.68</b>                  | 3.24  |
| Federal funds sold and securities<br>purchased under resale agreement |                              | 8      | (8)     | N.M.    |                              | 0.19  |
| Loans held for sale   | <b>445</b>                   | 620    | (175)   | (28)    | <b>5.36</b>                  | 5.15  |
| Investment securities:  |                              |        |         |         |                              |       |
| Taxable   | <b>8,428</b>                 | 5,227  | 3,201   | 61      | <b>2.85</b>                  | 4.60  |
| Tax-exempt  | <b>399</b>                   | 239    | 160     | 67      | <b>4.56</b>                  | 6.72  |
| Total investment securities   | <b>8,827</b>                 | 5,466  | 3,361   | 61      | <b>2.93</b>                  | 4.70  |
| Loans and leases: (3)   |                              |        |         |         |                              |       |
| Commercial:   |                              |        |         |         |                              |       |
| Commercial and industrial   | <b>12,317</b>                | 13,327 | (1,010) | (8)     | <b>5.35</b>                  | 4.92  |
| Commercial real estate:   |                              |        |         |         |                              |       |
| Construction  | <b>1,224</b>                 | 1,928  | (704)   | (37)    | <b>2.69</b>                  | 2.72  |
| Commercial  | <b>6,145</b>                 | 7,464  | (1,319) | (18)    | <b>3.73</b>                  | 3.59  |
| Commercial real estate  | <b>7,369</b>                 | 9,392  | (2,023) | (22)    | <b>3.56</b>                  | 3.41  |
| Total commercial  | <b>19,686</b>                | 22,719 | (3,033) | (13)    | <b>4.68</b>                  | 4.30  |
| Consumer:   |                              |        |         |         |                              |       |
| Automobile loans  | <b>4,515</b>                 | 3,193  | 1,322   | 41      | <b>6.26</b>                  | 7.26  |
| Automobile leases   | <b>163</b>                   | 427    | (264)   | (62)    | <b>6.55</b>                  | 6.13  |
| Automobile loans and leases   | <b>4,678</b>                 | 3,620  | 1,058   | 29      | <b>6.27</b>                  | 7.13  |
| Home equity   | <b>7,550</b>                 | 7,600  | (50)    | (1)     | <b>5.20</b>                  | 5.55  |
| Residential mortgage  | <b>4,491</b>                 | 4,584  | (93)    | (2)     | <b>4.85</b>                  | 5.29  |
| Other loans   | <b>690</b>                   | 709    | (19)    | (3)     | <b>6.98</b>                  | 8.09  |
| Total consumer  | <b>17,409</b>                | 16,513 | 896     | 5       | <b>5.46</b>                  | 5.93  |
| Total loans and leases  | <b>37,095</b>                | 39,232 | (2,137) | (5)     | <b>5.05</b>                  | 4.99  |
| Allowance for loan and lease<br>losses                                | <b>(1,466)</b>               | (931)  | (535)   | 57      |                              |       |
| Net loans and leases  | <b>35,629</b>                | 38,301 | (2,672) | (7)     |                              |       |
| Total earning assets  | <b>46,791</b>                | 45,855 | 936     | 2       | <b>4.64%</b>                 | 4.94% |
| Cash and due from banks   | <b>1,629</b>                 | 2,195  | (566)   | (26)    |                              |       |
| Intangible assets   | <b>709</b>                   | 1,626  | (917)   | (56)    |                              |       |
| All other assets  | <b>4,381</b>                 | 3,689  | 692     | 19      |                              |       |

|   |                  |           |          |      |              |       |
|---|------------------|-----------|----------|------|--------------|-------|
| <b>Total assets</b>                               | <b>\$ 52,044</b> | \$ 52,434 | \$ (390) | (1)% |              |       |
| <b>Liabilities and Shareholders Equity</b>        |                  |           |          |      |              |       |
| Deposits:   |                  |           |          |      |              |       |
| Demand deposits                                   |                  |           |          |      |              |       |
| noninterest-bearing                               | <b>\$ 6,748</b>  | \$ 5,919  | \$ 829   | 14%  | %            | %     |
| Demand deposits interest-bearing                  | <b>5,667</b>     | 4,591     | 1,076    | 23   | <b>0.20</b>  | 0.19  |
| Money market deposits                             | <b>11,267</b>    | 6,524     | 4,743    | 73   | <b>0.92</b>  | 1.13  |
| Savings and other domestic deposits               | <b>4,643</b>     | 4,946     | (303)    | (6)  | <b>1.08</b>  | 1.40  |
| Core certificates of deposit                      | <b>9,371</b>     | 12,308    | (2,937)  | (24) | <b>2.65</b>  | 3.53  |
| Total core deposits                               | <b>37,696</b>    | 34,288    | 3,408    | 10   | <b>1.34</b>  | 2.07  |
| Other domestic time deposits of \$250,000 or more | <b>683</b>       | 899       | (216)    | (24) | <b>1.36</b>  | 2.63  |
| Brokered deposits and negotiable CDs              | <b>1,613</b>     | 3,414     | (1,801)  | (53) | <b>2.43</b>  | 2.67  |
| Deposits in foreign offices                       | <b>421</b>       | 509       | (88)     | (17) | <b>0.20</b>  | 0.19  |
| Total deposits                                    | <b>40,413</b>    | 39,110    | 1,303    | 3    | <b>1.38</b>  | 2.12  |
| Short-term borrowings                             | <b>1,214</b>     | 951       | 263      | 28   | <b>0.21</b>  | 0.26  |
| Federal Home Loan Bank advances                   | <b>193</b>       | 1,423     | (1,230)  | (86) | <b>1.94</b>  | 1.03  |
| Subordinated notes and other long-term debt       | <b>3,855</b>     | 4,461     | (606)    | (14) | <b>2.15</b>  | 2.94  |
| Total interest-bearing liabilities                | <b>38,927</b>    | 40,026    | (1,099)  | (3)  |              |       |
| All other liabilities                             | <b>941</b>       | 684       | 257      | 38   |              |       |
| Shareholders equity                               | <b>5,428</b>     | 5,805     | (377)    | (6)  |              |       |
| <b>Total liabilities and shareholders equity</b>  | <b>\$ 52,044</b> | \$ 52,434 | \$ (390) | (1)% |              |       |
| Net interest rate spread                          |                  |           |          |      | <b>3.22</b>  | 2.82  |
| Impact of noninterest-bearing funds on margin     |                  |           |          |      | <b>0.24</b>  | 0.27  |
| <b>Net interest margin</b>                        |                  |           |          |      | <b>3.46%</b> | 3.09% |

(1) Fully-taxable equivalent (FTE) yields are calculated assuming a 35% tax rate.

(2)



Loan, lease, and deposit average rates include the impact of applicable derivatives, non-deferrable fees, and amortized deferred fees.

- (3) For purposes of this analysis, nonaccrual loans are reflected in the average balances of loans.

**Table of Contents****Provision for Credit Losses**

*(This section should be read in conjunction with Significant Item 2 and the Credit Risk section.)*

The provision for credit losses is the expense necessary to maintain the ALLL and the allowance for unfunded loan commitments and letters of credit (AULC) at levels adequate to absorb our estimate of inherent credit losses in the loan and lease portfolio and the portfolio of unfunded loan commitments and letters of credit.

The provision for credit losses for the 2010 third quarter was \$119.2 million, down \$74.2 million, or 38%, from the prior quarter and down \$356.0 million, or 75%, from the year-ago quarter. The prior quarter included \$80.0 million of Franklin-related credit provision, reflecting \$75.5 million associated with the transfer of Franklin-related loans to loans held for sale (see Significant Item 2), and \$4.5 million of other Franklin-related NCOs. Reflecting the resolution of problem credits for which reserves had been previously established, the current quarter's provision for credit losses was \$65.3 million less than total NCOs (see Credit Quality discussion).

The following table details the Franklin-related impact to the provision for credit losses for each of the past five quarters:

**Table 11 Provision for Credit Losses Franklin-Related Impact**

| <i>(in millions)</i>   | <b>Third</b> | <b>2010<br/>Second</b> | <b>First</b> | <b>2009<br/>Fourth</b> | <b>Third</b> |
|--|--------------|------------------------|--------------|------------------------|--------------|
| <b>Provision for (reduction to) credit losses</b>                              |              |                        |              |                        |              |
| Franklin   | \$           | \$ 80.0                | \$ 11.5      | \$ 1.2                 | \$ (3.5)     |
| Non-Franklin   |              | <b>119.2</b>           | 113.4        | 223.5                  | 478.6        |
| Total  | \$           | <b>119.2</b>           | \$ 193.4     | \$ 235.0               | \$ 475.1     |
| <b>Total net charge-offs (recoveries)</b>                                      |              |                        |              |                        |              |
| Franklin related to transfer to loans held for sale                            | \$           | \$ 75.5                | \$           | \$                     | \$           |
| Franklin unrelated to transfer to loans held for sale                          |              | 4.5                    | 11.5         | 1.2                    | (3.5)        |
| Non-Franklin   |              | <b>184.5</b>           | 199.2        | 227.0                  | 359.4        |
| Total  | \$           | <b>184.5</b>           | \$ 279.2     | \$ 238.5               | \$ 444.7     |
| <b>Provision for (reduction to) credit losses in excess of net charge-offs</b> |              |                        |              |                        |              |
| Franklin   | \$           | \$                     | \$           | \$                     | \$           |
| Non-Franklin   |              | <b>(65.3)</b>          | (85.8)       | (3.5)                  | 449.3        |
| Total  | \$           | <b>(65.3)</b>          | \$ (85.8)    | \$ (3.5)               | \$ 449.3     |

**Noninterest Income**

*(This section should be read in conjunction with Significant Item 5.)*

The following table reflects noninterest income for each of the past five quarters:

**Table 12 Noninterest Income**

| <i>(dollar amounts in thousands)</i> | 2010              |            | 2009       |            |            |
|--------------------------------------|-------------------|------------|------------|------------|------------|
|                                      | Third             | Second     | First      | Fourth     | Third      |
| Service charges on deposit accounts  | \$ <b>65,932</b>  | \$ 75,934  | \$ 69,339  | \$ 76,757  | \$ 80,811  |
| Brokerage and insurance income       | <b>36,376</b>     | 36,498     | 35,762     | 32,173     | 33,996     |
| Mortgage banking income              | <b>52,045</b>     | 45,530     | 25,038     | 24,618     | 21,435     |
| Trust services                       | <b>26,997</b>     | 28,399     | 27,765     | 27,275     | 25,832     |
| Electronic banking                   | <b>28,090</b>     | 28,107     | 25,137     | 25,173     | 28,017     |
| Bank owned life insurance income     | <b>14,091</b>     | 14,392     | 16,470     | 14,055     | 13,639     |
| Automobile operating lease income    | <b>11,356</b>     | 11,842     | 12,303     | 12,671     | 12,795     |
| Securities (losses) gains            | <b>(296)</b>      | 156        | (31)       | (2,602)    | (2,374)    |
| Other income                         | <b>32,552</b>     | 28,785     | 29,069     | 34,426     | 41,901     |
| <b>Total noninterest income</b>      | <b>\$ 267,143</b> | \$ 269,643 | \$ 240,852 | \$ 244,546 | \$ 256,052 |

**Table of Contents**

The following table details mortgage banking income and the net impact of mortgage servicing rights (MSR) hedging activity for each of the past five quarters:

**Table 13 Mortgage Banking Income**

| <i>(dollar amounts in thousands)</i>                               | <b>Third</b>     | <b>2010<br/>Second</b> | <b>First</b>     | <b>2009<br/>Fourth</b> | <b>Third</b>      |
|--|------------------|------------------------|------------------|------------------------|-------------------|
| <b>Mortgage Banking Income</b>                                     |                  |                        |                  |                        |                   |
| Origination and secondary marketing                                | \$ 35,840        | \$ 19,778              | \$ 13,586        | \$ 16,473              | \$ 16,491         |
| Servicing fees   | 12,053           | 12,178                 | 12,418           | 12,289                 | 12,320            |
| Amortization of capitalized servicing                              | (13,003)         | (10,137)               | (10,065)         | (10,791)               | (10,050)          |
| Other mortgage banking income                                      | 4,966            | 3,664                  | 3,210            | 4,466                  | 4,109             |
| Sub-total  | 39,856           | 25,483                 | 19,149           | 22,437                 | 22,870            |
| MSR valuation adjustment <sup>(1)</sup>                            | (12,047)         | (26,221)               | (5,772)          | 15,491                 | (17,348)          |
| Net trading gain (loss) related to MSR hedging                     | 24,236           | 46,268                 | 11,661           | (13,310)               | 15,913            |
| <b>Total mortgage banking income</b>                               | <b>\$ 52,045</b> | <b>\$ 45,530</b>       | <b>\$ 25,038</b> | <b>\$ 24,618</b>       | <b>\$ 21,435</b>  |
|  |                  |                        |                  |                        |                   |
| Mortgage originations (in millions)                                | \$ 1,619         | \$ 1,161               | \$ 869           | \$ 1,131               | \$ 998            |
| Average trading account securities used to hedge MSR (in millions) | 23               | 28                     | 18               | 19                     | 19                |
| Capitalized mortgage servicing rights <sup>(2)</sup>               | 161,594          | 179,138                | 207,552          | 214,592                | 200,969           |
| Total mortgages serviced for others (in millions) <sup>(2)</sup>   | 15,713           | 15,954                 | 15,968           | 16,010                 | 16,145            |
| MSR % of investor servicing portfolio                              | 1.03%            | 1.12%                  | 1.30%            | 1.34%                  | 1.24%             |
| <b>Net Impact of MSR Hedging</b>                                   |                  |                        |                  |                        |                   |
| MSR valuation adjustment <sup>(1)</sup>                            | \$ (12,047)      | \$ (26,221)            | \$ (5,772)       | \$ 15,491              | \$ (17,348)       |
| Net trading gain (loss) related to MSR hedging                     | 24,236           | 46,268                 | 11,661           | (13,310)               | 15,913            |
| Net interest income related to MSR hedging                         | 32               | 58                     | 169              | 168                    | 191               |
| <b>Net impact of MSR hedging</b>                                   | <b>\$ 12,221</b> | <b>\$ 20,105</b>       | <b>\$ 6,058</b>  | <b>\$ 2,349</b>        | <b>\$ (1,244)</b> |

(1)

The change in fair value for the period represents the MSR valuation adjustment, net of amortization of capitalized servicing.

(2) At period end.

**2010 Third Quarter versus 2009 Third Quarter**

Noninterest income increased \$11.1 million, or 4%, from the year-ago quarter.

**Table 14 Noninterest Income 2010 Third Quarter vs. 2009 Third Quarter**

| <i>(dollar amounts in thousands)</i> | Third Quarter     |                   | Change           |           |
|--------------------------------------|-------------------|-------------------|------------------|-----------|
|                                      | 2010              | 2009              | Amount           | Percent   |
| Service charges on deposit accounts  | \$ 65,932         | \$ 80,811         | \$ (14,879)      | (18)%     |
| Brokerage and insurance income       | 36,376            | 33,996            | 2,380            | 7         |
| Mortgage banking income              | 52,045            | 21,435            | 30,610           | N.M.      |
| Trust services                       | 26,997            | 25,832            | 1,165            | 5         |
| Electronic banking                   | 28,090            | 28,017            | 73               |           |
| Bank owned life insurance income     | 14,091            | 13,639            | 452              | 3         |
| Automobile operating lease income    | 11,356            | 12,795            | (1,439)          | (11)      |
| Securities gains (losses)            | (296)             | (2,374)           | 2,078            | (88)      |
| Other income                         | 32,552            | 41,901            | (9,349)          | (22)      |
| <b>Total noninterest income</b>      | <b>\$ 267,143</b> | <b>\$ 256,052</b> | <b>\$ 11,091</b> | <b>4%</b> |

N.M., not a meaningful value.

**Table of Contents**

The \$11.1 million, or 4%, increase in total noninterest income from the year-ago quarter reflected:

\$30.6 million increase in mortgage banking income. This reflected a \$19.3 million increase in origination and secondary marketing income as originations increased 62% from the year-ago quarter, as well as a \$13.6 million increase from net MSR hedging-related activities.

\$2.4 million, or 7%, increase in brokerage and insurance income, primarily reflecting an increase in title insurance income due to higher mortgage refinance activity, and to a lesser degree an increase in fixed income product sales, partially offset by lower annuity income.

Partially offset by:

\$14.9 million, or 18%, decrease in service charges on deposit accounts. This decline represented a decrease in personal NSF/OD service charges and was consistent with expectations related to the implementation of changes to Regulation E, the voluntary reduction in certain overdraft fee practices as part of our Fair Play banking philosophy introduced during the current quarter, as well as fewer customers overdrafting their accounts. As previously announced, in the 2009 fourth quarter the Federal Reserve Board amended Regulation E to prohibit charging overdraft fees for ATM or point-of-sale debit card transactions effective July 1, 2010, unless the customer opts-in to the overdraft service. Prior to the impact of implementing the amended Regulation E, for us such fees were approximately \$90 million per year. Our basic strategy is to mitigate the potential impact by alerting our customers that we can no longer cover such overdrafts unless they opt-in to our overdraft service. To date, our opt-in results have surpassed our expectations. Also, during the quarter, we voluntarily reduced certain NSF/OD fees and introduced 24-Hour Grace on overdrafts.

\$9.3 million, or 22%, decline in other income. This decline primarily reflected a \$22.8 million benefit in the year-ago quarter representing the change in fair value of derivatives that did not qualify for hedge accounting. This was partially offset by a \$7.5 million loss on commercial loans held for sale and other equity investment losses also in that same quarter. The change from the year-ago quarter also reflected the current quarter gain on the sale of SBA loans.

**2010 Third Quarter versus 2010 Second Quarter**

Noninterest income decreased \$2.5 million, or 1%, from the prior quarter.

**Table 15 Noninterest Income 2010 Third Quarter vs. 2010 Second Quarter**

| <i>(dollar amounts in thousands)</i> | 2010              |                   | Change            |             |
|--------------------------------------|-------------------|-------------------|-------------------|-------------|
|                                      | Third<br>Quarter  | Second<br>Quarter | Amount            | Percent     |
| Service charges on deposit accounts  | \$ 65,932         | \$ 75,934         | \$ (10,002)       | (13)%       |
| Brokerage and insurance income       | 36,376            | 36,498            | (122)             |             |
| Mortgage banking income              | 52,045            | 45,530            | 6,515             | 14          |
| Trust services                       | 26,997            | 28,399            | (1,402)           | (5)         |
| Electronic banking                   | 28,090            | 28,107            | (17)              |             |
| Bank owned life insurance income     | 14,091            | 14,392            | (301)             | (2)         |
| Automobile operating lease income    | 11,356            | 11,842            | (486)             | (4)         |
| Securities (losses) gains            | (296)             | 156               | (452)             | N.M.        |
| Other income                         | 32,552            | 28,785            | 3,767             | 13          |
| <b>Total noninterest income</b>      | <b>\$ 267,143</b> | <b>\$ 269,643</b> | <b>\$ (2,500)</b> | <b>(1)%</b> |

N.M., not a meaningful value.



**Table of Contents**

The \$2.5 million, or 1%, decrease in total noninterest income from the prior quarter reflected:

\$10.0 million, or 13%, decrease in service charges on deposit accounts. This decline represented a decrease in personal NSF/OD service charges and was consistent with expectations related to the implementation of changes to Regulation E, as well as the voluntary reduction in certain overdraft fee practices as part of our Fair Play banking philosophy.

\$1.4 million, or 5%, decline in trust services income, primarily reflecting the seasonal reduction in tax preparation fees.

Partially offset by:

\$6.5 million, or 14%, increase in mortgage banking income. This increase reflected a \$16.1 million increase in origination and secondary marketing income, as mortgage originations increased 39% with borrowers continuing to take advantage of low interest rates. This increase was partially offset by a \$7.9 million decline in MSR hedging-related activities.

\$3.8 million, or 13%, increase in other income, primarily reflecting a gain on sale of SBA loans.

**2010 First Nine Months versus 2009 First Nine Months**

Noninterest income for the first nine-month period of 2010 increased \$16.5 million, or 2%, from the comparable year-ago period.

**Table 16 Noninterest Income 2010 First Nine Months vs. 2009 First Nine Months**

| <i>(dollar amounts in thousands)</i> | Nine Months Ended September |                   | Change           |           |
|--------------------------------------|-----------------------------|-------------------|------------------|-----------|
|                                      | 2010                        | 2009              | Amount           | Percent   |
| Service charges on deposit accounts  | \$ 211,205                  | \$ 226,042        | \$ (14,837)      | (7)%      |
| Brokerage and insurance income       | 108,636                     | 105,996           | 2,640            | 2         |
| Mortgage banking income              | 122,613                     | 87,680            | 34,933           | 40        |
| Trust services                       | 83,161                      | 76,364            | 6,797            | 9         |
| Electronic banking                   | 81,334                      | 74,978            | 6,356            | 8         |
| Bank owned life insurance income     | 44,953                      | 40,817            | 4,136            | 10        |
| Automobile operating lease income    | 35,501                      | 39,139            | (3,638)          | (9)       |
| Securities losses                    | (171)                       | (7,647)           | 7,476            | (98)      |
| Other income                         | 90,406                      | 117,730           | (27,324)         | (23)      |
| <b>Total noninterest income</b>      | <b>\$ 777,638</b>           | <b>\$ 761,099</b> | <b>\$ 16,539</b> | <b>2%</b> |

N.M., not a meaningful value.



**Table of Contents**

The following table details mortgage banking income and the net impact of MSR hedging activity for the first nine-month period of 2010 and 2009:

**Table 17 Year to Date Mortgage Banking Income and Net Impact of MSR Hedging**

| <i>(in thousands, except as noted)</i>                             | Nine Months Ended     |            | YTD Change 2010 vs 2009 |         |
|--|-----------------------|------------|-------------------------|---------|
|  | September 30,<br>2010 | 2009       | Amount                  | Percent |
| <b>Mortgage Banking Income</b>                                     |                       |            |                         |         |
| Origination and secondary marketing                                | \$ 69,204             | \$ 78,238  | \$ (9,034)              | (12)%   |
| Servicing fees   | 36,649                | 36,205     | 444                     | 1       |
| Amortization of capitalized servicing                              | (33,205)              | (36,780)   | 3,575                   | (10)    |
| Other mortgage banking income                                      | 11,840                | 18,894     | (7,054)                 | (37)    |
| Subtotal   | 84,488                | 96,557     | (12,069)                | (12)    |
| MSR valuation adjustment <sup>(1)</sup>                            | (44,040)              | 18,814     | (62,854)                | N.M.    |
| Net trading gains (losses) related to MSR hedging                  | 82,165                | (27,691)   | 109,856                 | N.M.    |
| Total mortgage banking income                                      | \$ 122,613            | \$ 87,680  | \$ 34,933               | 40%     |
| Mortgage originations (in millions)                                | \$ 3,649              | \$ 4,131   | \$ (482)                | (12)%   |
| Average trading account securities used to hedge MSR (in millions) | 23                    | 87         | (64)                    | (74)    |
| Capitalized mortgage servicing rights <sup>(2)</sup>               | 161,594               | 200,969    | (39,375)                | (20)    |
| Total mortgages serviced for others (in millions) <sup>(2)</sup>   | 15,713                | 16,145     | (432)                   | (3)     |
| MSR % of investor servicing portfolio                              | 1.03%                 | 1.24%      | (0.21)%                 | N.M.%   |
| <b>Net Impact of MSR Hedging</b>                                   |                       |            |                         |         |
| MSR valuation adjustment <sup>(1)</sup>                            | \$ (44,040)           | \$ 18,814  | \$ (62,854)             | N.M.%   |
| Net trading gains (losses) related to MSR hedging                  | 82,165                | (27,691)   | 109,856                 | N.M.    |
| Net interest income related to MSR hedging                         | 259                   | 2,831      | (2,572)                 | (91)    |
| Net impact of MSR hedging  | \$ 38,384             | \$ (6,046) | \$ 44,430               | N.M.%   |

N.M., not a meaningful value.

(1) The change in fair value for the period represents the MSR valuation adjustment, excluding amortization of capitalized servicing.

(2) At period end.

The \$16.5 million, or 2%, increase in total noninterest income reflected:

\$34.9 million, or 40%, increase in mortgage banking income. This reflected a \$44.4 million increase from net MSR hedging-related activities. This benefit was partially offset by a \$9.0 million decline on origination and secondary marketing income, as mortgage originations declined 12% from the prior year-ago period.

\$7.5 million, or 98%, improvement in securities losses.

\$6.8 million, or 9%, increase in trust services income, primarily reflecting a combination of higher asset market values, asset growth, and fee increases.

\$6.4 million, or 8%, increase in electronic banking reflecting increased debit card transaction volumes and a \$3.3 million Visa® rebate for check card volume growth.

Partially offset by:

\$27.3 million, or 23%, decline in other income. This decline primarily reflected a \$20.3 million benefit in the year-ago period representing the change in fair value of derivatives that did not qualify for hedge accounting.

This was partially offset by a \$7.5 million loss on commercial loans held for sale and other equity investment losses also in that same period. The change from the year-ago period also reflected the current quarter gain on the sale of SBA loans.

**Table of Contents**

\$14.8 million, or 7%, decline in service charges on deposit accounts, reflecting lower personal service charges due to a combination of factors including lower activity levels, as well as the implementation of the amendment to Regulation E and our Fair Play banking philosophy.

For additional information regarding noninterest income, see the Legislative and Regulatory section located within the Executive Overview section.

**Noninterest Expense**

*(This section should be read in conjunction with Significant Items 1, 3, and 6.)*

The following table reflects noninterest expense for each of the past five quarters:

**Table 18 Noninterest Expense**

| <i>(dollar amounts in thousands)</i>                      | 2010              |                   |                   |                   |                   |
|---|-------------------|-------------------|-------------------|-------------------|-------------------|
|   | Third             | Second            | First             | 2009<br>Fourth    | Third             |
| Personnel costs   | \$ 208,272        | \$ 194,875        | \$ 183,642        | \$ 180,663        | \$ 172,152        |
| Outside data processing and other services                | 38,553            | 40,670            | 39,082            | 36,812            | 38,285            |
| Deposit and other insurance expense                       | 23,406            | 26,067            | 24,755            | 24,420            | 23,851            |
| Net occupancy   | 26,718            | 25,388            | 29,086            | 26,273            | 25,382            |
| OREO and foreclosure expense                              | 12,047            | 4,970             | 11,530            | 18,520            | 38,968            |
| Equipment   | 21,651            | 21,585            | 20,624            | 20,454            | 20,967            |
| Professional services                                     | 20,672            | 24,388            | 22,697            | 25,146            | 18,108            |
| Amortization of intangibles                               | 15,145            | 15,141            | 15,146            | 17,060            | 16,995            |
| Automobile operating lease expense                        | 9,159             | 9,667             | 10,066            | 10,440            | 10,589            |
| Marketing   | 20,921            | 17,682            | 11,153            | 9,074             | 8,259             |
| Telecommunications  | 5,695             | 6,205             | 6,171             | 6,099             | 5,902             |
| Printing and supplies                                     | 4,062             | 3,893             | 3,673             | 3,807             | 3,950             |
| Gain on early extinguishment of debt                      |                   |                   |                   | (73,615)          | (60)              |
| Other   | 21,008            | 23,279            | 20,468            | 17,443            | 17,749            |
| <b>Total noninterest expense</b>                          | <b>\$ 427,309</b> | <b>\$ 413,810</b> | <b>\$ 398,093</b> | <b>\$ 322,596</b> | <b>\$ 401,097</b> |
| Number of employees (full-time equivalent), at period-end | 11,279            | 11,117            | 10,678            | 10,272            | 10,194            |

**Table of Contents****2010 Third Quarter versus 2009 Third Quarter**

Noninterest expense increased \$26.2 million, or 7%, from the year-ago quarter.

**Table 19 Noninterest Expense 2010 Third Quarter vs. 2009 Third Quarter**

| <i>(dollar amounts in thousands)</i>                      | Third Quarter     |                   | Change           |           |
|---|-------------------|-------------------|------------------|-----------|
|   | 2010              | 2009              | Amount           | Percent   |
| Personnel costs   | \$ 208,272        | \$ 172,152        | \$ 36,120        | 21%       |
| Outside data processing and other services                | 38,553            | 38,285            | 268              | 1         |
| Deposit and other insurance expense                       | 23,406            | 23,851            | (445)            | (2)       |
| Net occupancy   | 26,718            | 25,382            | 1,336            | 5         |
| OREO and foreclosure expense                              | 12,047            | 38,968            | (26,921)         | (69)      |
| Equipment   | 21,651            | 20,967            | 684              | 3         |
| Professional services                                     | 20,672            | 18,108            | 2,564            | 14        |
| Amortization of intangibles                               | 15,145            | 16,995            | (1,850)          | (11)      |
| Automobile operating lease expense                        | 9,159             | 10,589            | (1,430)          | (14)      |
| Marketing   | 20,921            | 8,259             | 12,662           | N.M.      |
| Telecommunications  | 5,695             | 5,902             | (207)            | (4)       |
| Printing and supplies                                     | 4,062             | 3,950             | 112              | 3         |
| Gain on early extinguishment of debt                      |                   | (60)              | 60               | N.M.      |
| Other expense   | 21,008            | 17,749            | 3,259            | 18        |
| <b>Total noninterest expense</b>                          | <b>\$ 427,309</b> | <b>\$ 401,097</b> | <b>\$ 26,212</b> | <b>7%</b> |
| Number of employees (full-time equivalent), at period-end | 11,279            | 10,194            | 1,085            | 11%       |

N.M., not a meaningful value.

The \$26.2 million, or 7%, increase in total noninterest expense from the year-ago quarter reflected:

\$36.1 million, or 21%, increase in personnel costs, primarily reflecting an 11% increase in full-time equivalent staff in support of strategic initiatives, as well as higher commissions and other incentive expenses, and the reinstatement of our 401(k) plan matching contribution.

\$12.7 million increase in marketing expense, reflecting increases in branding, direct mail, and product advertising activities in support of strategic initiatives.

\$3.3 million, or 18%, increase in other expense, reflecting increased travel and miscellaneous fees.

\$2.6 million, or 14%, increase in professional services, reflecting higher consulting and legal expenses.

Partially offset by:

\$26.9 million, or 69%, decline in OREO and foreclosure expense.

**Table of Contents****2010 Third Quarter versus 2010 Second Quarter**

Noninterest expense increased \$13.5 million, or 3%, from the prior quarter.

**Table 20 Noninterest Expense 2010 Third Quarter vs. 2010 Second Quarter**

| <i>(dollar amounts in thousands)</i>                      | 2010              |                   | Change           |           |
|---|-------------------|-------------------|------------------|-----------|
|   | Third<br>Quarter  | Second<br>Quarter | Amount           | Percent   |
| Personnel costs   | \$ 208,272        | \$ 194,875        | \$ 13,397        | 7%        |
| Outside data processing and other services                | 38,553            | 40,670            | (2,117)          | (5)       |
| Deposit and other insurance expense                       | 23,406            | 26,067            | (2,661)          | (10)      |
| Net occupancy   | 26,718            | 25,388            | 1,330            | 5         |
| OREO and foreclosure expense                              | 12,047            | 4,970             | 7,077            | N.M.      |
| Equipment   | 21,651            | 21,585            | 66               |           |
| Professional services                                     | 20,672            | 24,388            | (3,716)          | (15)      |
| Amortization of intangibles                               | 15,145            | 15,141            | 4                |           |
| Automobile operating lease expense                        | 9,159             | 9,667             | (508)            | (5)       |
| Marketing   | 20,921            | 17,682            | 3,239            | 18        |
| Telecommunications  | 5,695             | 6,205             | (510)            | (8)       |
| Printing and supplies                                     | 4,062             | 3,893             | 169              | 4         |
| Other expense   | 21,008            | 23,279            | (2,271)          | (10)      |
| <b>Total noninterest expense</b>                          | <b>\$ 427,309</b> | <b>\$ 413,810</b> | <b>\$ 13,499</b> | <b>3%</b> |
| Number of employees (full-time equivalent), at period-end | 11,279            | 11,117            | 162              | 1%        |

N.M., not a meaningful value.

The \$13.5 million, or 3%, increase in total noninterest expense from the prior quarter reflected:

\$13.4 million, or 7%, increase in personnel costs, reflecting a combination of factors including higher salaries due to a 1% increase in full-time equivalent staff in support of strategic initiatives, higher sales commissions, and retirement fund and 401(k) plan expenses.

\$7.1 million increase in OREO and foreclosure expense, as the prior quarter included a \$3.7 million OREO gain and the current quarter included a \$2.0 million Franklin-related OREO loss.

\$3.2 million, or 18%, increase in marketing expense, reflecting increases in branding and product advertising activities in support of strategic initiatives.

Partially offset by:

\$3.7 million, or 15%, decrease in professional services, reflecting lower legal and consulting fees.

\$2.7 million, or 10%, decline in deposit and other insurance expense, primarily reflecting our decision to exit the FDIC's TAGP program.

\$2.3 million, or 10%, decrease in other expense, as the expense associated with increases in repurchase reserves related to representations and warranties made on mortgage loans sold declined \$4.2 million.

\$2.1 million, or 5%, decline in outside data processing and other services, reflecting the reduction of Franklin servicing costs given the sale of the related loans, partially offset by higher outside programming costs.

**Table of Contents****2010 First Nine Months versus 2009 First Nine Months**

Noninterest expense for the first nine-month period of 2010 decreased \$2,471.6 million, or 67%, from the comparable year-ago period.

**Table 21 Noninterest Expense 2010 First Nine Months vs. 2009 First Nine Months**

| <i>(dollar amounts in thousands)</i>                         | Nine Months Ended September |                     | Change                |              |
|--|-----------------------------|---------------------|-----------------------|--------------|
|  | 2010                        | 2009                | Amount                | Percent      |
| Personnel costs  | \$ 586,789                  | \$ 519,819          | \$ 66,970             | 13%          |
| Outside data processing and other services                   | 118,305                     | 111,283             | 7,022                 | 6            |
| Deposit and other insurance expense                          | 74,228                      | 89,410              | (15,182)              | (17)         |
| Net occupancy  | 81,192                      | 79,000              | 2,192                 | 3            |
| OREO and foreclosure expense                                 | 28,547                      | 75,379              | (46,832)              | (62)         |
| Equipment  | 63,860                      | 62,663              | 1,197                 | 2            |
| Professional services  | 67,757                      | 51,220              | 16,537                | 32           |
| Amortization of intangibles                                  | 45,432                      | 51,247              | (5,815)               | (11)         |
| Automobile operating lease expense                           | 28,892                      | 32,920              | (4,028)               | (12)         |
| Marketing  | 49,756                      | 23,975              | 25,781                | N.M.         |
| Telecommunications   | 18,071                      | 17,880              | 191                   | 1            |
| Printing and supplies  | 11,628                      | 11,673              | (45)                  |              |
| Goodwill impairment  |                             | 2,606,944           | (2,606,944)           | N.M.         |
| Gain on early extinguishment of debt                         |                             | (73,827)            | 73,827                | N.M.         |
| Other expense  | 64,756                      | 51,262              | 13,494                | 26           |
| <b>Total noninterest expense</b>                             | <b>\$ 1,239,213</b>         | <b>\$ 3,710,848</b> | <b>\$ (2,471,635)</b> | <b>(67)%</b> |
| Number of employees (full-time equivalent),<br>at period-end | 11,279                      | 10,194              | 1,085                 | 11%          |

N.M., not a meaningful value.

The \$2,471.6 million, or 67%, decrease in total noninterest expense reflected:

\$2,606.9 million of goodwill impairment in the year-ago period.

\$46.8 million, or 62%, decrease in OREO and foreclosure expense reflecting lower OREO losses.

\$15.2 million, or 17%, decline in deposit and other insurance expense, primarily due to a \$23.6 million FDIC insurance special assessment in the year-ago period, partially offset by higher FDIC insurance costs in the current period as premium rates increased and the level of deposits grew.

Partially offset by:

\$73.8 million benefit in the year-ago period from a gain on the early extinguishment of debt.

\$67 million, or 13%, increase in personnel costs, reflecting a combination of factors including higher salaries due to a 11% increase in full-time equivalent staff in support of strategic initiatives, higher sales commissions, and retirement fund and 401(k) plan expenses.

\$25.8 million increase in marketing expense, reflecting increases in branding and product advertising activities in support of strategic initiatives.

\$16.5 million, or 32%, increase in professional services, reflecting higher legal and consulting fees.

\$13.5 million, or 26%, increase in other expense, reflecting a combination of factors including an increase in repurchase reserves related to representations and warranties made on mortgage loans sold and an increase in other miscellaneous expenses in support of implementing strategic initiatives, partially offset by a decrease in franchise and other taxes.



**Table of Contents**

**Provision for Income Taxes**

*(This section should be read in conjunction with Significant Items 2 and 6.)*

The provision for income taxes in the 2010 third quarter was \$29.7 million. This compared with a tax expense of \$13.3 million in the 2010 second quarter and a tax benefit of \$91.2 million in the 2009 third quarter. As of September 30, 2010, a net deferred tax asset of \$389.5 million was recorded. There was no impairment to the deferred tax asset as a result of projected taxable income.

In the ordinary course of business, we operate in various taxing jurisdictions and are subject to income and nonincome taxes. Also, we are subject to on-going tax examinations in various jurisdictions. Federal income tax audits have been completed through 2005. In 2009, the Internal Revenue Service (IRS) began the audit of our consolidated federal income tax returns for tax years 2006 and 2007. Various state and other jurisdictions remain open to examination for tax years 2000 and forward. The IRS as well as state tax officials from Ohio, Kentucky, and Illinois have proposed adjustments to our previously filed tax returns. We believe the tax positions taken by us related to such proposed adjustments were correct and supported by applicable statutes, regulations, and judicial authority, and we intend to vigorously defend them. It is possible that the ultimate resolution of the proposed adjustments, if unfavorable, may be material to the results of operations in the period it occurs. However, although no assurances can be given, we believe the resolution of these examinations will not, individually or in the aggregate, have a material adverse impact on our consolidated financial position. *(See Note 16 of the Notes to the Unaudited Condensed Consolidated Financial Statements for additional information regarding unrecognized tax benefits.)*



**Table of Contents****Credit Risk**

Credit risk is the risk of loss due to our counterparties not being able to meet their financial obligations under agreed upon terms. The majority of our credit risk is associated with lending activities, as the acceptance and management of credit risk is central to profitable lending. We also have credit risk associated with our investment and derivatives activities. Credit risk is incidental to trading activities and represents a significant risk that is associated with our investment securities portfolio (*see Investment Securities Portfolio discussion*). The material change in the economic conditions and the resulting changes in borrower behavior over the past two years resulted in our focusing significant resources to the identification, monitoring, and managing of our credit risk. In addition to the traditional credit risk mitigation strategies of credit policies and processes, market risk management activities, and portfolio diversification, we added more quantitative measurement capabilities utilizing external data sources, enhanced use of modeling technology, and internal stress testing processes.

Asset quality metrics have improved over the first nine-month period of 2010, reflecting our proactive portfolio management policies as well as a stabilizing, yet still weak, economy during 2010 compared with 2009. Our portfolio management policies were enacted in 2009 and continue today, demonstrating our commitment to maintaining a low-to-moderate risk profile. To that end, we continue to expand our resources in the risk management areas of the company. The improvements in the asset quality metrics, including lower levels of NPLs, criticized and classified assets, and delinquencies have all been achieved through these policies and commitments.

The weak residential real estate market and U.S. economy has had a significant impact on the financial services industry as a whole, and specifically on our financial results. A pronounced downturn in the residential real estate market that began in early 2007 has resulted in significantly lower residential real estate values and higher delinquencies and charge-offs, including loans to builders and developers of residential real estate. In addition, the U.S. recession during 2008 and 2009 and continued high unemployment have hindered any significant recovery. As a result, we experienced higher than historical levels of delinquencies and charge-offs in our loan portfolios during 2009 and 2010. The value of our investment securities backed by residential and commercial real estate were also impacted by a lack of liquidity in the financial markets and anticipated credit losses.

***Loan and Lease Credit Exposure Mix***

At September 30, 2010, total loans and leases totaled \$37.5 billion, representing a 1% increase from the prior quarter, and essentially unchanged from the year-ago quarter. Despite the relatively small overall change, the composition of the portfolio has changed significantly over the past 12 months. From September 30, 2009 to September 30, 2010, the commercial portfolio decreased by \$1.9 billion, or 9%, primarily as a result of a planned strategy to reduce the concentration of our noncore CRE portfolio. This decline was offset by an increase in the consumer portfolio, primarily driven by the automobile loan portfolio. Over the past 12 months, we leveraged our indirect automobile finance business to generate high credit-quality loan originations and consolidated a \$1.0 billion loan securitization.

At September 30, 2010, commercial loans totaled \$19.3 billion, and represented 52% of our total loan and lease credit exposure. Our commercial loan portfolio is diversified along product type, size, and geography within our footprint, and is comprised of the following (*see Commercial Credit discussion*):

***Commercial and Industrial (C&I) loans*** - C&I loans represent loans to commercial customers for use in normal business operations to finance working capital needs, equipment purchases, or other projects. The majority of these borrowers are commercial customers doing business within our geographic regions. C&I loans are generally underwritten individually and secured with the assets of the company and/or the personal guarantee of the business owners. The financing of owner-occupied facilities is considered a C&I loan even though there is improved real estate as collateral. This treatment is a function of the underwriting process, which focuses on cash flow from operations to repay the debt. The operation, sale, or refinancing of the real estate is not considered the primary repayment source for these types of loans. We have recently enhanced our Asset-Based Lending (ABL) area by adding ABL professionals to take advantage of market opportunities, and to better leverage the manufacturing base in our primary markets.

***Commercial real estate (CRE) loans*** - CRE loans consist of loans for income producing real estate properties, real estate investment trusts, and real estate developers. We mitigate our risk on these loans by requiring collateral values that exceed the loan amount and underwriting the loan with projected cash flow in excess of the debt service requirement. These loans are made to finance properties such as apartment buildings, office and industrial buildings,

and retail shopping centers; and are repaid through cash flows related to the operation, sale, or refinance of the property.

**Table of Contents**

*Construction CRE loans* - Construction CRE loans are loans to individuals, companies, or developers used for the construction of a commercial or residential property for which repayment will be generated by the sale or permanent financing of the property. Our construction CRE portfolio primarily consists of retail, residential (land, single family, condominiums), office, and warehouse product types. Generally, these loans are for construction projects that have been presold, preleased, or have secured permanent financing, as well as loans to real estate companies with significant equity invested in each project. These loans are underwritten and managed by a specialized real estate group that actively monitors the construction phase and manages the loan disbursements according to the predetermined construction schedule.

Total consumer loans were \$18.2 billion at September 30, 2010, and represented 48% of our total loan and lease credit exposure. The consumer portfolio was diversified among home equity loans, residential mortgages, and automobile loans and leases (*see Consumer Credit discussion*).

*Automobile loans/leases* - Automobile loans/leases is primarily comprised of loans made through automotive dealerships and includes exposure in selected out-of-market states. In 2009, we exited several out-of-market states, including Florida, Arizona, and Nevada, positively impacting our 2009 and 2010 loss rates. In the first nine-month period of 2010, we expanded into eastern Pennsylvania and five New England states. The recent expansions included hiring experienced colleagues with existing dealer relationships in those markets. No out-of-market state represented more than 5% of our total automobile loan and lease portfolio. Our automobile lease portfolio represents an immaterial portion of the total portfolio as we exited the automobile leasing business during the 2008 fourth quarter.

*Home equity* - Home equity lending includes both home equity loans and lines-of-credit. This type of lending, which is secured by a first- or second- mortgage on the borrower's residence, allows customers to borrow against the equity in their home. Given the current low interest rate environment, many borrowers have utilized the home equity product as the primary source of financing their home. The proportion of first-lien loans has increased significantly in our portfolio over the past 24 months. Real estate market values at the time of origination directly affect the amount of credit extended and subsequent changes in these values impact the severity of losses. We actively manage the amount of credit extended through formal debt-to-income policies and loan-to-value (LTV) maximums.

*Residential mortgages* - Residential mortgage loans represent loans to consumers for the purchase or refinance of a residence. These loans are generally financed over a 15- to 30- year term, and in most cases, are extended to borrowers to finance their primary residence. Generally speaking, our practice is to sell a significant portion of our fixed-rate originations in the secondary market.

**Table 22 Loan and Lease Portfolio Composition**

|  | September 30, |           | 2010          |           |               |               | 2009          |           |               |           |
|--|---------------|-----------|---------------|-----------|---------------|---------------|---------------|-----------|---------------|-----------|
|  |               |           | June 30,      | March 31, | December 31,  | September 30, |               |           |               |           |
| <i>(dollar amounts in millions)</i>      |               |           |               |           |               |               |               |           |               |           |
| Commercial <sup>(1)</sup>                |               |           |               |           |               |               |               |           |               |           |
| Commercial and industrial <sup>(2)</sup> | \$ 12,425     | 34%       | \$ 12,392     | 34%       | \$ 12,245     | 33%           | \$ 12,888     | 35%       | \$ 12,547     | 34%       |
| Commercial real estate:                  |               |           |               |           |               |               |               |           |               |           |
| Construction                             | 738           | 2         | 1,106         | 3         | 1,443         | 4             | 1,469         | 4         | 1,815         | 5         |
| Commercial <sup>(2)</sup>                | 6,174         | 16        | 6,078         | 16        | 6,013         | 16            | 6,220         | 17        | 6,900         | 18        |
| Total commercial real estate             | 6,912         | 18        | 7,184         | 19        | 7,456         | 20            | 7,689         | 21        | 8,715         | 23        |
| <b>Total commercial</b>                  | <b>19,337</b> | <b>52</b> | <b>19,576</b> | <b>53</b> | <b>19,701</b> | <b>53</b>     | <b>20,577</b> | <b>56</b> | <b>21,262</b> | <b>57</b> |
| Consumer:                                |               |           |               |           |               |               |               |           |               |           |
| Automobile loans <sup>(3)</sup>          | 5,296         | 14        | 4,712         | 13        | 4,212         | 11            | 3,144         | 9         | 2,939         | 8         |
| Automobile leases                        | 89            |           | 135           |           | 191           | 1             | 246           | 1         | 309           | 1         |
| Home equity                              | 7,690         | 21        | 7,510         | 20        | 7,514         | 20            | 7,563         | 21        | 7,576         | 20        |
| Residential mortgage                     | 4,511         | 12        | 4,354         | 12        | 4,614         | 12            | 4,510         | 12        | 4,468         | 12        |

|                               |                  |             |           |      |           |      |           |      |           |      |
|-------------------------------|------------------|-------------|-----------|------|-----------|------|-----------|------|-----------|------|
| Other loans                   | 578              | 1           | 683       | 2    | 700       | 3    | 751       | 2    | 750       | 2    |
| <b>Total consumer</b>         | <b>18,164</b>    | <b>48</b>   | 17,394    | 47   | 17,231    | 47   | 16,214    | 44   | 16,042    | 43   |
| <b>Total loans and leases</b> | <b>\$ 37,501</b> | <b>100%</b> | \$ 36,970 | 100% | \$ 36,932 | 100% | \$ 36,791 | 100% | \$ 37,304 | 100% |

- (1) There were no commercial loans outstanding that would be considered a concentration of lending to a particular industry or group of industries.
- (2) The 2009 fourth quarter reflected net reclassifications from commercial real estate loans to commercial and industrial loans of \$589.0 million.
- (3) The 2010 first quarter included an increase of \$730.5 million resulting from the adoption of a new accounting standard to consolidate a previously off-balance sheet automobile loan securitization transaction.

**Table of Contents*****Commercial Credit***

The primary factors considered in commercial credit approvals are the financial strength of the borrower, assessment of the borrower's management capabilities, industry sector trends, type and sufficiency of collateral, type of exposure, transaction structure, and the general economic outlook.

In commercial lending, on-going credit management is dependent on the type and nature of the loan. We monitor all significant exposures on an on-going basis. All commercial credit extensions are assigned internal risk ratings reflecting the borrower's probability-of-default and loss-given-default (severity of loss). This two-dimensional rating methodology, which results in 192 individual loan grades, provides granularity in the portfolio management process. The probability-of-default is rated on a scale of 1-12 and is applied at the borrower level. The loss-given-default is rated on a 1-16 scale and is applied based on the type of credit extension and the underlying collateral. The internal risk ratings are assessed and updated with each periodic monitoring event. There is also extensive macro portfolio management analysis on an on-going basis. As an example, the retail projects segment of the CRE portfolio has received more frequent evaluation at the loan level as a result of the economic environment and performance trends (*see Retail Properties discussion*). We continually review and adjust our risk-rating criteria based on actual experience. The analysis and review process results in a continuously updated determination of the risk level in the portfolio. The risk-rating process is the basis for the calculation of an appropriate ALLL amount for our commercial loan portfolio.

Commercial loans rated as Other Loans Especially Mentioned (OLEM), substandard, doubtful, or loss are categorized as criticized. Commercial loans rated as substandard, doubtful, or loss are categorized as classified. Commercial loans may be designated as criticized when warranted by individual borrower performance or by industry and environmental factors. Commercial criticized loans are subjected to additional monthly reviews to adequately assess the borrower's credit status and take appropriate action. We re-evaluate the risk-rating of these criticized commercial loans when conditions change and an adjustment in rating, either an upgrade or downgrade, is warranted. Changes in the rating can be impacted by borrower performance, external factors such as industry and economic changes, as well as structural changes to the loan arrangements including, but not limited to, amortization, collateral, guarantees, and covenants.

Essentially all commercial loans rated classified are managed by our Special Assets Division (SAD) workout group. Our SAD group is a specialized credit group that handles the day-to-day management of workouts, commercial recoveries, and problem loan sales. Its responsibilities include developing an action plan, assessing the risk rating, and determining the adequacy of the reserve, the accrual status, and the ultimate collectibility of the managed classified loans.

Our commercial loan portfolio, including CRE loans, is diversified by customer size, as well as geographically throughout our footprint. During 2009, we engaged in a large number of enhanced portfolio management initiatives, including a review to ensure the appropriate classification of CRE loans. The results of this initiative included reclassifications in 2009 totaling \$1.4 billion that increased C&I loan balances, and correspondingly decreased CRE loan balances, primarily representing owner-occupied properties. We believe the changes provide improved visibility and clarity to us and our investors. We have continued our active portfolio management processes into the first nine-month period of 2010, primarily focusing on improving our ability to identify changing conditions at the borrower level, which in most cases, significantly improves the outcome.

Certain segments of our commercial loan portfolio are discussed in further detail below:

**COMMERCIAL REAL ESTATE (CRE) PORTFOLIO**

As shown in the following table, CRE loans totaled \$6.9 billion and represented 18% of our total loan exposure at September 30, 2010. While there is a concentration in retail properties, we are working to reduce this exposure to less than 20% of the total CRE portfolio. There is no geographic concentration within the Other category, and we have very limited out of footprint lending in the CRE portfolio.

**Table of Contents****Table 23 Commercial Real Estate Loans by Property Type and Property Location**

| <i>(dollar amounts in millions)</i>                       | September 30, 2010 |               |               |               |               |               |               |               | <b>Total<br/>Amount</b> | <b>%</b>    |
|---|--------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|-------------------------|-------------|
|   | Ohio               | Michigan      | Pennsylvania  | Indiana       | Kentucky      | Florida       | Virginia      | Other         |                         |             |
| Retail properties   | \$ 760             | \$ 182        | \$ 141        | \$ 197        | \$ 6          | \$ 54         | \$ 45         | \$ 482        | <b>\$1,867</b>          | <b>27%</b>  |
| Multi family  | 727                | 120           | 91            | 70            | 35            | 2             | 71            | 112           | <b>1,228</b>            | <b>18</b>   |
| Office  | 591                | 245           | 105           | 56            | 20            | 23            | 58            | 54            | <b>1,152</b>            | <b>17</b>   |
| Industrial and warehouse                                  | 421                | 183           | 43            | 73            | 14            | 35            | 11            | 82            | <b>862</b>              | <b>12</b>   |
| Single family home builders                               | 385                | 62            | 34            | 17            | 15            | 60            | 17            | 44            | <b>634</b>              | <b>9</b>    |
| Lines to real estate companies                            | 479                | 35            | 16            | 7             |               | 1             | 7             | 5             | <b>550</b>              | <b>8</b>    |
| Hotel   | 139                | 49            | 18            | 36            |               |               | 47            | 97            | <b>386</b>              | <b>6</b>    |
| Raw land and other land uses                              | 57                 | 32            | 5             | 7             | 5             | 3             | 3             | 12            | <b>124</b>              | <b>2</b>    |
| Health care   | 27                 | 27            | 15            | 3             |               |               |               |               | <b>72</b>               | <b>1</b>    |
| Other   | 23                 | 3             | 2             | 1             | 7             |               |               | 1             | <b>37</b>               | <b>1</b>    |
| <b>Total</b>  | <b>\$3,609</b>     | <b>\$ 938</b> | <b>\$ 470</b> | <b>\$ 467</b> | <b>\$ 102</b> | <b>\$ 178</b> | <b>\$ 259</b> | <b>\$ 889</b> | <b>\$6,912</b>          | <b>100%</b> |
| % of total portfolio                                      | 52%                | 14%           | 7%            | 7%            | 1%            | 3%            | 4%            | 13%           | <b>100%</b>             |             |
| Net charge-offs (for the first nine-month period of 2010) | \$ 115.8           | \$ 30.1       | \$ 3.4        | \$ 3.4        | \$ 2.8        | \$ 13.2       | \$ 2.6        | \$ 59.4       | <b>\$ 230.7</b>         |             |
| Net charge-offs - annualized %                            | 4.01%              | 4.02%         | 0.91%         | 0.91%         | 3.36%         | 9.26%         | 1.27%         | 8.35%         | <b>4.17%</b>            |             |
| Nonaccrual loans  | \$ 273.7           | \$ 43.3       | \$ 12.6       | \$ 11.5       | \$ 5.1        | \$ 11.8       | \$ 26.5       | \$ 94.3       | <b>\$ 478.8</b>         |             |
| % of related outstandings                                 | 7.58%              | 4.62%         | 2.68%         | 2.46%         | 5.00%         | 6.63%         | 10.23%        | 10.61%        | <b>6.93%</b>            |             |

CRE loan credit quality data regarding NCOs and nonaccrual loans (NALs) by industry classification code are presented in the following table:

**Table 24 Commercial Real Estate Loans Credit Quality Data by Property Type**

| <i>(dollar amounts in millions)</i> | Net Charge-offs                      |                   |                    |            | Nonaccrual Loans   |                    |                   |             |
|-------------------------------------|--------------------------------------|-------------------|--------------------|------------|--------------------|--------------------|-------------------|-------------|
|                                     | Nine Months Ended September 30, 2010 |                   | September 30, 2009 |            | September 30, 2010 |                    | December 31, 2009 |             |
|                                     | <b>Amount</b>                        | <b>Percentage</b> | Amount             | Percentage | <b>Amount</b>      | <b>Percent (1)</b> | Amount            | Percent (1) |
| Retail properties                   | <b>\$ 86.6</b>                       | <b>5.72%</b>      | \$ 131.6           | 7.65%      | <b>\$ 124.7</b>    | <b>6.68%</b>       | \$ 253.6          | 11.99%      |
| Industrial and warehouse            | <b>25.6</b>                          | <b>3.84</b>       | 33.8               | 3.91       | <b>61.4</b>        | <b>7.13</b>        | 120.8             | 12.96       |
| Single family home builder          | <b>52.3</b>                          | <b>9.32</b>       | 143.8              | 16.83      | <b>130.1</b>       | <b>20.52</b>       | 262.4             | 30.62       |
| Multi family                        | <b>25.6</b>                          | <b>2.61</b>       | 56.6               | 4.91       | <b>67.9</b>        | <b>5.53</b>        | 129.0             | 9.43        |
| Lines to real estate companies      | <b>7.3</b>                           | <b>1.60</b>       | 35.4               | 4.32       | <b>17.3</b>        | <b>3.15</b>        | 22.7              | 3.56        |
| Office                              | <b>15.6</b>                          | <b>1.81</b>       | 12.3               | 1.32       | <b>38.7</b>        | <b>3.36</b>        | 87.3              | 7.82        |
| Hotel                               | <b>2.0</b>                           | <b>0.69</b>       | 0.6                |            | <b>17.2</b>        | <b>4.47</b>        | 10.9              | 2.91        |
| Raw land and other land uses        | <b>14.9</b>                          | <b>15.09</b>      | 9.8                | 7.72       | <b>15.6</b>        | <b>12.62</b>       | 42.4              | 32.12       |

|              |                 |              |          |       |                 |              |          |        |
|--------------|-----------------|--------------|----------|-------|-----------------|--------------|----------|--------|
| Health care  | <b>0.1</b>      | <b>0.15</b>  |          |       | <b>0.5</b>      | <b>0.69</b>  | 0.7      | 0.58   |
| Other        | <b>0.7</b>      | <b>2.39</b>  | 0.7      | 1.62  | <b>5.3</b>      | <b>14.43</b> | 6.0      | 15.79  |
| <b>Total</b> | <b>\$ 230.7</b> | <b>4.17%</b> | \$ 424.6 | 6.03% | <b>\$ 478.8</b> | <b>6.93%</b> | \$ 935.8 | 12.17% |

(1) Represents percentage of related outstanding loans.

As shown in the table above, CRE NCOs during the first nine-month period of 2010 were materially lower than in the comparable year-ago period. This is consistent with our view that we were active in addressing problem credits in 2009 and the market has stabilized from the steep decline evident in 2008 and 2009. While we continue to see stress in the CRE portfolio, the results of the first nine-months of 2010 have significantly improved compared with the year-ago period. In terms of dollars, CRE NALs in the Retail Properties and Single Family Home Builders segments were substantially lower at September 30, 2010 compared with September 30, 2009. Total CRE NALs have declined 49% compared with December 31, 2009 levels as a result of our portfolio management strategies and charge-off decisions.

**Table of Contents**

We manage the risks inherent in this portfolio through origination policies, concentration limits, on-going loan level reviews, recourse requirements, and continuous portfolio risk management activities. Our origination policies for this portfolio include product-type specific policies such as LTV ratios, debt service coverage ratios, and pre-leasing requirements, as applicable. Generally, we: (a) limit our loans to 80% of the appraised value of the commercial real estate, (b) require net operating cash flows to be 125% of required interest and principal payments, and (c) if the commercial real estate is non-owner-occupied, require that at least 50% of the space of the project be pre-leased. Dedicated real estate professionals within our Commercial Real Estate business segment team originated the majority of the portfolio, with the remainder obtained from prior acquisitions. Appraisals from approved vendors are reviewed by an internal appraisal review group of MAI certified appraisers to ensure the quality of the valuation used in the underwriting process. The portfolio is diversified by project type and loan size, and represents a significant piece of the credit risk management strategies employed for this portfolio. Our credit review staff provides an assessment of the quality of the underwriting and structure and validates the risk rating assigned to the loan.

Appraisal values are obtained in conjunction with all originations and renewals, and on an as needed basis, in compliance with regulatory requirements. Given the stressed environment for some loan types, we perform on-going portfolio level reviews of certain segments such as the retail properties segment (*see Retail Properties discussion*). These reviews generate action plans based on occupancy levels or sales volume associated with the projects being reviewed. The results of these reviews indicate that some additional stress is likely due to the current economic conditions. Property values are updated using appraisals on a regular basis to ensure appropriate decisions regarding the on-going management of the portfolio reflect the changing market conditions. This highly individualized process requires working closely with all of our borrowers as well as an in-depth knowledge of CRE project lending and the market environment.

At the portfolio level, we actively monitor the concentrations and performance metrics of all loan types, with a focus on higher risk segments. Macro-level stress-test scenarios based on retail sales and home-price depreciation trends for the segments are embedded in our performance expectations, and lease-up and absorption scenarios are assessed. Within the CRE portfolio, the retail properties and single family home builder segments continued to be stressed as a result of the continued decline in the housing markets and general economic conditions, and are discussed below.

**Retail Properties**

Our portfolio of CRE loans secured by retail properties totaled \$1.9 billion, or approximately 5% of total loans and leases, at September 30, 2010. Loans within this portfolio segment declined \$0.2 billion, or 12%, from \$2.1 billion at December 31, 2009. Credit approval in this portfolio segment is generally dependent on pre-leasing requirements, and net operating income from the project must cover debt service by specified percentages when the loan is fully funded. The continued weakness of the economic environment in our geographic regions continues to impact the projects that secure the loans in this portfolio segment. Lower occupancy rates, reduced rental rates, and the expectation these levels will remain stressed for the foreseeable future are expected to adversely affect our borrowers' ability to repay these loans. We have increased the level of credit risk management activity on this portfolio segment, and we analyze our retail property loans in detail by combining property type, geographic location, and other data, to assess and manage our credit concentration risks. We review the majority of this portfolio segment on a monthly basis.

**Single Family Home Builders**

At September 30, 2010, we had \$0.6 billion of CRE loans to single family home builders. Such loans represented 2% of total loans and leases. Of this portfolio segment, 65% were to finance construction projects, 16% to finance land under development, and 19% to finance land held for development. The \$0.6 billion represented a \$0.2 billion, or 26%, decrease compared with \$0.9 billion at December 31, 2009. The decrease primarily reflected run-off activity as few new loans have been originated since 2008, property sale activity, and charge-offs. Based on portfolio management processes over the past 30 months, including charge-off activity, we believe we have substantially addressed the credit issues in this portfolio. We do not anticipate any future significant credit impact from this portfolio segment.





**Table of Contents****Core and Noncore portfolios**

Each CRE loan is classified as either core or noncore. We separated the CRE portfolio into these categories in order to provide more clarity around our portfolio management strategies and to provide additional clarity for us and our investors. We believe segregating the noncore CRE from core CRE improves our ability to understand the nature, performance prospects, and problem resolution opportunities of this segment, thus allowing us to continue to deal proactively with future credit issues.

A CRE loan is generally considered core when the borrower is an experienced, well-capitalized developer in our Midwest footprint, and has either an established meaningful relationship that generates an acceptable return on capital or the prospect of establishing one. The core CRE portfolio was \$4.0 billion at September 30, 2010, representing 58% of total CRE loans. The performance of the core portfolio in the current quarter met our expectations based on the consistency of the asset quality metrics within the portfolio. Based on our extensive project level assessment process, including forward-looking collateral valuations, we continue to believe the credit quality of the core portfolio is stable. A CRE loan is generally considered noncore based on the lack of a substantive relationship outside of the credit product, with no immediate prospects for improvement. The noncore CRE portfolio declined from \$3.7 billion at December 31, 2009, to \$2.9 billion at September 30, 2010, and represented 42% of total CRE loans. Of the loans in the noncore portfolio at September 30, 2010, 51% were classified as pass or better, 95% had guarantors, 99% were secured, and 90% were located within our geographic footprint. However, it is within the noncore portfolio where most of the credit quality challenges exist. For example, \$0.4 billion, or 15%, of related outstanding balances, are classified as NALs. SAD administered \$1.4 billion, or 48%, of total noncore CRE loans at September 30, 2010. We expect to exit the majority of noncore CRE relationships over time through normal repayments, possible sales should economically attractive opportunities arise, or the reclassification to a core CRE relationship if it expands to meet the core requirements.

The table below provides the segregation of the CRE portfolio into core and noncore segments as of September 30, 2010:

**Table 25 Core Commercial Real Estate Loans by Property Type and Property Location**

| <i>(dollar amounts in millions)</i> | September 30, 2010 |               |               |               |               |               |               |               | <b>Total<br/>Amount</b> | <b>%</b>    |
|-------------------------------------|--------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|-------------------------|-------------|
|                                     | Ohio               | Michigan      | Pennsylvania  | Indiana       | Kentucky      | Florida       | Virginia      | Other         |                         |             |
| <b>Core portfolio:</b>              |                    |               |               |               |               |               |               |               |                         |             |
| Retail properties                   | \$ 475             | \$ 106        | \$ 80         | \$ 89         | \$ 3          | \$ 41         | \$ 38         | \$ 372        | \$ <b>1,204</b>         | <b>17%</b>  |
| Office                              | 337                | 160           | 72            | 22            | 11            | 8             | 41            | 53            | <b>704</b>              | <b>10</b>   |
| Multi family                        | 267                | 89            | 51            | 32            | 8             |               | 43            | 64            | <b>554</b>              | <b>8</b>    |
| Industrial and warehouse            | 290                | 64            | 25            | 43            | 3             | 3             | 9             | 82            | <b>519</b>              | <b>8</b>    |
| Lines to real estate companies      | 343                | 26            | 8             | 4             |               | 1             | 5             | 4             | <b>391</b>              | <b>6</b>    |
| Hotel                               | 75                 | 34            | 8             | 25            |               |               | 41            | 84            | <b>267</b>              | <b>4</b>    |
| Single family home builders         | 123                | 31            | 7             | 2             |               | 21            | 9             | 15            | <b>208</b>              | <b>3</b>    |
| Raw land and other land uses        | 32                 | 30            | 3             | 2             |               | 2             | 3             | 10            | <b>82</b>               | <b>1</b>    |
| Health care                         | 13                 | 7             | 13            | 3             |               |               |               |               | <b>36</b>               | <b>1</b>    |
| Other                               | 10                 | 2             | 2             | 1             | 8             |               |               | 1             | <b>24</b>               |             |
| <b>Total core portfolio</b>         | <b>1,965</b>       | <b>549</b>    | <b>269</b>    | <b>223</b>    | <b>33</b>     | <b>76</b>     | <b>189</b>    | <b>685</b>    | <b>3,989</b>            | <b>58</b>   |
| <b>Total noncore portfolio</b>      | <b>1,644</b>       | <b>388</b>    | <b>201</b>    | <b>245</b>    | <b>69</b>     | <b>102</b>    | <b>70</b>     | <b>204</b>    | <b>2,923</b>            | <b>42</b>   |
|                                     | <b>\$ 3,609</b>    | <b>\$ 937</b> | <b>\$ 470</b> | <b>\$ 468</b> | <b>\$ 102</b> | <b>\$ 178</b> | <b>\$ 259</b> | <b>\$ 889</b> | <b>\$ 6,912</b>         | <b>100%</b> |

**Total commercial real  
estate**

37

---

**Table of Contents**

Credit quality data regarding the ACL and NALs, segregated by core CRE loans and noncore CRE loans, is presented in the following table:

**Table 26 Commercial Real Estate Core vs. Noncore Portfolios**

| <i>(dollar amounts in millions)</i> | September 30, 2010 |               |               |              |                 |                  |
|-------------------------------------|--------------------|---------------|---------------|--------------|-----------------|------------------|
|                                     | Ending Balance     | Prior NCOs    | ACL \$        | ACL %        | Credit Mark (1) | Nonaccrual Loans |
| <b>Total core</b>                   | \$ 3,989           | \$ 2          | \$ 165        | 4.14%        | 4.18%           | \$ 51.3          |
| Noncore Special Assets Division (2) | 1,394              | 469           | 360           | 25.82        | 44.50           | 352.8            |
| Noncore Other                       | 1,529              | 33            | 138           | 9.03         | 10.95           | 74.7             |
| <b>Total noncore</b>                | 2,923              | 502           | 498           | 17.04        | 29.20           | 427.5            |
| <b>Total commercial real estate</b> | <b>\$ 6,912</b>    | <b>\$ 504</b> | <b>\$ 663</b> | <b>9.59%</b> | <b>15.74%</b>   | <b>\$ 478.8</b>  |
|                                     | December 31, 2009  |               |               |              |                 |                  |
| <b>Total core</b>                   | \$ 4,038           | \$            | \$ 168        | 4.16%        | 4.16%           | \$ 3.8           |
| Noncore Special Assets Division (2) | 1,809              | 511           | 410           | 22.66        | 39.70           | 861.0            |
| Noncore Other                       | 1,842              | 26            | 186           | 10.10        | 11.35           | 71.0             |
| <b>Total noncore</b>                | 3,651              | 537           | 596           | 16.32        | 27.05           | 932.0            |
| <b>Total commercial real estate</b> | <b>\$ 7,689</b>    | <b>\$ 537</b> | <b>\$ 764</b> | <b>9.94%</b> | <b>15.82%</b>   | <b>\$ 935.8</b>  |

(1) Calculated as  
(Prior NCOs +  
ACL \$) /  
(Ending Balance  
+ Prior NCOs)

(2) Noncore loans managed by our Special Assets Division, the area responsible for managing loans and relationships designated as monitored credits.

As shown in the above table, the ending balance of the CRE portfolio at September 30, 2010 declined \$0.8 billion compared with December 31, 2009. Of this decline, 94% occurred in the noncore segment of the portfolio and was a result of payoffs and NCOs as we actively focus on the noncore portfolio to reduce our overall CRE exposure. We anticipate further declines in future periods based on our overall strategy regarding the CRE portfolio.

Also as shown above, substantial reserves for the noncore portfolio have been established. At September 30, 2010, the ACL related to the noncore portfolio was 17.04%. The combination of the existing ACL and prior NCOs represents the total credit actions taken on each segment of the portfolio. From this data, we calculate a measurement, called a credit mark , that provides a consistent measurement of the cumulative credit actions taken against a specific portfolio segment. We believe the combined credit activity is appropriate for each of the CRE segments.

#### COMMERCIAL AND INDUSTRIAL (C&I) PORTFOLIO

The C&I portfolio is comprised of loans to businesses where the source of repayment is associated with the on-going operations of the business. Generally, the loans are secured with the financing of the borrower's assets, such as equipment, accounts receivable, or inventory. In many cases, the loans are secured by real estate, although the operation, sale, or refinancing of the real estate is not a primary source of repayment for the loan. For loans secured by real estate, appropriate appraisals are obtained at origination and updated on an as needed basis in compliance with regulatory requirements.

There were no outstanding commercial loans considered an industry or geographic concentration of lending. Currently, higher-risk segments of the C&I portfolio include loans to borrowers supporting the home building industry, contractors, and automotive suppliers. However, the combined total of these segments represented only 10% of the total C&I portfolio. We manage the risks inherent in this portfolio through origination policies, concentration limits, on-going loan level reviews, recourse requirements, and continuous portfolio risk management activities. Our origination policies for this portfolio include loan product-type specific policies such as LTV and debt service coverage ratios, as applicable.

C&I borrowers have been challenged by the continued weak economy, and some borrowers may no longer have sufficient capital to withstand the protracted stress. As a result, these borrowers may not be able to comply with the original terms of their credit agreements. We continue to focus on-going attention on the portfolio management process to proactively identify borrowers that may be facing financial difficulty. The impact of the economic environment is further evidenced by the level of line-of-credit activity, as borrowers continued to maintain relatively low utilization percentages over the past 12 months.

**Table of Contents**

As shown in the following table, C&I loans totaled \$12.4 billion at September 30, 2010:

**Table 27 Commercial and Industrial Loans and Leases by Industry Classification**

| <i>(dollar amounts in millions)</i>           | September 30, 2010 |             |                   |             |
|---|--------------------|-------------|-------------------|-------------|
|   | Commitments        |             | Loans Outstanding |             |
|   | Amount             | Percent     | Amount            | Percent     |
| <b>Industry Classification:</b>               |                    |             |                   |             |
| Services                                      | \$ 4,834           | 26%         | \$ 3,697          | 30%         |
| Manufacturing                                 | 3,379              | 18          | 2,100             | 17          |
| Finance, insurance, and real estate           | 1,949              | 11          | 1,378             | 11          |
| Retail trade auto dealers                     | 1,672              | 9           | 1,115             | 9           |
| Retail trade other than auto dealers          | 1,683              | 9           | 1,215             | 10          |
| Wholesale trade                               | 1,538              | 8           | 917               | 7           |
| Transportation, communications, and utilities | 1,218              | 7           | 719               | 6           |
| Contractors and construction                  | 928                | 5           | 539               | 4           |
| Energy  | 641                | 4           | 413               | 3           |
| Agriculture and forestry                      | 342                | 2           | 246               | 2           |
| Public administration                         | 88                 | 1           | 81                | 1           |
| Other   | 7                  |             | 5                 |             |
| <b>Total</b>                                  | <b>\$ 18,279</b>   | <b>100%</b> | <b>\$ 12,425</b>  | <b>100%</b> |

C&I loan credit quality data regarding NCOs and NALs by industry classification are presented in the table below:

**Table 28 Commercial and Industrial Credit Quality Data by Industry Classification**

| <i>(dollar amounts in millions)</i>           | Net Charge-offs                 |            |         |         | Nonaccrual Loans |         |             |       |
|---|---------------------------------|------------|---------|---------|------------------|---------|-------------|-------|
|   | Nine Months Ended September 30, |            |         |         | September 30,    |         | At December |       |
|   | 2010                            |            | 2009    |         | 2010             |         | 2009        |       |
|   | Annualized                      | Annualized |         | Percent |                  | Percent |             |       |
|   | Amount                          | %          | Amount  | %       | Amount           | (1)     | Amount      | (1)   |
| <b>Industry Classification:</b>               |                                 |            |         |         |                  |         |             |       |
| Manufacturing                                 | \$ 54.7                         | 3.51%      | \$ 76.0 | 4.40%   | \$ 102.9         | 4.90%   | \$ 136.8    | 6.21% |
| Services                                      | 81.6                            | 2.97       | 48.8    | 1.65    | 113.2            | 3.06    | 163.9       | 4.20  |
| Contractors and construction                  | 13.0                            | 3.56       | 11.4    | 3.02    | 23.3             | 4.32    | 41.6        | 8.98  |
| Finance, insurance, and real estate (2)       | 19.1                            | 1.37       | 163.7   | 9.86    | 51.3             | 3.73    | 98.0        | 4.17  |
| Transportation, communications, and utilities | 7.1                             | 1.37       | 15.4    | 2.82    | 25.2             | 3.50    | 30.6        | 4.09  |
| Retail trade other than auto dealers          | 14.8                            | 1.85       | 37.7    | 5.28    | 43.4             | 3.57    | 58.5        | 6.38  |
| Energy  | 1.3                             | 0.43       | 3.5     | 1.13    | 9.3              | 2.26    | 10.7        | 2.62  |
| Retail trade auto dealers                     | 1.5                             | 0.21       | 0.2     | 0.03    | 2.6              | 0.24    | 3.0         | 0.33  |
| Public administration                         | 0.2                             | 0.25       | 0.3     | 0.31    | 0.6              | 0.06    | 0.1         | 0.12  |
| Agriculture and forestry                      | 0.5                             | 0.33       | 0.2     | 0.14    | 6.6              | 2.70    | 5.1         | 2.65  |
| Wholesale trade                               | 0.7                             | 0.12       | 19.5    | 3.02    | 20.5             | 2.24    | 29.5        | 4.28  |

|                  |                 |              |          |       |                 |              |          |       |
|------------------|-----------------|--------------|----------|-------|-----------------|--------------|----------|-------|
| Other            | <b>1.3</b>      | <b>16.37</b> | 1.1      | 5.43  | <b>0.1</b>      | <b>0.84</b>  | 0.6      | 2.14  |
| <b>Total (2)</b> | <b>\$ 195.8</b> | <b>2.12%</b> | \$ 377.8 | 3.78% | <b>\$ 398.4</b> | <b>3.21%</b> | \$ 578.4 | 4.49% |

- (1) Represents percentage of total related outstanding loans.
- (2) The nine-month period of 2009 included charge-offs totaling \$114.4 million associated with the 2009 Franklin restructuring (see Significant Item 2).

**Table of Contents****FRANKLIN RELATIONSHIP**

*(This section should be read in conjunction with Significant Item 2 and Note 3 of the Notes to Unaudited Condensed Consolidated Financial Statements.)*

During the 2010 second quarter, \$397.7 million of Franklin-related loans (\$333.0 million of residential mortgages and \$64.7 million of home equity loans) at a value of \$323.4 million were transferred to loans held for sale. At the time of the transfer to loans held for sale, the loans were marked to the lower of cost or fair value less costs to sell. This resulted in charge-offs at the time of the transfer which, when added to other charge-offs during the quarter, resulted in total 2010 second quarter Franklin-related NCOs of \$80.0 million (\$64.2 million related to residential mortgages and \$15.9 million related to home equity loans, partially offset by \$0.2 million of C&I net recoveries). The 2010 second quarter provision for credit losses included \$80.0 million related to Franklin, with \$75.5 million related to transferring the loans to loans held for sale. During the 2010 third quarter, the Franklin-related residential mortgages and home equity loans were sold at essentially book value. In the 2010 third quarter, Franklin-related consumer NCOs totaled \$4.5 million (\$3.4 million of residential mortgage NCOs and \$1.2 million of home equity loan NCOs), which were offset by \$4.5 million of Franklin-related commercial net recoveries. At September 30, 2010, the only Franklin-related assets remaining were \$15.3 million of OREO properties, which have been marked to the lower of cost or fair value less costs to sell.

**Consumer Credit**

Consumer credit approvals are based on, among other factors, the financial strength and payment history of the borrower, the type of exposure, and the transaction structure. We make extensive use of portfolio assessment models to continuously monitor the quality of the portfolio, which may result in changes to future origination strategies. The continuous analysis and review process for loans secured by real estate includes updated value estimates in addition to the quarterly FICO score updates. The results of the on-going performance assessment process are used in the determination of an appropriate ALLL amount for our consumer loan portfolio.

In the first nine-month period of 2010, we took advantage of market opportunities that allowed us to grow our automobile loan portfolio. The significant growth in the portfolio was accomplished while maintaining high credit quality metrics. As we take advantage of these opportunities, we are developing alternative plans to address any growth in excess of our established portfolio concentration limits, including both securitizations and loan sales. The residential mortgage and home equity portfolios are primarily located throughout our geographic footprint. The continued slowdown in the housing market has negatively impacted the performance of our residential mortgage and home equity portfolios. While the degree of price depreciation varies across our markets, all regions throughout our footprint have been affected. Given the continued economic weaknesses in our markets, the home equity and residential mortgage portfolios are particularly noteworthy, and are discussed in greater detail below:

**Table 29 Selected Home Equity and Residential Mortgage Portfolio Data (1)**

| <i>(dollar amounts in millions)</i>                         | Home Equity Loans |          | Home Equity Lines of Credit |          | Residential Mortgages |          |
|---|-------------------|----------|-----------------------------|----------|-----------------------|----------|
|   | 09/30/10          | 12/31/09 | 09/30/10                    | 12/31/09 | 09/30/10              | 12/31/09 |
| Ending Balance  | \$ 2,505          | \$ 2,616 | \$ 5,184                    | \$ 4,946 | \$ 4,511              | \$ 4,510 |
| Portfolio Current Weighted Average LTV ratio <sup>(2)</sup> | 70%               | 71%      | 77%                         | 77%      | 77%                   | 76%      |
| Portfolio Weighted Average FICO <sup>(3)</sup>              | 730               | 716      | 740                         | 723      | 719                   | 698      |

## Nine Months Ended September 30, 2010

|   | Home Equity Loans | Home Equity Lines of Credit | Residential Mortgages (4) |
|---|-------------------|-----------------------------|---------------------------|
| Originations  | \$ 369.9          | \$ 1,075.0                  | \$ 1,179.4                |
| Origination Weighted Average LTV ratio <sup>(2)</sup> | 61%               | 74%                         | 81%                       |



| Origination Weighted Average FICO <sup>(3)</sup>   | 765 | 766 | 760 |
|--|-----|-----|-----|
| (1) Excludes Franklin-related loans.   |     |     |     |
| (2) The LTV ratios for home equity loans and home equity lines-of-credit are cumulative and reflect the balance of any senior loans. LTV ratios reflect collateral values at origination.            |     |     |     |
| (3) Portfolio Weighted Average FICO reflects currently updated customer credit scores whereas Origination Weighted Average FICO reflects the customer credit scores at the time of loan origination. |     |     |     |
| (4) Represents only owned-portfolio originations.  |     |     |     |

**Table of Contents**

**HOME EQUITY PORTFOLIO**

Our home equity portfolio (loans and lines-of-credit) consists of both first- and second- mortgage loans with underwriting criteria based on minimum credit scores, debt-to-income ratios, and LTV ratios. We offer closed-end home equity loans with a fixed interest rate and level monthly payments and a variable-rate, interest-only home equity line-of-credit. Home equity loans are generally fixed-rate with periodic principal and interest payments. Home equity lines-of-credit are generally variable-rate and do not require payment of principal during the 10-year revolving period of the line.

We focus on high-quality borrowers primarily located within our geographic footprint. The majority of our home equity borrowers consistently pay more than the required amount. Additionally, since we focus on developing complete relationships with our customers, many of our home equity borrowers are utilizing other products and services.

We believe we have granted credit conservatively within this portfolio. We have not originated stated income home equity loans or lines-of-credit that allow negative amortization. Also, we have not originated home equity loans or lines-of-credit with an LTV ratio at origination greater than 100%, except for infrequent situations with high-quality borrowers. However, continued declines in housing prices have likely eliminated a portion of the collateral for this portfolio and it is likely some loans with an original LTV ratio of less than 100% currently have an LTV ratio above 100%. At September 30, 2010, over 35% of our home equity portfolio was secured by a first-mortgage lien on the property. The risk profile is substantially improved when we hold a first-mortgage lien position. In the first nine-month period of 2010, approximately 65% of our home equity portfolio originations (both loans and lines-of-credit) were secured by a first-mortgage lien.

For certain home equity loans and lines-of-credit, we may utilize Automated Valuation Methodology (AVM) or other model-driven value estimates during the credit underwriting process. We utilize a series of credit parameters to determine the appropriate valuation methodology. We believe the AVM is an appropriate valuation source for a portion of our home equity lending activities. Regardless of the estimate methodology, we supplement our underwriting with a third-party fraud detection system to limit our exposure to flipping, and outright fraudulent transactions. We update values as we believe appropriate, and in compliance with applicable regulations, for loans identified as higher risk. Loans are identified as higher risk based on performance indicators and the updated values are utilized to facilitate our portfolio management, as well as our workout and loss mitigation functions.

We continue to make origination policy adjustments based on our assessment of an appropriate risk profile, as well as industry actions. In addition to origination policy adjustments, we take actions, as necessary, to manage the risk profile of this portfolio. We focus production primarily within our banking footprint or to existing customers.

**RESIDENTIAL MORTGAGES**

We focus on higher-quality borrowers and underwrite all applications centrally, often through the use of an automated underwriting system. We do not originate residential mortgage loans that allow negative amortization or allow the borrower multiple payment options.

All residential mortgage loans are originated based on a complete appraisal during the credit underwriting process. Additionally, we supplement our underwriting with a third-party fraud detection system as used in the home equity portfolio to limit our exposure to flipping and outright fraudulent transactions. We update values in compliance with applicable regulations to facilitate our portfolio management, as well as our workout and loss mitigation functions. A majority of our residential mortgage loans have adjustable rates. Our adjustable-rate mortgages (ARMs) are primarily residential mortgages that have a fixed-rate for the first 3 to 5 years and then adjust annually. These loans comprised approximately 58% of our total residential mortgage loan portfolio at September 30, 2010. At September 30, 2010, ARM loans expected to have rates reset totaled \$173.2 million for the remainder of 2010 and \$958.6 million for 2011. Given the quality of our borrowers and the relatively low current interest rates, we believe we have relatively limited exposure to ARM reset risk. Nonetheless, we have taken actions to mitigate our risk exposure. We initiate borrower contact at least six months prior to the interest rate reset date, and have been successful in converting many ARMs to fixed-rate loans through this process. Additionally, where borrowers are experiencing payment difficulties, loans may be reunderwritten based on the borrower's ability to repay the loan.

We had \$0.3 billion of Alt-A mortgage loans in the residential mortgage loan portfolio at September 30, 2010, compared with \$0.4 billion at December 31, 2009. These loans have a higher risk profile than the rest of the portfolio as a result of origination policies that included reliance on stated income, stated assets, or higher LTV ratios. This portfolio continues to decline as we stopped originating these loans in 2007. At September 30, 2010, borrowers for Alt-A mortgages had an average current FICO score of 682 and the loans had an average current LTV ratio of 86%, compared with 662 and 87%, respectively, at December 31, 2009. Total Alt-A NCOs during the first nine-month period of 2010 were \$12.2 million, or an annualized 4.69%, compared with \$18.7 million, or an annualized 5.98%, in the first nine-month period of 2009. At September 30, 2010, \$16.6 million of the ALLL was allocated to the Alt-A mortgage portfolio, representing 5.12% of period-end Alt-A mortgages.

**Table of Contents**

Interest-only loans comprised \$0.6 billion of residential real estate loans at September 30, 2010, essentially unchanged from December 31, 2009. Interest-only loans are underwritten to specific standards including minimum credit scores, stressed debt-to-income ratios, and extensive collateral evaluation. At September 30, 2010, borrowers for interest-only loans had an average current FICO score of 734 and the loans had an average current LTV ratio of 77%, compared with 718 and 77%, respectively, at December 31, 2009. Total interest-only NCOs during the first nine-month period of 2010 were \$6.8 million, or an annualized 1.61%, compared with \$10.3 million, or an annualized 2.13%, in the first nine-month period of 2009. At September 30, 2010, \$12.4 million of the ALLL was allocated to the interest-only loan portfolio, representing 2.25% of period-end interest-only loans.

Several recent government actions have been enacted that have affected the residential mortgage portfolio and MSR values in particular such as various refinance programs which positively affected the availability of credit for the industry. We are utilizing these programs to enhance our existing strategies of working closely with our customers.

***Credit Quality***

We believe the most meaningful way to assess overall credit quality performance for 2010 is through an analysis of specific credit quality performance ratios. This approach forms the basis of most of the discussion in the three sections immediately following: NALs and NPAs, ACL, and NCOs. In addition, we utilize delinquency rates, risk distribution and migration patterns, and product segmentation in the analysis of our credit quality performance.

Credit quality performance in the 2010 third quarter continued the positive trends from the previous two quarters. Specifically, the level of NPLs declined 18% from the prior quarter, and commercial criticized loans also declined reflecting significant upgrade and payment activity. Excluding the impact of \$80.0 million of Franklin-related NCOs included in the 2010 second quarter total NCOs of \$279.2 million, current quarter NCOs declined \$14.7 million, or 7%. While NCOs remain elevated compared with long-term expectations, the first nine-month period of 2010 continued to show improvement across the portfolio, and delinquency trends improved as well.

The economic environment remains challenging. Yet, reflecting the benefit of our focused credit actions of 2009, we are experiencing declines in total NPAs, new NPAs, and the amount of loan exposure on our watchlist. The current quarter's NCOs of \$184.5 million were primarily related to reserves established in prior periods. Our ACL declined \$65.4 million to \$1,376.4 million, or 3.67% of period-end loans and leases from \$1,441.8 million, or 3.90% at June 30, 2010. Importantly, our ACL as a percent of period-end NALs increased to 140% from 120%, and coverage ratios associated with NPAs and criticized assets also increased. These improved coverage ratios indicate a continued strengthening of our reserve position relative to troubled assets from the prior quarter.

**NONPERFORMING ASSETS, NONACCRUAL LOANS, and TROUBLED DEBT RESTRUCTURED LOANS**

*(This section should be read in conjunction with Significant Item 2.)*

**Nonperforming Assets (NPAs) and Nonaccrual Loans (NALs)**

NPAs consist of (a) nonaccrual loans (NALs), which represent loans and leases no longer accruing interest, (b) impaired held-for-sale loans, (c) OREO, and (d) other NPAs. A C&I or CRE loan is generally placed on nonaccrual status when collection of principal or interest is in doubt or when the loan is 90-days past due. Residential mortgage loans are placed on nonaccrual status at 180-days past due, and a charge-off recorded if it is determined that insufficient equity exists in the collateral property to support the entire outstanding loan amount. A home equity loan is placed on nonaccrual status at 120-days past due, and a charge-off recorded if it is determined there is not sufficient equity in the collateral property to cover our position. In instances associated with residential real estate loans, our equity position is determined by a current property valuation based on an expected marketing time period consistent with the market. When interest accruals are suspended, accrued interest income is reversed with current year accruals charged to earnings and prior-year amounts generally charged-off as a credit loss. When, in our judgment, the borrower's ability to make required interest and principal payments has resumed and collectibility is no longer in doubt, the loan or lease is returned to accrual status.

**Table of Contents**

The following table reflects period-end NALs and NPAs detail for each of the last five quarters:

**Table 30 Nonaccrual Loans (NALs) and Nonperforming Assets (NPAs)**

| <i>(dollar amounts in thousands)</i>        | 2010             |              |              |                 |                          |
|---|------------------|--------------|--------------|-----------------|--------------------------|
|   | September<br>30, | June 30,     | March 31,    | December<br>31, | 2009<br>September<br>30, |
| <b>Nonaccrual loans and leases (NALs)</b>   |                  |              |              |                 |                          |
| Commercial and industrial                   | \$ 398,353       | \$ 429,561   | \$ 511,588   | \$ 578,414      | \$ 612,701               |
| Commercial real estate                      | 478,754          | 663,103      | 826,781      | 935,812         | 1,133,661                |
| Alt-A mortgages                             | 11,188           | 15,119       | 13,368       | 11,362          | 9,810                    |
| Interest-only mortgages                     | 14,334           | 13,811       | 8,193        | 7,445           | 8,336                    |
| Franklin residential mortgages              |                  |              | 297,967      | 299,670         | 322,796                  |
| Other residential mortgages                 | 57,462           | 57,556       | 53,422       | 44,153          | 49,579                   |
| Total residential mortgages                 | 82,984           | 86,486       | 372,950      | 362,630         | 390,521                  |
| Home equity                                 | 21,689           | 22,199       | 54,789       | 40,122          | 44,182                   |
| Total nonaccrual loans and leases           | 981,780          | 1,201,349    | 1,766,108    | 1,916,978       | 2,181,065                |
| Other real estate owned (OREO), net         |                  |              |              |                 |                          |
| Residential                                 | 65,775           | 71,937       | 68,289       | 71,427          | 81,807                   |
| Commercial                                  | 57,309           | 67,189       | 83,971       | 68,717          | 60,784                   |
| Total other real estate, net                | 123,084          | 139,126      | 152,260      | 140,144         | 142,591                  |
| Impaired loans held for sale <sup>(1)</sup> |                  | 242,227      |              | 969             | 20,386                   |
| Total nonperforming assets (NPAs)           | \$ 1,104,864     | \$ 1,582,702 | \$ 1,918,368 | \$ 2,058,091    | \$ 2,344,042             |
| NALs as a % of total loans and leases       | 2.62%            | 3.25%        | 4.78%        | 5.21%           | 5.85%                    |
| NPA ratio <sup>(2)</sup>                    | 2.94             | 4.24         | 5.17         | 5.57            | 6.26                     |
| <b>Nonperforming Franklin assets</b>        |                  |              |              |                 |                          |
| Residential mortgage                        | \$               | \$           | \$ 297,967   | \$ 299,670      | \$ 322,796               |
| Home equity                                 |                  |              | 31,067       | 15,004          | 15,704                   |
| OREO  | 15,330           | 24,515       | 24,423       | 23,826          | 30,996                   |
| Impaired loans held for sale                |                  | 242,227      |              |                 |                          |
| <b>Total Nonperforming Franklin assets</b>  | \$ 15,330        | \$ 266,742   | \$ 353,457   | \$ 338,500      | \$ 369,496               |

(1) The June 30, 2010, figure represents NALs associated with

the transfer of Franklin-related residential mortgage and home equity loans to loans held for sale (see Significant Item 2). The September 30, 2009, amount primarily represented impaired residential mortgage loans held for sale. All other presented amounts represented impaired loans obtained from the Sky Financial acquisition. Held for sale loans are carried at the lower of cost or fair value less costs to sell.

- (2) NPAs divided by the sum of loans and leases, impaired loans held-for-sale, net other real estate, and other NPAs.

NALs were \$981.8 million at September 30, 2010, and represented 2.62% of related loans compared to \$1,201.3 million, or 3.25% of related loans, at June 30, 2010, a decrease of \$219.6 million, or 18%. Although NALs declined compared to the prior quarter, new NPAs increased \$106.8 million, primarily reflecting the impact of large-dollar additions associated with three borrowers.

The \$219.6 million decline in NALs primarily reflected:

\$184.3 million decline in CRE NALs, reflecting both charge-off activity and problem credit resolutions including borrower payments and pay-offs. This category was substantial and was a direct result of our commitment to the on-going proactive management of these credits by our SAD. Also key to this improvement was the significantly lower level of inflows. The level of inflow, or migration, is an important indicator of the future trend for the portfolio.

\$31.2 million decline in C&I NALs, reflecting both charge-off activity and problem credit resolutions, including pay-offs, and was associated with loans throughout our footprint, with no specific geographic

concentration. From an industry perspective, improvement in the manufacturing-related segment accounted for a significant portion of the decrease.

**Table of Contents**

NPAs, which include NALs, were \$1,104.9 million at September 30, 2010, and represented 2.94% of related assets. This compared with \$1,582.7 million, or 4.24% of related assets, at June 30, 2010. The \$477.8 million decrease reflected:

\$242.2 million decrease in impaired loans held for sale, reflecting the sale of Franklin-related loans held for sale in the 2010 third quarter.

\$219.6 million decrease to NALs, discussed above.

The over 90-day delinquency ratio for total consumer loans was 0.53% at September 30, 2010, representing a five basis point increase compared with 0.48% at June 30, 2010. This increase primarily reflected a seasonal increase in residential mortgage delinquencies as 90-day delinquencies in the other consumer loan portfolios were steady.

Seasonal variances are anticipated, and we continue to closely monitor our delinquencies.

As part of our loss mitigation process, we reunderwrite, modify, or restructure loans when borrowers are experiencing payment difficulties, based on the borrower's ability to repay the loan.

Compared with December 31, 2009, NALs decreased \$935.2 million, or 49%. This decrease included a transfer of \$316.6 million of Franklin-related NALs to loans held for sale during the 2010 second quarter. These loans were subsequently sold during the 2010 third quarter. The decline in NALs is summarized below:

\$457.1 million decline in CRE NALs, reflecting both charge-off activity and problem credit resolutions including pay-offs. The payment category was substantial and is a direct result of our commitment to the on-going proactive management of these credits by our SAD.

\$279.6 million decline in residential mortgage NALs, essentially all Franklin-related.

\$180.1 million decline in C&I NALs, reflecting both charge-off activity and problem credit resolutions, including pay-offs, and was associated with loans throughout our footprint, with no specific geographic concentration.

\$18.4 million decline in home equity NALs, essentially all Franklin-related.

Compared with December 31, 2009, NPAs, which include NALs, decreased \$953.2 million, or 46%, reflecting:

\$935.2 million decrease to NALs, discussed above.

\$17.1 million decrease in OREO properties.

NPA activity for each of the past five quarters was as follows:

**Table 31 Nonperforming Asset Activity**

| <i>(dollar amounts in thousands)</i>      |                     | <b>2010</b>  |              | 2009         |              |
|---|---------------------|--------------|--------------|--------------|--------------|
|   | <b>Third</b>        | Second       | First        | Fourth       | Third        |
| Nonperforming assets, beginning of period | <b>\$ 1,582,702</b> | \$ 1,918,368 | \$ 2,058,091 | \$ 2,344,042 | \$ 2,002,584 |
| New nonperforming assets                  | <b>278,388</b>      | 171,595      | 237,914      | 494,607      | 899,855      |
| Franklin impact, net                      | <b>(244,389)</b>    | (86,715)     | 14,957       | (30,996)     | (18,771)     |
| Returns to accruing status                | <b>(111,168)</b>    | (78,739)     | (80,840)     | (85,867)     | (52,498)     |
| Loan and lease losses                     | <b>(155,553)</b>    | (173,159)    | (185,387)    | (391,635)    | (305,405)    |
| OREO gains (losses)                       | <b>(5,302)</b>      | 2,483        | (4,160)      | (7,394)      | (30,623)     |
| Payments                                  | <b>(213,095)</b>    | (140,881)    | (107,640)    | (222,790)    | (117,710)    |
| Sales                                     | <b>(26,719)</b>     | (30,250)     | (14,567)     | (41,876)     | (33,390)     |
| Nonperforming assets, end of period       | <b>\$ 1,104,864</b> | \$ 1,582,702 | \$ 1,918,368 | \$ 2,058,091 | \$ 2,344,042 |



**Table of Contents****Troubled Debt Restructured Loans**

Troubled debt restructured loans (TDRs) are loans that have been modified in which a concession is provided to a borrower experiencing credit difficulties. The terms of the loan are modified to meet a borrower's specific circumstances at a point in time. TDRs can be classified as either accrual or nonaccrual loans. Nonaccrual TDRs are included in NALs whereas accruing TDRs are excluded because the borrower remains contractually current. The table below provides a summary of our TDRs (both accrual and nonaccrual) by loan type as of September 30, 2010:

**Table 32 Accruing and Nonaccruing Troubled Debt Restructured Loans**

September 30, 2010

*(dollar amounts in thousands)*

|  |                   |
|--|-------------------|
| Restructured loans and leases accruing:                |                   |
| Mortgage loans   | \$ 287,481        |
| Other consumer loans                                   | 73,210            |
| Commercial loans                                       | 157,971           |
| <b>Total restructured loans and leases accruing</b>    | <b>518,662</b>    |
| Restructured loans and leases nonaccruing:             |                   |
| Mortgage loans   | 12,787            |
| Other consumer loans                                   |                   |
| Commercial loans                                       | 33,236            |
| <b>Total restructured loans and leases nonaccruing</b> | <b>46,023</b>     |
| <b>Total restructured loans and leases</b>             | <b>\$ 564,685</b> |

In the workout of a problem loan there are many factors considered when determining the most favorable resolution. For consumer loans, we evaluate the ability and willingness of the borrower to make contractual or reduced payments, the value of the underlying collateral, and the costs associated with the foreclosure or repossession, and remarketing of the property. For commercial loans, we consider similar criteria, including multiple collateral types in some instances, and also evaluate the borrower's business prospects.

**Residential Mortgage loan TDRs** Residential mortgage TDRs represent loan modifications associated with traditional first-lien mortgage loans in which a concession has been provided to the borrower. Residential mortgages identified as TDRs involve borrowers who are unable to refinance their mortgages through our normal channels, or to refinance their mortgages through other sources. Some, but not all, of the loans may be delinquent. Modifications can include adjustments to rates and/or principal.

Because these borrowers cannot obtain the modified mortgages through other independent sources or our normal mortgage origination channels, the modifications are classified as TDRs when we provide the concession. Modified loans identified as TDRs are aggregated into pools for analysis. Cash flows and weighted average interest rates are used to calculate impairment at the pooled level. Once the loans are aggregated into the pool, they continue to be classified as TDRs until contractually repaid or charged-off. No consideration is given to removing individual loans from the pools.

Nongovernment guaranteed residential mortgage loans, including restructured loans, are reported as accrual or nonaccrual based upon delinquency status. NALs are those that are greater than 180 days contractually past due. Loans guaranteed by government organizations such as the Federal Housing Administration (FHA), Department of Veterans Affairs (VA), and the United States Department of Agriculture (USDA) continue to accrue interest upon delinquency. Overall, our delinquency rates on TDRs are significantly below industry levels.

Residential mortgage loan TDR classifications resulted in an impairment adjustment of \$2.8 million during the 2010 third quarter, and \$5.3 million for the first nine-month period of 2010. Prior to the TDR classification, residential mortgage loans individually had minimal ALLL associated with them because the ALLL is calculated on a total portfolio pooled basis.

Other Consumer loan TDRs Generally, these are TDRs associated with home equity borrowings and automobile loans. We make similar interest rate, term, and principal concessions as with residential mortgage loan TDRs. The TDR classification for these other consumer loans resulted in an impairment adjustment of \$0.3 million during the 2010 third quarter, and \$1.2 million for the first nine-month period of 2010.

**Table of Contents**

**Commercial loan TDRs** Commercial accruing TDRs represent loans in which a substandard -rated customer is current on contractual principal and interest but undergoes a loan modification. Accruing TDRs often result from substandard -rated customers receiving an extension on the maturity of their loan, for example, to allow additional time for the sale or lease of underlying CRE collateral. Often, it is in our best interest to extend the maturity rather than foreclose on a C&I or CRE loan, particularly for borrowers who are generating cash flows to support contractual interest payments. These borrowers cannot obtain the modified loan through other independent sources because of their current financial circumstances, therefore a concession is provided and the modification is classified as a TDR. The TDR remains in accruing status as long as the customer is current on payments and no loss is probable. Accruing TDRs are excluded from NALs because these customers remain contractually current.

Nonaccrual TDRs result from either workouts where an existing NAL is restructured into multiple new loans, or from an accruing TDR being placed on nonaccrual status. At September 30, 2010, approximately \$10.5 million of our nonaccrual TDRs resulted from such workouts. The remaining \$22.7 million represented the reclassifications of accruing TDRs to NALs.

For certain loan workouts, we create two or more new notes. The senior note is underwritten based upon our normal underwriting standards at current market rates and is sized so projected cash flows are sufficient to repay contractual principal and interest. The terms on the subordinate note or notes vary by situation, but often defer interest payments until after the senior note is repaid. Creating two or more notes often allows the borrower to continue a project or weather a temporary economic downturn and allows us to right-size a loan based upon the current expectations for a project performance. The senior note is considered for return to accrual status if the borrower has sustained sufficient cash flows for a six-month period of time and we believe no loss is probable. This six-month period could extend before or after the restructure date. Subordinated notes created in the workout are charged-off immediately. Any interest or principal payments received on the subordinated notes are applied to the principal of the senior note first until the senior note is repaid. Further payments are recorded as recoveries on the subordinated note.

Generally, because the loans are already classified as substandard, an adequate ALLL has been recorded. Consequently, a TDR classification on commercial loans does not usually result in significant additional reserves. We consider removing the TDR status on commercial loans after the restructured loan has performed in accordance with restructured terms for a sustained period of time.

**Table of Contents**

The following table reflects period-end accruing TDRs and past due loans and leases detail for each of the last five quarters:

**Table 33 Accruing Past Due Loans and Leases and Accruing Troubled Debt Restructured Loans**

| <i>(dollar amounts in thousands)</i>   | 2010              |            | 2009       |              |               |
|--|-------------------|------------|------------|--------------|---------------|
|  | September 30,     | June 30,   | March 31,  | December 31, | September 30, |
| <b>Accruing loans and leases past due 90 days or more</b>  |                   |            |            |              |               |
| Commercial and industrial  | \$                | \$         | \$ 475     | \$           | \$            |
| Commercial real estate   |                   |            |            |              | 2,546         |
| Residential mortgage (excluding loans guaranteed by the U.S. government  | <b>56,803</b>     | 47,036     | 72,702     | 78,915       | 65,716        |
| Home equity  | <b>27,160</b>     | 26,797     | 29,438     | 53,343       | 45,334        |
| Other loans and leases   | <b>11,423</b>     | 9,533      | 10,598     | 13,400       | 14,175        |
| Total, excl. loans guaranteed by the U.S. government   | <b>95,386</b>     | 83,366     | 113,213    | 145,658      | 127,771       |
| Add: loans guaranteed by the U.S. government   | <b>94,249</b>     | 95,421     | 96,814     | 101,616      | 102,895       |
| <b>Total accruing loans and leases past due 90 days or more, including loans guaranteed by the U.S. government</b> | <b>\$ 189,635</b> | \$ 178,787 | \$ 210,027 | \$ 247,274   | \$ 230,666    |
| <b>Ratios: (1)</b>   |                   |            |            |              |               |
| Excluding loans guaranteed by the U.S. government, as a percent of total loans and leases                          | <b>0.25%</b>      | 0.23%      | 0.31%      | 0.40%        | 0.34%         |
| Guaranteed by the U.S. government, as a percent of total loans and leases  | <b>0.26</b>       | 0.26       | 0.26       | 0.28         | 0.28          |
| Including loans guaranteed by the U.S. government, as a percent of total loans and leases                          | <b>0.51</b>       | 0.49       | 0.57       | 0.68         | 0.62          |
| <b>Accruing troubled debt restructured loans</b>   |                   |            |            |              |               |
| Commercial   | \$ <b>157,971</b> | \$ 141,353 | \$ 117,667 | \$ 157,049   | \$ 153,010    |
| Alt-A mortgages  | <b>59,250</b>     | 57,993     | 57,897     | 57,278       | 58,367        |
| Interest-only mortgages  | <b>7,798</b>      | 7,794      | 8,413      | 7,890        | 10,072        |

|  |                   |            |            |            |            |
|--|-------------------|------------|------------|------------|------------|
| Other residential mortgages                                | <b>220,433</b>    | 203,783    | 176,560    | 154,471    | 136,024    |
| Total residential mortgages                                | <b>287,481</b>    | 269,570    | 242,870    | 219,639    | 204,463    |
| Other  | <b>73,210</b>     | 65,061     | 62,148     | 52,871     | 42,406     |
| <b>Total accruing troubled debt<br/>restructured loans</b> | <b>\$ 518,662</b> | \$ 475,984 | \$ 422,685 | \$ 429,559 | \$ 399,879 |

(1) Percent of  
related loans  
and leases.

Commercial TDRs at September 30, 2010 are consistent with TDRs at December 31, 2009. During the 2010 first quarter, commercial loan TDRs declined \$39.4 million as several loans were removed from the TDR classification because the loans had performed in accordance with the restructured terms for a sustained period of time. This decline was offset by increases in the 2010 first quarter and 2010 second quarter as additional substandard loans were restructured. Residential mortgage TDRs have increased from December 31, 2009 primarily due to our loss mitigation efforts.

**Table of Contents**

Commercial criticized loan activity for each of the past five quarters was as follows:

**Table 34 Criticized Commercial Loan Activity**

| <i>(dollar amounts in thousands)</i>             | <b>Third</b>        | <b>2010</b>  |              | <b>2009</b>  |              |
|--|---------------------|--------------|--------------|--------------|--------------|
|  |                     | Second       | First        | Fourth       | Third        |
| Criticized commercial loans, beginning of period | <b>\$ 4,106,602</b> | \$ 4,608,610 | \$ 4,971,637 | \$ 4,855,464 | \$ 4,679,943 |
| New additions / increases                        | <b>407,514</b>      | 280,353      | 306,499      | 949,738      | 795,206      |
| Advances   | <b>75,386</b>       | 79,392       | 91,450       | 110,305      | 70,529       |
| Upgrades to Pass                                 | <b>(391,316)</b>    | (409,092)    | (273,011)    | (134,679)    | (136,099)    |
| Payments   | <b>(408,698)</b>    | (331,145)    | (324,229)    | (428,247)    | (298,349)    |
| Loan losses                                      | <b>(151,955)</b>    | (121,516)    | (163,736)    | (380,944)    | (255,766)    |
| Criticized commercial loans, end of period       | <b>\$ 3,637,533</b> | \$ 4,106,602 | \$ 4,608,610 | \$ 4,971,637 | \$ 4,855,464 |

**ALLOWANCE FOR CREDIT LOSSES (ACL)**

*(This section should be read in conjunction with Significant Item 2, and the Critical Accounting Policies and Use of Significant Estimates discussion.)*

We maintain two reserves, both of which in our judgment are adequate to absorb credit losses inherent in our loan and lease portfolio: the ALLL and the AULC. Combined, these reserves comprise the total ACL. Our credit administration group is responsible for developing the methodology assumptions and estimates used in the calculation, as well as determining the adequacy of the ACL. The ALLL represents the estimate of probable losses inherent in the loan portfolio at the balance sheet date. Additions to the ALLL result from recording provision expense for loan losses or increased risk levels resulting from loan risk-rating downgrades, while reductions reflect charge-offs, recoveries, decreased risk levels resulting from loan risk-rating upgrades, or the sale of loans. The AULC is determined by applying the transaction reserve process to the unfunded portion of the loan exposures adjusted by an applicable funding expectation.

A provision for credit losses is recorded to adjust the ACL to the level we have determined to be adequate to absorb credit losses inherent in our loan and lease portfolio. The provision for credit losses in the 2010 third quarter was \$119.2 million, compared with \$475.1 million in the year-ago quarter and \$193.4 million in the prior quarter. While credit quality metrics have significantly improved during the first nine-month period of 2010, provision expense since 2008 has been higher than historical levels, reflecting the pronounced downturn in the U.S. economy, as well as significant deterioration in the residential real estate market that began in early 2007. Declining real estate valuations and higher levels of delinquencies and charge-offs have significantly affected the quality of our loans secured by real estate. Portions of the residential portfolio, specifically the smaller Alt-A segment in the consumer residential mortgage portfolio and the single family builder and developer loans in the commercial portfolio, experienced the majority of the credit issues related to the residential real estate market.

We regularly assess the adequacy of the ACL by performing on-going evaluations of the loan and lease portfolio, including such factors as the differing economic risks associated with each loan category, the financial condition of specific borrowers, the level of delinquent loans, the value of any collateral and, where applicable, the existence of any guarantees or other documented support. We evaluate the impact of changes in interest rates and overall economic conditions on the ability of borrowers to meet their financial obligations when quantifying our exposure to credit losses and assessing the adequacy of our ACL at each reporting date. In addition to general economic conditions and the other factors described above, we also consider: the impact of declining residential real estate values; the concentration of CRE loans, particularly the large concentration of loans secured by retail properties; and the amount of C&I loans to businesses in areas of Ohio and Michigan that have historically experienced less economic growth compared with our other footprint markets.

Our ACL assessment process includes the on-going assessment of credit quality metrics, and a comparison of certain ACL adequacy benchmarks to current performance. While the total ACL balance declined in the current quarter, all of the relevant benchmarks improved as a result of the asset quality improvement. The coverage ratios of NALs, criticized and classified loans all showed significant improvement in the quarter despite the decline in the ACL level.

**Table of Contents**

The table below reflects activity in the ALLL and ACL for each of the last five quarters:

**Table 35 Quarterly Allowance for Credit Losses Analysis**

| <i>(dollar amounts in thousands)</i>  | <b>Third</b>        | <b>2010<br/>Second</b> | <b>First</b> | <b>2009<br/>Fourth</b> | <b>Third</b> |
|---|---------------------|------------------------|--------------|------------------------|--------------|
| <b>Allowance for loan and lease losses, beginning of period</b>                           | <b>\$ 1,402,160</b> | \$ 1,477,969           | \$ 1,482,479 | \$ 1,031,971           | \$ 917,680   |
| Loan and lease losses   | <b>(221,144)</b>    | (312,954)              | (264,222)    | (471,486)              | (377,443)    |
| Recoveries of loans previously charged off  | <b>36,630</b>       | 33,726                 | 25,741       | 26,739                 | 21,501       |
| Net loan and lease losses   | <b>(184,514)</b>    | (279,228)              | (238,481)    | (444,747)              | (355,942)    |
| Provision for loan and lease losses   | <b>118,788</b>      | 203,633                | 233,971      | 895,255                | 472,137      |
| Allowance for loans transferred to held-for-sale  |                     |                        |              |                        | (1,904)      |
| Allowance of assets sold  | <b>(82)</b>         | (214)                  |              |                        |              |
| <b>Allowance for loan and lease losses, end of period</b>                                 | <b>\$ 1,336,352</b> | \$ 1,402,160           | \$ 1,477,969 | \$ 1,482,479           | \$ 1,031,971 |
| <b>Allowance for unfunded loan commitments and letters of credit, beginning of period</b> | <b>\$ 39,689</b>    | \$ 49,916              | \$ 48,879    | \$ 50,143              | \$ 47,144    |
| Provision for (reduction in) unfunded loan commitments and letters of credit losses       | <b>372</b>          | (10,227)               | 1,037        | (1,264)                | 2,999        |
| <b>Allowance for unfunded loan commitments and letters of credit, end of period</b>       | <b>\$ 40,061</b>    | \$ 39,689              | \$ 49,916    | \$ 48,879              | \$ 50,143    |
| <b>Total allowance for credit losses</b>  | <b>\$ 1,376,413</b> | \$ 1,441,849           | \$ 1,527,885 | \$ 1,531,358           | \$ 1,082,114 |
| <b>Allowance for loan and lease losses (ALLL) as % of:</b>                                |                     |                        |              |                        |              |
| Total loans and leases  | <b>3.56%</b>        | 3.79%                  | 4.00%        | 4.03%                  | 2.77%        |
| Nonaccrual loans and leases (NALs)  | <b>136</b>          | 117                    | 84           | 77                     | 47           |
| Nonperforming assets (NPAs)   | <b>121</b>          | 89                     | 77           | 72                     | 44           |
| <b>Total allowance for credit losses (ACL) as % of:</b>                                   |                     |                        |              |                        |              |
| Total loans and leases  | <b>3.67%</b>        | 3.90%                  | 4.14%        | 4.16%                  | 2.90%        |



|      |            |     |    |    |    |
|------|------------|-----|----|----|----|
| NALs | <b>140</b> | 120 | 87 | 80 | 50 |
| NPAs | <b>125</b> | 91  | 80 | 74 | 46 |

The reduction in the ACL, compared with both June 30, 2010 and December 31, 2009, reflected a decline in the commercial portfolio ALLL as a result of charge-offs on loans with specific reserves, and an overall reduction in the level of commercial criticized loans. As shown in Table 34, commercial criticized loans declined \$469.1 million from June 30, 2010 and \$1,334.1 million from December 31, 2009, reflecting significant upgrade and payment activity. Compared with December 31, 2009, the AULC declined \$8.8 million as a result of a substantive reduction in the level of unfunded loan commitments in the commercial portfolio. A concerted effort was made to reduce potential exposure associated with unfunded lines and to generate an appropriate level of return on those that remain in place. In addition, borrowers continue to reassess their borrowing needs and reduce their availability. Compared with June 30, 2010, the AULC increased slightly.

The ACL coverage ratio associated with NALs was 140% at September 30, 2010, representing an improvement compared with recent prior periods. This improvement reflected substantial payments on C&I and CRE NALs. Although credit quality asset metrics and trends, including those mentioned above, have improved during the first nine-month period of 2010, the economic environment in our markets remains weak and uncertain as reflected by continued weak residential values, continued weakness in industrial employment in northern Ohio and southeast Michigan, and the significant subjectivity involved in commercial real estate valuations for properties located in areas with limited sale or refinance activities. Residential real estate values continued to be impacted by high unemployment, increased foreclosure activity, and the elimination of home-buyer tax credits. In the near-term, we believe these factors will result in continued stress in our portfolios secured by residential real estate and an elevated level of NCOs compared to historic levels. In the 2010 third quarter, we experienced an increase in the inflow of new commercial criticized loans as well as an increase in the inflow of new NPAs. This represented a departure from the trend that appeared to be developing over recent prior quarters and is further evidence of a fragile economic environment. Further, concerns continue to exist regarding the economic conditions in both national and international markets, the state of financial and credit markets, the unemployment rate, the impact of the Federal Reserve monetary policy, and continued uncertainty regarding federal, state, and local government budget deficits. We do not anticipate any meaningful change in the overall economy in the near-term. All of these factors are impacting consumer confidence, as well as business investments and acquisitions. Given the combination of these factors, we believe that our ACL coverage levels are appropriate.

**Table of Contents**

The table below reflects the allocation of our ACL among our various loan categories during each of the past five quarters:

**Table 36 Allocation of Allowance for Credit Losses (1)**

| <i>(Dollar amounts in thousands)</i> | September 30, |      | 2010         |      | March 31,    |      | 2009         |      | September 30, |      |
|--------------------------------------|---------------|------|--------------|------|--------------|------|--------------|------|---------------|------|
|                                      |               |      | June 30,     | 34%  |              |      | December 31, | 35%  |               |      |
| Commercial                           |               |      |              |      |              |      |              |      |               |      |
| Commercial and industrial            | \$ 353,431    | 33%  | \$ 426,767   | 34%  | \$ 459,011   | 33%  | \$ 492,205   | 35%  | \$ 381,912    | 34%  |
| Commercial real estate               | 654,219       | 18   | 695,778      | 19   | 741,669      | 20   | 751,875      | 21   | 436,661       | 23   |
| Total commercial                     | 1,007,650     | 51   | 1,122,545    | 53   | 1,200,680    | 53   | 1,244,080    | 56   | 818,573       | 57   |
| Consumer                             |               |      |              |      |              |      |              |      |               |      |
| Automobile loans and leases          | 44,505        | 14   | 41,762       | 13   | 56,111       | 12   | 57,951       | 9    | 59,134        | 9    |
| Home equity                          | 154,323       | 21   | 117,708      | 20   | 127,970      | 20   | 102,039      | 21   | 86,989        | 20   |
| Residential mortgage                 | 93,407        | 12   | 79,105       | 12   | 60,295       | 12   | 55,903       | 12   | 50,177        | 12   |
| Other loans                          | 36,467        | 2    | 41,040       | 2    | 32,913       | 3    | 22,506       | 2    | 17,098        | 2    |
| Total consumer                       | 328,702       | 49   | 279,615      | 47   | 277,289      | 47   | 238,399      | 44   | 213,398       | 43   |
| Total ALLL                           | 1,336,352     | 100% | 1,402,160    | 100% | 1,477,969    | 100% | 1,482,479    | 100% | 1,031,971     | 100% |
| AULC                                 | 40,061        |      | 39,689       |      | 49,916       |      | 48,879       |      | 50,143        |      |
| Total ACL                            | \$ 1,376,413  |      | \$ 1,441,849 |      | \$ 1,527,885 |      | \$ 1,531,358 |      | \$ 1,082,114  |      |

(1) Percentages represent the percentage of each loan and lease category to total loans and leases.

The table below reflects activity in the ALLL and AULC for the first nine-month period of 2010 and the first nine-month period of 2009.

**Table 37 Year to Date Allowance for Credit Losses Analysis**

| <i>(in thousands)</i>                                    | Nine Months Ended September 30, |             |
|--|---------------------------------|-------------|
|  | 2010                            | 2009        |
| Allowance for loan and lease losses, beginning of period | \$ 1,482,479                    | \$ 900,227  |
| Loan and lease losses                                    | (798,320)                       | (1,089,892) |
| Recoveries of loans previously charged off               | 96,097                          | 58,052      |
| Net loan and lease losses                                | (702,223)                       | (1,031,840) |
| Provision for loan and lease losses                      | 556,392                         | 1,174,676   |
| Allowance for loans transferred to held-for-sale         |                                 | (1,904)     |
| Allowance of assets sold                                 | (296)                           | (9,188)     |

|   |                     |                     |
|---|---------------------|---------------------|
| <b>Allowance for loan and lease losses, end of period</b>                                 | <b>\$ 1,336,352</b> | <b>\$ 1,031,971</b> |
| <b>Allowance for unfunded loan commitments and letters of credit, beginning of period</b> | <b>\$ 48,879</b>    | <b>\$ 44,139</b>    |
| Provision for (reduction in) unfunded loan commitments and letters of credit losses       | <b>(8,818)</b>      | <b>6,004</b>        |
| <b>Allowance for unfunded loan commitments and letters of credit, end of period</b>       | <b>\$ 40,061</b>    | <b>\$ 50,143</b>    |
| <b>Total allowance for credit losses</b>  | <b>\$ 1,376,413</b> | <b>\$ 1,082,114</b> |
| <b>Allowance for loan and lease losses (ALLL) as % of:</b>                                |                     |                     |
| Total loans and leases  | <b>3.56%</b>        | <b>2.77%</b>        |
| Nonaccrual loans and leases (NALs)  | <b>136</b>          | <b>47</b>           |
| Nonperforming assets (NPAs)   | <b>121</b>          | <b>44</b>           |
| <b>Total allowance for credit losses (ACL) as % of:</b>                                   |                     |                     |
| Total loans and leases  | <b>3.67%</b>        | <b>2.90%</b>        |
| NALs  | <b>140</b>          | <b>50</b>           |
| Nonperforming assets  | <b>125</b>          | <b>46</b>           |
| <b><u>NET CHARGE-OFFS (NCOs)</u></b>  |                     |                     |
| <i>(This section should be read in conjunction with Significant Item 2.)</i>              |                     |                     |

**Table of Contents**

Table 38 reflects NCO detail for each of the last five quarters. Table 39 displays the Franklin-related impacts for each of the last five quarters.

**Table 38 Quarterly Net Charge-off Analysis**

| <i>(dollar amounts in thousands)</i>          | <b>Third</b>      | <b>2010<br/>Second</b> | <b>First</b> | <b>2009<br/>Fourth</b> | <b>Third</b> |
|---|-------------------|------------------------|--------------|------------------------|--------------|
| <b>Net charge-offs by loan and lease type</b> |                   |                        |              |                        |              |
| Commercial:                                   |                   |                        |              |                        |              |
| Commercial and industrial <sup>(1)</sup>      | \$ <b>62,241</b>  | \$ 58,128              | \$ 75,439    | \$ 109,816             | \$ 68,842    |
| Construction                                  | <b>17,936</b>     | 45,562                 | 34,426       | 85,345                 | 50,359       |
| Commercial                                    | <b>45,725</b>     | 36,169                 | 50,873       | 172,759                | 118,866      |
| Commercial real estate                        | <b>63,661</b>     | 81,731                 | 85,299       | 258,104                | 169,225      |
| Total commercial                              | <b>125,902</b>    | 139,859                | 160,738      | 367,920                | 238,067      |
| Consumer:                                     |                   |                        |              |                        |              |
| Automobile loans                              | <b>5,208</b>      | 5,219                  | 7,666        | 11,374                 | 8,988        |
| Automobile leases                             | <b>362</b>        | 217                    | 865          | 1,554                  | 1,753        |
| Automobile loans and leases                   | <b>5,570</b>      | 5,436                  | 8,531        | 12,928                 | 10,741       |
| Home equity <sup>(2)</sup>                    | <b>27,827</b>     | 44,470                 | 37,901       | 35,764                 | 28,045       |
| Residential mortgage <sup>(3), (4)</sup>      | <b>18,961</b>     | 82,848                 | 24,311       | 17,789                 | 68,955       |
| Other loans                                   | <b>6,254</b>      | 6,615                  | 7,000        | 10,346                 | 10,134       |
| Total consumer                                | <b>58,612</b>     | 139,369                | 77,743       | 76,827                 | 117,875      |
| <b>Total net charge-offs</b>                  | <b>\$ 184,514</b> | \$ 279,228             | \$ 238,481   | \$ 444,747             | \$ 355,942   |
| <b>Net charge-offs annualized percentages</b> |                   |                        |              |                        |              |
| Commercial:                                   |                   |                        |              |                        |              |
| Commercial and industrial <sup>(1)</sup>      | <b>2.01%</b>      | 1.90%                  | 2.45%        | 3.49%                  | 2.13%        |
| Construction                                  | <b>7.25</b>       | 14.25                  | 9.77         | 20.68                  | 11.14        |
| Commercial                                    | <b>3.01</b>       | 2.38                   | 3.25         | 10.15                  | 6.72         |
| Commercial real estate                        | <b>3.60</b>       | 4.44                   | 4.44         | 12.21                  | 7.62         |
| Total commercial                              | <b>2.59</b>       | 2.85                   | 3.22         | 7.00                   | 4.37         |
| Consumer:                                     |                   |                        |              |                        |              |
| Automobile loans                              | <b>0.41</b>       | 0.47                   | 0.76         | 1.49                   | 1.25         |
| Automobile leases                             | <b>1.32</b>       | 0.54                   | 1.58         | 2.25                   | 2.04         |
| Automobile loans and leases                   | <b>0.43</b>       | 0.47                   | 0.80         | 1.55                   | 1.33         |
| Home equity <sup>(2)</sup>                    | <b>1.47</b>       | 2.36                   | 2.01         | 1.89                   | 1.48         |
| Residential mortgage <sup>(3), (4)</sup>      | <b>1.73</b>       | 7.19                   | 2.17         | 1.61                   | 6.15         |

|  |              |       |       |       |       |
|--|--------------|-------|-------|-------|-------|
| Other loans                                    | <b>3.83</b>  | 3.81  | 3.87  | 5.47  | 5.36  |
| Total consumer                                 | <b>1.32</b>  | 3.19  | 1.83  | 1.91  | 2.94  |
| <b>Net charge-offs as a % of average loans</b> | <b>1.98%</b> | 3.01% | 2.58% | 4.80% | 3.76% |

(1) The 2009 third quarter included net recoveries totaling \$4,080 thousand associated with the 2009 Franklin restructuring.

(2) The 2010 second quarter included net charge-offs totaling \$14,678 thousand associated with the transfer of Franklin-related home equity loans to loans held for sale and \$1,262 thousand of other Franklin-related net charge-offs.

(3) The 2010 second quarter included net charge-offs totaling \$60,822 thousand associated with the transfer of Franklin-related residential mortgage loans to loans held for sale and \$3,403 thousand of other Franklin-related

net charge-offs.

- (4) Effective with the 2009 third quarter, a change to accelerate the timing of when a partial charge-off is recognized was made. This change resulted in \$31,952 thousand of charge-offs in the 2009 third quarter.

**Table of Contents****Table 39 Quarterly NCOs Franklin-Related Impact**

| <i>(dollar amounts in millions)</i>                                     | <b>Third</b>    | <b>2010</b> |          | <b>2009</b> |          |  |
|---|-----------------|-------------|----------|-------------|----------|--|
|   |                 | Second      | First    | Fourth      | Third    |  |
| <b>Commercial and industrial net charge-offs (recoveries)</b>           |                 |             |          |             |          |  |
| Franklin  | \$ (4.5)        | \$ (0.2)    | \$ (0.3) | \$ 0.1      | \$ (4.1) |  |
| Non-Franklin  | <b>66.7</b>     | 58.3        | 75.7     | 109.7       | 72.9     |  |
| Total   | \$ <b>62.2</b>  | \$ 58.1     | \$ 75.4  | \$ 109.8    | \$ 68.8  |  |
| <b>Commercial and industrial net charge-offs annualized percentages</b> |                 |             |          |             |          |  |
| Total   | <b>2.01%</b>    | 1.90%       | 2.45%    | 3.49%       | 2.13%    |  |
| Non-Franklin  | <b>2.15</b>     | 1.90        | 2.46     | 3.49        | 2.26     |  |
| <b>Total commercial charge-offs (recoveries)</b>                        |                 |             |          |             |          |  |
| Franklin  | \$ (4.5)        | \$ (0.2)    | \$ (0.3) | \$ 0.1      | \$ (4.1) |  |
| Non-Franklin  | <b>130.4</b>    | 140.1       | 161.0    | 367.8       | 242.2    |  |
| Total   | \$ <b>125.9</b> | \$ 139.9    | \$ 160.7 | \$ 367.9    | \$ 238.1 |  |
| <b>Total commercial loan net charge-offs annualized percentages</b>     |                 |             |          |             |          |  |
| Total   | <b>2.59%</b>    | 2.85%       | 3.22%    | 7.00%       | 4.37%    |  |
| Non-Franklin  | <b>2.68</b>     | 2.86        | 3.22     | 7.00        | 4.44     |  |
| <b>Total home equity loan charge-offs (recoveries)</b>                  |                 |             |          |             |          |  |
| Franklin  | \$ 1.1          | \$ 15.9     | \$ 3.7   | \$          | \$ (0.1) |  |
| Non-Franklin  | <b>26.7</b>     | 28.6        | 34.2     | 35.8        | 28.1     |  |
| Total   | \$ <b>27.8</b>  | \$ 44.5     | \$ 37.9  | \$ 35.8     | \$ 28.0  |  |
| <b>Total home equity loan net charge-offs annualized percentages</b>    |                 |             |          |             |          |  |
| Total   | <b>1.47%</b>    | 2.36%       | 2.01%    | 1.89%       | 1.48%    |  |
| Non-Franklin  | <b>1.41</b>     | 1.53        | 1.83     | 1.91        | 1.50     |  |
| <b>Total residential mortgage loan charge-offs (recoveries)</b>         |                 |             |          |             |          |  |
| Franklin  | \$ 3.4          | \$ 64.2     | \$ 8.1   | \$ 1.1      | \$ 0.6   |  |
| Non-Franklin  | <b>15.6</b>     | 18.6        | 16.2     | 16.7        | 68.4     |  |
| Total   | \$ <b>19.0</b>  | \$ 82.8     | \$ 24.3  | \$ 17.8     | \$ 69.0  |  |

**Total residential mortgage loan  
net charge-offs annualized  
percentages**

|              |              |       |       |       |       |
|--------------|--------------|-------|-------|-------|-------|
| Total        | <b>1.73%</b> | 7.19% | 2.17% | 1.61% | 6.15% |
| Non-Franklin | <b>1.42</b>  | 1.74  | 1.57  | 1.66  | 6.71  |

**Total consumer loan charge-offs  
(recoveries)**

|              |               |         |         |        |        |
|--------------|---------------|---------|---------|--------|--------|
| Franklin     | \$ <b>4.5</b> | \$ 80.2 | \$ 11.9 | \$ 1.1 | \$ 0.6 |
| Non-Franklin | <b>54.1</b>   | 59.2    | 65.8    | 75.7   | 117.3  |

|       |                |          |         |         |          |
|-------|----------------|----------|---------|---------|----------|
| Total | \$ <b>58.6</b> | \$ 139.4 | \$ 77.7 | \$ 76.8 | \$ 117.9 |
|-------|----------------|----------|---------|---------|----------|

**Total consumer loan net  
charge-offs annualized  
percentages**

|              |              |       |       |       |       |
|--------------|--------------|-------|-------|-------|-------|
| Total        | <b>1.32%</b> | 3.19% | 1.83% | 1.91% | 2.94% |
| Non-Franklin | <b>1.22</b>  | 1.39  | 1.59  | 1.94  | 3.01  |

**Total net charge-offs  
(recoveries)**

|              |              |         |         |        |          |
|--------------|--------------|---------|---------|--------|----------|
| Franklin     | \$           | \$ 80.0 | \$ 11.5 | \$ 1.2 | \$ (3.5) |
| Non-Franklin | <b>184.5</b> | 199.2   | 227.0   | 443.5  | 359.4    |

|       |                 |          |          |          |          |
|-------|-----------------|----------|----------|----------|----------|
| Total | \$ <b>184.5</b> | \$ 279.2 | \$ 238.5 | \$ 444.7 | \$ 355.9 |
|-------|-----------------|----------|----------|----------|----------|

**Total net charge-offs  
annualized percentages**

|              |              |       |       |       |       |
|--------------|--------------|-------|-------|-------|-------|
| Total        | <b>1.98%</b> | 3.01% | 2.58% | 4.80% | 3.76% |
| Non-Franklin | <b>1.98</b>  | 2.17  | 2.48  | 4.84  | 3.85  |



**Table of Contents**

Total NCOs during the 2010 third quarter were \$184.5 million, or an annualized 1.98% of average related balances, compared with \$279.2 million, or annualized 3.01% of average related balances, in the 2010 second quarter. The prior quarter included \$80.0 million of Franklin-related charge-offs, reflecting \$75.5 million associated with the transfer of Franklin-related loans to loans held for sale (*see Significant Item 2*), and \$4.5 million of other Franklin-related NCOs. Excluding the Franklin-related charge-offs, NCOs in the prior quarter were \$199.2 million, or an annualized 2.17%. On this same basis, NCOs in the current quarter were \$184.5 million, or an annualized 1.98%, and declined \$14.7 million compared with the prior quarter.

In assessing NCO trends, it is helpful to understand the process of how these loans are treated as they deteriorate over time. Reserves for loans are established at origination consistent with the level of risk associated with the original underwriting. If the quality of a loan deteriorates, it migrates to a lower quality risk rating as a result of our normal portfolio management process, and a higher reserve amount is assigned. As a part of our normal portfolio management process for commercial loans, the loan is reviewed and reserves are increased or decreased as warranted. Charge-offs, if necessary, are generally recognized in a period after the reserves were established. If the previously established reserves exceed that needed to satisfactorily resolve the problem loan, a reduction in the overall level of the reserve could be recognized. In summary, if loan quality deteriorates, the typical credit sequence is periods of reserve building, followed by periods of higher NCOs as previously established reserves are utilized. Additionally, increases in reserves either precede or are in conjunction with increases in NALs. When a loan is classified as NAL, it is evaluated for specific reserves or charge-off. As a result, an increase in NALs does not necessarily result in an increase in reserves or an expectation of higher future NCOs.

Total commercial NCOs during 2010 third quarter were \$125.9 million, or an annualized 2.59% of average related balances, compared with \$139.9 million, or an annualized 2.85% in 2010 second quarter.

C&I NCOs in the 2010 third quarter were \$62.2 million, or an annualized 2.01%, compared with \$58.1 million, or an annualized 1.90%, in the 2010 second quarter. The increase of \$4.1 million, or 7%, included \$4.5 million of Franklin-related net recoveries as the prior quarter NCOs included Franklin-related net recoveries of only \$0.2 million. The increase in non-Franklin-related NCOs primarily reflected two relationships with charge-offs totaling \$34.9 million.

CRE NCOs in the 2010 third quarter were \$63.7 million, or an annualized 3.60%, compared with \$81.7 million, or an annualized 4.44%, in the 2010 second quarter. The decrease of \$18.1 million, or 22%, reflected the results of significant large-dollar NCO activity in the prior quarter.

Total consumer NCOs during the 2010 third quarter were \$58.6 million, or an annualized 1.32%, compared with \$139.4 million, or an annualized 3.19%, in 2010 second quarter. The prior quarter included \$80.2 million of Franklin-related charge-offs, compared with \$4.5 million of Franklin-related charge-offs during the current quarter. Excluding the Franklin-related impact, our consumer NCO rate was an annualized 1.39% in the prior quarter compared with 1.22% in the current quarter.

Automobile loan and lease NCOs in the 2010 third quarter were \$5.6 million, or an annualized 0.43%, compared with \$5.4 million, or an annualized 0.47%, in 2010 second quarter. This performance was consistent with our expectations, and reflected slightly better performance than the normal seasonality associated with this portfolio.

Home equity NCOs in the 2010 third quarter were \$27.8 million, or an annualized 1.47%, compared with \$44.5 million, or an annualized 2.36%, in 2010 second quarter. The prior quarter included \$15.9 million of Franklin-related NCOs compared with \$1.1 million of Franklin-related NCOs in the current quarter. Excluding the Franklin-related impact, home equity NCOs in the prior quarter were \$28.6 million, or an annualized 1.53%. On this same basis, home equity NCOs in the current quarter were \$26.7 million, a decline of \$1.9 million compared with the prior quarter. The performance is consistent with our expectations for the portfolio given the economic conditions in our markets. We continue to manage the default rate through focused delinquency monitoring as virtually all defaults for second-lien home equity loans incur significant losses due to insufficient equity in the collateral property.

Residential mortgage NCOs in the 2010 third quarter were \$19.0 million, or an annualized 1.73%, compared with \$82.8 million, or an annualized 7.19%, in 2010 second quarter. The prior quarter included \$64.2 million of Franklin-related NCOs compared with \$3.4 million of Franklin-related NCOs in the current quarter. Excluding the Franklin-related impact, residential mortgage NCOs in the prior quarter were \$18.6 million, or an annualized 1.74%.

On this same basis, residential mortgage NCOs in the current quarter were \$15.6 million, and declined \$3.0 million compared with the prior quarter. The decrease reflected the impact of a higher amount of large-dollar losses incurred in the prior quarter. As with the home equity portfolio, the performance of this portfolio is consistent with our expectations given the economic conditions in our markets. Additionally, delinquencies declined significantly during the current quarter which we believe indicates future improvement in the loss rate.

Table 40 reflects NCO activity for the first nine-month period of 2010 and the first nine-month period of 2009. Table 41 displays the NCO Franklin-related impacts for the first nine-month period of 2010 and the first nine-month period of 2009.

**Table of Contents****Table 40 Year to Date Net Charge-off Analysis**

| <i>(dollar amounts in thousands)</i>           | Nine Months Ended September |                     |
|--|-----------------------------|---------------------|
|  | 2010                        | 30,<br>2009         |
| <b>Net charge-offs by loan and lease type:</b> |                             |                     |
| Commercial:                                    |                             |                     |
| Commercial and industrial <sup>(1)</sup>       | \$ 195,808                  | \$ 377,790          |
| Commercial real estate:                        |                             |                     |
| Construction                                   | 97,924                      | 107,361             |
| Commercial                                     | 132,767                     | 317,266             |
| Commercial real estate                         | 230,691                     | 424,627             |
| Total commercial                               | 426,499                     | 802,417             |
| Consumer:                                      |                             |                     |
| Automobile loans                               | 18,093                      | 36,338              |
| Automobile leases                              | 1,444                       | 7,066               |
| Automobile loans and leases                    | 19,537                      | 43,404              |
| Home equity <sup>(2)</sup>                     | 110,198                     | 70,412              |
| Residential mortgage <sup>(3)</sup>            | 126,120                     | 92,413              |
| Other loans                                    | 19,869                      | 23,194              |
| Total consumer                                 | 275,724                     | 229,423             |
| <b>Total net charge-offs</b>                   | <b>\$ 702,223</b>           | <b>\$ 1,031,840</b> |
| <b>Net charge-offs annualized percentages:</b> |                             |                     |
| Commercial:                                    |                             |                     |
| Commercial and industrial <sup>(1)</sup>       | 2.12%                       | 3.78%               |
| Commercial real estate:                        |                             |                     |
| Construction                                   | 10.67                       | 7.42                |
| Commercial                                     | 2.88                        | 5.67                |
| Commercial real estate                         | 4.17                        | 6.03                |
| Total commercial                               | 2.89                        | 4.71                |
| Consumer:                                      |                             |                     |
| Automobile loans                               | 0.53                        | 1.52                |
| Automobile leases                              | 1.18                        | 2.21                |

|  |              |       |
|--|--------------|-------|
| Automobile loans and leases                    | <b>0.56</b>  | 1.60  |
| Home equity <sup>(2)</sup>                     | <b>1.95</b>  | 1.24  |
| Residential mortgage <sup>(3)</sup>            | <b>3.74</b>  | 2.69  |
| Other loans                                    | <b>3.84</b>  | 4.36  |
| <br>   |              |       |
| Total consumer                                 | <b>2.11</b>  | 1.85  |
| <br>   |              |       |
| <b>Net charge-offs as a % of average loans</b> | <b>2.52%</b> | 3.51% |

(1) The first nine-month period of 2009 included net charge-offs totaling \$114,374 thousand associated with the Franklin restructuring.

(2) The 2010 first nine-month period included net charge-offs totaling \$14,678 thousand associated with the transfer of Franklin-related home equity loans to loans held for sale and \$6,143 thousand of other Franklin-related net charge-offs.

(3) The 2010 first nine-month period included net charge-offs totaling \$60,822 thousand associated with the transfer of Franklin-related

residential  
mortgage loans  
to loans held for  
sale and \$14,914  
thousand of  
other  
Franklin-related  
net charge-offs.

**Table of Contents****Table 41 Year to Date NCOs Franklin-Related Impact**

| <i>(in millions)</i>   | Nine Months Ended September |             |
|--|-----------------------------|-------------|
|  | 2010                        | 30,<br>2009 |
| <b>Commercial and industrial net charge-offs (recoveries)</b>            |                             |             |
| Franklin   | \$ (5.0)                    | \$ 114.4    |
| Non-Franklin   | 200.8                       | 263.4       |
| Total  | \$ 195.8                    | \$ 377.8    |
| <b>Commercial and industrial net charge-offs annualized percentages</b>  |                             |             |
| Total  | 2.12%                       | 3.78%       |
| Non-Franklin   | 2.17                        | 2.68        |
| <b>Total commercial net charge-offs (recoveries)</b>                     |                             |             |
| Franklin   | \$ (5.0)                    | \$ 114.4    |
| Non-Franklin   | 431.5                       | 688.0       |
| Total  | \$ 426.5                    | \$ 802.4    |
| <b>Total commercial net charge-offs annualized percentages</b>           |                             |             |
| Total  | 2.89%                       | 4.71%       |
| Non-Franklin   | 2.92                        | 4.08        |
| <b>Total home equity net charge-offs (recoveries)</b>                    |                             |             |
| Franklin   | \$ 20.7                     | \$ (0.1)    |
| Non-Franklin   | 89.5                        | 70.5        |
| Total  | \$ 110.2                    | \$ 70.4     |
| <b>Total home equity net charge-offs annualized percentages</b>          |                             |             |
| Total  | 1.95%                       | 1.24%       |
| Non-Franklin   | 1.59                        | 1.24        |
| <b>Total residential mortgage net charge-offs (recoveries)</b>           |                             |             |
| Franklin   | \$ 75.7                     | \$ 0.5      |
| Non-Franklin   | 50.4                        | 91.9        |
| Total  | \$ 126.1                    | \$ 92.4     |
| <b>Total residential mortgage net charge-offs annualized percentages</b> |                             |             |
| Total  | 3.74%                       | 2.69%       |
| Non-Franklin   | 1.58                        | 2.85        |
| <b>Total consumer net charge-offs (recoveries)</b>                       |                             |             |
| Franklin   | \$ 96.6                     | \$ 0.4      |
| Non-Franklin   | 179.1                       | 229.0       |

|  |    |              |    |         |
|--|----|--------------|----|---------|
| Total  | \$ | <b>275.7</b> | \$ | 229.4   |
| <b>Total consumer net charge-offs annualized percentages</b> |    |              |    |         |
| Total  |    | <b>2.11%</b> |    | 1.85%   |
| Non-Franklin   |    | <b>1.39</b>  |    | 1.89    |
| <b>Total net charge-offs (recoveries)</b>                    |    |              |    |         |
| Franklin   | \$ | <b>91.5</b>  | \$ | 114.7   |
| Non-Franklin   |    | <b>610.7</b> |    | 917.1   |
| Total  | \$ | <b>702.2</b> | \$ | 1,031.8 |
| <b>Total net charge-offs annualized percentages</b>          |    |              |    |         |
| Total  |    | <b>2.52%</b> |    | 3.51%   |
| Non-Franklin   |    | <b>2.21</b>  |    | 3.16    |

**Table of Contents**

Total NCOs during the first nine-month period of 2010 were \$702.2 million, or an annualized 2.52% of average related balances, compared with \$1,031.8 million, or annualized 3.51% of average related balances in the first nine-month period of 2009. Both periods were impacted by charge-offs associated with Franklin-related loans as detailed below.

Total commercial NCOs during the first nine-month period of 2010 were \$426.5 million, or an annualized 2.89% of average related balances, compared with \$802.4 million, or an annualized 4.71% in the first nine-month period of 2009.

C&I NCOs in the first nine-month period of 2010 were \$195.8 million, or an annualized 2.12% of average related balances, compared with \$377.8 million, or an annualized 3.78%, in the first nine-month period of 2009. The first nine-month period of 2009 included \$114.4 million of Franklin-related NCOs compared with Franklin-related net recoveries of \$5.0 million in the current period. Excluding the Franklin-related impact, C&I NCOs decreased \$62.6 million. The decline primarily reflected improvement in the overall credit quality of the portfolio compared with the year-ago period.

CRE NCOs in the first nine-month period of 2010 decreased \$193.9 million to \$230.7 million from \$424.6 million. The year-ago period was impacted by significant charge-offs associated with a small number of individual borrowers, while 2010 has not experienced the same level of loss associated with individual borrowers. The remaining decline primarily reflected improvement in the overall credit quality of the portfolio compared with the year-ago period.

Total consumer NCOs during the first nine-month period of 2010 were \$275.7 million, or an annualized 2.11%, compared with \$229.4 million, or an annualized 1.85%, in the first nine-month period of 2009. The first nine-month period of 2010 included \$96.6 million of Franklin-related NCOs compared with \$0.4 million in the year-ago period. Excluding the Franklin-related impact, consumer NCOs decreased \$49.9 million.

Automobile loan and lease NCOs in the first nine-month period of 2010 decreased \$23.9 million, or 55%, compared with the first nine-month period of 2009, reflecting the expected decline based on our consistent high quality origination profile since the beginning of 2008. This focus on origination quality has been the primary driver for the improvement in this portfolio in the current period compared with the year-ago period.

Home equity NCOs in the first nine-month period of 2010 were \$110.2 million, or an annualized 1.95% of average related balances, compared with \$70.4 million, or an annualized 1.24%, in first nine-month period of 2009. The first nine-month period of 2010 included \$20.7 million of Franklin-related NCOs compared with net recoveries of \$0.1 million in the year-ago period. Excluding the Franklin-related impacts, home equity NCOs increased \$19.0 million compared with the first nine-month period of 2009. This increase reflected the impact of declining housing prices, as well as the impact of our more conservative loss recognition policies implemented in the 2009 third quarter. While NCOs were higher compared with the prior period, there has been a declining trend in the early-stage delinquency level in the home equity line-of-credit portfolio, supporting our longer-term positive view for home equity portfolio performance.

Residential mortgage NCOs in the first nine-month period of 2010 were \$126.1 million, or an annualized 3.74% of average related balances, compared with \$92.4 million, or an annualized 2.69%, in first nine-month period of 2009. The first nine-month period of 2010 included \$75.7 million of Franklin-related NCOs compared with \$0.5 million in the year-ago period. Excluding the Franklin-related impacts, residential mortgage NCOs decreased \$41.5 million compared with the first nine-month period of 2009. This decrease primarily reflected \$32.0 million of charge-offs in the 2009 third quarter resulting from a change to recognize losses earlier, as well as \$17.9 million of charge-offs in the 2009 third quarter reflecting losses recognized on the sale of certain underperforming loans. Excluding these two factors, residential mortgage NCOs increased \$8.4 million. This increase reflected the impact of continued home-price related pressures. The increased NCOs were a direct result of our continued emphasis on loss mitigation strategies and an increased number of short sales. We continued to see positive trends in early-stage delinquencies, indicating losses should remain manageable even with the economic stress on our borrowers.

**INVESTMENT SECURITIES PORTFOLIO**

*(This section should be read in conjunction with the Critical Accounting Policies and Use of Significant Estimates discussion, and Note 4 of the Notes to the Unaudited Condensed Consolidated Financial Statements.)*



We routinely review our investment securities portfolio, and recognize impairment writedowns based primarily on fair value, issuer-specific factors and results, and our intent and ability to hold such investments. Our investment securities portfolio is evaluated in light of established asset/liability management objectives. Changing market conditions could affect the profitability of the portfolio, as well as the level of interest rate risk that we are exposed to.

**Table of Contents**

Our investment securities portfolio is comprised of various financial instruments. At September 30, 2010, our investment securities portfolio totaled \$9.7 billion.

Declines in the fair value of available-for-sale investment securities are recorded as temporary impairment, noncredit other-than-temporary impairment (OTTI), or credit OTTI adjustments.

Temporary impairment adjustments are recorded when the fair value of a security declines from its historical cost. Temporary impairment adjustments are recorded in accumulated other comprehensive income (OCI), and reduce equity. Temporary impairment adjustments do not impact net income or risk-based capital. A recovery of available-for-sale security prices also is recorded as an adjustment to OCI for securities that are temporarily impaired, and results in an increase to equity.

Because the available-for-sale securities portfolio is recorded at fair value, the determination that a security's decline in value is other-than-temporary does not significantly impact equity, as the amount of any temporary adjustment has already been reflected in accumulated OCI. A recovery in the value of an other-than-temporarily impaired security is recorded as additional interest income over the remaining life of the security.

During the first nine-month period of 2010, we recorded \$12.0 million of credit OTTI losses. This amount was comprised of \$3.4 million related to the pooled-trust-preferred securities portfolio, \$7.0 million related to the CMO securities portfolio, and \$1.6 million related to the Alt-A securities portfolio. Given the continued disruption in the housing and financial markets, we may be required to recognize additional credit OTTI losses in future periods with respect to our available-for-sale investment securities portfolio. The amount and timing of any additional credit OTTI will depend on the decline in the underlying cash flows of the securities. If our intent to hold temporarily impaired securities changes in future periods, we may be required to recognize noncredit OTTI through income, which will negatively impact earnings.

**Alt-A, Pooled-Trust-Preferred, and Private-Label CMO Securities**

Our three highest risk segments of our investment portfolio are the Alt-A mortgage-backed, pooled-trust-preferred, and private-label CMO portfolios. The Alt-A mortgage-backed securities and pooled-trust-preferred securities are located within the asset-backed securities portfolio. The performance of the underlying securities in each of these segments continues to reflect the economic environment. Each security in these three segments is subjected to a rigorous review of its projected cash flows. These reviews are supported with analysis from independent third parties. The following table presents the credit ratings for our Alt-A, pooled-trust-preferred, and private label CMO securities as of September 30, 2010:

**Table 42 Credit Ratings of Selected Investment Securities (1)***(in millions)*

|                                    | Amortized       |                 | Average Credit Rating of Fair Value Amount |                |                |                |                 |
|------------------------------------|-----------------|-----------------|--|----------------|----------------|----------------|-----------------|
|                                    | Cost            | Fair Value      | AAA  | AA +/-         | A +/-          | BBB +/-        | <BBB-           |
| Private label CMO securities       | \$ 295.6        | \$ 276.2        | \$ 27.9                                    | \$ 6.4         | \$ 19.8        | \$ 17.4        | \$ 204.7        |
| Alt-A mortgage-backed securities   | 112.1           | 97.7            | 18.2                                       | 27.3           |                |                | 52.2            |
| Pooled-trust-preferred securities  | 237.5           | 100.3           |  | 23.5           |                | 12.2           | 64.6            |
| <b>Total At September 30, 2010</b> | <b>\$ 645.2</b> | <b>\$ 474.2</b> | <b>\$ 46.1</b>                             | <b>\$ 57.2</b> | <b>\$ 19.8</b> | <b>\$ 29.6</b> | <b>\$ 321.5</b> |
| Total At December 31, 2009         | \$ 912.3        | \$ 700.3        | \$ 62.1                                    | \$ 72.9        | \$ 35.6        | \$ 121.3       | \$ 408.4        |

- (1) Credit ratings reflect the lowest current rating assigned by a nationally recognized credit rating agency.

Negative changes to the above credit ratings would generally result in an increase of our risk-weighted assets, and a reduction to our regulatory capital ratios.

The following table summarizes the relevant characteristics of our pooled-trust-preferred securities portfolio at September 30, 2010. Each security is part of a pool of issuers and supports a more senior tranche of securities except for the I-Pre TSL II security that is the most senior class.

**Table of Contents****Table 43 Trust Preferred Securities Data**

September 30, 2010

*(dollar amounts in thousands)*

| Deal Name                      | Par Value  | Book Value | Fair Value | Unrealized Loss | Credit Rating(2) | # of Issuers | Actual                                     | Expected                                   | Subordination(4) |
|--------------------------------|------------|------------|------------|-----------------|------------------|--------------|--|--|------------------|
|                                |            |            |            |                 |                  |              | Deferrals and Defaults as a % of Remaining | Deferrals and Defaults as a % of Remaining |                  |
|                                |            |            |            |                 |                  |              | Performing                                 | Performing                                 | Excess           |
| Alesco II <sup>(1)</sup>       | \$ 40,813  | \$ 31,540  | \$ 8,469   | \$ 23,071       | C                | 32/43        | 25%  | 18%  | %                |
| Alesco IV <sup>(1)</sup>       | 20,545     | 10,605     | 2,209      | 8,396           | C                | 35/53        | 34   | 21   |                  |
| ICONS                          | 20,000     | 20,000     | 12,178     | 7,822           | BBB-             | 29/30        | 3  | 15   | 48               |
| I-Pre TSL II                   | 36,916     | 36,814     | 23,482     | 13,332          | AA               | 29/29        |  | 15   | 71               |
| MM Comm II <sup>(1)</sup>      | 24,336     | 23,258     | 20,681     | 2,577           | BB               | 4/7          | 5  | 3  |                  |
| MM Comm III <sup>(1)</sup>     | 11,823     | 11,296     | 6,124      | 5,172           | CC               | 7/12         | 10   | 13   |                  |
| Pre TSL IX <sup>(1)</sup>      | 5,000      | 4,061      | 1,345      | 2,716           | C                | 35/49        | 26   | 20   |                  |
| Pre TSL X <sup>(1)</sup>       | 17,409     | 9,915      | 3,407      | 6,508           | C                | 34/56        | 41   | 35   |                  |
| Pre TSL XI <sup>(1)</sup>      | 25,000     | 24,040     | 8,018      | 16,022          | C                | 49/65        | 22   | 20   |                  |
| Pre TSL XIII <sup>(1)</sup>    | 27,530     | 23,145     | 5,883      | 17,262          | C                | 48/65        | 29   | 25   |                  |
| Reg Diversified <sup>(1)</sup> | 25,500     | 7,499      | 517        | 6,982           | D                | 26/45        | 40   | 29   |                  |
| Soloso <sup>(1)</sup>          | 12,500     | 4,287      | 373        | 3,914           | C                | 44/69        | 28   | 26   |                  |
| Tropic III                     | 31,000     | 31,000     | 7,567      | 23,433          | CC               | 27/45        | 35   | 24   | 17               |
| Total                          | \$ 298,372 | \$ 237,460 | \$ 100,253 | \$ 137,207      |                  |              |  |  |                  |

(1) Security was determined to have other-than-temporary impairment. The book value is net of recorded credit impairment.

(2) For purposes of comparability, the lowest credit rating expressed is equivalent to Fitch ratings even where lowest rating is based on another nationally

recognized credit rating agency.

- (3) Includes both banks and/or insurance companies.
- (4) Excess subordination percentage represents the additional defaults in excess of both current and projected defaults the CDO can absorb before the bond experiences credit impairment. Excess subordinated percentage is calculated by (a) determining what percentage of defaults a deal can experience before the bond has credit impairment, and (b) subtracting from this default breakage percentage both total current and expected future default percentages.

### **Market Risk**

Market risk represents the risk of loss due to changes in market values of assets and liabilities. We incur market risk in the normal course of business through exposures to market interest rates, foreign exchange rates, equity prices, credit spreads, and expected lease residual values. We have identified two primary sources of market risk: interest rate risk and price risk. Interest rate risk is our primary market risk.

### ***Interest Rate Risk***

#### **OVERVIEW**

Interest rate risk is the risk to earnings and value arising from changes in market interest rates. Interest rate risk arises from timing differences in the repricings and maturities of interest-bearing assets and liabilities (reprice risk), changes in the expected maturities of assets and liabilities arising from embedded options, such as borrowers' ability to prepay residential mortgage loans at any time and depositors' ability to terminate certificates of deposit before maturity (option risk), changes in the shape of the yield curve where interest rates increase or decrease in a non-parallel fashion (yield curve risk), and changes in spread relationships between different yield curves, such as U.S. Treasuries and London Interbank Offered Rate (LIBOR) (basis risk.)

Asset sensitive position refers to a balance sheet position in which an increase in short-term interest rates is expected to generate higher net interest income (rates earned on our interest-earning assets would reprice upward more quickly than rates paid on our interest-bearing liabilities), thus expanding our net interest margin. Conversely, liability sensitive position refers to a balance sheet position in which an increase in short-term interest rates is expected to generate lower net interest income (rates paid on our interest-bearing liabilities would reprice upward more quickly than rates earned on our interest-earning assets), thus compressing our net interest margin.



**Table of Contents****INCOME SIMULATION AND ECONOMIC VALUE ANALYSIS**

Interest rate risk measurement is performed monthly. Two broad approaches to modeling interest rate risk are employed: income simulation and economic value analysis. An income simulation analysis is used to measure the sensitivity of forecasted net interest income to changes in market rates over a one-year time period. Although bank owned life insurance, automobile operating lease assets, and excess cash balances held at the Federal Reserve Bank are classified as noninterest earning assets, and the net revenue from these assets is in noninterest income and noninterest expense, these portfolios are included in the interest sensitivity analysis because they have attributes similar to interest earning assets. Economic value of equity (EVE) analysis is used to measure the sensitivity of the values of period-end assets and liabilities to changes in market interest rates. EVE serves as a complement to income simulation modeling as it provides risk exposure estimates for time periods beyond the one-year simulation period. The simulations for evaluating short-term interest rate risk exposure are scenarios that model gradual +/-100 and +/-200 basis point parallel shifts in market interest rates over the next 12-month period beyond the interest rate change implied by the current yield curve. We assumed market interest rates would not fall below 0% over the next 12-month period for the scenarios that used the -100 and -200 basis point parallel shift in market interest rates. The table below shows the results of the scenarios as of September 30, 2010, and December 31, 2009. All of the positions were within the board of directors policy limits.

**Table 44 Net Interest Income at Risk**

| Basis point change scenario | Net Interest Income at Risk (%) |              |              |              |
|-----------------------------|---------------------------------|--------------|--------------|--------------|
|                             | -200                            | -100         | +100         | +200         |
| Board policy limits         | -4.0%                           | -2.0%        | -2.0%        | -4.0%        |
| <b>September 30, 2010</b>   | <b>-3.1%</b>                    | <b>-1.8%</b> | <b>+0.4%</b> | <b>+0.3%</b> |
| December 31, 2009           | -0.3%                           | +0.2%        | -0.1%        | -0.4%        |

The net interest income at risk reported as of September 30, 2010 for the +200 basis points scenario shows a change to a slightly asset-sensitive near-term interest rate risk position compared with December 31, 2009. The primary factors contributing to the change to slight asset-sensitivity is lower market interest rates which result in the expectation for faster prepayments on mortgage-related assets, offset slightly by updates to prepayment models and default models. The primary simulations for EVE at risk assume immediate +/-100 and +/-200 basis point parallel shifts in market interest rates beyond the interest rate change implied by the current yield curve. The table below outlines the September 30, 2010, results compared with December 31, 2009. All of the positions were within the board of directors policy limits.

**Table 45 Economic Value of Equity at Risk**

| Basis point change scenario | Economic Value of Equity at Risk (%) |              |              |              |
|-----------------------------|--------------------------------------|--------------|--------------|--------------|
|                             | -200                                 | -100         | +100         | +200         |
| Board policy limits         | -12.0%                               | -5.0%        | -5.0%        | -12.0%       |
| <b>September 30, 2010</b>   | <b>-6.6%</b>                         | <b>-1.3%</b> | <b>-1.9%</b> | <b>-5.9%</b> |





**Table of Contents**

At September 30, 2010, we had a total of \$161.6 million of capitalized MSR assets representing the right to service \$15.7 billion in residential mortgage loans. Of this \$161.6 million, \$112.2 million was recorded using the fair value method, and \$49.4 million was recorded using the amortization method. If we actively engage in hedging, the MSR asset is carried at fair value. If we do not actively engage in hedging, the MSR asset is adjusted using the amortization method, and is carried at the lower of cost or market value.

MSR fair values are sensitive to movements in interest rates as expected future net servicing income depends on the projected outstanding principal balances of the underlying loans over a specified period of time, which can be greatly reduced by prepayments. Prepayments usually increase when mortgage interest rates decline and decrease when mortgage interest rates rise. We have employed strategies to reduce the risk of MSR fair value changes or impairment. In addition, we engage a third party to provide improved valuation tools and assistance with our strategies with the objective to decrease the volatility from MSR fair value changes. However, volatile changes in interest rates can diminish the effectiveness of these hedges. We typically report MSR fair value adjustments net of hedge-related trading activity in the mortgage banking income category of noninterest income. Changes in fair value between reporting dates are recorded as an increase or decrease in mortgage banking income.

During the first nine-month period of 2010, prepayment assumptions were lowered, based on updated market data and trends, which increased the value of our MSR assets by \$22.1 million.

MSR assets recorded using the amortization method generally relate to loans originated with historically low interest rates, resulting in a lower probability of prepayments and, ultimately, impairment. MSR assets are included in other assets, and are presented in Table 13 and Table 17.

**Price Risk**

Price risk represents the risk of loss arising from adverse movements in the prices of financial instruments that are carried at fair value and are subject to fair value accounting. We have price risk from trading securities, securities owned by our broker-dealer subsidiaries, foreign exchange positions, equity investments, investments in securities backed by mortgage loans, and marketable equity securities held by our insurance subsidiaries. We have established loss limits on the trading portfolio, on the amount of foreign exchange exposure that can be maintained, and on the amount of marketable equity securities that can be held by the insurance subsidiaries.

**Liquidity Risk**

Liquidity is the ability to meet cash flow needs on a timely basis at a reasonable cost. We manage liquidity risk at both the Bank and at the parent company, Huntington Bancshares Incorporated. The liquidity of the Bank is used to make loans and leases and to repay deposit liabilities as they become due or are demanded by customers. The overall objective of liquidity risk management is to ensure we can obtain cost-effective funding to meet current and future obligations, as well as maintain sufficient levels of on-hand liquidity, under both normal business as usual and unanticipated, stressed circumstances. The Asset, Liability, and Capital Management Committee (ALCO) is appointed by the HBI Board Risk Oversight Committee to oversee liquidity risk management and establish policies and limits, based upon the analyses of the ratio of loans to deposits, the percentage of assets funded with noncore or wholesale funding, the available amount of liquid assets, and other considerations. Operating guidelines have been established to ensure diversification of noncore funding by type, source, and maturity. A contingency funding plan is in place, which includes forecasted sources and uses of funds under various scenarios, to prepare for unexpected liquidity shortages, and to cover unanticipated events that could affect liquidity.

**Bank Liquidity and Sources of Liquidity**

Our primary sources of funding for the Bank are retail and commercial core deposits. Core deposits are comprised of interest-bearing and noninterest-bearing demand deposits, money market deposits, savings and other domestic deposits, consumer certificates of deposit both over and under \$250,000, and nonconsumer certificates of deposit less than \$250,000. Noncore deposits consist of brokered money market deposits and certificates of deposit, foreign time deposits, and other domestic time deposits of \$250,000 or more comprised primarily of public fund certificates of deposit more than \$250,000.

Core deposits may increase our need for liquidity as certificates of deposit mature or are withdrawn before maturity and as nonmaturity deposits, such as checking and savings account balances, are withdrawn. We voluntarily began participating in the FDIC's Transaction Account Guarantee Program (TAGP) in October of 2008. Under this program,

all noninterest-bearing and interest-bearing transaction accounts with a rate of less than 0.50% were fully guaranteed by the FDIC for the customers' entire account balance.

**Table of Contents**

In April of 2010, the FDIC adopted an interim rule extending the TAGP through December 31, 2010, for financial institutions that desired to continue participating in the TAGP. On April 30, 2010, we notified the FDIC of our decision to opt-out of the TAGP extension, effective July 1, 2010.

At September 30, 2010, noninterest-bearing transaction account balances exceeding \$250,000 totaled \$2.2 billion, and represented the amount of noninterest-bearing transaction customer deposits that were not FDIC insured.

The following table reflects deposit composition detail for each of the past five quarters.

**Table 46 Deposit Composition**

| <i>(dollar amounts in millions)</i> | September<br>30, |             | 2010             |             |                  |               | 2009             |             |                  |             |
|-------------------------------------|------------------|-------------|------------------|-------------|------------------|---------------|------------------|-------------|------------------|-------------|
|                                     |                  |             | June 30,         | March 31,   | December 31,     | September 30, |                  |             |                  |             |
| <b>By Type</b>                      |                  |             |                  |             |                  |               |                  |             |                  |             |
| Demand deposits                     |                  |             |                  |             |                  |               |                  |             |                  |             |
| noninterest-bearing                 | \$ 6,926         | 17%         | \$ 6,463         | 16%         | \$ 6,938         | 17%           | \$ 6,907         | 17%         | \$ 6,306         | 16%         |
| Demand deposits                     |                  |             |                  |             |                  |               |                  |             |                  |             |
| interest-bearing                    | 5,347            | 13          | 5,850            | 15          | 5,948            | 15            | 5,890            | 15          | 5,401            | 14          |
| Money market deposits               | 12,679           | 31          | 11,437           | 29          | 10,644           | 26            | 9,485            | 23          | 8,548            | 21          |
| Savings and other domestic          |                  |             |                  |             |                  |               |                  |             |                  |             |
| deposits                            | 4,613            | 11          | 4,652            | 12          | 4,666            | 12            | 4,652            | 11          | 4,631            | 12          |
| Core certificates of deposit        | 8,765            | 21          | 8,974            | 23          | 9,441            | 23            | 10,453           | 26          | 11,205           | 28          |
| <b>Total core deposits</b>          | <b>38,330</b>    | <b>93</b>   | <b>37,376</b>    | <b>95</b>   | <b>37,637</b>    | <b>93</b>     | <b>37,387</b>    | <b>92</b>   | <b>36,091</b>    | <b>91</b>   |
| Other domestic time                 |                  |             |                  |             |                  |               |                  |             |                  |             |
| deposits of \$250,000 or            |                  |             |                  |             |                  |               |                  |             |                  |             |
| more                                | 730              | 2           | 678              | 2           | 684              | 2             | 652              | 2           | 689              | 2           |
| Brokered deposits and               |                  |             |                  |             |                  |               |                  |             |                  |             |
| negotiable CDs                      | 1,576            | 4           | 1,373            | 3           | 1,605            | 4             | 2,098            | 5           | 2,630            | 7           |
| Deposits in foreign offices         | 436              | 1           | 422              |             | 377              | 1             | 357              | 1           | 419              |             |
| <b>Total deposits</b>               | <b>\$ 41,072</b> | <b>100%</b> | <b>\$ 39,849</b> | <b>100%</b> | <b>\$ 40,303</b> | <b>100%</b>   | <b>\$ 40,494</b> | <b>100%</b> | <b>\$ 39,829</b> | <b>100%</b> |
| Total core deposits:                |                  |             |                  |             |                  |               |                  |             |                  |             |
| Commercial                          | \$ 12,262        | 32%         | \$ 11,515        | 31%         | \$ 11,844        | 31%           | \$ 11,368        | 30%         | \$ 10,884        | 30%         |
| Personal                            | 26,068           | 68          | 25,861           | 69          | 25,793           | 69            | 26,019           | 70          | 25,207           | 70          |
| <b>Total core deposits</b>          | <b>\$ 38,330</b> | <b>100%</b> | <b>\$ 37,376</b> | <b>100%</b> | <b>\$ 37,637</b> | <b>100%</b>   | <b>\$ 37,387</b> | <b>100%</b> | <b>\$ 36,091</b> | <b>100%</b> |

Total core deposits increased \$943 million, or 3%, compared with December 31, 2009.

To the extent we are unable to obtain sufficient liquidity through core deposits, we may meet our liquidity needs through sources of wholesale funding. These sources include other domestic time deposits of \$250,000 or more, brokered deposits and negotiable CDs, deposits in foreign offices, short-term borrowings, Federal Home Loan Bank (FHLB) advances, other long-term debt, and subordinated notes.

The Bank also has access to the Federal Reserve's discount window. These borrowings are secured by commercial loans and home equity lines-of-credit. The Bank is also a member of the FHLB-Cincinnati, and as such, has access to

advances from this facility. These advances are generally secured by residential mortgages, other mortgage-related loans, and available-for-sale securities. Information regarding amounts pledged and the unused borrowing capacity at both the Federal Reserve and the FHLB-Cincinnati, are outlined in the following table:

**Table 47 Federal Reserve and FHLB-Cincinnati Borrowing Capacity**

| <i>(dollar amounts in billions)</i>   | <b>September<br/>30,<br/>2010</b> | December<br>31,<br>2009 |
|---|-----------------------------------|-------------------------|
| <b>Loans and Securities Pledged:</b>  |                                   |                         |
| Federal Reserve Bank  | \$ 9.2                            | \$ 8.5                  |
| FHLB-Cincinnati   | 7.7                               | 8.0                     |
| <b>Total loans and securities pledged</b>                                   | <b>\$ 16.9</b>                    | <b>\$ 16.5</b>          |
| Total unused borrowing capacity at Federal Reserve Bank and FHLB-Cincinnati | \$ 8.5                            | \$ 7.9                  |

**Table of Contents**

We can also obtain funding through other methods including: (a) purchasing federal funds, (b) selling securities under repurchase agreements, (c) the sale or maturity of investment securities, (d) the sale or securitization of loans, (e) the sale of national market certificates of deposit, (f) the relatively shorter-term structure of our commercial loans and automobile loans, and (g) the issuance of common and preferred stock.

We believe the Bank has sufficient liquidity to meet its cash flow obligations for the foreseeable future.

**Parent Company Liquidity**

The parent company's funding requirements consist primarily of dividends to shareholders, debt service, income taxes, operating expenses, funding of non-bank subsidiaries, repurchases of our stock, and acquisitions. The parent company obtains funding to meet obligations from dividends received from direct subsidiaries, net taxes collected from subsidiaries included in the federal consolidated tax return, fees for services provided to subsidiaries, and the issuance of debt securities.

At September 30, 2010, the parent company had \$0.9 billion in cash and cash equivalents, compared with \$1.4 billion at December 31, 2009, reflecting a \$0.4 billion contribution of additional capital to the Bank. These contributions increased the Bank's regulatory capital levels above its already well-capitalized levels, and serve as a source of strength to the Bank, particularly in times of economic uncertainty. Appropriate limits and guidelines are in place to ensure the parent company has sufficient cash to meet operating expenses and other commitments over the next twelve months without relying on subsidiaries or capital markets for funding.

Based on the current dividend of \$0.01 per common share, cash demands required for common stock dividends are estimated to be approximately \$7.2 million per quarter.

We have an aggregate outstanding amount of \$362.5 million of Series A Non-cumulative Perpetual Convertible Preferred Stock. The Series A Preferred Stock pays, as declared by our board of directors, dividends in cash at a rate of 8.50% per annum, payable quarterly (*see Note 9 of the Notes to the Unaudited Condensed Consolidated Financial Statements*). Cash demands required for Series A Preferred Stock are estimated to be approximately \$7.7 million per quarter.

In 2008, we received \$1.4 billion of equity capital by issuing 1.4 million shares of Series B Preferred Stock to the U.S. Department of Treasury as a result of our participation in the Troubled Asset Relief Program (TARP) voluntary Capital Purchase Program (CPP). The Series B Preferred Stock pays cumulative dividends at a rate of 5% per year for the first five years and 9% per year thereafter, resulting in quarterly cash demands of approximately \$18 million through 2012, and \$32 million thereafter (*see Note 9 of the Notes to the Unaudited Condensed Consolidated Financial Statements*).

Based on a regulatory dividend limitation, the Bank could not have declared and paid a dividend to the parent company at September 30, 2010, without regulatory approval. We do not anticipate the Bank will request regulatory approval to pay dividends in the near future as we continue to build Bank regulatory capital above our already well-capitalized level. To help meet any additional liquidity needs, we have an open-ended, automatic shelf registration statement filed and effective with the SEC, which permits us to issue an unspecified amount of debt or equity securities.

With the exception of the common and preferred dividends previously discussed, the parent company does not have any significant cash demands. There are no maturities of parent company obligations until 2013, when a debt maturity of \$50 million is payable.

Considering the factors discussed above, and other analyses we have performed, we believe the parent company has sufficient liquidity to meet its cash flow obligations for the foreseeable future.

**Off-Balance Sheet Arrangements**

In the normal course of business, we enter into various off-balance sheet arrangements. These arrangements include financial guarantees contained in standby letters of credit issued by the Bank and commitments by the Bank to sell mortgage loans.

Standby letters of credit are conditional commitments issued to guarantee the performance of a customer to a third party. These guarantees are primarily issued to support public and private borrowing arrangements, including commercial paper, bond financing, and similar transactions. Most of these arrangements mature within two years, and are expected to expire without being drawn upon. Standby letters of credit are included in the determination of the

amount of risk-based capital the parent company and the Bank are required to hold.

**Table of Contents**

Through our credit process, we monitor the credit risks of outstanding standby letters of credit. When it is probable a standby letter of credit will be drawn and not repaid in full, losses are recognized in the provision for credit losses. At September 30, 2010, we had \$0.5 billion of standby letters of credit outstanding, of which 72% were collateralized. We enter into forward contracts relating to the mortgage banking business to hedge the exposures we have from commitments to extend new residential mortgage loans to our customers and from our held-for-sale mortgage loans. At September 30, 2010, December 31, 2009, and September 30, 2009, we had commitments to sell residential real estate loans of \$1,254.3 million, \$662.9 million, and \$729.5 million, respectively. These contracts mature in less than one year.

Effective January 1, 2010, we consolidated an automobile loan securitization that previously had been accounted for as an off-balance sheet transaction. We elected to account for the automobile loan receivables and the associated notes payable at fair value per accounting guidance supplied in ASC 810 Consolidation. *(See Note 2 and Note 5 of the Notes to the Unaudited Condensed Consolidated Financial Statements.)*

We do not believe the off-balance sheet arrangements will have a material impact on our liquidity or capital resources.

**Operational Risk**

As with all companies, we are subject to operational risk. Operational risk is the risk of loss due to human error; inadequate or failed internal systems and controls; violations of, or noncompliance with, laws, rules, regulations, prescribed practices, or ethical standards; and external influences such as market conditions, fraudulent activities, disasters, and security risks. We continuously strive to strengthen our system of internal controls to ensure compliance with laws, rules, and regulations, and to improve the oversight of our operational risk.

To mitigate operational and compliance risks, we have established a senior management level Operational Risk Committee, and a senior management level Legal, Regulatory, and Compliance Committee. The responsibilities of these committees, among other things, include establishing and maintaining management information systems to monitor material risks and to identify potential concerns, risks, or trends that may have a significant impact and develop recommendations to address the identified issues. Both of these committees report any significant findings and recommendations to the Risk Management Committee. Additionally, potential concerns may be escalated to the HBI Board Risk Oversight Committee, as appropriate.

The goal of this framework is to implement effective operational risk techniques and strategies, minimize operational losses, and enhance our overall performance.

We primarily conduct our loan sale and securitization activity with the Federal National Mortgage Association (FNMA or Fannie Mae) and the Federal Home Loan Mortgage Corporation (FHLMC or Freddie Mac). In connection with these and other securitization transactions, we make certain representations and warranties that the loans meet certain criteria, such as collateral type and underwriting standards. We may be required to repurchase the loans and / or indemnify these organizations against losses due to material breaches of these representations and warranties. We have a reserve for such losses, which is included in accrued expenses and other liabilities. At September 30, 2010, December 31, 2009, and September 30, 2009, this reserve was \$18.0 million, \$5.9 million, and \$5.8 million, respectively. The reserve was estimated based on historical and expected repurchase activity, average loss rates, and current economic trends, including an increase in the amount of repurchase losses in recent quarters.

We evaluated our foreclosure documentation procedures, given the recent announcements made by other financial institutions regarding their foreclosure activities. The results of our review indicate that our procedures for reviewing and validating the information in our documentation are sound and our foreclosure affidavits are accurate. We have implemented additional reviews of pending foreclosures with foreclosure counsel to ensure that all appropriate actions are taken to enable foreclosure actions to continue.

**Table of Contents****Capital / Capital Adequacy**

(This section should be read in conjunction with Significant Item 4.)

Capital is managed both at the Bank and on a consolidated basis. Capital levels are maintained based on regulatory capital requirements and the economic capital required to support credit, market, liquidity, and operational risks inherent in our business, and to provide the flexibility needed for future growth and new business opportunities. Shareholders' equity totaled \$5.6 billion at September 30, 2010, an increase of \$0.2 billion, or 4%, compared with \$5.3 billion at December 31, 2009. This increase primarily reflected improvements in the components of accumulated OCI, as well as an increase in retained earnings.

The following table presents risk-weighted assets and other financial data necessary to calculate certain financial ratios that we use to measure capital adequacy.

**Table 48 Capital Adequacy**

|  | <b>September</b> | <b>2010</b> |           |           | <b>2009</b> |
|--|------------------|-------------|-----------|-----------|-------------|
| <i>(dollar amounts in millions)</i>                | <b>30,</b>       | June 30,    | March     | December  | September   |
|  | <b>30,</b>       | June 30,    | 31,       | 31,       | 30,         |
| <b>Consolidated capital calculations:</b>          |                  |             |           |           |             |
| Shareholders' common equity                        | <b>\$ 3,867</b>  | \$ 3,742    | \$ 3,678  | \$ 3,648  | \$ 3,992    |
| Shareholders' preferred equity                     | <b>1,700</b>     | 1,696       | 1,692     | 1,688     | 1,683       |
| Total shareholders' equity                         | <b>5,567</b>     | 5,438       | 5,370     | 5,336     | 5,675       |
| Goodwill   | <b>(444)</b>     | (444)       | (444)     | (444)     | (444)       |
| Other intangible assets                            | <b>(244)</b>     | (259)       | (274)     | (289)     | (303)       |
| Other intangible assets deferred tax liability (1) | <b>85</b>        | 91          | 95        | 101       | 106         |
| Total tangible equity (2)                          | <b>4,964</b>     | 4,826       | 4,747     | 4,704     | 5,034       |
| Shareholders' preferred equity                     | <b>(1,700)</b>   | (1,696)     | (1,692)   | (1,688)   | (1,683)     |
| Total tangible common equity (2)                   | <b>\$ 3,264</b>  | \$ 3,130    | \$ 3,055  | \$ 3,016  | \$ 3,351    |
| Total assets                                       | <b>\$ 53,247</b> | \$ 51,771   | \$ 51,867 | \$ 51,555 | \$ 52,513   |
| Goodwill   | <b>(444)</b>     | (444)       | (444)     | (444)     | (444)       |
| Other intangible assets                            | <b>(244)</b>     | (259)       | (274)     | (289)     | (303)       |
| Other intangible assets deferred tax liability (1) | <b>85</b>        | 91          | 95        | 101       | 106         |
| Total tangible assets (2)                          | <b>\$ 52,644</b> | \$ 51,159   | \$ 51,244 | \$ 50,923 | \$ 51,872   |
| Tier 1 capital                                     | <b>\$ 5,480</b>  | \$ 5,317    | \$ 5,090  | \$ 5,201  | \$ 5,755    |
| Shareholders' preferred equity                     | <b>(1,700)</b>   | (1,696)     | (1,692)   | (1,688)   | (1,683)     |
| Trust preferred securities                         | <b>(570)</b>     | (570)       | (570)     | (570)     | (570)       |
| REIT preferred stock                               | <b>(50)</b>      | (50)        | (50)      | (50)      | (50)        |
| Tier 1 common equity (2)                           | <b>\$ 3,160</b>  | \$ 3,001    | \$ 2,778  | \$ 2,893  | \$ 3,452    |



Edgar Filing: HUNTINGTON BANCSHARES INC/MD - Form 10-Q

|  |                  |           |           |           |           |
|--|------------------|-----------|-----------|-----------|-----------|
| Risk-weighted assets (RWA)                           | <b>\$ 42,759</b> | \$ 42,486 | \$ 42,522 | \$ 43,248 | \$ 44,142 |
| Tier 1 common equity / RWA ratio (2),<br>(3)         | <b>7.39%</b>     | 7.06%     | 6.53%     | 6.69%     | 7.82%     |
| Tangible equity / tangible asset ratio (2)           | <b>9.43</b>      | 9.43      | 9.26      | 9.24      | 9.71      |
| Tangible common equity / tangible asset<br>ratio (2) | <b>6.20</b>      | 6.12      | 5.96      | 5.92      | 6.46      |

(1) Other intangible assets are net of deferred tax liability, and calculated assuming a 35% tax rate.

(2) Tangible equity, Tier 1 common equity, tangible common equity, and tangible assets are non-GAAP financial measures. Additionally, any ratios utilizing these financial measures are also non-GAAP. These financial measures have been included as they are considered to be critical metrics with which to analyze and evaluate financial condition and capital strength. Other companies may calculate these financial measures differently.

- (3) Based on an interim decision by the banking agencies on December 14, 2006, we have excluded the impact of adopting ASC Topic 715, Compensation Retirement Benefits, from the regulatory capital calculations.

Our consolidated tangible-common-equity (TCE) ratio was 6.20% at September 30, 2010, an increase from 5.92% at December 31, 2009. The 28 basis point increase from December 31, 2009, primarily reflected improvements in the components of accumulated OCI, as well as an increase in retained earnings.

**Table of Contents**

During the 2010 second quarter, shareholders passed a proposal to amend our charter resulting in an increase of authorized common stock to 1.5 billion shares from 1.0 billion shares. Although we believe our current level of capital is adequate, we may continue to seek opportunities to further strengthen our capital position.

**Regulatory Capital**

Regulatory capital ratios are the primary metrics used by regulators in assessing the safety and soundness of banks. We intend to maintain both the company's and the Bank's risk-based capital ratios at levels at which each would be considered well-capitalized by regulators. The Bank is primarily supervised and regulated by the Office of the Comptroller of the Currency (OCC), which establishes regulatory capital guidelines for banks similar to those established for bank holding companies by the Federal Reserve Board.

Regulatory capital primarily consists of Tier 1 capital and Tier 2 capital. The sum of Tier 1 capital and Tier 2 capital equals our total risk-based capital. The following table reflects changes and activity to the various components utilized in the calculation of our consolidated Tier 1, Tier 2, and total risk-based capital amounts during the first nine-month period of 2010.

**Table 49 Consolidated Regulatory Capital Activity**

| <i>(dollar amounts in millions)</i>  | Shareholder<br>Common<br>Equity (1) | Preferred<br>Equity | Qualifying<br>Core<br>Capital (2) | Disallowed<br>Goodwill &<br>Intangible<br>assets | Disallowed<br>Other<br>Adjustments<br>(net) | <b>Tier 1<br/>Capital</b> |
|--------------------------------------|-------------------------------------|---------------------|-----------------------------------|--|---|---------------------------|
| Balance at December 31, 2009         | \$ 3,804.9                          | \$ 1,687.5          | \$ 620.5                          | \$ (632.2)                                       | \$ (279.5)                                  | <b>\$ 5,201.2</b>         |
| Cumulative effect accounting changes | (3.5)                               |                     |                                   |  |   | <b>(3.5)</b>              |
| Earnings                             | 189.4                               |                     |                                   |  |   | <b>189.4</b>              |
| Changes to disallowed adjustments    |                                     |                     |                                   | 28.0   | 1.0   | <b>29.0</b>               |
| Dividends                            | (97.0)                              |                     |                                   |  |   | <b>(97.0)</b>             |
| Issuance of common stock             | 2.3                                 |                     |                                   |  |   | <b>2.3</b>                |
| Amortization of preferred discount   | (12.8)                              | 12.8                |                                   |  |   |                           |
| Disallowance of deferred tax assets  |                                     |                     |                                   |  | 147.2                                       | <b>147.2</b>              |
| Other                                | 11.7                                |                     |                                   |  |   | <b>11.7</b>               |
| <b>Balance at September 30, 2010</b> | <b>\$ 3,895.0</b>                   | <b>\$ 1,700.3</b>   | <b>\$ 620.5</b>                   | <b>\$ (604.2)</b>                                | <b>\$ (131.3)</b>                           | <b>\$ 5,480.3</b>         |

|                              | Qualifying<br>ACL | Qualifying<br>Subordinated<br>Debt | Tier 2<br>Capital | Tier 1<br>Capital<br>(from above) | Total<br>risk-based<br>capital |
|------------------------------|-------------------|------------------------------------|-------------------|-----------------------------------|--------------------------------|
| Balance at December 31, 2009 | \$ 556.3          | \$ 473.2                           | \$ 1,029.5        | \$ 5,201.2                        | \$ 6,230.7                     |
|                              |                   | (49.8)                             | (49.8)            |                                   | (49.8)                         |

|  |        |          |          |          |            |       |         |
|--|--------|----------|----------|----------|------------|-------|---------|
| Change in qualifying subordinated debt |        |          |          |          |            |       |         |
| Change in qualifying ACL               | (11.4) |          |          | (11.4)   |            |       | (11.4)  |
| Changes to Tier 1 Capital (see above)  |        |          |          |          |            | 279.1 | 279.1   |
| <b>Balance at September 30, 2010</b>   |        | \$ 544.9 | \$ 423.4 | \$ 968.3 | \$ 5,480.3 | \$    | 6,448.6 |

(1) Excludes accumulated other comprehensive income (OCI) and minority interest.

(2) Includes minority interest.

**Table of Contents**

The following table presents our regulatory capital ratios at both the consolidated and Bank levels for each of the past five quarters.

**Table 50 Regulatory Capital Ratios**

|   |              | <b>September</b> | <b>2010</b>     |                  | <b>December</b> | <b>2009</b>      |
|---|--------------|------------------|-----------------|------------------|-----------------|------------------|
|   |              | <b>30,</b>       | <b>June 30,</b> | <b>March</b>     | <b>31,</b>      | <b>September</b> |
|   |              |                  |                 | <b>31,</b>       |                 | <b>30,</b>       |
| Total risk-weighted assets<br>(in millions)       | Consolidated | <b>\$ 42,759</b> | \$ 42,486       | <b>\$ 42,522</b> | \$ 43,248       | \$ 44,142        |
|   | Bank         | <b>42,503</b>    | 42,249          | 42,511           | 43,149          | 43,964           |
| Tier 1 leverage ratio <sup>(1)</sup>              | Consolidated | <b>10.54%</b>    | 10.45%          | 10.05%           | 10.09%          | 11.30%           |
|   | Bank         | <b>6.85</b>      | 6.54            | 5.99             | 5.59            | 6.48             |
| Tier 1 risk-based capital<br>ratio <sup>(1)</sup> | Consolidated | <b>12.82</b>     | 12.51           | 11.97            | 12.03           | 13.04            |
|   | Bank         | <b>8.28</b>      | 7.80            | 7.11             | 6.66            | 7.46             |
| Total risk-based capital<br>ratio <sup>(1)</sup>  | Consolidated | <b>15.08</b>     | 14.79           | 14.28            | 14.41           | 16.23            |
|   | Bank         | <b>12.69</b>     | 12.23           | 11.53            | 11.08           | 11.75            |

(1) Based on an interim decision by the banking agencies on December 14, 2006, we have excluded the impact of adopting ASC Topic 715, Compensation Retirement Benefits, from the regulatory capital calculations.

The increase in our Tier 1 and total risk-based capital ratios compared with June 30, 2010 reflected a combination of factors including capital accretion due to the current quarter's earnings and a decrease in disallowed deferred tax assets. Our total disallowed deferred tax assets for regulatory capital purposes decreased to \$112.9 million at September 30, 2010 compared with \$260.1 million at December 31, 2009.

At September 30, 2010, the parent company had Tier 1 and total risk-based capital in excess of the minimum level required to be considered well-capitalized of \$2.9 billion and \$2.2 billion, respectively. Also, the Bank had Tier 1 and total risk-based capital in excess of the minimum level required to be considered well-capitalized of \$1.0 billion and \$1.1 billion, respectively, at September 30, 2010.

**TARP**

During 2008, we received \$1.4 billion of equity capital by issuing 1.4 million shares of Series B Preferred Stock to the U.S. Department of Treasury, and a ten-year warrant to purchase up to 23.6 million shares of our common stock, par value \$0.01 per share, at an exercise price of \$8.90 per share. The proceeds received were allocated to the preferred stock and additional paid-in-capital. The resulting discount on the preferred stock is amortized, resulting in additional

dilution to our earnings per share. The Series B Preferred Stock is not a component of Tier 1 common equity. *(See Note 9 of the Notes to the Unaudited Condensed Consolidated Financial Statements for additional information regarding the Series B Preferred Stock issuance).*

We intend to repay our TARP capital as soon as it is prudent to do so. However, there are three factors we will continue to consider as we evaluate repayment: (a) evidence of a sustained economic recovery, (b) sustained profitable performance with growth in earnings, and (c) additional clarity of any new regulatory capital thresholds.

***Other Capital Matters***

As a condition to participate in the TARP, we may not repurchase any shares without prior approval from the Department of Treasury. No shares were repurchased during the first nine-month period of 2010. Also, as we continue to focus on maintaining our strong capital levels, we do not currently anticipate an increase in our dividends for the foreseeable future.

**Table of Contents****BUSINESS SEGMENT DISCUSSION****Overview**

This section reviews financial performance from a business segment perspective and should be read in conjunction with the Discussion of Results of Operations, Note 18 of the Notes to Unaudited Condensed Consolidated Financial Statements, and other sections for a full understanding of our consolidated financial performance.

Beginning in the 2010 fourth quarter, we intend to reorganize. The purpose of the reorganization is to better align certain business unit reporting to segment executives with more related business units, accelerating cross sell results. Our reorganization also addresses certain span of management opportunities allowing greater focus on execution of our strategic plans.

We have five major business segments: Retail and Business Banking, Commercial Banking, Commercial Real Estate, Auto Finance and Dealer Services (AFDS), and the Private Financial Group (PFG). A Treasury/Other function includes other unallocated assets, liabilities, revenue, and expense. For each of our five business segments, we expect the combination of our business model and exceptional service to provide a competitive advantage that supports revenue and earnings growth. Our business model emphasizes the delivery of a complete set of banking products and services offered by larger banks, but distinguished by local decision-making regarding the pricing and offering of these products.

***Funds Transfer Pricing***

We use a centralized funds transfer pricing (FTP) methodology to attribute appropriate net interest income to the five business segments. The Treasury/Other business segment charges (credits) an internal cost of funds for assets held in (or pays for funding provided by) each business segment. The FTP rate is based on prevailing market interest rates for comparable duration assets (or liabilities), and includes an estimate for the cost of liquidity ( liquidity premium ). Deposits of an indeterminate maturity receive an FTP credit based on a combination of vintage-based average lives and replicating portfolio pool rates. Other assets, liabilities, and capital are charged (credited) with a four-year moving average FTP rate. The intent of the FTP methodology is to eliminate all interest rate risk from the business segments by providing matched duration funding of assets and liabilities. The result is to centralize the financial impact, management, and reporting of interest rate and liquidity risk in the Treasury/Other function where it can be centrally monitored and managed. The denominator in net interest margin calculation has been modified to add the amount of net funds provided by each business segment for all periods presented.

***Revenue Sharing***

Our five business segments operate in cooperation to provide products and services to our customers. Revenue is recorded in the business segment responsible for the related product or service. Fee sharing is recorded to allocate portions of such revenue to other business segments involved in selling to or providing service to customers. The most significant revenues for which fee sharing is recorded relate to customer derivatives and brokerage services, which are recorded by PFG and shared primarily with Retail and Business Banking and Commercial Banking. Results of operations for the business segments reflect these fee sharing allocations.

Over the last year, a key strategic emphasis has been to build stronger and more profitable customer relationships using an Optimal Customer Relationship (OCR) methodology. The objectives of OCR are:

1. Achieve greater share of wallet by increasing product and services sold to each relationship.
2. Target profitable customers, aligned with our strategic mid to low risk profile.
3. Take a consultative sales approach to become a total solutions provider.

Tied to the OCR process is a new recording and reporting system that has the ability to send, track, and manage referrals and leads across all business segments. It allows us to leverage common objectives, processes, and tools to be more efficient and effective, while also increasing accountability for performance.

***Expense Allocation***

Business segment results are determined based upon our management reporting system, which assigns balance sheet and income statement items to each of the business segments. The process is designed around our organizational and management structure and, accordingly, the results derived are not necessarily comparable with similar information

published by other financial institutions.



**Table of Contents**

The management accounting process used to develop the business segment reporting utilizes various estimates and allocation methodologies to measure the performance of the business segments. Expenses are allocated to business segments using a two-phase approach. The first phase consists of measuring and assigning unit costs (activity-based costs) to activities incident to product origination and servicing. These activity-based costs are then extended, based on volumes, with the resulting amount allocated to business segments which own the related products. The second phase consists of the allocation of overhead costs to all five business segments from Treasury/Other. We utilize a full-allocation methodology, where all Treasury/Other expenses, except those related to servicing Franklin-related assets, reported Significant Items (except for the goodwill impairment), and a small amount of other residual unallocated expenses, are allocated to the five business segments.

**Treasury/Other**

The Treasury / Other function includes revenue and expense related to assets, liabilities, and equity not directly assigned or allocated to one of the five business segments. Assets include investment securities, bank owned life insurance, and the loans and OREO properties acquired through the 2009 first quarter Franklin restructuring. The financial impact associated with our FTP methodology, as described above, is also included.

Net interest income includes the impact of administering our investment securities portfolios and the net impact of derivatives used to hedge interest rate sensitivity. Noninterest income includes miscellaneous fee income not allocated to the five business segments such as bank owned life insurance income, and any investment securities and trading assets gains or losses. Noninterest expense includes certain corporate administrative, merger, and other miscellaneous expenses not allocated to the five business segments. The provision for income taxes for the business segments is calculated at a statutory 35% tax rate, though our overall effective tax rate is lower. As a result, Treasury/Other reflects a credit for income taxes representing the difference between the lower actual effective tax rate and the statutory tax rate used to allocate income taxes to the business segments.

**Net Income by Business Segment**

We reported net income of \$189.4 million during the first nine-month period of 2010. This compared with a net loss of \$2,724.5 million during the first nine-month period of 2009. The segregation of net income by business segment for the first nine-month period of 2010 and the first nine-month period of 2009 is presented in the following table:

**Table 51 Net Income (Loss) by Business Segment**

| <i>(dollar amounts in thousands)</i> | Nine Months Ended September |                       |
|--------------------------------------|-----------------------------|-----------------------|
|                                      | 2010                        | 2009                  |
| Retail and Business Banking          | \$ 94,124                   | \$ 43,706             |
| Commercial Banking                   | 44,857                      | (56,151)              |
| Commercial Real Estate               | (73,771)                    | (325,748)             |
| AFDS                                 | 66,932                      | (3,261)               |
| PFG                                  | 29,699                      | 5,010                 |
| Treasury/Other                       | 27,606                      | 185,770               |
| Unallocated goodwill impairment (1)  |                             | (2,573,818)           |
| <b>Total net income (loss)</b>       | <b>\$ 189,447</b>           | <b>\$ (2,724,492)</b> |

(1) Represents the 2009 first quarter impairment charge, net of

tax, associated with the former Regional Banking business segment. The allocation of this charge to the newly created business segments was not practical.

**Table of Contents*****Average Loans/Leases and Deposits by Business Segment***

The segregation of total average loans and leases and total average deposits by business segment for the first nine-month period of 2010, is presented in the following table:

**Table 52 Average Loans/Leases and Deposits by Business Segment**  
Nine Months Ended September 30, 2010

| <i>(dollar amounts in millions)</i>    | Retail and<br>Business<br>Banking | Commercial<br>Banking | Commercial<br>Real<br>Estate | AFDS     | PFG      | Treasury<br>/<br>Other | TOTAL     |
|--|-----------------------------------|-----------------------|------------------------------|----------|----------|------------------------|-----------|
| <b>Average Loans/Leases</b>            |                                   |                       |                              |          |          |                        |           |
| Commercial and industrial              | \$ 2,909                          | \$ 7,095              | \$ 660                       | \$ 1,050 | \$ 603   | \$                     | \$ 12,317 |
| Commercial real estate                 | 537                               | 292                   | 6,378                        | 5        | 157      |                        | 7,369     |
| Total commercial                       | 3,446                             | 7,387                 | 7,038                        | 1,055    | 760      |                        | 19,686    |
| Automobile loans and leases            |                                   |                       |                              | 4,678    |          |                        | 4,678     |
| Home equity                            | 6,819                             | 17                    |                              |          | 668      | 46                     | 7,550     |
| Residential mortgage                   | 3,618                             | 3                     |                              |          | 635      | 235                    | 4,491     |
| Other consumer                         | 498                               | 6                     |                              | 163      | 23       |                        | 690       |
| Total consumer                         | 10,935                            | 26                    |                              | 4,841    | 1,326    | 281                    | 17,409    |
| Total loans                            | \$ 14,381                         | \$ 7,413              | \$ 7,038                     | \$ 5,896 | \$ 2,086 | \$ 281                 | \$ 37,095 |
| <b>Average Deposits</b>                |                                   |                       |                              |          |          |                        |           |
| Demand deposits<br>noninterest-bearing | \$ 3,543                          | \$ 2,242              | \$ 275                       | \$ 82    | \$ 490   | \$ 116                 | \$ 6,748  |
| Demand deposits<br>interest-bearing    | 4,166                             | 937                   | 43                           |          | 518      | 3                      | 5,667     |
| Money market deposits                  | 7,314                             | 1,964                 | 227                          | 6        | 1,755    | 1                      | 11,267    |
| Savings and other domestic<br>deposits | 4,483                             | 89                    | 3                            |          | 68       |                        | 4,643     |
| Core certificates of deposit           | 9,161                             | 28                    | 2                            |          | 180      |                        | 9,371     |
| Total core deposits                    | 28,667                            | 5,260                 | 550                          | 88       | 3,011    | 120                    | 37,696    |
| Other deposits                         | 246                               | 1,241                 | 32                           | 4        | 140      | 1,054                  | 2,717     |
| Total deposits                         | \$ 28,913                         | \$ 6,501              | \$ 582                       | \$ 92    | \$ 3,151 | \$ 1,174               | \$ 40,413 |

**Table of Contents****Retail and Business Banking*****Objectives, Strategies, and Priorities***

Our Retail and Business Banking segment provides traditional banking products and services to consumer and small business customers located in the six states of Ohio, Michigan, Pennsylvania, Indiana, West Virginia, and Kentucky. It provides these services through a banking network of over 600 branches, and over 1,300 ATMs, along with internet and telephone banking channels. It also provides certain services on a limited basis outside of these six states, such as mortgage banking. Retail products and services include home equity loans and lines-of-credit, first mortgage loans, direct installment loans, small business loans, personal and business deposit products, treasury management products, as well as sales of investment and insurance services. At September 30, 2010, Retail and Business Banking accounted for 39% and 71% of consolidated loans and leases and deposits, respectively.

Our Retail and Business Banking strategy is to focus on building deeper relationships with both new and existing customers and significantly grow our checking households by increasing our marketing and our Fair Play banking philosophy. Our proven customer service excellence gives us a solid foundation to build upon.

**Table 53 Key Performance Indicators for Retail and Business Banking**

| <i>(dollar amounts in thousands unless otherwise noted)</i>            | Nine Months Ended |            | Change       |         |
|--|-------------------|------------|--------------|---------|
|  | 2010              | 2009       | Amount       | Percent |
| Net interest income  | \$ 683,200        | \$ 666,806 | \$ 16,394    | 2%      |
| Provision for credit losses  | (190,508)         | (310,807)  | (120,299)    | (39)    |
| Noninterest income   | 409,993           | 385,628    | 24,365       | 6       |
| Noninterest expense  | (757,879)         | (674,386)  | 83,493       | 12      |
| Provision for income taxes   | (50,682)          | (23,535)   | 27,147       | N.M.    |
| Net income   | \$ 94,124         | \$ 43,706  | \$ 50,418    | N.M.%   |
| Number of employees (full-time equivalent)                             | 6,562             | 5,881      | 681          | 12%     |
| Total average assets (in millions)                                     | \$ 16,644         | \$ 17,036  | \$ (392)     | (2)     |
| Total average loans/leases (in millions)                               | 14,381            | 14,893     | (512)        | (3)     |
| Total average deposits (in millions)                                   | 28,913            | 27,664     | 1,249        | 5       |
| Net interest margin  | 3.14%             | 3.22%      | (0.08)%      | (2)     |
| Net charge-offs (NCOs)   | \$ 195,947        | \$ 298,089 | \$ (102,142) | (34)    |
| NCOs as a % of average loans and leases                                | 1.82%             | 2.67%      | (0.85)%      | (32)    |
| Return on average equity   | 7.3               | 4.5        | 2.8          | 62      |
| Retail banking # demand deposit account (DDA) households (eop)         | 970,255           | 921,059    | 49,196       | 5       |
| Retail banking New-to-Bank DDA relationships 90-day cross-sell (eop)   | 3.50              | 3.13       | 0.37         | 12      |
| Business banking # business DDA relationships (eop)                    | 117,776           | 112,427    | 5,349        | 5       |
| Business banking New-to-Bank DDA relationships 90-day cross-sell (eop) | 2.48              | 1.88       | 0.60         | 32      |
| Mortgage banking closed loan volume (in millions) eop End of Period.   | \$ 3,649          | \$ 4,131   | \$ (482)     | (12)%   |

N.M., not a meaningful value.

**2010 First Nine Months vs. 2009 First Nine Months**

Retail and Business Banking reported net income of \$94.1 million in the first nine-month period of 2010, compared with net income of \$43.7 million in the first nine-month period of 2009. As discussed further below, the \$50.4 million

increase included a \$120.3 million, or 39%, decline in the provision for credit losses, partially offset by an \$83.5 million, or 12%, increase in noninterest expense.

**Table of Contents**

Net interest income increased \$16.4 million, or 2%, primarily reflecting a \$1.2 billion increase in average total deposits and a 5 basis point improvement in our deposit spread and a 5% increase in the number of DDA households. These increases were the result of increased sales efforts throughout 2009 and the first nine-month period of 2010, particularly in our money market and checking account deposit products.

The \$0.5 billion, or 3%, decline in total average loans and leases primarily reflected a \$0.4 billion decrease in average commercial loans. The \$0.4 billion decrease in average commercial loans was largely focused within the CRE portfolio, and reflected our ongoing commitment to reduce our exposure by executing several initiatives that have resulted in lower balances through payoffs and paydowns, as well as the impact of NCOs. In addition, certain CRE loans, primarily representing owner-occupied properties, were reclassified to C&I loans in 2009.

Provision for credit losses declined \$120.3 million, or 39%, reflecting lower NCOs, a \$512 million decrease in related average loans and leases, and improvement in delinquencies. NCOs declined \$102.1 million, or 34%, and reflected a \$77.4 million decline in total commercial NCOs, and a \$24.8 million decline in total consumer NCOs. The decrease in NCOs reflected a lower level of large dollar charge-offs, improvement in delinquencies, the impact of loans sales in 2009, and an improved credit environment.

Noninterest income increased \$24.4 million, or 6%, reflecting a \$35.8 million increase in mortgage banking income. The increase to mortgage banking income primarily reflected a \$47.0 million improvement of MSR valuation, net of hedging, partially offset by a \$9.0 million decline in origination and secondary marketing fees as a result of a 12% decrease in mortgage originations. Also contributing to the increase in noninterest income was a \$6.2 million, or 8%, increase in electronic banking income, primarily reflecting an increased number of deposit accounts and transaction volumes. Partially offsetting these increases were: (a) \$14.9 million decline in deposit service charges reflecting the amendment to Regulation E, the reduction or elimination of certain overdraft fees, a decline in the number of customers overdrafting their accounts, and our new 24-Hour Grace product offering, and (b) \$1.1 million decline in trading and derivative revenue as a result of a decline in customer demand for interest-rate swap products.

Noninterest expense increased \$83.5 million, or 12%. This increase reflected: (a) \$23.6 million of higher allocated expenses; (b) \$25.3 million increase in personnel expense reflecting a 12% increase in full-time equivalent employees and salary increases; (c) \$24.4 million increase in marketing expense related to branch and product advertising and direct mail efforts, and branch and ATM branding investments in support of strategic initiatives; (d) \$14.3 million increase in deposit and other insurance expense reflecting increased premiums and higher deposit balances; and (e) \$6.5 million increase in repurchase reserves related to representations and warranties made on mortgage loans sold. These increases were partially offset by a \$14.8 million improvement in OREO losses.

**Table of Contents****Commercial Banking****Objectives, Strategies, and Priorities**

The Commercial Banking segment provides a variety of banking products and services to customers within our primary banking markets that generally have larger credit exposures and sales revenues compared with our Retail and Business Banking customers. Commercial Banking products include commercial loans, international trade, cash management, leasing, interest rate protection products, foreign exchange, capital market alternatives, 401(k) plans, and mezzanine investment capabilities. Our Commercial Banking team also serves customers that specialize in equipment leasing, as well as serving the commercial banking needs of government entities, not-for-profit organizations, and large corporations. Commercial bankers personally deliver these products and services by developing leads through community involvement, referrals from other professionals, and targeted prospect calling. The Commercial Banking business model includes 11 regional markets driven by local execution. These markets are supported by expertise in large corporate and middle market segments, by capabilities in treasury management and equipment finance, and by vertical strategies within government banking and not-for-profit industries.

The Commercial portfolio includes a distribution across industries and segments which resembles the market demographics of our footprint. A strategic focus of Commercial Banking is to target under penetrated markets within our footprint and capitalize on opportunities in industries such as not-for-profit and healthcare.

In addition, Commercial Banking will expand the leadership, investment, and capabilities for treasury by management and equipment finance. In equipment finance, we will distinguish ourselves through aggressive business development and local service delivery and by strategically aligning with our bank partners to drive market share, as evidenced by a 114% increase in originations during the first nine-month period of 2010, when compared with the same period last year. With our investments in Treasury Management, we will differentiate through our implementation experience and the speed at which we can deliver products and services to our customers.

The primary focus for Commercial Banking is our ability to gain a deeper relationship with our existing customers and to increase our market share through our unique customer solution strategy. This includes a comprehensive cross-sell approach to capture the untapped opportunities within our customer and prospect community. This strategy embodies a shift from a credit-only focus, to a total customer solution approach with an increasing share of wallet.

**Table 54 Key Performance Indicators for Commercial Banking**

| <i>(dollar amounts in thousands unless otherwise noted)</i> | Nine Months Ended |                    | Change      |         |
|---|-------------------|--------------------|-------------|---------|
|   | 2010              | September 30, 2009 | Amount      | Percent |
| Net interest income   | \$ 169,338        | \$ 156,231         | \$ 13,107   | 8%      |
| Provision for credit losses                                 | (57,295)          | (207,667)          | (150,372)   | (72)    |
| Noninterest income  | 78,383            | 69,511             | 8,872       | 13      |
| Noninterest expense   | (121,415)         | (104,461)          | 16,954      | 16      |
| (Provision) benefit for income taxes                        | (24,154)          | 30,235             | 54,389      | N.M.    |
| Net income (loss)   | \$ 44,857         | \$ (56,151)        | \$ 101,008  | N.M.%   |
| Number of employees (full-time equivalent)                  | 500               | 433                | 67          | 15%     |
| Total average assets (in millions)                          | \$ 7,666          | \$ 8,402           | \$ (736)    | (9)     |
| Total average loans/leases (in millions)                    | 7,413             | 8,032              | (619)       | (8)     |
| Total average deposits (in millions)                        | 6,501             | 6,004              | 497         | 8       |
| Net interest margin   | 2.94%             | 2.61%              | 0.33%       | 13      |
| Net charge-offs (NCOs)                                      | \$ 102,733        | \$ 174,474         | \$ (71,741) | (41)    |
| NCOs as a % of average loans and leases                     | 1.85%             | 2.90%              | (1.05)%     | (36)    |
| Return on average equity                                    | 8.7               | (9.4)              | 18.1        | N.M.    |

N.M., not a meaningful value.



**Table of Contents*****2010 First Nine Months vs. 2009 First Nine Months***

Commercial Banking reported net income of \$44.9 million in the first nine-month period of 2010, compared with a net loss of \$56.2 million in the first nine-month period of 2009. As discussed below, this \$101 million improvement primarily reflected a \$150.4 million decline in provision for credit losses, partially offset by a \$17.0 million increase in noninterest expense.

Net interest income increased \$13.1 million, or 8%, primarily reflecting a 33 basis point increase in the net interest margin, partially offset by a \$0.6 billion, or 8%, decline in average total loans. This increase in the net interest margin was almost entirely reflective of the 39 basis point improvement in our commercial loan spread as a result of strategic pricing decisions.

Average total loans declined \$0.6 billion, or 8%, primarily reflecting strategic and credit related exits, lower line-of-credit utilization, and higher NCOs during 2009. Additionally, we have experienced higher run-off in our commercial loan portfolio as many customers have actively reduced their leverage position due to higher liquidity positions.

Total average deposits increased \$0.5 billion, or 8%, reflecting a \$1.1 billion increase in core deposits, partially offset by a \$0.6 billion decline in noncore deposits. The increase in core deposits reflected: (a) a \$0.6 billion increase in public fund deposits, (b) \$0.2 billion increase in commercial demand deposits; and (c) \$0.2 billion increase in commercial savings and money market deposits. These increases were primarily a result of strategic efforts to improve our sales and servicing functions as they relate to commercial and public customers, as well as initiatives designed to deepen our relationships with these customers. The decrease in noncore deposits primarily reflected a \$0.4 billion reduction in brokered and negotiable deposits due to portfolio continued run-off.

Provision for credit losses declined \$150.4 million, or 72%, reflecting the lower level of related loan balances, as well as a \$71.7 million decline in NCOs. Expressed as a percentage of related average balances, NCOs decreased to 1.85% from 2.90%. The decline in NCOs was primarily driven by \$51.1 million lower net C&I charge-offs and \$21.0 million lower CRE NCOs. This represented an increase in recoveries compared with the year-ago period. The overall decline in NCOs was the result of aggressive treatment of the portfolio over the last 18 months and an improved credit environment.

Noninterest income increased \$8.9 million, or 13%, and primarily reflected: (a) \$4.3 million increase in loan commitment fee income; (b) \$2.3 million increase of loan-related fees relating to the improved collection of such fees from customers; (c) \$1.2 million increase in brokerage and insurance income; (d) \$1.2 million in gains on terminated leases, reflecting strategically accelerated equipment sales to capture disposal gains; and (e) \$0.8 million increase in deposit service charges reflecting higher core deposit balances and increased treasury management sales efforts. These increases were partially offset by a \$3.1 million decline in equipment operating lease income as lease originations were structured as direct finance leases rather than operating leases effective with the 2009 second quarter.

Noninterest expense increased \$17.0 million, or 16%, and reflected: (a) \$12.9 million increase in personnel expense reflecting a 15% increase in full-time equivalent employees; (b) \$2.3 million of higher allocated expenses, and (c) \$3.3 million increase in deposit and other insurance expense reflecting increased premiums and higher deposit balances. These increases were partially offset by a \$2.6 decrease in equipment operating lease expense reflecting the change in structuring for lease originations effective with the 2009 second quarter as described above.

**Table of Contents****Commercial Real Estate*****Objectives, Strategies, and Priorities***

Our Commercial Real Estate segment serves professional real estate developers or other customers with real estate project financing needs within our primary banking markets. Commercial Real Estate products and services include CRE loans, cash management, interest rate protection products, insurance and general banking products and services. Commercial Real Estate bankers personally deliver these products and services through relationships with developers in our footprint who are recognized as the most experienced, well-managed and well-capitalized, and are capable of operating in all phases of the real estate cycle ( core customers and prospects ); developing leads through community involvement; and referrals from other professionals.

The Commercial Real Estate strategy is to focus on building a deep relationship with top-tier developers within our geographic footprint. Our local knowledge of the customers, market, and products, provides us with a competitive advantage and supports revenue growth in our footprint. Our strategy is to continue to expand the relationships of our current core customer base and to attract new, profitable business with core prospects in our footprint. This strategy embodies a shift from a credit only focus, to a total solutions approach.

At the end of 2009, the CRE loan portfolio was segmented into core and noncore components as part of our strategy to manage our credit exposure while maximizing the overall CRE portfolio profitability. Both the core and noncore portfolios are actively managed and priced based on unique characteristics of each underlying relationship.

**Table 55 Key Performance Indicators for Commercial Real Estate**

| <i>(dollar amounts in thousands unless otherwise noted)</i> | Nine Months Ended |                    | Change       |         |
|---|-------------------|--------------------|--------------|---------|
|   | 2010              | September 30, 2009 | Amount       | Percent |
| Net interest income   | \$ 123,362        | \$ 101,287         | \$ 22,075    | 22%     |
| Provision for credit losses                                 | (211,430)         | (577,826)          | (366,396)    | (63)    |
| Noninterest income  | 8,558             | 778                | 7,780        | N.M.    |
| Noninterest expense   | (33,984)          | (25,389)           | 8,595        | 34      |
| Benefit for income taxes                                    | 39,723            | 175,402            | (135,679)    | (77)    |
| Net loss  | \$ (73,771)       | \$ (325,748)       | \$ 251,977   | (77)%   |
| Number of employees (full-time equivalent)                  | 108               | 90                 | 18           | 20%     |
| Total average assets (in millions)                          | \$ 6,462          | \$ 8,236           | \$ (1,774)   | (22)    |
| Total average loans/leases (in millions)                    | 7,038             | 8,358              | (1,320)      | (16)    |
| Total average deposits (in millions)                        | 582               | 482                | 100          | 21      |
| Net interest margin   | 2.34%             | 1.62%              | 0.72%        | 44      |
| Net charge-offs (NCOs)                                      | \$ 269,715        | \$ 373,660         | \$ (103,945) | (28)    |
| NCOs as a % of average loans and leases                     | 5.11%             | 5.96%              | (0.85)%      | (14)    |
| Return on average equity                                    | (16.0)            | (77.8)             | (61.8)       | (79)    |

N.M., not a meaningful value.

***2010 First Nine Months vs. 2009 First Nine Months***

Commercial Real Estate reported a net loss of \$73.8 million in the first nine-month period of 2010 compared with a net loss of \$325.7 million in the first nine-month period of 2009. The improvement reflects a \$366.4 million decrease to the provision for credit losses due to the stabilization of overall credit quality in the underlying portfolio.

Net interest income increased \$22.1 million, or 22%, reflecting a 72 basis point increase in net interest margin partially offset by a \$1.3 billion, or 16%, decrease in average earning assets. The net interest margin increase primarily reflects the implementation of a risk-based pricing strategy implemented in early 2009.



**Table of Contents**

Average total loans declined \$1.3 billion. The decline is primarily due to aggressive portfolio management and reflects an on-going commitment to reducing our commercial real estate exposure while maintaining a moderate to low risk profile. In addition, certain CRE loans, primarily representing owner-occupied properties, were reclassified to C&I loans in 2009.

Average total deposits increased \$0.1 billion, or 21% primarily in commercial demand deposits and commercial money-market deposits reflecting the results of our commitment to strengthen relationships with core customers. Noninterest income increased \$7.8 million, reflecting \$4.3 million improvement in derivative trading activities as well as \$2.3 million increase in loan-related fees.

Noninterest expense increased \$8.6 million, or 34% reflecting \$4.6 million increase in credit-related expenses (i.e., appraisals, loan collection, taxes, OREO expenses) and \$2.5 million increase in personnel expense reflecting the commitment to deepening our relationships with core customers and reducing real estate exposure.

**Table of Contents****Auto Finance and Dealer Services (AFDS)*****Objectives, Strategies, and Priorities***

Our AFDS business segment provides a variety of banking products and services to approximately 2,300 automotive dealerships within our primary banking markets, as well as Eastern Pennsylvania and five New England states. The recent expansion has incorporated new experienced colleagues with existing dealer relationships. AFDS finances the purchase of automobiles by customers at the automotive dealerships; finances dealerships' new and used vehicle inventories, land, buildings, and other real estate owned by the dealership; finances dealership working capital needs; and provides other banking services to the automotive dealerships and their owners. Competition from the financing divisions of automobile manufacturers and from other financial institutions is intense. AFDS' production opportunities are directly impacted by the general automotive sales business, including programs initiated by manufacturers to enhance and increase sales directly. We have been in this line of business for over 50 years.

The AFDS strategy focuses on developing relationships with the dealership through its finance department, general manager, and owner. An underwriter who understands each local region makes loan decisions, though we prioritize maintaining pricing discipline over market share.

**Table 56 Key Performance Indicators for Auto Finance and Dealer Services (AFDS)**

| <i>(dollar amounts in thousands unless otherwise noted)</i> | Nine Months Ended |             | Change      |         |
|---|-------------------|-------------|-------------|---------|
|   | 2010              | 2009        | Amount      | Percent |
| Net interest income   | \$ 126,607        | \$ 105,116  | \$ 21,491   | 20%     |
| Reduction (provision) for credit losses                     | 9,004             | (68,553)    | (77,557)    | N.M.    |
| Noninterest income  | 49,929            | 44,327      | 5,602       | 13      |
| Noninterest expense   | (82,568)          | (85,907)    | (3,339)     | (4)     |
| (Provision) benefit for income taxes                        | (36,040)          | 1,756       | 37,796      | N.M.    |
| Net income (loss)   | \$ 66,932         | \$ (3,261)  | \$ 70,193   | N.M.%   |
| Number of employees (full-time equivalent)                  | 412               | 436         | (24)        | (6)%    |
| Total average assets (in millions)                          | \$ 6,345          | \$ 5,270    | \$ 1,075    | 20      |
| Total average loans/leases (in millions)                    | 5,896             | 4,972       | 924         | 19      |
| Net interest margin   | 2.74%             | 2.64%       | 0.10%       | 4       |
| Net charge-offs (NCOs)                                      | \$ 21,766         | \$ 45,430   | \$ (23,664) | (52)    |
| NCOs as a % of average loans and leases                     | 0.49%             | 1.22%       | (0.73)%     | (60)    |
| Return on average equity                                    | 35.9              | (1.7)       | 37.6        | N.M.    |
| Noninterest income  | \$ 49,929         | \$ 44,327   | \$ 5,602    | 13      |
| Operating lease income                                      | 35,500            | 39,139      | (3,639)     | (9)     |
| Noninterest income, excluding operating lease income        | \$ 14,429         | \$ 5,188    | \$ 9,241    | 2       |
| Noninterest expense   | \$ (82,568)       | \$ (85,907) | \$ 3,339    | (4)     |
| Operating lease expense                                     | (28,892)          | (32,920)    | 4,028       | (12)    |
| Noninterest expense, excluding operating lease expense      | \$ (53,676)       | \$ (52,987) | \$ (689)    | 1       |

|   |    |              |    |       |    |       |      |
|---|----|--------------|----|-------|----|-------|------|
| Automobile loans production (in millions) | \$ | <b>2,631</b> | \$ | 1,073 | \$ | 1,558 | N.M. |
|---|----|--------------|----|-------|----|-------|------|

N.M., not a meaningful value.

**Table of Contents*****2010 First Nine Months vs. 2009 First Nine Months***

AFDS reported net income of \$66.9 million in the first nine-month period of 2010, compared with a net loss of \$3.3 million in the first nine-month period of 2009. This \$70.2 million increase reflected a \$77.6 million decline to the provision for credit losses, due to a reduction in reserves as the underlying credit quality of the loan portfolios improved. This improvement largely reflected our consistent high quality origination profile since the beginning of 2008. The comparable year-ago period included a higher provision for credit losses to increase reserves due to economic and automobile-industry related weaknesses in our markets. Total NCO s declined \$23.7 million, or 52%, and automobile loan and lease delinquency levels declined to 1.17% from 2.12%. At September 30, 2010, the ALLL as a percentage of total loans decreased to 0.88% from 1.68% at September 30, 2009.

Net interest income increased \$21.5 million, or 20%, reflecting a 10 basis point increase in the net interest margin, and a \$0.9 billion, or 19%, increase in average total loans. The increase in average total loans reflected a \$1.3 billion increase in average automobile loans due to record loan origination levels, as well as the impact of the transferring automobile loans to a trust in a securitization transaction as part of a funding strategy (*see below*). These increases were partially offset by a \$0.3 billion decline related to the continued run-off in the automobile lease portfolio, and a \$0.1 billion decline in average commercial loans primarily reflecting lower floorplan credit-line utilization.

During the 2010 first quarter, we adopted a new accounting standard to consolidate a previously off-balance sheet automobile loan securitization transaction. At the end of the 2009 first quarter, we transferred \$1.0 billion of automobile loans to a trust in a securitization transaction as part of a funding strategy. Upon adoption of the new accounting standard, the trust was consolidated as of January 1, 2010. At the time of the consolidation, the trust was holding \$0.8 billion of loans and we elected to account for these loans, as well as the underlying debt, at fair value. At September 30, 2010, these loans had a remaining balance of \$0.6 billion.

Noninterest income increased \$5.6 million, or 13%. Excluding operating lease income, noninterest income increased \$9.2 million, or 2%. Performance for the first nine-month period of 2009 was impacted by a \$5.9 million nonrecurring loss from the \$1.0 billion securitization transaction (*discussed above*) and a \$0.7 million nonrecurring gain from the sale of related securities. In addition, the results for the first nine-month period of 2010 included a \$5.8 million net gain resulting from valuation adjustments of the loans and associated notes payable held by the consolidated trust (*discussed above*). Partially offsetting these increases was a \$2.5 million decrease in servicing income also attributed to the trust consolidation.

Noninterest expense decreased \$3.3 million, or 4%. Excluding operating lease expense, noninterest expense increased \$0.7 million or 1%. This increase reflected a \$2.2 million increase in personnel expense, much of which related to increased loan origination and servicing related activities, as well as a \$4.9 million increase in allocated costs. These increases were partially offset by a \$5.6 million decrease in losses associated with sales of vehicles returned at the end of their lease terms as 2010 sales of vehicles returned have generated higher values and the number of vehicles being returned has declined compared with the year ago period. Also, non-personnel related collections and repossession related costs declined \$1.4 million.

Net automobile operating lease income increased \$0.4 million, reflecting lower depreciation expense attributed to improvement in estimated vehicle residual values. Net automobile operating lease income is expected to decline in future periods as a result of the discontinuation of all lease origination activities in 2008 and the resulting continued run-off of the automobile operating lease portfolio.

**Table of Contents****Private Financial Group (PFG)**

(This section should be read in conjunction with Significant Item 1.)

**Objectives, Strategies, and Priorities**

PFG provides products and services designed to meet the needs of higher net worth customers as well as certain needs of corporate and institutional customers. The primary goal of PFG is to protect, advise, and grow client assets. To fulfill this mission, PFG offers a wide array of services tailored to the needs of each client. These include investment, insurance, capital markets, credit and deposit services, and asset management and servicing. Revenue is earned from the sale of trust, asset management, investment advisory, brokerage, insurance products, and credit and lending services through our private banking group. PFG also focuses on financial solutions for corporate and institutional customers that include investment banking, sales and trading of securities, foreign currency risk management, and interest rate risk management products.

To serve high net worth customers, we use a unique distribution model that employs a single, unified sales force to deliver products and services mainly through the Bank's distribution channels. PFG provides investment management, transfer agent, administrative and custodial services to Huntington Funds, which consists of proprietary mutual funds and variable annuity funds. The Huntington Investment Company offers brokerage and investment advisory services to both the Bank's and PFG's customers, through a combination of licensed investment sales representatives and licensed personal bankers. To grow managed assets, the Huntington Investment Company sales team has been utilized as the primary distribution source for trust and investment management. PFG's Insurance group provides a complete array of insurance products including individual life insurance products ranging from basic term-life insurance to estate planning, group life and health insurance, property and casualty insurance, mortgage title insurance, and reinsurance for payment protection products.

**Table 57 Key Performance Indicators for Private Financial Group (PFG)**

| <i>(dollar amounts in thousands unless otherwise noted)</i> | Nine Months Ended |           | Change     |         |
|---|-------------------|-----------|------------|---------|
|   | 2010              | 2009      | Amount     | Percent |
| Net interest income   | \$ 70,420         | \$ 57,274 | \$ 13,146  | 23%     |
| Reduction (provision) for credit losses                     | (4,476)           | (27,019)  | (22,543)   | (83)    |
| Noninterest income  | 191,858           | 183,657   | 8,201      | 4       |
| Noninterest expense excluding goodwill impairment           | (212,111)         | (177,310) | 34,801     | 20      |
| Goodwill impairment   |                   | (28,895)  | (28,895)   | N.M.    |
| Provision for income taxes                                  | (15,992)          | (2,697)   | 13,295     | N.M.    |
| Net income  | \$ 29,699         | \$ 5,010  | \$ 24,689  | N.M.%   |
| Number of employees (full-time equivalent)                  | 1,519             | 1,371     | 148        | 11%     |
| Total average assets (in millions)                          | \$ 3,292          | \$ 3,339  | \$ (47)    | (1)     |
| Total average loans/leases (in millions)                    | 2,086             | 2,444     | (358)      | (15)    |
| Total average deposits (in millions)                        | 3,151             | 2,354     | 797        | 34      |
| Net interest margin   | 3.00%             | 3.09%     | (0.09)%    | (3)     |
| Net charge-offs (NCOs)                                      | \$ 20,512         | \$ 25,537 | \$ (5,025) | (20)    |
| NCOs as a % of average loans and leases                     | 1.31%             | 1.39%     | (0.08)%    | (6)     |
| Return on average equity                                    | 11.2              | 2.8       | 8.4        | N.M.    |
| Total trust assets (in billions)- eop                       | \$ 60.3           | \$ 47.7   | \$ 12.6    | 26      |
| Total assets under management (in billions)- eop            | 13.6              | 13.0      | 0.6        | 5       |
| Total Huntington Funds (in billions) -eop                   | 3.3               | 3.2       | 0.1        | 3       |



Edgar Filing: HUNTINGTON BANCSHARES INC/MD - Form 10-Q

|  |            |            |           |    |
|--|------------|------------|-----------|----|
| Noninterest income, excluding impact of fee sharing    | \$ 226,817 | \$ 210,866 | \$ 15,951 | 8  |
| Noninterest income shared with other business segments | 34,959     | 27,209     | 7,750     | 28 |
| Noninterest income, reported (above)                   | 191,858    | 183,657    | 8,201     | 4  |

eop End of Period.

N.M., not a meaningful value.

**Table of Contents**

***2010 First Nine Months vs. 2009 First Nine Months***

PFG reported net income of \$29.7 million in the first nine-month period of 2010, compared with net income of \$5.0 million in the first nine-month period of 2009. The \$24.7 million improvement reflected a \$28.9 million goodwill impairment charge recorded during the year-ago period, as well as a \$22.5 million decline in the provision for credit losses. Partially offsetting this amount was an increase in the provision for income taxes expense of \$13.3 million. Net interest income increased \$13.1 million, or 23%, and the net interest margin declined by 9 basis points. The growth in net interest income was driven mostly by a \$0.8 billion increase in lower-cost deposits (*see below*). Average total loans decreased \$0.4 billion, or 15%. This decrease was primarily due to the reclassification of certain variable rate demand notes to municipal securities.

Average total deposits increased \$0.8 billion, or 34%. A substantial portion of the deposit growth resulted from the introduction of three deposit products during 2009 and a fourth during 2010 designed as alternative options for lower yielding money market mutual funds. The new deposit products were: (a) the Huntington Conservative Deposit Account (HCDA), (b) the Huntington Protected Deposit Account (HPDA), (c) the Collateral Backed Deposit Account (CBDA), and (d) the Bank Deposit Sweep Product (BDSP). Investments in these products exceeded \$1 billion at September 30, 2010 collectively.

As previously mentioned, provision for credit losses decreased \$22.5 million reflecting a reduction in the ALLL associated with the variable rate demand note reclassification noted above, as well as the utilization of previously established reserves in connection with total NCOs, which declined \$5.0 million, or 20%.

Noninterest income increased \$8.2 million, or 4%, primarily reflecting a \$7.3 million increase in trust services revenue, as a result of a \$12.6 billion increase in total trust assets, as well as increased fees on personal trust accounts and in-sourcing of certain mutual fund administrative services.

Noninterest expense increased \$5.9 million. This increase includes a \$28.9 million goodwill impairment charge recorded during the 2009 first quarter. After adjusting for the goodwill impairment, noninterest expense increased \$34.8 million. This increase reflected \$12.3 million higher allocated expenses, an \$18.2 million increase in personnel expense resulting from an 11% increase in average full-time equivalent employees, and a \$2.3 million increase in FDIC deposit insurance due to higher deposit balances.

**Table of Contents****ADDITIONAL DISCLOSURES****Forward-Looking Statements**

This report, including MD&A, contains certain forward-looking statements, including certain plans, expectations, goals, projections, and statements, which are subject to numerous assumptions, risks, and uncertainties. Statements that do not describe historical or current facts, including statements about beliefs and expectations, are forward-looking statements. The forward-looking statements are intended to be subject to the safe harbor provided by Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934.

Actual results could differ materially from those contained or implied by such statements for a variety of factors including: (a) credit quality performance could worsen due to a number of factors such as the underlying value of the collateral could prove less valuable than otherwise assumed and assumed cash flows may be worse than expected; (b) changes in economic conditions; (c) movements in interest rates; (d) competitive pressures on product pricing and services; (e) success and timing of other business strategies; (f) extended disruption of vital infrastructure; and (g) the nature, extent, and timing of governmental actions and reforms, including the Dodd-Frank Wall Street Reform and Consumer Protection Act, as well as future regulations which will be adopted by the relevant regulatory agencies, including the newly created Consumer Financial Protection Bureau (CFPB), to implement the Act's provisions. Additional factors that could cause results to differ materially from those described above can be found in our 2009 Annual Report on Form 10-K, and documents subsequently filed by us with the Securities and Exchange Commission. All forward-looking statements speak only as of the date they are made and are based on information available at that time. We assume no obligation to update forward-looking statements to reflect circumstances or events that occur after the date the forward-looking statements were made or to reflect the occurrence of unanticipated events except as required by federal securities laws. As forward-looking statements involve significant risks and uncertainties, caution should be exercised against placing undue reliance on such statements.

**Risk Factors**

We, like other financial companies, are subject to a number of risks that may adversely affect our financial condition or results of operation, many of which are outside of our direct control, though efforts are made to manage those risks while optimizing returns. Among the risks assumed are: (1) credit risk, which is the risk of loss due to loan and lease customers or other counterparties not being able to meet their financial obligations under agreed upon terms, (2) market risk, which is the risk of loss due to changes in the market value of assets and liabilities due to changes in market interest rates, foreign exchange rates, equity prices, and credit spreads, (3) liquidity risk, which is the risk of loss due to the possibility that funds may not be available to satisfy current or future obligations resulting from external macro market issues, investor and customer perception of financial strength, and events unrelated to the company such as war, terrorism, or financial institution market specific issues, and (4) operational risk, which is the risk of loss due to human error, inadequate or failed internal systems and controls, violations of, or noncompliance with, laws, rules, regulations, prescribed practices, or ethical standards, external influences, fraudulent activities, disasters, and security risks.

More information on risk is set forth under the heading "Risk Factors" included in Item 1A of our 2009 Form 10-K. Additional information regarding risk factors can also be found in the "Risk Management and Capital" discussion.

**Critical Accounting Policies and Use of Significant Estimates**

Our financial statements are prepared in accordance with accounting principles generally accepted in the United States (GAAP). The preparation of financial statements in conformity with GAAP requires us to establish critical accounting policies and make accounting estimates, assumptions, and judgments that affect amounts recorded and reported in our financial statements. Note 1 of the Notes to Consolidated Financial Statements included in our 2009 Form 10-K as supplemented by this report lists significant accounting policies we use in the development and presentation of our financial statements. This MD&A, the significant accounting policies, and other financial statement disclosures identify and address key variables and other qualitative and quantitative factors necessary for an understanding and evaluation of our company, financial position, results of operations, and cash flows.

An accounting estimate requires assumptions about uncertain matters that could have a material effect on the financial statements if a different amount within a range of estimates were used or if estimates changed from period to period.

Estimates are made under facts and circumstances at a point in time, and changes in those facts and circumstances

could produce results that significantly differ from when those estimates were made.

**Table of Contents**

Our most significant accounting estimates relate to our ACL, fair value measurements, and income taxes and deferred tax assets. These significant accounting estimates and their related application are discussed in our 2009 Form 10-K, and the discussion below provides pertinent updates to those accounting estimates.

***Total Allowance for Credit Losses***

The ACL is the sum of the ALLL and the AULC and represents the estimate of the level of reserves appropriate to absorb inherent credit losses. At September 30, 2010, the ACL was \$1,376.4 million, or 3.67% of total loans and leases.

The amount of the ACL was determined by judgments regarding the quality of each individual loan portfolio and loan commitments. All known relevant internal and external factors that affected loan collectibility were considered, including analysis of historical charge-off experience, migration patterns, as well as changes in economic conditions, borrower financial condition, and loan collateral values. Such factors are subject to regular review and may change to reflect updated performance trends and expectations, particularly in times of severe stress such as were experienced throughout 2009, and have continued into 2010. We believe the process for determining the ACL considers all of the potential factors that could result in credit losses. However, the process includes judgmental and quantitative elements that may be subject to significant change. There is no certainty that the ACL will be adequate over time to cover credit losses in the portfolio because of continued adverse changes in the economy, market conditions, or events adversely affecting borrower financial condition, industries or markets. To the extent actual outcomes differ from our estimates, the credit quality of our customer base materially decreases, the risk profile of a market, industry, or group of customers changes materially, or if the ACL is determined to not be adequate, additional provision for credit losses could be required, which could adversely affect our business, financial condition, liquidity, capital, and results of operations in future periods.

***Fair Value Measurements***

The fair value of a financial instrument is defined as the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Assets and liabilities carried at fair value inherently result in a higher degree of financial statement volatility. We estimate the fair value of a financial instrument using a variety of valuation methods. Where financial instruments are actively traded and have quoted market prices, quoted market prices are used for fair value. We characterize active markets as those where transaction volumes are sufficient to provide objective pricing information, with reasonably narrow bid/ask spreads, and where received quoted prices do not vary widely. When the financial instruments are not actively traded, other observable market inputs, such as quoted prices of securities with similar characteristics, may be used, if available, to determine fair value. Inactive markets are characterized by low transaction volumes, price quotations that vary substantially among market participants, or in which minimal information is released publicly. When observable market prices do not exist, we estimate fair value primarily by using cash flow and other financial modeling methods. Our valuation methods consider factors such as liquidity and concentration concerns and, for the derivatives portfolio, counterparty credit risk. Other factors such as model assumptions, market dislocations, and unexpected correlations can affect estimates of fair value. Changes in these underlying factors, assumptions, or estimates in any of these areas could materially impact the amount of revenue or loss recorded.

The Financial Accounting Standard Board's (FASB) Accounting Standards Codification (ASC) Topic 820, Fair Value Measurements, establishes a framework for measuring the fair value of financial instruments that considers the attributes specific to particular assets or liabilities and establishes a three-level hierarchy for determining fair value based on the transparency of inputs to each valuation as of the fair value measurement date. The three levels are defined as follows:

Level 1 quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 inputs include quoted prices for similar assets and liabilities in active markets, quoted prices of identical or similar assets or liabilities in markets that are not active, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

Level 3 inputs that are unobservable and significant to the fair value measurement. Financial instruments are considered Level 3 when values are determined using pricing models, discounted cash flow methodologies, or similar techniques, and at least one significant model assumption or input is unobservable.

At the end of each quarter, we assess the valuation hierarchy for each asset or liability measured. Occasionally, assets or liabilities may be transferred within hierarchy levels due to changes in availability of observable market inputs at the measurement date. The fair values measured at each level of the fair value hierarchy, as well as additional discussion regarding fair value measurements, can be found in Note 13 of the Notes to the Unaudited Condensed Consolidated Financial Statements.

**Table of Contents****AUTOMOBILE LOAN SECURITIZATION**

*(This section should be read in conjunction with Note 2 and Note 5 of the Notes to the Unaudited Condensed Consolidated Financial Statements for additional details.)*

Effective January 1, 2010, we consolidated an automobile loan securitization that previously had been accounted for as an off-balance sheet transaction. We elected to account for the automobile loan receivables and the associated notes payable at fair value per guidance supplied in ASC 810, Consolidation .

The key assumptions used to determine the fair value of the automobile loan receivables included a projection of expected losses and prepayment of the underlying loans in the portfolio and a market assumption of interest rate spreads. Certain interest rates are available from similarly traded securities while other interest rates are developed internally based on similar asset-backed security transactions in the market. The associated notes payable are valued based upon Level 1 prices because they are actively traded in the market.

**INVESTMENT SECURITIES**

*(This section should be read in conjunction with the Investment Securities Portfolio discussion and Note 4 of the Notes to the Unaudited Condensed Consolidated Financial Statements.)*

**Level 3 Analysis on Certain Securities Portfolios**

Our Alt-A, collateralized mortgage obligation (CMO), and pooled-trust-preferred securities portfolios are classified as Level 3. The significant estimates used to determine the fair value of these securities have greater subjectivity and are less observable. The Alt-A and CMO securities portfolios are subjected to a monthly review of the projected cash flows, while the cash flows of our pooled-trust-preferred securities portfolio are reviewed quarterly. These reviews are supported with analysis from independent third parties and are used as a basis for our impairment analysis. These three portfolios, and the results of our impairment analysis for each portfolio, are discussed in further detail below:

Alt-A mortgage-backed / Private-label CMO securities represent securities collateralized by first-lien residential mortgage loans. At September 30, 2010, our Alt-A securities portfolio had a fair value of \$97.7 million, and our CMO securities portfolio had a fair value of \$276.2 million. As many of the cash flow assumptions that are significant to the fair value measurement of these securities in its entirety was are Level 3 inputs, we classified all securities within these portfolios as Level 3 in the fair value hierarchy. The securities were priced with the assistance of an outside third-party specialist using a discounted cash flow approach and the independent third-party's proprietary pricing model. The model used inputs such as estimated prepayment speeds, losses, recoveries, default rates implied by the underlying performance of collateral in the structure or similar structures, discount rates implied by market prices for similar securities, collateral structure types, and house price depreciation/appreciation rates based upon macroeconomic forecasts.

We analyzed both our Alt-A mortgage-backed and private-label CMO securities portfolios to determine if the securities in these portfolios were other-than-temporarily impaired. We used the analysis to determine whether we believed it is probable all contractual cash flows would not be collected. All securities in these portfolios remained current with respect to interest and principal at September 30, 2010.

Our analysis indicated, as of September 30, 2010, a total of two Alt-A mortgage-backed securities and seven private-label CMO securities could experience a loss of principal in the future. The future expected losses of principal on these other-than-temporarily impaired securities ranged from 3.26% to 45.75% of their par value. These losses were projected to occur between nine to 26 months in the future. We measured the amount of credit impairment on these securities using the cash flows discounted at each security's effective rate. During the 2010 third quarter, we recorded \$0.4 million of other-than-temporary impairment (OTTI) in our Alt-A mortgage-backed securities portfolio and \$2.2 million of OTTI adjustments in our private-label CMO securities portfolio. For the first nine-month period of 2010, we recorded \$1.6 million of OTTI adjustments in our Alt-A mortgage-backed securities portfolio, and \$7.0 million of OTTI adjustments in our private-label CMO securities portfolio.

Pooled-trust-preferred securities represent collateralized debt obligations (CDOs) backed by a pool of debt securities issued by financial institutions. At September 30, 2010, our pooled-trust-preferred securities portfolio had a fair value of \$100.3 million. As the lowest level input that is significant to the fair value measurement of these securities in its entirety was a Level 3 input, we classified all securities within this portfolio as Level 3 in the fair value hierarchy. The collateral generally consisted of trust-preferred securities and subordinated debt securities issued by banks, bank

holding companies, and insurance companies. A full cash flow analysis was used to estimate fair values and assess impairment for each security within this portfolio. Impairment was calculated as the difference between the carrying amount and the amount of cash flows discounted at each security's effective rate. We engaged a third-party specialist with direct industry experience in pooled-trust-preferred securities valuations to provide assistance in estimating the fair value and expected cash flows for each security in this portfolio.



**Table of Contents**

The analysis was completed by evaluating the relevant credit and structural aspects of each pooled-trust-preferred security in the portfolio, including collateral performance projections for each piece of collateral in each security and terms of each security's structure. The credit review included analysis of profitability, credit quality, operating efficiency, leverage, and liquidity using the most recently available financial and regulatory information for each underlying collateral issuer. We also reviewed historical industry default data and current/near term operating conditions. Using the results of our analysis, we estimated appropriate default and recovery probabilities for each piece of collateral and then estimated the expected cash flows for each security. No recoveries were assumed on issuers in default. The recovery assumptions on issuers deferring interest ranged from 10% to 55% with a cure assumed after the maximum deferral period. As a result of this testing, we believe we will experience a loss of principal or interest on nine securities; as such, we recorded credit related OTTI expense of \$0.2 million in the 2010 third quarter relating to these securities. For the first nine-month period of 2010, we recorded \$3.4 million of OTTI expense relating to these securities.

Certain other assets and liabilities which are not financial instruments also involve fair value measurements, and were discussed in our 2009 Form 10-K. Pertinent updates regarding these assets and liabilities are discussed below:

**GOODWILL**

Goodwill is tested for impairment annually, as of October 1, using a two-step process that begins with an estimation of the fair value of a reporting unit. Goodwill impairment exists when a reporting unit's carrying value of goodwill exceeds its implied fair value. Goodwill is also tested for impairment on an interim basis, using the same two-step process as the annual testing, if an event occurs or circumstances change between annual tests that would more likely than not reduce the fair value of the reporting unit below its carrying amount. Impairment losses, if any, are reflected in noninterest expense.

Significant judgment is applied when goodwill is assessed for impairment. This judgment includes developing cash flow projections, selecting appropriate discount rates, identifying relevant market comparables, incorporating general economic and market conditions, and selecting an appropriate control premium. The selection and weighting of the various fair value techniques may result in a higher or lower fair value. Judgment is applied in determining the weightings that are most representative of fair value. Changes in market capitalization, certain judgments, and projections could result in a significantly different estimate of the fair value of the reporting units and could result in an impairment of goodwill.

There were no events or changes in circumstances which indicated the goodwill of a reporting unit may be impaired during the 2010 third quarter, 2010 second quarter, or 2010 first quarter.

**OTHER REAL ESTATE OWNED (OREO)**

OREO property obtained in satisfaction of a loan is recorded at its estimated fair value less anticipated selling costs based upon the property's appraised value at the date of transfer, with any difference between the fair value of the property, less anticipated selling costs, and the carrying value of the loan charged to the ALLL. Subsequent declines in value are reported as adjustments to the carrying amount, and are charged to noninterest expense. Gains or losses not previously recognized resulting from the sale of OREO are recognized in noninterest expense on the date of sale. At September 30, 2010, OREO totaled \$123.1 million, representing a 12% decline compared with \$140.1 million at December 31, 2009.

***Income Taxes and Deferred Tax Assets*****DEFERRED TAX ASSETS**

At September 30, 2010, we had a net deferred tax asset of \$389.5 million. Based on our ability to offset the net deferred tax asset against our forecast of future taxable income, there was no impairment of the deferred tax asset at September 30, 2010. All available evidence, both positive and negative, was considered to determine whether, based on the weight of that evidence, impairment should be recognized. However, our forecast process includes judgmental and quantitative elements that may be subject to significant change. If our forecast of taxable income within the carryforward periods available under applicable law is not sufficient to cover the amount of net deferred tax assets, such assets may be impaired.

On March 31, 2010, the net deferred tax asset relating to the assets acquired from Franklin on March 31, 2009 (*see Significant Items*) increased by \$43.6 million relating to the expiration of the 12-month recognition period under

Internal Revenue Code Of 1986 (IRC) Section 382. In general, IRC Section 382 imposes a one-year limitation on bad debt deductions allowed for tax purposes under IRC Section 166. Any bad debt deductions recognized after March 31, 2010 would not be limited by IRC Section 382.

**Table of Contents**

**Recent Accounting Pronouncements and Developments**

Note 2 to the Unaudited Condensed Consolidated Financial Statements discusses new accounting pronouncements adopted during 2010 and the expected impact of accounting pronouncements recently issued but not yet required to be adopted. To the extent the adoption of new accounting standards materially affect financial condition, results of operations, or liquidity, the impacts are discussed in the applicable section of this MD&A and the Notes to the Unaudited Condensed Consolidated Financial Statements.

**Table of Contents****Item 1: Financial Statements****Huntington Bancshares Incorporated  
Condensed Consolidated Balance Sheets***(Unaudited)*

| <i>(in thousands, except number of shares)</i>  | <b>2010</b>          | 2009                 |                      |
|---|----------------------|----------------------|----------------------|
|   | <b>September 30,</b> | December 31,         | September 30,        |
| <b>Assets</b>   |                      |                      |                      |
| Cash and due from banks   | \$ 1,139,226         | \$ 1,521,344         | \$ 1,882,108         |
| Interest bearing deposits in banks  | 274,240              | 319,375              | 397,941              |
| Trading account securities  | 138,677              | 83,657               | 121,366              |
| Loans held for sale (includes \$699,001; \$459,179 and \$491,564 respectively, measured at fair value) (1)  | 744,439              | 461,647              | 530,861              |
| Available-for-sale and other securities   | 9,723,558            | 8,587,914            | 8,503,150            |
| Loans and leases (includes \$590,223 at September 30, 2010 measured at fair value) (2)  | 37,500,587           | 36,790,663           | 37,304,094           |
| Allowance for loan and lease losses   | (1,336,352)          | (1,482,479)          | (1,031,971)          |
| Net loans and leases  | 36,164,235           | 35,308,184           | 36,272,123           |
| Bank owned life insurance   | 1,450,335            | 1,412,333            | 1,402,134            |
| Premises and equipment  | 489,349              | 496,021              | 496,280              |
| Goodwill  | 444,268              | 444,268              | 443,648              |
| Other intangible assets   | 243,666              | 289,098              | 302,612              |
| Accrued income and other assets   | 2,434,783            | 2,630,824            | 2,160,436            |
| <b>Total assets</b>   | <b>\$ 53,246,776</b> | <b>\$ 51,554,665</b> | <b>\$ 52,512,659</b> |
| <b>Liabilities and shareholders equity</b>  |                      |                      |                      |
| <b>Liabilities</b>  |                      |                      |                      |
| Deposits  | \$ 41,072,371        | \$ 40,493,927        | \$ 39,829,057        |
| Short-term borrowings   | 1,859,134            | 876,241              | 852,076              |
| Federal Home Loan Bank advances   | 23,643               | 168,977              | 920,045              |
| Other long-term debt (includes \$422,294 at September 30, 2010 measured at fair value) (2)  | 2,393,071            | 2,369,491            | 2,434,858            |
| Subordinated notes  | 1,202,568            | 1,264,202            | 1,674,054            |
| Accrued expenses and other liabilities  | 1,128,586            | 1,045,825            | 1,127,463            |
| <b>Total liabilities</b>  | <b>47,679,373</b>    | <b>46,218,663</b>    | <b>46,837,553</b>    |
| <b>Shareholders equity</b>  |                      |                      |                      |
| Preferred stock authorized 6,617,808 shares;<br>5.00% Series B Non-voting, Cumulative Preferred Stock,<br>par value of \$0.01 and liquidation value per share of<br>\$1,000 | 1,337,749            | 1,325,008            | 1,320,898            |
| 8.50% Series A Non-cumulative Perpetual Convertible<br>Preferred Stock, par value of \$0.01 and liquidation value<br>per share of \$1,000                                   | 362,507              | 362,507              | 362,507              |
| Common stock  | 7,180                | 7,167                | 7,154                |

|  |                      |               |               |
|--|----------------------|---------------|---------------|
| Capital surplus                                  | <b>6,743,724</b>     | 6,731,796     | 6,723,923     |
| Less treasury shares, at cost                    | <b>(8,969)</b>       | (11,465)      | (11,827)      |
| Accumulated other comprehensive loss             | <b>(28,396)</b>      | (156,985)     | (211,842)     |
| Retained (deficit) earnings                      | <b>(2,846,392)</b>   | (2,922,026)   | (2,515,707)   |
| <b>Total shareholders equity</b>                 | <b>5,567,403</b>     | 5,336,002     | 5,675,106     |
| <b>Total liabilities and shareholders equity</b> | <b>\$ 53,246,776</b> | \$ 51,554,665 | \$ 52,512,659 |
| Common shares authorized (par value of \$0.01)   | <b>1,500,000,000</b> | 1,000,000,000 | 1,000,000,000 |
| Common shares issued                             | <b>718,015,276</b>   | 716,741,249   | 715,409,524   |
| Common shares outstanding                        | <b>717,132,197</b>   | 715,761,672   | 714,469,066   |
| Treasury shares outstanding                      | <b>883,079</b>       | 979,577       | 940,458       |
| Preferred shares issued                          | <b>1,967,071</b>     | 1,967,071     | 1,967,071     |
| Preferred shares outstanding                     | <b>1,760,578</b>     | 1,760,578     | 1,760,578     |

(1) Amounts represent loans for which Huntington has elected the fair value option. See Note 13.

(2) Amounts represent certain assets and liabilities of a consolidated variable interest entity (VIE) for which Huntington has elected the fair value option. See Note 15.

See Notes to Unaudited Condensed Consolidated Financial Statements

**Table of Contents**
**Huntington Bancshares Incorporated**  
**Condensed Consolidated Statements of Income**  
*(Unaudited)*

| <i>(in thousands, except per share amounts)</i>  | <b>Three Months Ended</b> |                  | <b>Nine Months Ended</b> |                  |
|--|---------------------------|------------------|--------------------------|------------------|
|  | <b>September 30,</b>      |                  | <b>September 30,</b>     |                  |
|  | <b>2010</b>               | <b>2009</b>      | <b>2010</b>              | <b>2009</b>      |
| Interest and fee income  |                           |                  |                          |                  |
| Loans and leases   |                           |                  |                          |                  |
| Taxable  | \$ 458,792                | \$ 476,832       | \$ 1,405,181             | \$ 1,462,647     |
| Tax-exempt   | 1,806                     | 3,184            | 3,821                    | 7,741            |
| Investment securities  |                           |                  |                          |                  |
| Taxable  | 61,438                    | 64,955           | 180,039                  | 180,445          |
| Tax-exempt   | 2,725                     | 1,356            | 8,675                    | 7,454            |
| Other  | 9,908                     | 7,519            | 19,385                   | 28,520           |
| <b>Total interest income</b>   | <b>534,669</b>            | <b>553,846</b>   | <b>1,617,101</b>         | <b>1,686,807</b> |
| Interest expense   |                           |                  |                          |                  |
| Deposits   | 103,380                   | 161,593          | 346,504                  | 525,243          |
| Other borrowings   | 21,327                    | 29,434           | 67,086                   | 111,341          |
| <b>Total interest expense</b>  | <b>124,707</b>            | <b>191,027</b>   | <b>413,590</b>           | <b>636,584</b>   |
| <b>Net interest income</b>   | <b>409,962</b>            | <b>362,819</b>   | <b>1,203,511</b>         | <b>1,050,223</b> |
| Provision for credit losses  | 119,160                   | 475,136          | 547,574                  | 1,180,680        |
| <b>Net interest income (loss) after provision for credit losses</b>  | <b>290,802</b>            | <b>(112,317)</b> | <b>655,937</b>           | <b>(130,457)</b> |
| Service charges on deposit accounts  | 65,932                    | 80,811           | 211,205                  | 226,042          |
| Brokerage and insurance income   | 36,376                    | 33,996           | 108,636                  | 105,996          |
| Mortgage banking income  | 52,045                    | 21,435           | 122,613                  | 87,680           |
| Trust services   | 26,997                    | 25,832           | 83,161                   | 76,364           |
| Electronic banking   | 28,090                    | 28,017           | 81,334                   | 74,978           |
| Bank owned life insurance income   | 14,091                    | 13,639           | 44,953                   | 40,817           |
| Automobile operating lease income  | 11,356                    | 12,795           | 35,501                   | 39,139           |
| Net gains on sales of investment securities  | 2,421                     | 16,208           | 11,831                   | 34,459           |
| Impairment losses on investment securities:  |                           |                  |                          |                  |
| Impairment recoveries (losses) on investment securities  | 27,775                    | (53,307)         | 24,568                   | (145,359)        |
| Noncredit-related (recoveries) losses on securities not expected to be sold (recognized in other comprehensive income) | (30,492)                  | 34,725           | (36,570)                 | 103,253          |
| Net impairment losses on investment securities   | (2,717)                   | (18,582)         | (12,002)                 | (42,106)         |
| Other income   | 32,552                    | 41,901           | 90,406                   | 117,730          |
| <b>Total non-interest income</b>   | <b>267,143</b>            | <b>256,052</b>   | <b>777,638</b>           | <b>761,099</b>   |

|  |                  |              |                   |                |
|--|------------------|--------------|-------------------|----------------|
| Personnel costs                                      | <b>208,272</b>   | 172,152      | <b>586,789</b>    | 519,819        |
| Outside data processing and other services           | <b>38,553</b>    | 38,285       | <b>118,305</b>    | 111,283        |
| Deposit and other insurance expense                  | <b>23,406</b>    | 23,851       | <b>74,228</b>     | 89,410         |
| Net occupancy  | <b>26,718</b>    | 25,382       | <b>81,192</b>     | 79,000         |
| OREO and foreclosure expense                         | <b>12,047</b>    | 38,968       | <b>28,547</b>     | 75,379         |
| Equipment  | <b>21,651</b>    | 20,967       | <b>63,860</b>     | 62,663         |
| Professional services                                | <b>20,672</b>    | 18,108       | <b>67,757</b>     | 51,220         |
| Amortization of intangibles                          | <b>15,145</b>    | 16,995       | <b>45,432</b>     | 51,247         |
| Automobile operating lease expense                   | <b>9,159</b>     | 10,589       | <b>28,892</b>     | 32,920         |
| Marketing  | <b>20,921</b>    | 8,259        | <b>49,756</b>     | 23,975         |
| Telecommunications                                   | <b>5,695</b>     | 5,902        | <b>18,071</b>     | 17,880         |
| Printing and supplies                                | <b>4,062</b>     | 3,950        | <b>11,628</b>     | 11,673         |
| Goodwill impairment                                  |                  |              |                   | 2,606,944      |
| Gain on early extinguishment of debt                 |                  | (60)         |                   | (73,827)       |
| Other expense  | <b>21,008</b>    | 17,749       | <b>64,756</b>     | 51,262         |
| <b>Total non-interest expense</b>                    | <b>427,309</b>   | 401,097      | <b>1,239,213</b>  | 3,710,848      |
| <b>Income (loss) before income taxes</b>             | <b>130,636</b>   | (257,362)    | <b>194,362</b>    | (3,080,206)    |
| Provision (benefit) for income taxes                 | <b>29,690</b>    | (91,172)     | <b>4,915</b>      | (355,714)      |
| <b>Net income (loss)</b>                             | <b>100,946</b>   | (166,190)    | <b>189,447</b>    | (2,724,492)    |
| Dividends on preferred shares                        | <b>29,495</b>    | 29,223       | <b>88,278</b>     | 145,467        |
| <b>Net income (loss) applicable to common shares</b> | <b>\$ 71,451</b> | \$ (195,413) | <b>\$ 101,169</b> | \$ (2,869,959) |
| Average common shares basic                          | <b>716,911</b>   | 589,708      | <b>716,604</b>    | 471,958        |
| Average common shares diluted                        | <b>719,567</b>   | 589,708      | <b>719,182</b>    | 471,958        |
| <b>Per common share</b>                              |                  |              |                   |                |
| Net income (loss) basic                              | <b>\$ 0.10</b>   | \$ (0.33)    | <b>\$ 0.14</b>    | \$ (6.08)      |
| Net income (loss) diluted                            | <b>0.10</b>      | (0.33)       | <b>0.14</b>       | (6.08)         |
| Cash dividends declared                              | <b>0.01</b>      | 0.01         | <b>0.03</b>       | 0.03           |

*See Notes to Unaudited Condensed Consolidated Financial Statements*

**Table of Contents**

**Huntington Bancshares Incorporated**  
**Condensed Consolidated Statements of Changes in Shareholders' Equity**  
*(Unaudited)*

|                         | Preferred Stock |                 | Common Stock    |                 | Capital Surplus | Treasury Stock |              | Accumulated              |             | Retained Earnings (Deficit) |            |              |
|-------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|----------------|--------------|--------------------------|-------------|-----------------------------|------------|--------------|
|                         | Series B Shares | Series A Shares | Series A Amount | Series B Amount |                 | Shares         | Amount       | Other Comprehensive Loss | Loss        |                             |            |              |
| As of December 31, 2019 | 1,398           | \$ 1,308,667    | 569             | \$ 569,000      | 366,972         | \$ 3,670       | \$ 5,322,428 | (915)                    | \$ (15,530) | \$ (326,693)                | \$ 365,599 | \$ 7,000,000 |
| Net income              |                 |                 |                 |                 |                 |                |              |                          |             |                             |            | 1,765        |
| Net income              |                 |                 |                 |                 |                 |                |              |                          |             |                             |            | 1,765        |
| Net income              |                 |                 |                 |                 |                 |                |              |                          |             |                             |            | (2,724,492)  |
| Net income              |                 |                 |                 |                 |                 |                |              |                          |             |                             |            | (2,724,492)  |
| Net income              |                 |                 |                 |                 |                 |                |              |                          |             |                             |            | (3,541)      |
| Net income              |                 |                 |                 |                 |                 |                |              |                          |             |                             |            | (3,541)      |
| Net income              |                 |                 |                 |                 |                 |                |              |                          |             |                             |            | (67,114)     |
| Net income              |                 |                 |                 |                 |                 |                |              |                          |             |                             |            | (67,114)     |
| Net income              |                 |                 |                 |                 |                 |                |              |                          |             |                             |            | 175,401      |
| Net income              |                 |                 |                 |                 |                 |                |              |                          |             |                             |            | 175,401      |





|  |       |           |     |         |         |       |           |       |          |           |             |          |
|--|-------|-----------|-----|---------|---------|-------|-----------|-------|----------|-----------|-------------|----------|
| ve effect<br>in<br>g<br>for<br>tion of<br>nterest<br>et of tax |       |           |     |         |         |       |           |       |          |           | (4,249)     | (3,462)  |
| g of<br>as<br>ensive   | 1,398 | 1,325,008 | 363 | 362,507 | 716,741 | 7,167 | 6,731,796 | (980) | (11,465) | (161,234) | (2,925,488) | 5        |
| ne<br>it-related<br>nt losses<br>curities<br>ted to be         |       |           |     |         |         |       |           |       |          |           |             | 189,447  |
| d net  |       |           |     |         |         |       |           |       |          |           | 23,771      |          |
| nt<br>arising<br>e period,                                     |       |           |     |         |         |       |           |       |          |           |             |          |
| cation<br>alized   |       |           |     |         |         |       |           |       |          |           | 88,428      |          |
| d gains<br>ow  |       |           |     |         |         |       |           |       |          |           | 17,141      |          |
| es<br>n<br>ted<br>d losses<br>on and<br>t-<br>t<br>ns          |       |           |     |         |         |       |           |       |          |           | 3,498       |          |
| ensive   |       |           |     |         |         |       |           |       |          |           |             |          |
| of<br>stock<br>tion of   |       |           |     |         | 537     | 5     | 2,264     |       |          |           |             |          |
|  |       | 12,741    |     |         |         |       |           |       |          |           |             | (12,741) |



**Table of Contents**
**Huntington Bancshares Incorporated**  
**Condensed Consolidated Statements of Cash Flows**  
*(Unaudited)*

|  | <b>Nine Months Ended</b> |                    |
|--|--------------------------|--------------------|
|  | <b>September 30,</b>     |                    |
| <i>(in thousands)</i>  | <b>2010</b>              | <b>2009</b>        |
| <b>Operating activities</b>  |                          |                    |
| Net income (loss)  | \$ 189,447               | \$ (2,724,492)     |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: |                          |                    |
| Impairment of goodwill   |                          | 2,606,944          |
| Provision for credit losses  | 547,574                  | 1,180,680          |
| Depreciation and amortization  | 209,070                  | 160,473            |
| Change in current and deferred income taxes  | 175,715                  | (243,482)          |
| Net sales (purchases) of trading account securities                                      | (55,020)                 | 818,403            |
| Originations of loans held for sale  | (2,468,265)              | (3,907,458)        |
| Principal payments on and proceeds from loans held for sale                              | 2,213,303                | 3,736,250          |
| Other, net   | 54,292                   | 211,230            |
| <b>Net cash provided by (used for) operating activities</b>                              | <b>866,116</b>           | <b>1,838,548</b>   |
| <b>Investing activities</b>  |                          |                    |
| Increase (decrease) in interest bearing deposits in banks                                | 22,754                   | (294,238)          |
| Proceeds from:   |                          |                    |
| Maturities and calls of investment securities  | 2,639,403                | 564,433            |
| Sales of investment securities   | 3,120,777                | 2,836,072          |
| Purchases of investment securities   | (6,610,248)              | (7,099,257)        |
| Net proceeds from sales of loans   | 685,592                  | 949,398            |
| Net loan and lease activity, excluding sales   | (1,744,418)              | 1,500,544          |
| Purchases of operating lease assets  |                          | (119)              |
| Proceeds from sale of operating lease assets   | 17,585                   | 7,647              |
| Purchases of premises and equipment  | (45,951)                 | (32,672)           |
| Proceeds from sales of other real estate   | 78,073                   | 39,733             |
| Other, net   | 1,917                    | 4,207              |
| <b>Net cash provided by (used for) investing activities</b>                              | <b>(1,834,516)</b>       | <b>(1,524,252)</b> |
| <b>Financing activities</b>  |                          |                    |
| Increase (decrease) in deposits  | 563,474                  | 1,895,145          |
| Increase (decrease) in short-term borrowings   | 893,501                  | (375,011)          |
| Maturity/redemption of subordinated notes  | (83,870)                 | (151,942)          |
| Proceeds from Federal Home Loan Bank advances  | 450,000                  | 206,286            |
| Maturity/redemption of Federal Home Loan Bank advances                                   | (595,536)                | (1,875,534)        |
| Proceeds from issuance of long-term debt   |                          | 598,200            |
| Maturity/redemption of long-term debt  | (544,250)                | (578,072)          |
| Dividends paid on preferred stock  | (75,537)                 | (82,084)           |
| Dividends paid on common stock   | (21,437)                 | (49,349)           |
| Net proceeds from issuance of common stock   |                          | 1,135,662          |

|  |                     |              |
|--|---------------------|--------------|
| Other, net   | <b>(63)</b>         | (157)        |
| <b>Net cash provided by (used for) financing activities</b>                | <b>586,282</b>      | 723,144      |
| <b>Increase (decrease) in cash and cash equivalents</b>                    | <b>(382,118)</b>    | 1,037,440    |
| <b>Cash and cash equivalents at beginning of period</b>                    | <b>1,521,344</b>    | 844,668      |
| <b>Cash and cash equivalents at end of period</b>                          | <b>\$ 1,139,226</b> | \$ 1,882,108 |
| Supplemental disclosures:  |                     |              |
| Income taxes refunded  | <b>\$ 148,518</b>   | \$ 112,232   |
| Interest paid  | <b>435,272</b>      | 686,077      |
| Non-cash activities  |                     |              |
| Dividends accrued, paid in subsequent quarter                              | <b>23,373</b>       | 21,820       |
| <i>See Notes to Unaudited Condensed Consolidated Financial Statements.</i> |                     |              |

**Table of Contents****Notes to Unaudited Condensed Consolidated Financial Statements****1. BASIS OF PRESENTATION**

The accompanying unaudited condensed consolidated financial statements of Huntington Bancshares Incorporated (Huntington or the Company) reflect all adjustments consisting of normal recurring accruals which are, in the opinion of Management, necessary for a fair presentation of the consolidated financial position, the results of operations, and cash flows for the periods presented. These unaudited condensed consolidated financial statements have been prepared according to the rules and regulations of the Securities and Exchange Commission (SEC) and, therefore, certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States (GAAP) have been omitted. The Notes to Consolidated Financial Statements appearing in Huntington's 2009 Annual Report on Form 10-K (2009 Form 10-K), which include descriptions of significant accounting policies, as updated by the information contained in this report, should be read in conjunction with these interim financial statements.

For statement of cash flows purposes, cash and cash equivalents are defined as the sum of Cash and due from banks which includes amounts on deposit with the Federal Reserve and Federal funds sold and securities purchased under resale agreements.

In conjunction with applicable accounting standards, all material subsequent events have been either recognized in the financial statements or disclosed in the notes to the financial statements.

**2. ACCOUNTING STANDARDS UPDATE**

**FASB Accounting Standards Codification (ASC) Topic 810 Consolidation (Statement No. 167, Amendments to FASB Interpretation No. 46R) (ASC 810)** This accounting guidance was originally issued in June 2009 and is now included in ASC 810. The guidance amends the consolidation guidance applicable for variable interest entities (VIE). The guidance is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2009, and early adoption is prohibited. Huntington previously transferred automobile loans to a trust in a securitization transaction. With adoption of the amended guidance, the trust was consolidated as of January 1, 2010. Huntington elected the fair value option under ASC 825, Financial Instruments, for both the auto loans and the related debt obligations. Total assets increased \$621.6 million, total liabilities increased \$629.3 million, and a negative cumulative effect adjustment to other comprehensive income and retained earnings of \$7.7 million was recorded. Based upon the current regulatory requirements, the consolidation of the trust resulted in a slight decrease to risk weighted capital ratios. (See Note 15 for more information on the consolidation of the trust).

**Accounting Standards Update (ASU) 2010-6 Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements.** The ASU amends Subtopic 820-10 with new disclosure requirements and clarification of existing disclosure requirements. New disclosures required include the amount of significant transfers in and out of levels 1 and 2 fair value measurements and the reasons for the transfers. In addition, the reconciliation for level 3 activity is required on a gross rather than net basis. The ASU provides additional guidance related to the level of disaggregation in determining classes of assets and liabilities and disclosures about inputs and valuation techniques. The amendments are effective for annual or interim reporting periods beginning after December 15, 2009, except for the requirement to provide the reconciliation for level 3 activity on a gross basis which will be effective for fiscal years beginning after December 15, 2010. (See Note 13).

**Accounting Standards Update (ASU) 2010-20 Receivables (Topic 310): Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses.** The ASU will require more information about the credit quality of the loan portfolio in the disclosures to financial statements, such as aging information and credit quality indicators. Both new and existing disclosures must be disaggregated by portfolio segment or class. The disaggregation of information is based on how a company develops its allowance for credit losses and how it manages its credit exposure. The disclosures related to period-end balances are effective for annual or interim reporting periods ending after December 15, 2010 and the disclosures of activity that occurs during the reporting period are effective for annual or interim reporting periods beginning after December 15, 2010.



**Table of Contents****3. LOANS AND LEASES**

The following table provides a detail listing of Huntington's loan and lease portfolio at September 30, 2010, December 31, and September 30, 2009.

| <i>(in thousands)</i>               | <b>September 30,<br/>2010</b> | December 31,<br>2009 | September 30,<br>2009 |
|-------------------------------------|-------------------------------|----------------------|-----------------------|
| <b>Loans and leases:</b>            |                               |                      |                       |
| Commercial and industrial           | \$ 12,424,529                 | \$ 12,888,100        | \$ 12,547,221         |
| Commercial real estate              | 6,912,573                     | 7,688,827            | 8,714,761             |
| Automobile loans                    | 5,295,705                     | 3,144,329            | 2,939,223             |
| Automobile leases                   | 89,491                        | 246,265              | 309,248               |
| Home equity                         | 7,689,420                     | 7,562,060            | 7,576,458             |
| Residential mortgage                | 4,511,272                     | 4,510,347            | 4,467,714             |
| Other consumer loans                | 577,597                       | 750,735              | 749,469               |
| <br>                                |                               |                      |                       |
| Loans and leases                    | <b>37,500,587</b>             | 36,790,663           | 37,304,094            |
| <br>                                |                               |                      |                       |
| Allowance for loan and lease losses | <b>(1,336,352)</b>            | (1,482,479)          | (1,031,971)           |
| <br>                                |                               |                      |                       |
| Net loans and leases                | <b>\$ 36,164,235</b>          | \$ 35,308,184        | \$ 36,272,123         |

The Bank has access to the Federal Reserve's discount window and advances from the FHLB - Cincinnati. As of September 30, 2010, these borrowings and advances are generally secured by \$16.9 billion of loans and securities.

**Franklin Credit Management relationship**

Franklin Credit Management Corporation (Franklin) is a specialty consumer finance company primarily engaged in servicing residential mortgage loans. On March 31, 2009, Huntington entered into a transaction with Franklin whereby a Huntington wholly-owned REIT subsidiary (REIT) exchanged a non controlling amount of certain equity interests for a 100% interest in Franklin Asset Merger Sub, LLC (Merger Sub), a wholly owned subsidiary of Franklin. This was accomplished by merging Merger Sub into a wholly-owned subsidiary of REIT. Merger Sub's sole assets were two trust participation certificates evidencing 83% ownership rights in a newly created trust, Franklin Mortgage Asset Trust 2009-A (Franklin 2009 Trust) which holds all the underlying consumer loans and OREO that were formerly collateral for the Franklin commercial loans. The equity interests provided to Franklin by REIT were pledged by Franklin as collateral for the Franklin commercial loans.

Franklin 2009 Trust is a variable interest entity and, as a result of Huntington's 83% participation certificates, Franklin 2009 Trust was consolidated into Huntington's financial results. The consolidation was recorded as a business combination with the fair value of the equity interests issued to Franklin representing the acquisition price. ASC 310 (formerly SOP 03-3) provides guidance for accounting for acquired loans, such as these, that have experienced a deterioration of credit quality at the time of acquisition for which it is probable the investor will be unable to collect all contractually required payments.

During the 2010 second quarter, \$397.7 million of Franklin-related loans (\$333.0 million of residential mortgages and \$64.7 million of home equity loans) at a value of \$323.4 million were transferred to loans held for sale. At the time of the transfer to loans held for sale, the loans were marked to the lower of cost or fair value less costs to sell. This resulted in charge-offs at the time of the transfer, which when added to other charge-offs during the quarter, resulted in total 2010 second quarter Franklin-related NCOs of \$80.0 million (\$64.2 million related to residential mortgages and \$15.9 million related to home equity loans, partially offset by \$0.2 million of C&I net recoveries). The 2010 second quarter provision for credit losses included \$80.0 million related to Franklin, with \$75.5 million related to transferring the loans to loans held for sale. During 2010 third quarter, the Franklin-related residential mortgages and home equity loans were sold at essentially book value. In the 2010 third quarter, Franklin-related consumer NCOs totaled \$4.5 million, (\$3.4 million of residential mortgage NCOs and \$1.2 million of home equity loan NCOs), which



were offset by \$4.5 million of Franklin-related commercial net recoveries. At September 30, 2010, the only Franklin-related assets remaining were \$15.3 million of OREO properties, which have been marked to the lower of cost or fair value less costs to sell.

**Table of Contents**

The following table presents a rollforward of the accretable discount for the three months and nine month periods ended September 30, 2010 and 2009:

| <i>(in thousands)</i>                            | <b>Three Months Ended</b> |                  | <b>Nine Months Ended</b> |                  |
|--|---------------------------|------------------|--------------------------|------------------|
|  | <b>September 30,</b>      |                  | <b>September 30,</b>     |                  |
|  | <b>2010</b>               | <b>2009</b>      | <b>2010</b>              | <b>2009</b>      |
| Balance, beginning of period                     | \$                        | \$ 39,031        | \$ <b>35,286</b>         | \$               |
| Additions  |                           |                  |                          | 39,781           |
| Accretion  |                           | (2,478)          | <b>(1,773)</b>           | (3,228)          |
| Reclassification to nonaccretable difference (1) |                           |                  | <b>(7,460)</b>           |                  |
| Transfer to loans held for sale                  |                           |                  | <b>(26,053)</b>          |                  |
| <b>Balance, end of period</b>                    | <b>\$</b>                 | <b>\$ 36,553</b> | <b>\$</b>                | <b>\$ 36,553</b> |

(1) Result of moving loans to nonaccrual status.

The following table reflects the outstanding balance of all contractually required payments and carrying amounts of the acquired loans at September 30, 2010, December 31, 2009, and September 30, 2009:

| <i>(in thousands)</i> | <b>September 30,</b>  |                            | <b>December 31,</b>   |                            | <b>September 30,</b>  |                            |
|-----------------------|-----------------------|----------------------------|-----------------------|----------------------------|-----------------------|----------------------------|
|                       | <b>2010</b>           |                            | <b>2009</b>           |                            | <b>2009</b>           |                            |
|                       | <b>Carrying Value</b> | <b>Outstanding Balance</b> | <b>Carrying Value</b> | <b>Outstanding Balance</b> | <b>Carrying Value</b> | <b>Outstanding Balance</b> |
| Residential mortgage  | \$                    | \$                         | \$ 373,117            | \$ 680,068                 | \$ 392,516            | \$ 698,466                 |
| Home equity           |                       |                            | 70,737                | 810,139                    | 72,656                | 820,648                    |
| <b>Total</b>          | <b>\$</b>             | <b>\$</b>                  | <b>\$ 443,854</b>     | <b>\$ 1,490,207</b>        | <b>\$ 465,172</b>     | <b>\$ 1,519,114</b>        |

In accordance with ASC 805, at March 31, 2009 Huntington recorded a net deferred tax asset of \$159.9 million related to the difference between the tax basis and the book basis in the acquired assets. Because the acquisition price, represented by the equity interests in the Huntington wholly-owned subsidiary, was equal to the fair value of the 83% interest in the Franklin 2009 Trust participant certificate, no goodwill was created from the transaction. The recording of the net deferred tax asset resulted in a bargain purchase under ASC 805, and, therefore was recorded as a tax benefit in the 2009 first quarter. On March 31, 2010, the net deferred tax asset increased by \$43.6 million as a result of the assets no longer being subject to the limitations of Internal Revenue Code (IRC) Section 382. In general, the limitations under IRC Section 382 apply to bad debt deductions, but IRC Section 382 only applies to bad debt deductions recognized within one year of the acquisition. Any bad debt deductions recognized after March 31, 2010 would not be limited by IRC Section 382.

**Table of Contents****4. AVAILABLE-FOR-SALE AND OTHER SECURITIES**

Listed below are the contractual maturities (under 1 year, 1-5 years, 6-10 years, and over 10 years) of investment securities at September 30, 2010, December 31, 2009, and September 30, 2009:

|   | September 30, 2010 |                  | December 31, 2009 |                  | September 30, 2009 |                  |
|---|--------------------|------------------|-------------------|------------------|--------------------|------------------|
|   | Amortized Cost     | Fair Value       | Amortized Cost    | Fair Value       | Amortized Cost     | Fair Value       |
| U.S. Treasury   |                    |                  |                   |                  |                    |                  |
| Under 1 year  | \$ 49,998          | \$ 50,334        | \$                | \$               | \$ 251             | \$ 252           |
| 1-5 years   |                    |                  | 99,735            | 99,154           | 150,731            | 150,785          |
| 6-10 years  |                    |                  |                   |                  |                    |                  |
| Over 10 years   |                    |                  |                   |                  |                    |                  |
| <b>Total U.S. Treasury</b>                              | <b>49,998</b>      | <b>50,334</b>    | <b>99,735</b>     | <b>99,154</b>    | <b>150,982</b>     | <b>151,037</b>   |
| Federal agencies mortgage backed securities             |                    |                  |                   |                  |                    |                  |
| Mortgage backed securities                              |                    |                  |                   |                  |                    |                  |
| Under 1 year  |                    |                  |                   |                  |                    |                  |
| 1-5 years   |                    |                  |                   |                  |                    |                  |
| 6-10 years  | 715,725            | 731,869          | 692,119           | 688,420          | 544,953            | 547,873          |
| Over 10 years   | 3,825,377          | 3,951,671        | 2,752,317         | 2,791,688        | 2,996,736          | 3,046,139        |
| <b>Total mortgage-backed Federal agencies</b>           | <b>4,541,102</b>   | <b>4,683,540</b> | <b>3,444,436</b>  | <b>3,480,108</b> | <b>3,541,689</b>   | <b>3,594,012</b> |
| Temporary Liquidity Guarantee Program (TLGP) securities |                    |                  |                   |                  |                    |                  |
| Under 1 year  | 50,148             | 50,564           |                   |                  |                    |                  |
| 1-5 years   | 527,581            | 530,350          | 258,672           | 260,388          | 311,414            | 312,621          |
| 6-10 years  |                    |                  |                   |                  |                    |                  |
| Over 10 years   |                    |                  |                   |                  |                    |                  |
| <b>Total TLGP securities</b>                            | <b>577,729</b>     | <b>580,914</b>   | <b>258,672</b>    | <b>260,388</b>   | <b>311,414</b>     | <b>312,621</b>   |
| Other agencies  |                    |                  |                   |                  |                    |                  |
| Under 1 year  | 114,396            | 115,200          | 159,988           | 162,518          | 129,023            | 131,613          |
| 1-5 years   | 1,890,250          | 1,903,181        | 2,556,213         | 2,555,782        | 2,380,213          | 2,390,314        |
| 6-10 years  | 13,232             | 13,794           | 8,614             | 8,703            | 7,116              | 7,343            |
| Over 10 years   |                    |                  |                   |                  |                    |                  |
| <b>Total other Federal agencies</b>                     | <b>2,017,878</b>   | <b>2,032,175</b> | <b>2,724,815</b>  | <b>2,727,003</b> | <b>2,516,352</b>   | <b>2,529,270</b> |
| <b>Total U.S. Government backed agencies</b>            | <b>7,186,707</b>   | <b>7,346,963</b> | <b>6,527,658</b>  | <b>6,566,653</b> | <b>6,520,437</b>   | <b>6,586,940</b> |
| Municipal securities                                    |                    |                  |                   |                  |                    |                  |

Edgar Filing: HUNTINGTON BANCSHARES INC/MD - Form 10-Q

|  |                     |                     |              |              |              |              |
|--|---------------------|---------------------|--------------|--------------|--------------|--------------|
| Under 1 year   |                     |                     |              |              |              |              |
| 1-5 years  | <b>61,488</b>       | <b>63,329</b>       | 6,050        | 6,123        | 6,050        | 6,094        |
| 6-10 years   | <b>67,297</b>       | <b>70,466</b>       | 54,445       | 58,037       | 58,317       | 62,662       |
| Over 10 years  | <b>230,485</b>      | <b>234,077</b>      | 57,952       | 60,625       | 65,206       | 68,838       |
| <b>Total municipal securities</b>                    | <b>359,270</b>      | <b>367,872</b>      | 118,447      | 124,785      | 129,573      | 137,594      |
| Private label CMO                                    |                     |                     |              |              |              |              |
| Under 1 year   |                     |                     |              |              |              |              |
| 1-5 years  |                     |                     |              |              |              |              |
| 6-10 years   | <b>13,004</b>       | <b>13,424</b>       |              |              |              |              |
| Over 10 years  | <b>282,639</b>      | <b>262,800</b>      | 534,377      | 477,319      | 562,104      | 475,285      |
| <b>Total private label CMO</b>                       | <b>295,643</b>      | <b>276,224</b>      | 534,377      | 477,319      | 562,104      | 475,285      |
| Asset backed securities (1)                          |                     |                     |              |              |              |              |
| Under 1 year   | <b>40,000</b>       | <b>40,115</b>       |              |              |              |              |
| 1-5 years  | <b>657,980</b>      | <b>664,940</b>      | 352,850      | 353,114      | 147,711      | 148,040      |
| 6-10 years   | <b>273,246</b>      | <b>274,611</b>      | 256,783      | 262,826      | 235,419      | 244,549      |
| Over 10 years  | <b>349,527</b>      | <b>197,958</b>      | 518,841      | 364,376      | 580,062      | 423,790      |
| <b>Total asset-backed securities</b>                 | <b>1,320,753</b>    | <b>1,177,624</b>    | 1,128,474    | 980,316      | 963,192      | 816,379      |
| Other  |                     |                     |              |              |              |              |
| Under 1 year   | <b>300</b>          | <b>305</b>          | 2,250        | 2,250        | 2,250        | 2,250        |
| 1-5 years  | <b>187,877</b>      | <b>189,179</b>      | 4,656        | 4,798        | 4,657        | 4,790        |
| 6-10 years   | <b>1,205</b>        | <b>1,336</b>        | 1,104        | 1,166        | 1,104        | 1,186        |
| Over 10 years  |                     |                     |              |              | 64           | 193          |
| Non-marketable equity securities                     | <b>310,142</b>      | <b>310,142</b>      | 376,640      | 376,640      | 427,772      | 427,772      |
| Marketable equity securities                         | <b>54,649</b>       | <b>53,913</b>       | 54,482       | 53,987       | 51,135       | 50,761       |
| <b>Total other</b>                                   | <b>554,173</b>      | <b>554,875</b>      | 439,132      | 438,841      | 486,982      | 486,952      |
| <b>Total available-for-sale and other securities</b> | <b>\$ 9,716,546</b> | <b>\$ 9,723,558</b> | \$ 8,748,088 | \$ 8,587,914 | \$ 8,662,288 | \$ 8,503,150 |

(1) Amounts at September 30, 2010 and December 31, 2009 include automobile asset backed securities with a fair value of \$563.6 million

and  
\$309.4 million,  
respectively  
which meet the  
eligibility  
requirements for  
the Term  
Asset-Backed  
Securities Loan  
Facility, or  
TALF,  
administered by  
the Federal  
Reserve Bank of  
New York.  
Amounts at  
December 31,  
2009 include  
securities with a  
fair value of  
\$161.0 million  
backed by  
student loans  
with a minimum  
97%  
government  
guarantee.

**Table of Contents**

Other securities at September 30, 2010, December 31, 2009 and September 30, 2009 include \$165.6 million, \$240.6 million, and \$240.6 million of stock issued by the Federal Home Loan Bank of Cincinnati, \$45.7 million of stock issued by the Federal Home Loan Bank of Indianapolis, and \$98.9 million, \$90.4 million and \$ 141.5 million, respectively, of Federal Reserve Bank stock. Other securities also include corporate debt and marketable equity securities. Non-marketable equity securities are valued at amortized cost. At September 30, 2010, December 31, 2009 and September 30, 2009, Huntington did not have any material equity positions in Federal National Mortgage Association (FNMA or Fannie Mae) or the Federal Home Loan Mortgage Corporation (FHLMC or Freddie Mac). The following tables provide amortized cost, fair value, and gross unrealized gains and losses recognized in accumulated other comprehensive income by investment category at September 30, 2010, December 31, 2009, and September 30, 2009.

| <i>(in thousands)</i>                                | <b>Amortized<br/>Cost</b> | <b>Unrealized</b>      |                         | <b>Fair<br/>Value</b> |
|--|---------------------------|------------------------|-------------------------|-----------------------|
|  |                           | <b>Gross<br/>Gains</b> | <b>Gross<br/>Losses</b> |                       |
| <b>September 30, 2010</b>                            |                           |                        |                         |                       |
| U.S. Treasury  | \$ 49,998                 | \$ 336                 | \$                      | \$ 50,334             |
| Federal Agencies                                     |                           |                        |                         |                       |
| Mortgage-backed securities                           | 4,541,102                 | 142,537                | (99)                    | 4,683,540             |
| TLGP securities                                      | 577,729                   | 3,185                  |                         | 580,914               |
| Other agencies                                       | 2,017,878                 | 14,420                 | (123)                   | 2,032,175             |
| Total U.S. Government backed securities              | 7,186,707                 | 160,478                | (222)                   | 7,346,963             |
| Municipal securities                                 | 359,270                   | 8,776                  | (174)                   | 367,872               |
| Private label CMO                                    | 295,643                   | 1,177                  | (20,596)                | 276,224               |
| Asset backed securities                              | 1,320,753                 | 8,928                  | (152,057)               | 1,177,624             |
| Other securities                                     | 554,173                   | 1,522                  | (820)                   | 554,875               |
| <b>Total available-for-sale and other securities</b> | <b>\$ 9,716,546</b>       | <b>\$ 180,881</b>      | <b>\$ (173,869)</b>     | <b>\$ 9,723,558</b>   |

| <i>(in thousands)</i>                                | <b>Amortized<br/>Cost</b> | <b>Unrealized</b>      |                         | <b>Fair<br/>Value</b> |
|--|---------------------------|------------------------|-------------------------|-----------------------|
|  |                           | <b>Gross<br/>Gains</b> | <b>Gross<br/>Losses</b> |                       |
| <b>December 31, 2009</b>                             |                           |                        |                         |                       |
| U.S. Treasury  | \$ 99,735                 | \$                     | \$ (581)                | \$ 99,154             |
| Federal Agencies                                     |                           |                        |                         |                       |
| Mortgage-backed securities                           | 3,444,436                 | 44,835                 | (9,163)                 | 3,480,108             |
| TLGP securities                                      | 258,672                   | 2,037                  | (321)                   | 260,388               |
| Other agencies                                       | 2,724,815                 | 6,346                  | (4,158)                 | 2,727,003             |
| Total U.S. Government backed securities              | 6,527,658                 | 53,218                 | (14,223)                | 6,566,653             |
| Municipal securities                                 | 118,447                   | 6,424                  | (86)                    | 124,785               |
| Private label CMO                                    | 534,377                   | 99                     | (57,157)                | 477,319               |
| Asset backed securities                              | 1,128,474                 | 7,709                  | (155,867)               | 980,316               |
| Other securities                                     | 439,132                   | 296                    | (587)                   | 438,841               |
| <b>Total available-for-sale and other securities</b> | <b>\$ 8,748,088</b>       | <b>\$ 67,746</b>       | <b>\$ (227,920)</b>     | <b>\$ 8,587,914</b>   |



**Table of Contents**

| <i>(in thousands)</i>                                | <b>Amortized<br/>Cost</b> | <b>Unrealized</b>      |                         | <b>Fair<br/>Value</b> |
|--|---------------------------|------------------------|-------------------------|-----------------------|
|  |                           | <b>Gross<br/>Gains</b> | <b>Gross<br/>Losses</b> |                       |
| <b>September 30, 2009</b>                            |                           |                        |                         |                       |
| U.S. Treasury  | \$ 150,982                | \$ 55                  | \$                      | \$ 151,037            |
| Federal Agencies                                     |                           |                        |                         |                       |
| Mortgage-backed securities                           | 3,541,689                 | 55,894                 | (3,571)                 | 3,594,012             |
| TLGP securities                                      | 311,414                   | 1,207                  |                         | 312,621               |
| Other agencies                                       | 2,516,352                 | 13,195                 | (277)                   | 2,529,270             |
| <b>Total U.S. Government backed securities</b>       | <b>6,520,437</b>          | <b>70,351</b>          | <b>(3,848)</b>          | <b>6,586,940</b>      |
| Municipal securities                                 | 129,573                   | 8,036                  | (15)                    | 137,594               |
| Private label CMO                                    | 562,104                   |                        | (86,819)                | 475,285               |
| Asset backed securities                              | 963,192                   | 15,278                 | (162,091)               | 816,379               |
| Other securities                                     | 486,982                   | 345                    | (375)                   | 486,952               |
| <b>Total available-for-sale and other securities</b> | <b>\$ 8,662,288</b>       | <b>\$ 94,010</b>       | <b>\$ (253,148)</b>     | <b>\$ 8,503,150</b>   |

The following tables provide detail on investment securities with unrealized losses aggregated by investment category and length of time the individual securities have been in a continuous loss position, at September 30, 2010, December 31, 2009, and September 30, 2009.

| <i>(in thousands)</i>                              | <b>Less than 12 Months</b> |                              | <b>Over 12 Months</b> |                              | <b>Total</b>          |                              |
|--|----------------------------|------------------------------|-----------------------|------------------------------|-----------------------|------------------------------|
|  | <b>Fair<br/>Value</b>      | <b>Unrealized<br/>Losses</b> | <b>Fair<br/>Value</b> | <b>Unrealized<br/>Losses</b> | <b>Fair<br/>Value</b> | <b>Unrealized<br/>Losses</b> |
| <b>September 30, 2010</b>                          |                            |                              |                       |                              |                       |                              |
| U.S. Treasury                                      | \$                         | \$                           | \$                    | \$                           | \$                    | \$                           |
| Federal Agencies                                   |                            |                              |                       |                              |                       |                              |
| Mortgage-backed securities                         | 49,491                     | (99)                         |                       |                              | 49,491                | (99)                         |
| TLGP securities                                    |                            |                              |                       |                              |                       |                              |
| Other agencies                                     | 249,879                    | (121)                        | 502                   | (2)                          | 250,381               | (123)                        |
| <b>Total U.S. Government<br/>backed securities</b> | <b>299,370</b>             | <b>(220)</b>                 | <b>502</b>            | <b>(2)</b>                   | <b>299,872</b>        | <b>(222)</b>                 |
| Municipal securities                               | 23,621                     | (168)                        | 3,814                 | (6)                          | 27,435                | (174)                        |
| Private label CMO                                  |                            |                              | 172,450               | (20,596)                     | 172,450               | (20,596)                     |
| Asset backed securities                            | 79,753                     | (391)                        | 179,729               | (151,666)                    | 259,482               | (152,057)                    |
| Other securities                                   | 64,499                     | (645)                        | 459                   | (175)                        | 64,958                | (820)                        |
| <b>Total temporarily impaired<br/>securities</b>   | <b>\$ 467,243</b>          | <b>\$ (1,424)</b>            | <b>\$ 356,954</b>     | <b>\$ (172,445)</b>          | <b>\$ 824,197</b>     | <b>\$ (173,869)</b>          |

| <i>(in thousands)</i>    | <b>Less than 12 Months</b> |                              | <b>Over 12 Months</b> |                              | <b>Total</b>          |                              |
|--------------------------|----------------------------|------------------------------|-----------------------|------------------------------|-----------------------|------------------------------|
|                          | <b>Fair<br/>Value</b>      | <b>Unrealized<br/>Losses</b> | <b>Fair<br/>Value</b> | <b>Unrealized<br/>Losses</b> | <b>Fair<br/>Value</b> | <b>Unrealized<br/>Losses</b> |
| <b>December 31, 2009</b> |                            |                              |                       |                              |                       |                              |
| U.S. Treasury            | \$ 99,154                  | \$ (581)                     | \$                    | \$                           | \$ 99,154             | \$ (581)                     |



Edgar Filing: HUNTINGTON BANCSHARES INC/MD - Form 10-Q

|                            |                     |                    |                   |                     |                     |                     |
|----------------------------|---------------------|--------------------|-------------------|---------------------|---------------------|---------------------|
| Federal Agencies           |                     |                    |                   |                     |                     |                     |
| Mortgage-backed securities | 1,324,960           | (9,163)            |                   |                     | 1,324,960           | (9,163)             |
| TLGP securities            | 49,675              | (321)              |                   |                     | 49,675              | (321)               |
| Other agencies             | 1,443,309           | (4,081)            | 6,475             | (77)                | 1,449,784           | (4,158)             |
| Total U.S. Government      |                     |                    |                   |                     |                     |                     |
| backed securities          | 2,917,098           | (14,146)           | 6,475             | (77)                | 2,923,573           | (14,223)            |
| Municipal securities       | 3,993               | (7)                | 3,741             | (79)                | 7,734               | (86)                |
| Private label CMO          | 15,280              | (3,831)            | 452,439           | (53,326)            | 467,719             | (57,157)            |
| Asset backed securities    | 236,451             | (8,822)            | 207,581           | (147,045)           | 444,032             | (155,867)           |
| Other securities           | 39,413              | (372)              | 410               | (215)               | 39,823              | (587)               |
| <b>Total temporarily</b>   |                     |                    |                   |                     |                     |                     |
| <b>impaired securities</b> | <b>\$ 3,212,235</b> | <b>\$ (27,178)</b> | <b>\$ 670,646</b> | <b>\$ (200,742)</b> | <b>\$ 3,882,881</b> | <b>\$ (227,920)</b> |

**Table of Contents**

| (in thousands )                              | Less than 12 Months |                   | Over 12 Months    |                     | Total               |                     |
|--|---------------------|-------------------|-------------------|---------------------|---------------------|---------------------|
|  | Fair Value          | Unrealized Losses | Fair Value        | Unrealized Losses   | Fair Value          | Unrealized Losses   |
| <b>September 30, 2009</b>                    |                     |                   |                   |                     |                     |                     |
| U.S. Treasury                                | \$ 50,738           | \$                | \$                | \$                  | \$ 50,738           | \$                  |
| Federal Agencies                             |                     |                   |                   |                     |                     |                     |
| Mortgage-backed securities                   | 496,255             | (3,571)           |                   |                     | 496,255             | (3,571)             |
| TLGP securities                              |                     |                   |                   |                     |                     |                     |
| Other agencies                               | 274,587             | (260)             | 3,124             | (17)                | 277,711             | (277)               |
| Total U.S. Government backed securities      | 821,580             | (3,831)           | 3,124             | (17)                | 824,704             | (3,848)             |
| Municipal securities                         |                     |                   | 3,805             | (15)                | 3,805               | (15)                |
| Private label CMO                            | 16,922              | (2,514)           | 458,363           | (84,305)            | 475,285             | (86,819)            |
| Asset backed securities                      | 158,909             | (1,697)           | 207,678           | (160,394)           | 366,587             | (162,091)           |
| Other securities                             | 38,671              | (156)             | 431               | (219)               | 39,102              | (375)               |
| <b>Total temporarily impaired securities</b> | <b>\$ 1,036,082</b> | <b>\$ (8,198)</b> | <b>\$ 673,401</b> | <b>\$ (244,950)</b> | <b>\$ 1,709,483</b> | <b>\$ (253,148)</b> |

The following table is a summary of realized securities gains and losses for the three months and nine month periods ended September 30, 2010, and 2009:

| (in thousands)   | Three Months Ended<br>September 30, |                   | Nine Months Ended<br>September 30, |                   |
|--|-------------------------------------|-------------------|------------------------------------|-------------------|
|  | 2010                                | 2009              | 2010                               | 2009              |
| Gross gains on sales of securities                         | \$ 7,930                            | \$ 16,504         | \$ 22,811                          | \$ 45,011         |
| Gross (losses) on sales of securities                      | (5,509)                             | (296)             | (10,980)                           | (10,552)          |
| <b>Net gain on sales of securities</b>                     | <b>2,421</b>                        | <b>16,208</b>     | <b>11,831</b>                      | <b>34,459</b>     |
| Other-than-temporary impairment recorded pre adoption (1)  |                                     |                   |                                    | (3,938)           |
| Other-than-temporary impairment recorded post adoption (1) | (2,717)                             | (18,582)          | (12,002)                           | (38,168)          |
| <b>Net other-than-temporary impairment recorded</b>        | <b>(2,717)</b>                      | <b>(18,582)</b>   | <b>(12,002)</b>                    | <b>(42,106)</b>   |
| <b>Total securities gain (loss)</b>                        | <b>\$ (296)</b>                     | <b>\$ (2,374)</b> | <b>\$ (171)</b>                    | <b>\$ (7,647)</b> |

(1) Huntington adopted the current other-than-temporary impairment provisions of ASC Topic 320 on April 1, 2009.

Huntington adopted the current other-than-temporary impairment provisions of ASC Topic 320 on April 1, 2009. Huntington evaluates its investment securities portfolio on a quarterly basis for other-than-temporary impairment (OTTI). Huntington assesses whether OTTI has occurred when the fair value of a debt security is less than the amortized cost basis at the balance sheet date. Under these circumstances, OTTI is considered to have occurred (1) if Huntington intends to sell the security; (2) if it is more likely than not Huntington will be required to sell the security before recovery of its amortized cost basis; or (3) the present value of the expected cash flows is not sufficient to recover the entire amortized cost basis.

For securities Huntington does not expect to sell or it is not more likely than not to be required to sell, credit-related OTTI, represented by the expected loss in principal, is recognized in earnings, while noncredit-related OTTI is recognized in other comprehensive income (OCI). For securities which Huntington does expect to sell, all OTTI is recognized in earnings. Noncredit-related OTTI results from other factors, including increased liquidity spreads and extension of the security. Presentation of OTTI is made in the income statement on a gross basis with a reduction for the amount of OTTI recognized in OCI.

Huntington applied the related OTTI guidance on the debt security types listed below.

Alt-A mortgage-backed and private-label collateralized mortgage obligation (CMO) securities represent securities collateralized by first-lien residential mortgage loans. The securities are valued by a third party specialist using a discounted cash flow approach and proprietary pricing model. The model used inputs such as estimated prepayment speeds, losses, recoveries, default rates that were implied by the underlying performance of collateral in the structure or similar structures, discount rates that were implied by market prices for similar securities, collateral structure types, and house price depreciation/appreciation rates that were based upon macroeconomic forecasts.

**Table of Contents**

Pooled-trust-preferred securities represent collateralized debt obligations (CDOs) backed by a pool of debt securities issued by financial institutions. The collateral generally consisted of trust-preferred securities and subordinated debt securities issued by banks, bank holding companies, and insurance companies. A full cash flow analysis was used to estimate fair values and assess impairment for each security within this portfolio. We engaged a third party specialist with direct industry experience in pooled trust preferred securities valuations to provide assistance in estimating the fair value and expected cash flows for each security in this portfolio.

Relying on cash flows is necessary because there was a lack of observable transactions in the market and many of the original sponsors or dealers for these securities are no longer able to provide a fair value that is compliant with ASC 820.

For the three months and nine months ended September 30, 2010 and 2009, the following tables summarize by debt security type, total OTTI losses, OTTI losses included in OCI, and OTTI recognized in the income statement for securities evaluated for impairment as described above, subsequent to the adoption of current other-than-temporary impairment provisions of ASC Topic 320.

|  | Three Months Ended September 30, |                    |                   | Total              |
|--|----------------------------------|--------------------|-------------------|--------------------|
|  | Alt-A                            | Pooled             | Private Label     |                    |
| (in thousands)   | Mortgage-backed                  | Trust-Preferred    | CMO               |                    |
| <b>2010</b>  |                                  |                    |                   |                    |
| Total OTTI recoveries (losses) (unrealized and realized) | \$ 1,112                         | \$ 18,877          | \$ 7,786          | \$ 27,775          |
| Unrealized OTTI recognized in OCI                        | (1,472)                          | (19,075)           | (9,945)           | (30,492)           |
| <b>Net impairment losses recognized in earnings</b>      | <b>\$ (360)</b>                  | <b>\$ (198)</b>    | <b>\$ (2,159)</b> | <b>\$ (2,717)</b>  |
| <b>2009</b>  |                                  |                    |                   |                    |
| Total OTTI recoveries (losses) (unrealized and realized) | \$ (8,345)                       | \$ (38,551)        | \$ (6,411)        | \$ (53,307)        |
| Unrealized OTTI recognized in OCI                        | 6,062                            | 23,986             | 4,677             | 34,725             |
| <b>Net impairment losses recognized in earnings</b>      | <b>\$ (2,283)</b>                | <b>\$ (14,565)</b> | <b>\$ (1,734)</b> | <b>\$ (18,582)</b> |

|  | Nine Months Ended September 30, |                   |                   | Total              |
|--|---------------------------------|-------------------|-------------------|--------------------|
|  | Alt-A                           | Pooled            | Private Label     |                    |
| (in thousands)   | Mortgage-backed                 | Trust-Preferred   | CMO               |                    |
| <b>2010</b>  |                                 |                   |                   |                    |
| Total OTTI recoveries (losses) (unrealized and realized) | \$ (3,065)                      | \$ 21,229         | \$ 6,404          | \$ 24,568          |
| Unrealized OTTI recognized in OCI                        | 1,503                           | (24,643)          | (13,430)          | (36,570)           |
| <b>Net impairment losses recognized in earnings</b>      | <b>\$ (1,562)</b>               | <b>\$ (3,414)</b> | <b>\$ (7,026)</b> | <b>\$ (12,002)</b> |

**2009 (1)**

|  |                   |                    |                   |                    |
|--|-------------------|--------------------|-------------------|--------------------|
| Total OTTI recoveries (losses) (unrealized and realized) | \$ (14,325)       | \$ (107,206)       | \$ (19,890)       | \$ (141,421)       |
| Unrealized OTTI recognized in OCI                        | 6,161             | 80,187             | 16,905            | 103,253            |
| <b>Net impairment losses recognized in earnings</b>      | <b>\$ (8,164)</b> | <b>\$ (27,019)</b> | <b>\$ (2,985)</b> | <b>\$ (38,168)</b> |

(1) Huntington adopted the current other-than-temporary impairment provisions of ASC Topic 320 on April 1, 2009.

Amount represents from the period of adoption through September 30, 2009.

**Table of Contents**

The following table rolls forward the unrealized OTTI recognized in OCI on debt securities held by Huntington for the three months and nine month periods ended September 30, 2010 and 2009:

|                                       | <b>Three Months Ended September 30,</b> |                  |                  |  | <b>Total</b>      |
|---------------------------------------|---|------------------|------------------|--|-------------------|
|                                       | <b>Alt-A</b>                            | <b>Pooled</b>    | <b>Private</b>   |  |                   |
| <i>(in thousands)</i>                 | <b>Mortgage-backed Trust-Preferred</b>  |                  | <b>Label CMO</b> |  |                   |
| <b>2010</b>                           |   |                  |                  |  |                   |
| Balance, beginning of period          | \$ 9,161                                | \$ 87,924        | \$ 21,245        |  | \$ 118,330        |
| Reductions from sales                 | (618)                                   |                  | (8,605)          |  | (9,223)           |
| Credit losses not previous recognized |   |                  | 675              |  | 675               |
| Change in expected cash flows         | (854)                                   | (24,357)         | (2,786)          |  | (27,997)          |
| Additional credit losses              |   | 5,282            | 771              |  | 6,053             |
| <b>Balance, end of period</b>         | <b>\$ 7,689</b>                         | <b>\$ 68,849</b> | <b>\$ 11,300</b> |  | <b>\$ 87,838</b>  |
| <b>2009</b>                           |   |                  |                  |  |                   |
| Balance, beginning of period          | \$ 99                                   | \$ 56,201        | \$ 12,228        |  | \$ 68,528         |
| Credit losses not previous recognized | 6,160                                   | 28,212           | 5,245            |  | 39,617            |
| Change in expected cash flows         | (99)                                    | (4,226)          | (567)            |  | (4,892)           |
| Additional credit losses              |   |                  |                  |  |                   |
| <b>Balance, end of period</b>         | <b>\$ 6,160</b>                         | <b>\$ 80,187</b> | <b>\$ 16,906</b> |  | <b>\$ 103,253</b> |
|                                       |   |                  |                  |  |                   |
|                                       | <b>Nine Months Ended September 30,</b>  |                  |                  |  | <b>Total</b>      |
|                                       | <b>Alt-A</b>                            | <b>Pooled</b>    | <b>Private</b>   |  |                   |
| <i>(in thousands)</i>                 | <b>Mortgage-backed Trust-Preferred</b>  |                  | <b>Label CMO</b> |  |                   |
| <b>2010</b>                           |   |                  |                  |  |                   |
| Balance, beginning of period          | \$ 6,186                                | \$ 93,491        | \$ 24,731        |  | \$ 124,408        |
| Reductions from sales                 | (618)                                   |                  | (8,605)          |  | (9,223)           |
| Credit losses not previous recognized | 3,972                                   |                  | 5,612            |  | 9,584             |
| Change in expected cash flows         | (2,170)                                 | (31,921)         | (11,566)         |  | (45,657)          |
| Additional credit losses              | 319                                     | 7,279            | 1,128            |  | 8,726             |
| <b>Balance, end of period</b>         | <b>\$ 7,689</b>                         | <b>\$ 68,849</b> | <b>\$ 11,300</b> |  | <b>\$ 87,838</b>  |
| <b>2009 (1)</b>                       |   |                  |                  |  |                   |
| Balance, beginning of period          | \$                                      | \$               | \$               |  | \$                |
| Credit losses not previous recognized | 6,259                                   | 84,413           | 17,473           |  | 108,145           |
| Change in expected cash flows         | (99)                                    | (4,226)          | (567)            |  | (4,892)           |
| Additional credit losses              |   |                  |                  |  |                   |
| <b>Balance, end of period</b>         | <b>\$ 6,160</b>                         | <b>\$ 80,187</b> | <b>\$ 16,906</b> |  | <b>\$ 103,253</b> |

(1)

Huntington adopted the current other-than-temporary impairment provisions of ASC Topic 320 on April 1, 2009.

Amount represents from the period of adoption through September 30, 2009.

The fair values of these assets have been impacted by various market conditions. The unrealized losses were primarily the result of wider liquidity spreads on asset-backed securities and, additionally, increased market volatility on non-agency mortgage and asset-backed securities backed by certain mortgage loans. In addition, the expected average lives of the asset-backed securities backed by trust preferred securities have been extended, due to changes in the expectations of when the underlying securities would be repaid. The contractual terms and/or cash flows of the investments do not permit the issuer to settle the securities at a price less than the amortized cost. Huntington does not intend to sell, nor does it believe it will be required to sell these securities until the fair value is recovered, which may be maturity and, therefore, does not consider them to be other-than-temporarily impaired at September 30, 2010.

As of September 30, 2010, management has evaluated all other investment securities with unrealized losses and all non-marketable securities for impairment and concluded no additional other-than-temporary impairment is required.

## **5. LOAN SALES AND SECURITIZATIONS**

### **Residential Mortgage Loans**

For the three month periods ended September 30, 2010 and 2009, Huntington sold \$0.9 billion and \$0.8 billion of residential mortgage loans with servicing retained, resulting in net pre-tax gains of \$21.8 million and \$18.4 million, respectively, recorded in other non-interest income. During the nine month periods ended September 30, 2010 and 2009, sales of residential mortgage loans with servicing retained were \$2.5 billion and \$3.5 billion, respectively, resulting in net pre-tax gains of \$55.3 million and \$74.0 million, respectively.

**Table of Contents**

A mortgage servicing right (MSR) is established when the servicing is contractually separated from the underlying mortgage loans by sale or securitization of the loans with servicing rights retained. At initial recognition, the MSR asset is established at its fair value using assumptions consistent with assumptions used to estimate the fair value of existing MSRs carried at fair value in the portfolio. At the time of initial capitalization, MSRs are grouped into one of two categories depending on whether Huntington intends to actively hedge the asset. MSR assets are recorded using the fair value method if the Company will engage in actively hedging the asset or recorded using the amortization method if no active hedging will be performed. MSRs are included in accrued income and other assets. Any increase or decrease in the fair value of MSRs carried under the fair value method, as well as amortization and impairment of MSRs under the amortization method, during the period is recorded as an increase or decrease in mortgage banking income, which is reflected in non-interest income in the consolidated statements of income.

The following tables summarize the changes in MSRs recorded using either the fair value method or the amortization method for the three month and nine month periods ended September 30, 2010 and 2009:

| <b>Fair Value Method</b><br><i>(in thousands)</i> | Three Months Ended<br>September 30, |            | Nine Months Ended<br>September 30, |            |
|---|-------------------------------------|------------|------------------------------------|------------|
|   | <b>2010</b>                         | 2009       | <b>2010</b>                        | 2009       |
| Fair value, beginning of period                   | \$ <b>132,405</b>                   | \$ 196,932 | \$ <b>176,426</b>                  | \$ 167,438 |
| New servicing assets created                      |                                     |            |                                    | 23,074     |
| Change in fair value during the period due to:    |                                     |            |                                    |            |
| Time decay (1)                                    | <b>(1,088)</b>                      | (1,836)    | <b>(4,295)</b>                     | (5,164)    |
| Payoffs (2)                                       | <b>(9,158)</b>                      | (7,295)    | <b>(22,835)</b>                    | (30,603)   |
| Changes in valuation inputs or assumptions (3)    | <b>(10,004)</b>                     | (17,348)   | <b>(37,141)</b>                    | 18,814     |
| Other changes                                     |                                     |            |                                    | (3,106)    |
| <b>Fair value, end of period</b>                  | <b>\$ 112,155</b>                   | \$ 170,453 | <b>\$ 112,155</b>                  | \$ 170,453 |

(1) Represents decrease in value due to passage of time, including the impact from both regularly scheduled loan principal payments and partial loan paydowns.

(2) Represents decrease in value associated with loans that paid off during the period.

(3) Represents change in value



resulting  
primarily from  
market-driven  
changes in  
interest rates.

| <b>Amortization Method</b><br><i>(in thousands)</i> | Three Months Ended<br>September 30, |                  | Nine Months Ended<br>September 30, |                  |
|---|-------------------------------------|------------------|------------------------------------|------------------|
|   | 2010                                | 2009             | 2010                               | 2009             |
| Carrying value, beginning of year                   | \$ 46,733                           | \$ 22,350        | \$ 38,165                          | \$               |
| New servicing assets created                        | 7,506                               | 9,086            | 24,247                             | 31,530           |
| Impairment charge                                   | (2,043)                             |                  | (6,899)                            |                  |
| Amortization and other                              | (2,757)                             | (919)            | (6,074)                            | (1,013)          |
| <b>Carrying value, end of period</b>                | <b>\$ 49,439</b>                    | <b>\$ 30,517</b> | <b>\$ 49,439</b>                   | <b>\$ 30,517</b> |
| <b>Fair value, end of period</b>                    | <b>\$ 50,832</b>                    | <b>\$ 32,182</b> | <b>\$ 50,832</b>                   | <b>\$ 32,182</b> |

MSRs do not trade in an active, open market with readily observable prices. While sales of MSRs occur, the precise terms and conditions are typically not readily available. Therefore, the fair value of MSRs is estimated using a discounted future cash flow model. The model considers portfolio characteristics, contractually specified servicing fees and assumptions related to prepayments, delinquency rates, late charges, other ancillary revenues, costs to service, and other economic factors. Changes in the assumptions used may have a significant impact on the valuation of MSRs.

A summary of key assumptions and the sensitivity of the MSR value at September 30, 2010 to changes in these assumptions follows:

| <i>(in thousands)</i>                        | Actual | Decline in fair value due to |                          |
|--|--------|------------------------------|--------------------------|
|  |        | 10%<br>adverse<br>change     | 20%<br>adverse<br>change |
| Constant pre-payment rate                    | 16.56% | \$ (6,469)                   | \$ (12,464)              |
| Spread over forward interest rate swap rates | 515bps | (2,351)                      | (4,702)                  |

MSR values are sensitive to movements in interest rates as expected future net servicing income depends on the projected outstanding principal balances of the underlying loans, which can be greatly impacted by the level of prepayments. The Company hedges against changes in MSR fair value attributable to changes in interest rates through a combination of derivative instruments and trading securities.

**Table of Contents**

Total servicing fees included in mortgage banking income amounted to \$12.1 million and \$12.3 million for the three month periods ended September 30, 2010 and 2009, respectively. For the nine month periods ended September 30, 2010, and 2009, servicing fees totaled \$36.6 million and \$36.2 million, respectively.

**Automobile Loans and Leases**

With the adoption of amended accounting guidance for the consolidation of variable interest entities (VIE), Huntington consolidated a trust containing automobile loans on January 1, 2010. As a result of this consolidation, total assets increased \$621.6 million, total liabilities increased \$629.3 million, and a negative cumulative effect adjustment to other comprehensive income and retained earnings of \$7.7 million was recorded. (See Note 15 for more information on the consolidation of the trust)

Automobile loan servicing rights are accounted for using the amortization method. A servicing asset is established at fair value at the time of the sale. The servicing asset is then amortized against servicing income. Impairment, if any, is recognized when carrying value exceeds the fair value as determined by calculating the present value of expected net future cash flows. The primary risk characteristic for measuring servicing assets is payoff rates of the underlying loan pools. Valuation calculations rely on the predicted payoff assumption and, if actual payoff is quicker than expected, then future value would be impaired.

Changes in the carrying value of automobile loan servicing rights for the three and nine month periods ended September 30, 2010 and 2009, and the fair value at the end of each period were as follows:

| <i>(in thousands)</i>                | Three Months Ended<br>September 30, |                  | Nine Months Ended<br>September 30, |                  |
|--------------------------------------|-------------------------------------|------------------|------------------------------------|------------------|
|                                      | 2010                                | 2009             | 2010                               | 2009             |
| Carrying value, beginning of period  | \$ 373                              | \$ 17,423        | \$ 12,912                          | \$ 1,656         |
| New servicing assets created         |                                     |                  |                                    | 19,538           |
| Amortization and other (1)           | (228)                               | (2,391)          | (12,767)                           | (6,162)          |
| <b>Carrying value, end of period</b> | <b>\$ 145</b>                       | <b>\$ 15,032</b> | <b>\$ 145</b>                      | <b>\$ 15,032</b> |
| <b>Fair value, end of period</b>     | <b>\$ 387</b>                       | <b>\$ 16,472</b> | <b>\$ 387</b>                      | <b>\$ 16,472</b> |

(1) The nine months ended September 30, 2010, included a \$12.4 million reduction related to the consolidation of the VIE as noted above.

Huntington has retained servicing responsibilities on sold automobile loans and receives annual servicing fees and other ancillary fees on the outstanding loan balances. Servicing income, net of amortization of capitalized servicing assets, amounted to \$0.5 million and \$1.8 million for the three month periods ended September 30, 2010 and 2009, respectively. For the nine month periods ended September 30, 2010, and 2009, servicing income, net of amortization of capitalized servicing assets, was \$2.1 million and \$4.5 million, respectively.

**6. GOODWILL AND OTHER INTANGIBLE ASSETS**

A rollforward of goodwill by business segment for the nine month period ended September 30, 2010, was as follows:

Retail &

Edgar Filing: HUNTINGTON BANCSHARES INC/MD - Form 10-Q

|                               | Business          | Commercial      | Commercial |                   | Treasury/       | Huntington        |
|-------------------------------|-------------------|-----------------|------------|-------------------|-----------------|-------------------|
| <i>(in thousands)</i>         | Banking           | Banking         | Real       | PFG               | Other           | Consolidated      |
|                               |                   |                 | Estate     |                   |                 |                   |
| Balance, beginning of period  | \$ 310,138        | \$ 5,008        | \$         | \$ 124,283        | \$ 4,839        | \$ 444,268        |
| Other adjustments             |                   |                 |            |                   |                 |                   |
| <b>Balance, end of period</b> | <b>\$ 310,138</b> | <b>\$ 5,008</b> | <b>\$</b>  | <b>\$ 124,283</b> | <b>\$ 4,839</b> | <b>\$ 444,268</b> |

Goodwill is not amortized but is evaluated for impairment on an annual basis at October 1st of each year or whenever events or changes in circumstances indicate the carrying value may not be recoverable. There were no events or changes in circumstances which indicated the goodwill of a reporting unit may have been impaired during the 2010 third quarter, 2010 second quarter, or 2010 first quarter.

**Table of Contents**

At September 30, 2010, December 31, 2009 and September 30, 2009, Huntington's other intangible assets consisted of the following:

| <i>(in thousands)</i>                | <b>Gross<br/>Carrying<br/>Amount</b> | <b>Accumulated<br/>Amortization</b> | <b>Net<br/>Carrying<br/>Value</b> |
|--------------------------------------|--------------------------------------|-------------------------------------|-----------------------------------|
| <b>September 30, 2010</b>            |                                      |                                     |                                   |
| Core deposit intangible              | \$ 376,846                           | \$ (206,658)                        | \$ 170,188                        |
| Customer relationship                | 104,574                              | (32,579)                            | 71,995                            |
| Other                                | 25,164                               | (23,681)                            | 1,483                             |
| <b>Total other intangible assets</b> | <b>\$ 506,584</b>                    | <b>\$ (262,918)</b>                 | <b>\$ 243,666</b>                 |
| <b>December 31, 2009</b>             |                                      |                                     |                                   |
| Core deposit intangible              | \$ 376,846                           | \$ (168,651)                        | \$ 208,195                        |
| Customer relationship                | 104,574                              | (26,000)                            | 78,574                            |
| Other                                | 26,465                               | (24,136)                            | 2,329                             |
| <b>Total other intangible assets</b> | <b>\$ 507,885</b>                    | <b>\$ (218,787)</b>                 | <b>\$ 289,098</b>                 |
| <b>September 30, 2009</b>            |                                      |                                     |                                   |
| Core deposit intangible              | \$ 373,300                           | \$ (154,158)                        | \$ 219,142                        |
| Customer relationship                | 104,574                              | (23,710)                            | 80,864                            |
| Other                                | 25,164                               | (22,558)                            | 2,606                             |
| <b>Total other intangible assets</b> | <b>\$ 503,038</b>                    | <b>\$ (200,426)</b>                 | <b>\$ 302,612</b>                 |

The estimated amortization expense of other intangible assets for the remainder of 2010 and the next five years is as follows:

| <i>(in thousands)</i> | Amortization<br>Expense |
|-----------------------|-------------------------|
| 2010                  | 15,100                  |
| 2011                  | 53,279                  |
| 2012                  | 46,075                  |
| 2013                  | 40,511                  |
| 2014                  | 35,858                  |
| 2015                  | 19,756                  |

**Table of Contents****7. OTHER LONG-TERM DEBT AND SUBORDINATED NOTES**

The following table summarizes the changes in other long-term debt and subordinated notes during the nine month periods ended September 30, 2010, and 2009:

| <i>(in thousands)</i>  | <b>Other<br/>Long-term<br/>Debt</b> | <b>Subordinated<br/>Notes</b> |
|--|-------------------------------------|-------------------------------|
| Balance, January 1, 2010   | \$ 2,369,491                        | \$ 1,264,202                  |
| Notes payable from consolidation of variable interest entities (VIE) | 634,125(1)                          |                               |
| Redemptions/maturities   | (544,250)                           | (83,870)                      |
| Amortization of issued discount                                      | (6,141)                             | (399)                         |
| Fair value changes related to hedging                                | 3,935                               | 22,635                        |
| Other  | (64,089)                            |                               |
| <b>Balance, September 30, 2010</b>                                   | <b>\$ 2,393,071</b>                 | <b>\$ 1,202,568</b>           |
| Balance, January 1, 2009   | \$ 2,331,632                        | \$ 1,950,097                  |
| Issuances  | 600,000(2)                          |                               |
| Redemptions/maturities   | (578,072)(2)                        | (223,315)(3)                  |
| Amortization of issued discount                                      |                                     | (28)                          |
| Fair value changes related to hedging                                | (2,961)                             | (52,700)                      |
| Franklin 2009 Trust liability  | 82,309(4)                           |                               |
| Other  | 1,950                               |                               |
| Balance, September 30, 2009  | \$ 2,434,858                        | \$ 1,674,054                  |

(1) With the adoption of amended accounting guidance for the consolidation of variable interest entities (VIE), Huntington consolidated a trust containing automobile loans and related notes payable on January 1, 2010.

(2) In the 2009 first quarter, the Bank issued

\$600 million of guaranteed other long-term debt through the Temporary Liquidity Guarantee Program (TLGP) with the FDIC. The majority of the resulting proceeds were used to satisfy unsecured other long-term debt maturities in 2009.

- (3) During the second quarter of 2009, Huntington redeemed \$166.3 million junior subordinated notes associated with outstanding trust preferred securities, for an aggregate of \$96.2 million, resulting in a net pre-tax gain of \$67.4 million. This was reflected as a debt extinguishment in the condensed consolidated financial statements.
- (4) Franklin 2009 Trust liability was a result of the consolidation of

Franklin 2009  
Trust on  
March 31, 2009.  
See Note 3 for  
more  
information  
regarding the  
Franklin  
relationship.

The derivative instruments, principally interest rate swaps, are used to hedge the fair values of certain fixed-rate debt by converting the debt to a variable rate. See Note 14 for more information regarding such financial instruments.

**Table of Contents****8. OTHER COMPREHENSIVE INCOME**

The components of Huntington's other comprehensive income for the three months and nine month periods ended September 30, 2010 and 2009, were as follows:

| <i>(in thousands)</i>  | <b>Three Months Ended<br/>September 30, 2010</b> |                          |                  |
|--|--|--------------------------|------------------|
|  | Pretax   | Tax (expense)<br>Benefit | After-tax        |
| Non-credit-related impairment recoveries on debt securities not expected to be sold                          | \$ 30,492  | \$ (10,672)              | \$ 19,820        |
| Unrealized holding gains (losses) on debt securities available for sale arising during the period            | 28,767   | (10,276)                 | 18,491           |
| Less: Reclassification adjustment for net losses (gains) losses included in net income                       | 296  | (104)                    | 192              |
| <b>Net change in unrealized holding gains (losses) on debt securities available for sale</b>                 | <b>59,555</b>                                    | <b>(21,052)</b>          | <b>38,503</b>    |
| Unrealized holding gains (losses) on equity securities available for sale arising during the period          | (53)   | 19                       | (34)             |
| Less: Reclassification adjustment for net losses (gains) losses included in net income                       |  |                          |                  |
| <b>Net change in unrealized holding gains (losses) on equity securities available for sale</b>               | <b>(53)</b>                                      | <b>19</b>                | <b>(34)</b>      |
| Unrealized gains and losses on derivatives used in cash flow hedging relationships arising during the period | 25,180   | (8,813)                  | 16,367           |
| Change in pension and post-retirement benefit plan assets and liabilities                                    | 1,794  | (628)                    | 1,166            |
| <b>Total other comprehensive income (loss)</b>   | <b>\$ 86,476</b>                                 | <b>\$ (30,474)</b>       | <b>\$ 56,002</b> |

| <i>(in thousands)</i>   | <b>Three Months Ended<br/>September 30, 2009</b> |                          |               |
|---|--|--------------------------|---------------|
|   | Pretax   | Tax (expense)<br>Benefit | After-tax     |
| Non-credit-related impairment losses on debt securities not expected to be sold                   | (34,725)   | \$ 12,154                | \$ (22,571)   |
| Unrealized holding (losses) gains on debt securities available for sale arising during the period | 69,689   | \$ (24,758)              | \$ 44,931     |
| Less: Reclassification adjustment for net losses (gains) losses included in net income            | 2,374  | (830)                    | 1,544         |
| <b>Net change in unrealized holding (losses) gains on debt securities available for sale</b>      | <b>37,338</b>                                    | <b>(13,434)</b>          | <b>23,904</b> |
|   | 323  | (113)                    | 210           |



Unrealized holding (losses) gains on equity securities available for sale arising during the period

Less: Reclassification adjustment for net losses (gains) losses included in net income

|   |                  |                    |                  |
|---|------------------|--------------------|------------------|
| <b>Net change in unrealized holding (losses) gains on equity securities available for sale</b>                      | <b>323</b>       | <b>(113)</b>       | <b>210</b>       |
| <b>Unrealized gains and losses on derivatives used in cash flow hedging relationships arising during the period</b> | <b>55,527</b>    | <b>(19,435)</b>    | <b>36,092</b>    |
| <b>Change in pension and post-retirement benefit plan assets and liabilities</b>                                    | <b>2,272</b>     | <b>(795)</b>       | <b>1,477</b>     |
| <b>Total other comprehensive (loss) income</b>  | <b>\$ 95,460</b> | <b>\$ (33,777)</b> | <b>\$ 61,683</b> |

**Nine Months Ended  
September 30, 2010**

| <i>(in thousands)</i>   | Pretax            | Tax (expense)<br>Benefit | After-tax         |
|---|-------------------|--------------------------|-------------------|
| <b>Cumulative effect of change in accounting principle for consolidation of variable interest entities</b>          | <b>\$ (6,365)</b> | <b>\$ 2,116</b>          | <b>\$ (4,249)</b> |
| Non-credit-related impairment recoveries on debt securities not expected to be sold                                 | 36,570            | (12,799)                 | 23,771            |
| Unrealized holding gains (losses) on debt securities available for sale arising during the period                   | 137,051           | (48,578)                 | 88,473            |
| Less: Reclassification adjustment for net losses (gains) losses included in net income                              | 171               | (60)                     | 111               |
| <b>Net change in unrealized holding gains (losses) on debt securities available for sale</b>                        | <b>173,792</b>    | <b>(61,437)</b>          | <b>112,355</b>    |
| Unrealized holding gains (losses) on equity securities available for sale arising during the period                 | (241)             | 85                       | (156)             |
| Less: Reclassification adjustment for net losses (gains) losses included in net income                              |                   |                          |                   |
| <b>Net change in unrealized holding gains (losses) on equity securities available for sale</b>                      | <b>(241)</b>      | <b>85</b>                | <b>(156)</b>      |
| <b>Unrealized gains and losses on derivatives used in cash flow hedging relationships arising during the period</b> | <b>26,371</b>     | <b>(9,230)</b>           | <b>17,141</b>     |
| <b>Change in pension and post-retirement benefit plan assets and liabilities</b>                                    | <b>5,382</b>      | <b>(1,884)</b>           | <b>3,498</b>      |
| <b>Total other comprehensive income (loss)</b>  | <b>\$ 198,939</b> | <b>\$ (70,350)</b>       | <b>\$ 128,589</b> |

**Table of Contents**

|   | <b>Nine Months Ended<br/>September 30, 2009</b> |                          |                   |
|---|---|--------------------------|-------------------|
|   | Pretax  | Tax (expense)<br>Benefit | After-tax         |
| <i>(in thousands)</i>   |   |                          |                   |
| <b>Cumulative effect of change in accounting principle for OTTI debt securities</b>                                 | <b>\$ (5,448)</b>                               | <b>\$ 1,907</b>          | <b>\$ (3,541)</b> |
| Non-credit-related impairment losses on debt securities not expected to be sold                                     | (103,253)                                       | 36,139                   | (67,114)          |
| Unrealized holding (losses) gains on debt securities available for sale arising during the period                   | 263,094   | (92,787)                 | 170,307           |
| Less: Reclassification adjustment for net losses (gains) losses included in net income                              | 7,647   | (2,676)                  | 4,971             |
| <b>Net change in unrealized holding (losses) gains on debt securities available for sale</b>                        | <b>167,488</b>                                  | <b>(59,324)</b>          | <b>108,164</b>    |
| Unrealized holding (losses) gains on equity securities available for sale arising during the period                 | 188   | (65)                     | 123               |
| Less: Reclassification adjustment for net losses (gains) losses included in net income                              |   |                          |                   |
| <b>Net change in unrealized holding (losses) gains on equity securities available for sale</b>                      | <b>188</b>                                      | <b>(65)</b>              | <b>123</b>        |
| <b>Unrealized gains and losses on derivatives used in cash flow hedging relationships arising during the period</b> | <b>8,728</b>                                    | <b>(3,055)</b>           | <b>5,673</b>      |
| <b>Change in pension and post-retirement benefit plan assets and liabilities</b>                                    | <b>6,819</b>                                    | <b>(2,387)</b>           | <b>4,432</b>      |
| <b>Total other comprehensive (loss) income</b>  | <b>\$ 177,775</b>                               | <b>\$ (62,924)</b>       | <b>\$ 114,851</b> |

Activity in accumulated other comprehensive income, net of tax, for the nine month periods ended September 30, 2010 and 2009, were as follows:

|  | Unrealized<br>gains and<br>losses on<br>debt<br>securities | Unrealized<br>gains and<br>losses on<br>equity<br>securities | Unrealized<br>gains and<br>losses on<br>cash flow<br>hedging<br>derivatives | Accumulated<br>Unrealized<br>Losses for<br>Pension and<br>Other Post-<br>retirement<br>obligations | Total               |
|--|--|--|---|--|---------------------|
| <i>(in thousands)</i>  |  |  |   |  |                     |
| Balance, December 31, 2008   | \$ (207,427)   | \$ (329)   | \$ 44,638   | \$ (163,575)   | \$ (326,693)        |
| Cumulative effect of change in accounting principle for OTTI debt securities | (3,541)  |  |   |  | (3,541)             |
| Period change  | 108,164  | 123  | 5,673   | 4,432  | 118,392             |
| <b>Balance, September 30, 2009</b>   | <b>\$ (102,804)</b>  | <b>\$ (206)</b>  | <b>\$ 50,311</b>  | <b>\$ (159,143)</b>  | <b>\$ (211,842)</b> |

Edgar Filing: HUNTINGTON BANCSHARES INC/MD - Form 10-Q

|   |                 |                 |                  |                     |                    |
|---|-----------------|-----------------|------------------|---------------------|--------------------|
| Balance, December 31, 2009  | \$ (103,060)    | \$ (322)        | \$ 58,865        | \$ (112,468)        | \$ (156,985)       |
| Cumulative effect of change in accounting principle for consolidation of variable interest entities | (4,249)         |                 |                  |                     | (4,249)            |
| Period change   | 112,355         | (156)           | 17,141           | 3,498               | 132,838            |
| <b>Balance, September 30, 2010</b>  | <b>\$ 5,046</b> | <b>\$ (478)</b> | <b>\$ 76,006</b> | <b>\$ (108,970)</b> | <b>\$ (28,396)</b> |

**Table of Contents****9. SHAREHOLDERS EQUITY****Change in Shares Authorized**

During the second quarter of 2010, Huntington amended its charter to increase the number of authorized shares of common stock from 1.0 billion shares to 1.5 billion shares.

**Issuance of Common Stock**

During 2009, Huntington completed several transactions to increase capital, in particular, common equity.

During 2009, Huntington completed three separate discretionary equity issuance programs. These programs allowed the Company to take advantage of market opportunities to issue a total of 92.7 million new shares of common stock worth a total of \$345.8 million. Sales of the common shares were made through ordinary brokers' transactions on the NASDAQ Global Select Market or otherwise at the prevailing market prices.

In the 2009 third quarter, Huntington completed an offering of 109.5 million shares of its common stock at a price to the public of \$4.20 per share, or \$460.1 million in aggregate gross proceeds. In the 2009 second quarter, Huntington completed an offering of 103.5 million shares of its common stock at a price to the public of \$3.60 per share, or \$372.6 million in aggregate gross proceeds.

**Conversion of Convertible Preferred Stock**

In 2008, Huntington completed the public offering of 569,000 shares of 8.50% Series A Non-Cumulative Perpetual Convertible Preferred Stock (Series A Preferred Stock) with a liquidation preference of \$1,000 per share, resulting in an aggregate liquidation preference of \$569 million.

During the 2009 first and second quarters, Huntington entered into agreements with various institutional investors exchanging shares of common stock for shares of the Series A Preferred Stock held by the institutional investors. The table below provides details of the aggregate activities:

| <i>(in thousands)</i>           | First<br>Quarter 2009 | Second<br>Quarter 2009 | <b>Total</b>         |
|---------------------------------|-----------------------|------------------------|----------------------|
| Preferred shares exchanged      | 114                   | 92                     | <b>206</b>           |
| Common shares issued:           |                       |                        |                      |
| At stated convertible option    | 9,547                 | 7,730                  | <b>17,277</b>        |
| As deemed dividend              | 15,044                | 8,751                  | <b>23,795</b>        |
| <br>Total common shares issued: | <br>24,591            | <br>16,481             | <br><b>41,072</b>    |
| <br>Deemed dividend             | <br>\$ 27,742         | <br>\$ 28,293          | <br>\$ <b>56,035</b> |

Each share of the Series A Preferred Stock is non-voting and may be converted at any time, at the option of the holder, into 83.668 shares of common stock of Huntington, which represents an approximate initial conversion price of \$11.95 per share of common stock (for a total of approximately 30.3 million shares at September 30, 2010). The conversion rate and conversion price will be subject to adjustments in certain circumstances. On or after April 15, 2013, at the option of Huntington, the Series A Preferred Stock will be subject to mandatory conversion into Huntington's common stock at the prevailing conversion rate, if the closing price of Huntington's common stock exceeds 130% of the conversion price for 20 trading days during any 30 consecutive trading day period.

**Troubled Asset Relief Program (TARP)**

In 2008, Huntington received \$1.4 billion of equity capital by issuing to the U.S. Department of Treasury 1.4 million shares of Huntington's 5.00% Series B Non-voting Cumulative Preferred Stock, par value \$0.01 per share with a liquidation preference of \$1,000 per share, and a ten-year warrant to purchase up to 23.6 million shares of Huntington's common stock, par value \$0.01 per share, at an exercise price of \$8.90 per share. The proceeds received were allocated to the preferred stock and additional paid-in-capital based on their relative fair values. The resulting discount on the preferred stock is amortized against retained earnings and is reflected as Dividends on preferred shares, resulting in additional dilution to Huntington's earnings per share. The warrants are immediately exercisable, in whole or in part, over a term of 10 years. The warrants are included in Huntington's diluted average common shares outstanding using the treasury stock method. Both the preferred securities and warrants were accounted for as

additions to Huntington's regulatory Tier 1 and Total capital.

**Table of Contents**

The Series B Preferred Stock is not mandatorily redeemable and will pay cumulative dividends at a rate of 5% per year for the first five years and 9% per year thereafter. With regulatory approval, Huntington may redeem the Series B Preferred Stock at par with any unamortized discount recognized as a deemed dividend in the period of redemption. The Series B Preferred Stock rank on equal priority with Huntington's existing 8.50% Series A Non-Cumulative Perpetual Convertible Preferred Stock.

A company that participates in the TARP must adopt certain standards, including (a) prohibiting golden parachute payments as defined in the Emergency Economic Stabilization Act of 2008 (EESA) to senior executive officers; (b) requiring recovery of any compensation paid to senior executive officers based on criteria that is later proven to be materially inaccurate; (c) prohibiting incentive compensation that encourages unnecessary and excessive risks that threaten the value of the financial institution, and (d) accepting restrictions on the payment of dividends and the repurchase of common stock. As of September 30, 2010, Huntington is in compliance with all TARP standards, restrictions, and dividend payments.

**Share Repurchase Program**

As a condition to participate in the TARP, Huntington may not repurchase shares without prior approval from the Department of Treasury. Huntington did not repurchase any shares during the three months or nine month periods ended September 30, 2010. On February 18, 2009, the board of directors terminated the previously authorized program for the repurchase of up to 15 million shares of common stock (the 2006 Repurchase Program).

**10. EARNINGS (LOSS) PER SHARE**

Basic earnings (loss) per share is the amount of earnings (loss) (adjusted for dividends declared on preferred stock) available to each share of common stock outstanding during the reporting period. Diluted earnings (loss) per share is the amount of earnings (loss) available to each share of common stock outstanding during the reporting period adjusted to include the effect of potentially dilutive common shares. Potentially dilutive common shares include incremental shares issued for stock options, restricted stock units, distributions from deferred compensation plans, and the conversion of the Company's convertible preferred stock and warrants (See Note 9). Potentially dilutive common shares are excluded from the computation of diluted earnings per share in periods in which the effect would be antidilutive. For diluted earnings (loss) per share, net income (loss) available to common shares can be affected by the conversion of the Company's convertible preferred stock. Where the effect of this conversion would be dilutive, net income (loss) available to common shareholders is adjusted by the associated preferred dividends. The calculation of basic and diluted earnings (loss) per share for each of the three months and nine month periods ended September 30, 2010 and 2009 was as follows:

| (in thousands, except per share amounts)                   | Three Months Ended<br>September 30, |              | Nine Months Ended<br>September 30, |                |
|--|-------------------------------------|--------------|------------------------------------|----------------|
|  | 2010                                | 2009         | 2010                               | 2009           |
| <b>Basic earnings (loss) per common share</b>              |                                     |              |                                    |                |
| Net income (loss)  | \$ 100,946                          | \$ (166,190) | \$ 189,447                         | \$ (2,724,492) |
| Preferred stock dividends and amortization of discount     | (29,495)                            | (29,223)     | (88,278)                           | (145,467)      |
| Net income (loss) available to common shareholders         | \$ 71,451                           | \$ (195,413) | \$ 101,169                         | \$ (2,869,959) |
| Average common shares issued and outstanding               | 716,911                             | 589,708      | 716,604                            | 471,958        |
| <b>Basic earnings (loss) per common share</b>              | \$ 0.10                             | \$ (0.33)    | \$ 0.14                            | \$ (6.08)      |
| <b>Diluted earnings (loss) per common share</b>            |                                     |              |                                    |                |
| Net income (loss) available to common shareholders         | \$ 71,451                           | \$ (195,413) | \$ 101,169                         | \$ (2,869,959) |
| Net income (loss) applicable to diluted earnings per share | \$ 71,451                           | \$ (195,413) | \$ 101,169                         | \$ (2,869,959) |

Edgar Filing: HUNTINGTON BANCSHARES INC/MD - Form 10-Q

|  |                |           |                |           |
|--|----------------|-----------|----------------|-----------|
| Average common shares issued and outstanding               | <b>716,911</b> | 589,708   | <b>716,604</b> | 471,958   |
| Dilutive potential common shares:                          |                |           |                |           |
| Stock options and restricted stock units                   | <b>1,764</b>   |           | <b>1,711</b>   |           |
| Shares held in deferred compensation plans                 | <b>892</b>     |           | <b>867</b>     |           |
| Dilutive potential common shares:                          | <b>2,656</b>   |           | <b>2,578</b>   |           |
| Total diluted average common shares issued and outstanding | <b>719,567</b> | 589,708   | <b>719,182</b> | 471,958   |
| <b>Diluted earnings (loss) per common share</b>            | <b>\$ 0.10</b> | \$ (0.33) | <b>\$ 0.14</b> | \$ (6.08) |

**Table of Contents**

Due to the loss attributable to common shareholders for the three months and nine months ended 2009, no potentially dilutive shares are included in loss per share calculations for those periods as including such shares in the calculation would reduce the reported loss per share. Approximately 19.2 million and 24.2 million options to purchase shares of common stock outstanding at the end of September 30, 2010, and 2009, respectively, were not included in the computation of diluted earnings per share because the effect would be antidilutive. The weighted average exercise price for these options was \$18.06 per share and \$17.26 per share at the end of each respective period.

**11. SHARE-BASED COMPENSATION**

Huntington sponsors nonqualified and incentive share-based compensation plans. These plans provide for the granting of stock options and other awards to officers, directors, and other employees. Compensation costs are included in personnel costs on the condensed consolidated statements of income. Stock options are granted at the closing market price on the date of the grant. Options granted typically vest ratably over three years or when other conditions are met. Options granted prior to May 2004 have a term of ten years. All options granted after May 2004 have a term of seven years.

Huntington uses the Black-Scholes option-pricing model to value share-based compensation expense. This model assumes the estimated fair value of options is amortized over the options' vesting periods. Forfeitures are estimated at the date of grant based on historical rates and reduce the compensation expense recognized. The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the date of grant. Expected volatility is based on the estimated volatility of Huntington's stock over the expected term of the option. The expected dividend yield is based on the dividend rate and stock price at the date of the grant. The following table illustrates the weighted-average assumptions used in the option-pricing model for options granted in the three months and nine month periods ended September 30, 2010, and 2009.

|  | Three Months Ended<br>September 30, |       | Nine Months Ended<br>September 30, |       |
|--|-------------------------------------|-------|------------------------------------|-------|
|  | 2010                                | 2009  | 2010                               | 2009  |
| <b>Assumptions</b>                               |                                     |       |                                    |       |
| Risk-free interest rate                          | <b>2.14%</b>                        | 3.06% | <b>2.31%</b>                       | 2.71% |
| Expected dividend yield                          | <b>0.63</b>                         | 1.01  | <b>0.67</b>                        | 0.95  |
| Expected volatility of Huntington's common stock | <b>32.5</b>                         | 60.0  | <b>38.6</b>                        | 51.4  |
| Expected option term (years)                     | <b>6.0</b>                          | 6.0   | <b>6.0</b>                         | 6.0   |

**Weighted-average grant date fair value per share**

|  |    |             |    |      |    |             |    |      |
|--|----|-------------|----|------|----|-------------|----|------|
|  | \$ | <b>2.05</b> | \$ | 2.09 | \$ | <b>2.21</b> | \$ | 1.94 |
|--|----|-------------|----|------|----|-------------|----|------|

The following table illustrates total share-based compensation expense and related tax benefit for the three months and nine month periods ended September 30, 2010 and 2009:

|                                  | Three Months Ended<br>September 30, |              | Nine Months Ended<br>September 30, |       |    |               |    |       |
|----------------------------------|-------------------------------------|--------------|------------------------------------|-------|----|---------------|----|-------|
|                                  | 2010                                | 2009         | 2010                               | 2009  |    |               |    |       |
| <i>(in thousands)</i>            |                                     |              |                                    |       |    |               |    |       |
| Share-based compensation expense | \$                                  | <b>4,525</b> | \$                                 | 2,488 | \$ | <b>11,413</b> | \$ | 5,128 |
| Tax (expense) benefit            |                                     | <b>1,584</b> |                                    | 871   |    | <b>3,995</b>  |    | 1,795 |

As a result of increased employee turnover, during the 2009 second quarter Huntington updated its forfeiture rate assumption and adjusted share-based compensation expense to account for the higher forfeiture rate. This resulted in a reduction to share-based compensation expense of \$2.8 million.



**Table of Contents**

Huntington's stock option activity and related information for the nine month periods ended September 30, 2010, was as follows:

| <i>(in thousands, except per share amounts)</i>              | Options       | Weighted-<br>Average<br>Exercise<br>Price | Weighted-<br>Average<br>Remaining<br>Contractual<br>Life (Years) | Aggregate<br>Intrinsic<br>Value |
|--|---------------|---|--|---------------------------------|
| <b>Outstanding at January 1, 2010</b>                        | 23,722        | \$ 17.21                                  |  |                                 |
| Granted  | 2,639         | 6.00                                      |  |                                 |
| Exercised  | (42)          | 3.81                                      |  |                                 |
| Forfeited/expired  | (3,698)       | 16.77                                     |  |                                 |
| <b>Outstanding at September 30, 2010</b>                     | <b>22,621</b> | <b>\$ 16.00</b>                           | <b>3.2</b>   | <b>\$ 4,521</b>                 |
| <b>Vested and expected to vest at September 30, 2010 (1)</b> | <b>20,863</b> | <b>\$ 16.89</b>                           | <b>2.9</b>   | <b>\$ 3,456</b>                 |
| <b>Exercisable at September 30, 2010</b>                     | <b>17,484</b> | <b>\$ 19.11</b>                           | <b>2.3</b>   | <b>\$ 1,140</b>                 |

(1) The number of options expected to vest includes an estimate of expected forfeitures.

The aggregate intrinsic value represents the amount by which the fair value of underlying stock exceeds the in-the-money option exercise price. For the three months and nine month periods ended September 30, 2010, cash received for the exercises of stock options was \$0.2 million. There were no exercises of stock options for the three months and nine months ended September 30, 2009.

Huntington also grants restricted stock units and awards. Restricted stock units and awards are issued at no cost to the recipient, and can be settled only in shares at the end of the vesting period. Restricted stock awards provide the holder with full voting rights and cash dividends during the vesting period. Restricted stock units do not provide the holder with voting rights or cash dividends during the vesting period and are subject to certain service restrictions. The fair value of the restricted stock units and awards is the closing market price of the Company's common stock on the date of award.

The following table summarizes the status of Huntington's restricted stock units and restricted stock awards as of September 30, 2010, and activity for the nine month periods ended September 30, 2010:

| <i>(in thousands, except per share amounts)</i> | Restricted<br>Stock<br>Units | Weighted-<br>Average<br>Grant Date<br>Fair Value<br>Per Share | Restricted<br>Stock<br>Awards (1) | Weighted-<br>Average<br>Grant Date<br>Fair Value<br>Per Share |
|---|------------------------------|---|-----------------------------------|---|
| Nonvested at January 1, 2010                    | 2,717                        | \$ 7.50   | 174                               | \$ 3.45   |
| Granted   | 3,104                        | 6.24  | 280                               | 5.70  |
| Released  | (431)                        | 19.23   | (52)                              | 4.00  |

|  |              |           |             |            |                |
|--|--------------|-----------|-------------|------------|----------------|
| Forfeited                              | (132)        |           | 7.46        |            |                |
| <b>Nonvested at September 30, 2010</b> | <b>5,258</b> | <b>\$</b> | <b>5.80</b> | <b>402</b> | <b>\$ 4.94</b> |

(1) Includes restricted stock awards granted under the Amended and Restated 2007 Stock and Long-Term Incentive Plan to certain executives as a portion of their annual base salary. These awards are 100% vested as of the pay date and not subject to any requirement of future service. However, the shares are subject to restrictions regarding sale, transfer, pledge, or disposition until certain conditions are met.

The weighted-average grant date fair value of nonvested shares granted for the nine month periods ended September 30, 2010, and 2009, were \$6.20, and \$3.67, respectively. The total fair value of awards vested during the nine month periods ended September 30, 2010 and 2009, was \$2.8 million, and \$1.5 million, respectively. As of September 30, 2010, the total unrecognized compensation cost related to nonvested awards was \$21.8 million with a weighted-average expense recognition period of 2.0 years.

Of the remaining 45.5 million shares of common stock authorized for issuance at September 30, 2010, 28.3 million were outstanding and 17.2 million were available for future grants. Huntington issues shares to fulfill stock option exercises and restricted stock units from available authorized shares. At September 30, 2010, the Company believes there are adequate authorized shares available to satisfy anticipated stock option exercises in 2010.

**Table of Contents****12. BENEFIT PLANS**

Huntington sponsors the Huntington Bancshares Retirement Plan (the Plan or Retirement Plan), a non-contributory defined benefit pension plan covering substantially all employees hired or rehired prior to January 1, 2010. The Plan provides benefits based upon length of service and compensation levels. The funding policy of Huntington is to contribute an annual amount that is at least equal to the minimum funding requirements but not more than the deductible under the Internal Revenue Code.

In addition, Huntington has an unfunded defined benefit post-retirement plan that provides certain health care and life insurance benefits to retired employees who have attained the age of 55 and have at least 10 years of vesting service under this plan. For any employee retiring on or after January 1, 1993, post-retirement health-care benefits are based upon the employee's number of months of service and are limited to the actual cost of coverage. Life insurance benefits are a percentage of the employee's base salary at the time of retirement, with a maximum of \$50,000 of coverage. The employer paid portion of the post-retirement health and life insurance plan was eliminated for employees retiring on and after March 1, 2010. Eligible employees retiring on and after March 1, 2010, who elect retiree medical coverage will pay the full cost of this coverage. The Company will not provide any employer paid life insurance to employees retiring on and after March 1, 2010. Eligible employees will be able to convert or port their existing life insurance at their own expense under the same terms that are available to all terminated employees. Beginning January 1, 2010, there were changes to the way the future early and normal retirement benefits are calculated under the Retirement Plan for service on and after January 1, 2010. While these changes did not affect the benefit earned under the Retirement Plan through December 31, 2009, there will be a reduction in future benefits. In addition, employees hired or rehired on and after January 1, 2010, are not eligible to participate in the Retirement Plan.

The following table shows the components of net periodic benefit expense of the Plan and the Post-Retirement Benefit Plan:

| <i>(in thousands)</i>                | Pension Benefits   |                 | Post Retirement Benefits |                 |
|--------------------------------------|--------------------|-----------------|--------------------------|-----------------|
|                                      | Three Months Ended |                 | Three Months Ended       |                 |
|                                      | September 30,      |                 | September 30,            |                 |
|                                      | 2010               | 2009            | 2010                     | 2009            |
| Service cost                         | \$ 5,051           | \$ 6,155        | \$                       | \$ 465          |
| Interest cost                        | 7,217              | 7,056           | <b>433</b>               | 896             |
| Expected return on plan assets       | (10,528)           | (10,551)        |                          |                 |
| Amortization of transition asset     | 1                  | 2               |                          | 276             |
| Amortization of prior service cost   | (1,442)            | 121             | <b>(339)</b>             | 95              |
| Amortization of gains                | 3,748              |                 | <b>(174)</b>             |                 |
| Settlements                          | 3,925              | 1,725           |                          |                 |
| Recognized net actuarial loss (gain) |                    | 1,872           |                          | (231)           |
| <b>Benefit expense</b>               | <b>\$ 7,972</b>    | <b>\$ 6,380</b> | <b>\$ (80)</b>           | <b>\$ 1,501</b> |

| <i>(in thousands)</i>              | Pension Benefits  |           | Post Retirement Benefits |          |
|------------------------------------|-------------------|-----------|--------------------------|----------|
|                                    | Nine Months Ended |           | Nine Months Ended        |          |
|                                    | September 30,     |           | September 30,            |          |
|                                    | 2010              | 2009      | 2010                     | 2009     |
| Service cost                       | \$ 15,153         | \$ 18,464 | \$                       | \$ 1,395 |
| Interest cost                      | 21,651            | 21,167    | <b>1,299</b>             | 2,687    |
| Expected return on plan assets     | (31,584)          | (31,653)  |                          |          |
| Amortization of transition asset   | 5                 | 4         |                          | 828      |
| Amortization of prior service cost | (4,326)           | 362       | <b>(1,014)</b>           | 284      |

Edgar Filing: HUNTINGTON BANCSHARES INC/MD - Form 10-Q

|                                      |                  |                  |                 |                 |
|--------------------------------------|------------------|------------------|-----------------|-----------------|
| Amortization of gains                | 11,242           |                  | (525)           |                 |
| Settlements                          | 7,375            | 5,175            |                 |                 |
| Recognized net actuarial loss (gain) |                  | 5,620            |                 | (693)           |
| <b>Benefit expense</b>               | <b>\$ 19,516</b> | <b>\$ 19,139</b> | <b>\$ (240)</b> | <b>\$ 4,501</b> |

There is no required minimum contribution for 2010 to the Retirement Plan.

**Table of Contents**

The Huntington National Bank, as trustee, held all Plan assets at September 30, 2010, and December 31, 2009. The Plan assets consisted of investments in a variety of Huntington mutual funds and Huntington common stock as follows:

| <i>(in thousands)</i>                | <b>Fair Value</b>         |             |                   |      |
|--------------------------------------|---------------------------|-------------|-------------------|------|
|                                      | <b>September 30, 2010</b> |             | December 31, 2009 |      |
| Cash equivalents:                    |                           |             |                   |      |
| Huntington funds money market        | \$ 204                    | %           | \$ 11,304         | 2%   |
| Other                                |                           |             | 2,777             | 1    |
| Fixed income:                        |                           |             |                   |      |
| Huntington funds fixed income funds  | <b>134,523</b>            | <b>30</b>   | 125,323           | 28   |
| Corporate obligations                | <b>1,097</b>              |             | 1,315             |      |
| U.S. Government Agencies             | <b>506</b>                |             | 497               |      |
| Equities:                            |                           |             |                   |      |
| Huntington funds equity funds        | <b>293,956</b>            | <b>64</b>   | 256,222           | 57   |
| Huntington funds equity mutual funds |                           |             | 31,852            | 7    |
| Other equity mutual funds            | <b>4,029</b>              | <b>1</b>    | 122               |      |
| Huntington common stock              | <b>22,344</b>             | <b>5</b>    | 14,347            | 3    |
| Other common stock                   |                           |             | 10,355            | 2    |
| <b>Fair value of plan assets</b>     | <b>\$ 456,659</b>         | <b>100%</b> | \$ 454,114        | 100% |

Investments of the Plan are accounted for at cost on the trade date and are reported at fair value. All of the Plan's investments at September 30, 2010 are classified as Level 1 within the fair value hierarchy. In general, investments of the Plan are exposed to various risks, such as interest rate risk, credit risk, and overall market volatility. Due to the level of risk associated with certain investments, it is reasonably possible changes in the values of investments will occur in the near term and such changes could materially affect the amounts reported in the Plan assets.

The investment objective of the Plan is to maximize the return on Plan assets over a long time horizon, while meeting the Plan obligations. At September 30, 2010, Plan assets were invested 70% in equity investments and 30% in bonds, with an average duration of 3.1 years on bond investments. Although it may fluctuate with market conditions, management has targeted a long-term allocation of Plan assets of 69% in equity investments and 31% in bond investments.

Huntington also sponsors other nonqualified retirement plans, the most significant being the Supplemental Executive Retirement Plan (SERP) and the Supplemental Retirement Income Plan (SRIP). The SERP provides certain former officers and directors, and the SRIP provides certain current officers and directors of Huntington and its subsidiaries with defined pension benefits in excess of limits imposed by federal tax law. The cost of providing these plans was \$0.7 million and \$1.0 million for the three month periods ended September 30, 2010 and 2009, respectively. For the respective nine-month periods, the cost was \$2.3 million and \$2.7 million.

Huntington has a defined contribution plan that is available to eligible employees. In the 2009 first quarter, the Plan was amended to eliminate employer matching contributions effective on or after March 15, 2009. Prior to March 15, 2009, Huntington matched participant contributions, up to the first 3% of base pay contributed to the plan. Half of the employee contribution was matched on the 4th and 5th percent of base pay contributed to the plan. Effective May 1, 2010, Huntington reinstated the employer matching contribution to the defined contribution plan. The cost of providing the plan for the 2010 third quarter was \$3.3 million. For the nine month periods ended September 30, 2010 and 2009, the cost of providing the plan was \$5.4 million and \$3.1 million, respectively.

**13. FAIR VALUES OF ASSETS AND LIABILITIES**

Huntington follows the fair value accounting guidance under ASC 820 and ASC 825.

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market

participants on the measurement date. A three-level valuation hierarchy was established for disclosure of fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

*Level 1* inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

**Table of Contents**

*Level 2* inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

*Level 3* inputs to the valuation methodology are unobservable and significant to the fair value measurement.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

Following is a description of the valuation methodologies used for instruments measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy.

| Financial Instrument  | Hierarchy | Valuation methodology  |
|---|-----------|--|
| <i>Mortgage loans held-for-sale</i>   | Level 2   | Huntington elected to apply the fair value option for mortgage loans originated with the intent to sell which are included in loans held for sale. Mortgage loans held-for-sale are estimated using security prices for similar product types. At September 30, 2010, mortgage loans held for sale had an aggregate fair value of \$699.0 million and an aggregate outstanding principal balance of \$675.0 million. Interest income on these loans is recorded in interest and fees on loans and leases. Included in mortgage banking income were net gains resulting from changes in fair value of these loans, including net realized gains of \$57.2 million and \$75.6 million for the nine months ended September 30, 2010 and 2009, respectively. |
| <i>Available-for-sale Securities &amp; Trading Account Securities<sup>(1)</sup></i> | Level 1   | Consist of U.S. Treasury and other federal agency securities, and money market mutual funds which generally have quoted prices.  |
|   | Level 2   | Consist of U.S. Government and agency mortgage-backed securities and municipal securities for which an active market is not available. Third-party pricing services provide a fair value estimate based upon trades of similar financial instruments.  |
|   | Level 3   | Consist of asset-backed securities, pooled trust-preferred securities, certain private label CMOs, and variable rate demand notes for which fair value is estimated. Assumptions used to determine the fair value of these securities have greater subjectivity due to the lack of observable market transactions. Generally, there are only limited trades of similar instruments and a discounted cash flow approach is used to determine fair value.  |
| <i>Automobile loans<sup>(2)</sup></i>   | Level 1   | Consists of certain automobile loan receivables measured at fair value based on interest rates available from similarly traded securities.   |
|   | Level 3   | Consists of certain automobile loan receivables measured at fair value. The key assumptions used to determine the fair value of the automobile loan receivable included a projection of expected losses and prepayment of the underlying loans in the portfolio and a market assumption of interest rate spreads.  |

|   |         |   |
|---|---------|---|
| <i>Mortgage Servicing Rights (MSRs)<sup>(3)</sup></i> | Level 3 | MSRs do not trade in an active, open market with readily observable prices. Although sales of MSRs do occur, the precise terms and conditions typically are not readily available. Fair value is based upon the final month-end valuation, which utilizes the month-end curve and prepayment assumptions. Based on updated market data and trends, the prepayment assumptions were lowered during the second quarter of 2010. |
| <i>Derivatives<sup>(4)</sup></i>                      | Level 1 | Consist of exchange traded contracts and forward commitments to deliver mortgage-backed securities which have quoted prices.  |
|   | Level 2 | Consist of basic asset and liability conversion swaps and options, and interest rate caps. These derivative positions are valued using internally developed models that use readily observable market parameters.   |



**Table of Contents**

| Financial Instrument                                     | Hierarchy | Valuation methodology  |
|--|-----------|--|
|  | Level 3   | Consist primarily of interest rate lock agreements related to mortgage loan commitments. The determination of fair value includes assumptions related to the likelihood that a commitment will ultimately result in a closed loan, which is a significant unobservable assumption. |
| <i>Securitization trust notes payable</i> <sup>(4)</sup> | Level 1   | Consists of certain notes payable related to the automobile loans measured at fair value. The notes payable are valued based upon Level 1 prices because they are actively traded in the market.   |

(1) Refer to Note 4 for additional information.

(2) Refer to Note 5 for additional information.

(3) Refer to Note 14 for additional information.

(4) Refer to Note 2, 5, and 14 for additional information.

**Assets and Liabilities measured at fair value on a recurring basis**

Assets and liabilities measured at fair value on a recurring basis at September 30, 2010, December 31, 2009 and September 30, 2009 are summarized below:

| <i>(in thousands)</i>         | Fair Value Measurements at Reporting Date |            |         | Netting<br>Adjustments<br>(1) | <b>Balance at<br/>September 30,<br/>2010</b> |
|-------------------------------|---|------------|---------|-------------------------------|--|
|                               | Level 1                                   | Level 2    | Level 3 |                               |  |
| <b>Assets</b>                 |   |            |         |                               |  |
| Mortgage loans held for sale  | \$  | \$ 699,001 | \$      | \$                            | \$ <b>699,001</b>                            |
| Trading account securities    | 63,105                                    | 75,572     |         |                               | <b>138,677</b>                               |
| Available-for-sale securities | 2,687,196                                 | 6,018,748  | 707,472 |                               | <b>9,413,416</b>                             |
| Automobile loans              | 401,148                                   |            | 189,075 |                               | <b>590,223</b>                               |
| Mortgage servicing rights     |   |            | 112,155 |                               | <b>112,155</b>                               |
| Derivative assets             | 980                                       | 547,784    | 11,745  | (126,221)                     | <b>434,288</b>                               |
| Equity investments            |   |            |         |                               |  |

**Liabilities**

|                                    |         |         |       |  |                |
|------------------------------------|---------|---------|-------|--|----------------|
| Securitization trust notes payable | 422,294 |         |       |  | <b>422,294</b> |
| Derivative liabilities             | 9,044   | 293,741 | 4,018 |  | <b>306,803</b> |

| <i>(in thousands)</i>         | Fair Value Measurements at Reporting Date Using |            |         | Netting Adjustments (1) | Balance at December 31, 2009 |
|-------------------------------|---|------------|---------|-------------------------|------------------------------|
|                               | Level 1   | Level 2    | Level 3 |                         |                              |
| <b>Assets</b>                 |   |            |         |                         |                              |
| Mortgage loans held for sale  | \$  | \$ 459,719 | \$      | \$                      | \$ 459,719                   |
| Trading account securities    | 56,009  | 27,648     |         |                         | 83,657                       |
| Available-for-sale securities | 3,111,845                                       | 4,203,497  | 895,932 |                         | 8,211,274                    |
| Mortgage servicing rights     |   |            | 176,427 |                         | 176,427                      |
| Derivative assets             | 7,711   | 341,676    | 995     | (62,626)                | 287,756                      |
| Equity investments            |   |            | 25,872  |                         | 25,872                       |
| <b>Liabilities</b>            |   |            |         |                         |                              |
| Derivative liabilities        | 119   | 233,597    | 5,231   |                         | 238,947                      |

| <i>(in thousands)</i>         | Fair Value Measurements at Reporting Date Using |            |         | Netting Adjustments (1) | Balance at September 30, 2009 |
|-------------------------------|---|------------|---------|-------------------------|-------------------------------|
|                               | Level 1   | Level 2    | Level 3 |                         |                               |
| <b>Assets</b>                 |   |            |         |                         |                               |
| Mortgage loans held for sale  | \$  | \$ 491,564 | \$      | \$                      | \$ 491,564                    |
| Trading account securities    | 64,738  | 56,628     |         |                         | 121,366                       |
| Available-for-sale securities | 3,015,587                                       | 4,112,699  | 947,092 |                         | 8,075,378                     |
| Mortgage servicing rights     |   |            | 170,453 |                         | 170,453                       |
| Derivative assets             | 41  | 497,525    | 5,740   | (136,256)               | 367,050                       |
| Equity investments            |   |            | 24,706  |                         | 24,706                        |
| <b>Liabilities</b>            |   |            |         |                         |                               |
| Derivative liabilities        | 10,083  | 264,319    | 4,041   | (39,710)                | 238,733                       |

(1) Amounts represent the impact of legally enforceable master netting agreements that allow the Company to settle positive and negative positions and cash collateral held or placed with the same counterparties.



**Table of Contents**

The tables below present a rollforward of the balance sheet amounts for the three months and nine month periods ended September 30, 2010 and 2009, for financial instruments measured on a recurring basis and classified as Level 3. The classification of an item as Level 3 is based on the significance of the unobservable inputs to the overall fair value measurement. However, Level 3 measurements may also include observable components of value that can be validated externally. Accordingly, the gains and losses in the table below include changes in fair value due in part to observable factors that are part of the valuation methodology. Transfers in and out of Level 3 are presented in the tables below at fair value at the beginning of the reporting period.

**Level 3 Fair Value Measurements  
Three Months Ended September 30, 2010**

|                                     | Investment Securities |             |                 |               |                   |            |            | Equity      |
|-------------------------------------|-----------------------|-------------|-----------------|---------------|-------------------|------------|------------|-------------|
|                                     | Mortgage Servicing    | Derivative  | Alt-A Mortgage- | Pooled Trust- | Private Label CMO | Other      | Loans      |             |
| <i>(in thousands)</i>               | Rights                | Instruments | backed          | Preferred     |                   |            |            | Investments |
| <b>Balance, beginning of period</b> | \$ 132,405            | \$ 6,492    | \$ 112,230      | \$ 106,710    | \$ 394,611        | \$ 262,128 | \$ 186,388 | \$          |
| Total gains/losses:                 |                       |             |                 |               |                   |            |            |             |
| Included in earnings                | (20,250)              | 3,872       | (195)           | (198)         | (1,598)           |            | 4,887      |             |
| Included in OCI                     |                       |             | 753             | (6,065)       | 12,674            |            |            |             |
| Purchases                           |                       |             |                 |               |                   |            |            |             |
| Sales                               |                       |             | (11,977)        |               | (109,310)         | (28,838)   |            |             |
| Repayments                          |                       |             |                 |               |                   |            | (2,200)    |             |
| Issuances                           |                       | (1,741)     |                 |               |                   |            |            |             |
| Settlements                         |                       | (896)       | (3,107)         | (193)         | (20,153)          |            |            |             |
| <b>Balance, end of period</b>       | \$ 112,155            | \$ 7,727    | \$ 97,704       | \$ 100,254    | \$ 276,224        | \$ 233,290 | \$ 189,075 | \$          |

The amount of total gains or losses for the period included in earnings (or OCI) attributable to the change in unrealized gains or losses relating to assets still held at reporting date

|             |          |        |            |          |    |          |    |
|-------------|----------|--------|------------|----------|----|----------|----|
| \$ (20,250) | \$ 2,976 | \$ 136 | \$ (6,064) | \$ 3,727 | \$ | \$ 2,687 | \$ |
|-------------|----------|--------|------------|----------|----|----------|----|

**Level 3 Fair Value Measurements  
Three Months Ended September 30, 2009**

|                       | Investment Securities |             |                 |               |                   |            |       | Equity      |
|-----------------------|-----------------------|-------------|-----------------|---------------|-------------------|------------|-------|-------------|
|                       | Mortgage Servicing    | Derivative  | Alt-A Mortgage- | Pooled Trust- | Private Label CMO | Other      | Loans |             |
| <i>(in thousands)</i> | Rights                | Instruments | backed          | Preferred     |                   |            |       | Investments |
|                       | \$ 196,932            | \$ (4,537)  | \$ 274,065      | \$ 128,864    | \$ 510,503        | \$ 183,361 | \$    | \$ 28,462   |

**Balance, beginning of period**

|                               |            |          |            |            |            |            |    |           |
|-------------------------------|------------|----------|------------|------------|------------|------------|----|-----------|
| Total gains/losses:           |            |          |            |            |            |            |    |           |
| Included in earnings          | (26,479)   | 3,207    | 1,951      | (14,544)   | (1,121)    | (2,205)    |    | (156)     |
| Included in OCI               |            |          | (8,001)    | 3,849      | 5,777      | 6,727      |    |           |
| Purchases                     |            |          |            |            |            |            |    |           |
| Sales                         |            |          | (97,935)   |            |            |            |    |           |
| Repayments                    |            |          |            |            |            |            |    |           |
| Issuances                     |            |          |            |            |            |            |    |           |
| Settlements                   |            | 3,029    | (4,299)    | (26)       | (39,874)   |            |    | (3,600)   |
| <b>Balance, end of period</b> | \$ 170,453 | \$ 1,699 | \$ 165,781 | \$ 118,143 | \$ 475,285 | \$ 187,883 | \$ | \$ 24,706 |

|   |             |          |            |             |       |          |    |          |
|---|-------------|----------|------------|-------------|-------|----------|----|----------|
| The amount of total gains or losses for the period included in earnings (or OCI) attributable to the change in unrealized gains or losses relating to assets still held at reporting date | \$ (26,479) | \$ 3,028 | \$ (6,050) | \$ (10,695) | 4,656 | \$ 4,522 | \$ | \$ (156) |
|---|-------------|----------|------------|-------------|-------|----------|----|----------|

**Table of Contents**

**Level 3 Fair Value Measurements  
Nine Months Ended September 30, 2010**

|  | Investment Securities           |                           |                              |                               |                         |            |            | Equity<br>Investments |
|--|---------------------------------|---------------------------|------------------------------|-------------------------------|-------------------------|------------|------------|-----------------------|
|  | Mortgage<br>Servicing<br>Rights | Derivative<br>Instruments | Alt-A<br>Mortgage-<br>backed | Pooled<br>Trust-<br>Preferred | Private<br>Label<br>CMO | Other      | Loans      |                       |
| <i>(in thousands)</i>                          |                                 |                           |                              |                               |                         |            |            |                       |
| <b>Balance,<br/>beginning of<br/>period</b>    | \$ 176,427                      | \$ (4,236)                | \$ 116,934                   | \$ 106,091                    | \$ 477,319              | \$ 195,588 | \$         | \$ 25,872             |
| Total gains/losses:<br>Included in<br>earnings | (64,272)                        | 12,811                    | (1,107)                      | (3,781)                       | (5,429)                 |            | 14,990     |                       |
| Included in OCI                                |                                 |                           | 4,810                        | (1,547)                       | 37,640                  |            |            |                       |
| Purchases                                      |                                 |                           |                              |                               |                         |            |            |                       |
| Sales  |                                 |                           | (14,608)                     |                               | (166,704)               | (28,837)   |            |                       |
| Repayments                                     |                                 |                           |                              |                               |                         |            | (5,934)    |                       |
| Issuances                                      |                                 | (1,741)                   |                              |                               |                         |            |            |                       |
| Settlements                                    |                                 | 893                       | (8,325)                      | (509)                         | (66,602)                | (73,025)   |            |                       |
| Transfers in/out of<br>Level 3 (1)             |                                 |                           |                              |                               |                         | 139,564    | 180,019    | (25,872)              |
| <b>Balance, end of<br/>period</b>              | \$ 112,155                      | \$ 7,727                  | \$ 97,704                    | \$ 100,254                    | \$ 276,224              | \$ 233,290 | \$ 189,075 | \$                    |

The amount of total gains or losses for the period included in earnings (or OCI) attributable to the change in unrealized gains or losses relating to assets still held at reporting date

|  |             |           |          |            |           |    |          |    |
|--|-------------|-----------|----------|------------|-----------|----|----------|----|
|  | \$ (64,272) | \$ 11,708 | \$ 3,931 | \$ (1,547) | \$ 18,613 | \$ | \$ 9,056 | \$ |
|--|-------------|-----------|----------|------------|-----------|----|----------|----|

(1) Transfers in/out of other investment securities includes the addition of \$323.6 million relating to municipal

securities, a transfer out of \$184.0 million related to the consolidation of the 2009 Trust (see Notes 5 and 15), a transfer in of \$180.0 of loans related to the 2009 Trust, and a transfer out of \$25.9 million related to Equity Investments no longer valued under the fair value guidance of ASC 820.

**Level 3 Fair Value Measurements  
Nine Months Ended September 30, 2009**

|  | Investment Securities     |                        |                       |                        |                   |            |       | Equity    |
|--|---------------------------|------------------------|-----------------------|------------------------|-------------------|------------|-------|-----------|
|  | Mortgage Servicing Rights | Derivative Instruments | Alt-A Mortgage-backed | Pooled Trust-Preferred | Private Label CMO | Other      | Loans |           |
| <i>(in thousands)</i>  |                           |                        |                       |                        |                   |            |       |           |
| <b>Balance, beginning of period</b>  | \$ 167,438                | \$ 1,032               | \$ 322,421            | \$ 141,606             | \$ 523,515        | \$         | \$    | \$ 36,893 |
| Total gains/losses:  |                           |                        |                       |                        |                   |            |       |           |
| Included in earnings   | 3,733                     | (668)                  | 3,943                 | (29,361)               | (1,019)           | (908)      |       | (87)      |
| Included in OCI  |                           |                        | 26,141                | 7,459                  | 64,173            | 9,052      |       |           |
| Purchases  | 2,388                     |                        |                       |                        | 5,448             | 211,296    |       | 1,017     |
| Sales  |                           |                        | (170,027)             |                        |                   | (78,676)   |       |           |
| Repayments   |                           |                        |                       |                        |                   |            |       |           |
| Issuances  |                           |                        |                       |                        |                   | 47,119     |       |           |
| Settlements  | (3,106)                   | 1,335                  | (16,697)              | (1,561)                | (116,832)         |            |       | (13,117)  |
| <b>Balance, end of period</b>  | \$ 170,453                | \$ 1,699               | \$ 165,781            | \$ 118,143             | \$ 475,285        | \$ 187,883 | \$    | \$ 24,706 |
| The amount of total gains or losses for the period included in earnings (or OCI) attributable to the change in unrealized gains or losses relating to assets still | \$ 3,733                  | \$ (2,542)             | \$ 30,084             | \$ (21,902)            | 63,154            | \$ 8,144   | \$    | \$ (87)   |

held at reporting date



**Table of Contents**

The table below summarizes the classification of gains and losses due to changes in fair value, recorded in earnings for Level 3 assets and liabilities for the three months and nine month periods ended September 30, 2010 and 2009.

| <i>(in thousands)</i><br>Classification of<br>gains and losses in<br>earnings: | <b>Level 3 Fair Value Measurements<br/>Three Months Ended September 30, 2010</b> |                           |                              |                               |                         |       |          |                       |
|--|--|---------------------------|------------------------------|-------------------------------|-------------------------|-------|----------|-----------------------|
|  | Mortgage<br>Servicing<br>Rights  | Derivative<br>Instruments | Alt-A<br>Mortgage-<br>backed | Investment Securities         |                         |       | Loans    | Equity<br>investments |
|  |  |                           |                              | Pooled<br>Trust-<br>Preferred | Private<br>Label<br>CMO | Other |          |                       |
| Mortgage banking<br>income (loss)  | \$ (20,250)  | \$ 3,872                  | \$                           | \$                            | \$                      | \$    | \$       | \$                    |
| Securities gains<br>(losses)   |  |                           | (360)                        | (198)                         | (2,159)                 |       | (3,533)  |                       |
| Interest and fee<br>income   |  |                           | 165                          |                               | 561                     |       | 8,420    |                       |
| Noninterest income   |  |                           |                              |                               |                         |       |          |                       |
| <b>Total</b>   | \$ (20,250)  | \$ 3,872                  | \$ (195)                     | \$ (198)                      | \$ (1,598)              | \$    | \$ 4,887 | \$                    |

| <i>(in thousands)</i><br>Classification of<br>gains and losses in<br>earnings: | <b>Level 3 Fair Value Measurements<br/>Three Months Ended September 30, 2009</b> |                           |                              |                               |                         |            |       |                       |
|--|--|---------------------------|------------------------------|-------------------------------|-------------------------|------------|-------|-----------------------|
|  | Mortgage<br>Servicing<br>Rights  | Derivative<br>Instruments | Alt-A<br>Mortgage-<br>backed | Investment Securities         |                         |            | Loans | Equity<br>investments |
|  |  |                           |                              | Pooled<br>Trust-<br>Preferred | Private<br>Label<br>CMO | Other      |       |                       |
| Mortgage banking<br>income (loss)  | \$ (26,479)  | \$ 3,207                  | \$                           | \$                            | \$                      | \$         | \$    | \$                    |
| Securities gains<br>(losses)   |  |                           | (2,284)                      | (14,565)                      | (1,734)                 |            |       |                       |
| Interest and fee<br>income   |  |                           | 4,235                        | 21                            | 613                     | (2,205)    |       |                       |
| Noninterest income   |  |                           |                              |                               |                         |            |       | (156)                 |
| <b>Total</b>   | \$ (26,479)  | \$ 3,207                  | \$ 1,951                     | \$ (14,544)                   | \$ (1,121)              | \$ (2,205) | \$    | \$ (156)              |

**Level 3 Fair Value Measurements  
Nine Months Ended September 30, 2010**

| <i>(in thousands)</i><br>Classification of<br>gains and losses in<br>earnings: | Investment Securities           |                           |                              |                               |                         |       |           | Equity<br>investments |
|--|---------------------------------|---------------------------|------------------------------|-------------------------------|-------------------------|-------|-----------|-----------------------|
|  | Mortgage<br>Servicing<br>Rights | Derivative<br>Instruments | Alt-A<br>Mortgage-<br>backed | Pooled<br>Trust-<br>Preferred | Private<br>Label<br>CMO | Other | Loans     |                       |
| Mortgage banking<br>income (loss)  | \$ (64,272)                     | \$ 12,811                 | \$                           | \$                            | \$                      | \$    | \$        | \$                    |
| Securities gains<br>(losses)   |                                 |                           | (1,562)                      | \$ (3,413)                    | (7,027)                 |       | (7,933)   |                       |
| Interest and fee<br>income   |                                 |                           | 455                          | (368)                         | 1,598                   |       | 22,923    |                       |
| Noninterest income   |                                 |                           |                              |                               |                         |       |           |                       |
| <b>Total</b>   | \$ (64,272)                     | \$ 12,811                 | \$ (1,107)                   | \$ (3,781)                    | \$ (5,429)              | \$    | \$ 14,990 | \$                    |

**Level 3 Fair Value Measurements  
Nine Months Ended September 30, 2009**

| <i>(in thousands)</i><br>Classification of<br>gains and losses in<br>earnings: | Investment Securities           |                           |                              |                               |                         |          |       | Equity<br>investments |
|--|---------------------------------|---------------------------|------------------------------|-------------------------------|-------------------------|----------|-------|-----------------------|
|  | Mortgage<br>Servicing<br>Rights | Derivative<br>Instruments | Alt-A<br>Mortgage-<br>backed | Pooled<br>Trust-<br>Preferred | Private<br>Label<br>CMO | Other    | Loans |                       |
| Mortgage banking<br>income (loss)  | \$ 3,733                        | \$ (668)                  | \$                           | \$                            | \$                      | \$       | \$    | \$                    |
| Securities gains<br>(losses)   |                                 |                           | (9,670)                      | (29,452)                      | (2,985)                 |          |       |                       |
| Interest and fee<br>income   |                                 |                           | 13,613                       | 91                            | 1,966                   | (908)    |       |                       |
| Noninterest income   |                                 |                           |                              |                               |                         |          |       | (87)                  |
| <b>Total</b>   | \$ 3,733                        | \$ (668)                  | \$ 3,943                     | \$ (29,361)                   | \$ (1,019)              | \$ (908) | \$    | \$ (87)               |

**Table of Contents****Assets and Liabilities measured at fair value on a nonrecurring basis**

Certain assets and liabilities may be required to be measured at fair value on a nonrecurring basis in periods subsequent to their initial recognition. These assets and liabilities are not measured at fair value on an ongoing basis; however, they are subject to fair value adjustments in certain circumstances, such as when there is evidence of impairment.

Periodically, Huntington records nonrecurring adjustments of collateral-dependent loans measured for impairment when establishing the allowance for credit losses. Such amounts are generally based on the fair value of the underlying collateral supporting the loan. Appraisals are generally obtained to support the fair value of the collateral and incorporate measures such as recent sales prices for comparable properties and cost of construction. In cases where the carrying value exceeds the fair value of the collateral less cost to sell, an impairment charge is recognized. Huntington considers these fair values a Level 3 input in the valuation hierarchy. During the nine month periods ended September 30, 2010 and 2009, Huntington identified \$58.6 million, and \$662.8 million, respectively, of impaired loans for which the fair value is recorded based upon collateral value. For the nine month periods ended September 30, 2010 and 2009, nonrecurring fair value impairment of \$28.4 million and \$268.2 million, respectively, were recorded within the provision for credit losses.

Other real estate owned properties are valued based on appraisals and third party price opinions, less estimated selling costs. At September 30, 2010 and 2009, Huntington had \$123.1 million and \$142.6 million, respectively of OREO assets at fair value. For the three months and nine months ended September 30, 2010, fair value losses of \$0.9 million and \$4.1 million, respectively were recorded within noninterest expense. For the three months and nine months ended September 30, 2009, fair value losses were \$5.3 million and \$8.0 million, respectively

At the end of 2010 second quarter, \$398 million of Franklin-related loans (\$333.0 million of residential mortgages and \$64.7 million of home equity loans) at a value of \$323 million were transferred into loans held for sale. Reflecting the transfer, these loans were marked to lower of cost or fair value, which resulted in 2010 second quarter charge-offs of \$75.5 million (\$60.8 million related to residential mortgages and \$14.7 million related to home equity loans), and the provision for credit losses was increased by \$75.5 million. During the 2010 third quarter, the Franklin-related residential mortgages and home equity loans were sold at essentially book value.

**Fair values of financial instruments**

The carrying amounts and estimated fair values of Huntington's financial instruments at September 30, 2010, December 31, 2009, and September 30, 2009 are presented in the following table:

| <i>(in thousands)</i>                 | <b>September 30, 2010</b> |                   | December 31, 2009 |              | September 30, 2009 |              |
|---------------------------------------|---------------------------|-------------------|-------------------|--------------|--------------------|--------------|
|                                       | <b>Carrying Amount</b>    | <b>Fair Value</b> | Carrying Amount   | Fair Value   | Carrying Amount    | Fair Value   |
| <b>Financial Assets:</b>              |                           |                   |                   |              |                    |              |
| Cash and short-term assets            | \$ 1,413,466              | \$ 1,413,466      | \$ 1,840,719      | \$ 1,840,719 | \$ 2,280,049       | \$ 2,280,049 |
| Trading account securities            | 138,677                   | 138,677           | 83,657            | 83,657       | 121,366            | 121,366      |
| Loans held for sale                   | 744,439                   | 744,439           | 461,647           | 461,647      | 530,861            | 530,861      |
| Investment securities                 | 9,723,558                 | 9,723,558         | 8,587,914         | 8,587,914    | 8,503,150          | 8,503,150    |
| Net loans and direct financing leases | 36,164,235                | 34,894,220        | 35,308,184        | 32,598,423   | 36,272,123         | 31,424,545   |
| Derivatives                           | 434,288                   | 434,288           | 287,756           | 287,756      | 367,050            | 367,050      |

**Financial Liabilities:**

Edgar Filing: HUNTINGTON BANCSHARES INC/MD - Form 10-Q

|                                 |                     |                     |              |              |              |              |
|---------------------------------|---------------------|---------------------|--------------|--------------|--------------|--------------|
| Deposits                        | <b>(41,072,371)</b> | <b>(41,323,675)</b> | (40,493,927) | (40,753,365) | (39,829,057) | (40,151,292) |
| Short-term borrowings           | <b>(1,859,134)</b>  | <b>(1,854,637)</b>  | (876,241)    | (857,254)    | (852,076)    | (832,849)    |
| Federal Home Loan Bank advances | <b>(23,643)</b>     | <b>(23,643)</b>     | (168,977)    | (168,977)    | (920,045)    | (920,045)    |
| Other long term debt            | <b>(2,393,071)</b>  | <b>(2,400,942)</b>  | (2,369,491)  | (2,332,300)  | (2,434,858)  | (2,391,241)  |
| Subordinated notes              | <b>(1,202,568)</b>  | <b>(1,047,875)</b>  | (1,264,202)  | (989,989)    | (1,674,054)  | (1,224,506)  |
| Derivatives                     | <b>(306,803)</b>    | <b>(306,803)</b>    | (238,947)    | (238,947)    | (238,733)    | (238,733)    |

The short-term nature of certain assets and liabilities result in their carrying value approximating fair value. These include trading account securities, customers' acceptance liabilities, short-term borrowings, bank acceptances outstanding, Federal Home Loan Bank Advances and cash and short-term assets, which include cash and due from banks, interest-bearing deposits in banks, and federal funds sold and securities purchased under resale agreements. Loan commitments and letters of credit generally have short-term, variable-rate features and contain clauses that limit Huntington's exposure to changes in customer credit quality. Accordingly, their carrying values, which are immaterial at the respective balance sheet dates, are reasonable estimates of fair value. Not all the financial instruments listed in the table above are subject to the disclosure provisions of ASC 820.

**Table of Contents**

Certain assets, the most significant being operating lease assets, bank owned life insurance, and premises and equipment, do not meet the definition of a financial instrument and are excluded from this disclosure. Similarly, mortgage and non-mortgage servicing rights, deposit base, and other customer relationship intangibles are not considered financial instruments and are not included above. Accordingly, this fair value information is not intended to, and does not, represent Huntington's underlying value. Many of the assets and liabilities subject to the disclosure requirements are not actively traded, requiring fair values to be estimated by management. These estimations necessarily involve the use of judgment about a wide variety of factors, including but not limited to, relevancy of market prices of comparable instruments, expected future cash flows, and appropriate discount rates.

The following methods and assumptions were used by Huntington to estimate the fair value of the remaining classes of financial instruments:

*Loans and Direct Financing Leases*

Variable-rate loans that reprice frequently are based on carrying amounts, as adjusted for estimated credit losses. The fair values for other loans and leases are estimated using discounted cash flow analyses and employ interest rates currently being offered for loans and leases with similar terms. The rates take into account the position of the yield curve, as well as an adjustment for prepayment risk, operating costs, and profit. This value is also reduced by an estimate of probable losses and the credit risk associated in the loan and lease portfolio. The valuation of the loan portfolio reflected discounts that Huntington believed are consistent with transactions occurring in the market place.

*Deposits*

Demand deposits, savings accounts, and money market deposits are, by definition, equal to the amount payable on demand. The fair values of fixed-rate time deposits are estimated by discounting cash flows using interest rates currently being offered on certificates with similar maturities.

*Debt*

Fixed-rate, long-term debt is based upon quoted market prices, which are inclusive of Huntington's credit risk. In the absence of quoted market prices, discounted cash flows using market rates for similar debt with the same maturities are used in the determination of fair value.

**14. DERIVATIVE FINANCIAL INSTRUMENTS**

Derivative financial instruments are recorded as either other assets or other liabilities, respectively and measured at fair value.

**Derivatives used in Asset and Liability Management Activities**

A variety of derivative financial instruments, principally interest rate swaps, are used in asset and liability management activities to protect against the risk of adverse price or interest rate movements. These instruments provide flexibility in adjusting Huntington's sensitivity to changes in interest rates without exposure to loss of principal and higher funding requirements. Huntington records derivatives at fair value, as further described in Note 13.

Collateral agreements are regularly entered into as part of the underlying derivative agreements with Huntington's counterparties to mitigate counter party credit risk. At September 30, 2010, December 31, 2009 and September 30, 2009, aggregate credit risk associated with these derivatives, net of collateral that has been pledged by the counterparty, was \$45.2 million, \$20.3 million and \$50.4 million, respectively. The credit risk associated with interest rate swaps is calculated after considering master netting agreements.

At September 30, 2010, Huntington pledged \$253.9 million of investment securities and cash collateral to various counterparties, while various other counterparties pledged \$145.2 million of investment securities and cash collateral to Huntington to satisfy collateral netting agreements. In the event of credit downgrades, Huntington would be required to provide \$1.0 million of additional collateral.

**Table of Contents**

The following table presents the gross notional values of derivatives used in Huntington's asset and liability management activities at September 30, 2010, identified by the underlying interest rate-sensitive instruments:

| <i>(in thousands)</i>                             | <b>Fair Value<br/>Hedges</b> | <b>Cash Flow<br/>Hedges</b> | <b>Total</b>         |
|---|------------------------------|-----------------------------|----------------------|
| Instruments associated with:                      |                              |                             |                      |
| Loans   | \$                           | \$ 9,237,500                | \$ 9,237,500         |
| Deposits  | 1,825,264                    |                             | 1,825,264            |
| Subordinated notes                                | 298,000                      |                             | 298,000              |
| Other long-term debt                              | 35,000                       |                             | 35,000               |
| <b>Total notional value at September 30, 2010</b> | <b>\$ 2,158,264</b>          | <b>\$ 9,237,500</b>         | <b>\$ 11,395,764</b> |

The following table presents additional information about the interest rate swaps used in Huntington's asset and liability management activities at September 30, 2010:

| <i>(in thousands)</i>                            | <b>Notional<br/>Value</b> | <b>Average<br/>Maturity<br/>(years)</b> | <b>Fair<br/>Value</b> | <b>Weighted-Average<br/>Rate</b> |              |
|--|---------------------------|---|-----------------------|----------------------------------|--------------|
|  |                           |   |                       | <b>Receive</b>                   | <b>Pay</b>   |
| Asset conversion swaps                           |                           |   |                       |                                  |              |
| Asset conversion swaps receive fixed generic     | \$ 9,237,500              | 1.8                                     | \$ 111,906            | 1.61%                            | 0.69%        |
| Liability conversion swaps receive fixed generic | 2,158,264                 | 2.5                                     | 78,139                | 1.79                             | 0.39         |
| <b>Total swap portfolio</b>                      | <b>\$ 11,395,764</b>      | <b>1.9</b>                              | <b>\$ 190,045</b>     | <b>1.64%</b>                     | <b>0.64%</b> |

These derivative financial instruments were entered into for the purpose of managing the interest rate risk of assets and liabilities. Consequently, net amounts receivable or payable on contracts hedging either interest earning assets or interest bearing liabilities were accrued as an adjustment to either interest income or interest expense. The net amounts resulted in an increase to net interest income of \$43.9 million, and \$48.1 million for the three month period ended September 30, 2010, and 2009, respectively. For the nine month periods ended September 30, 2010 and 2009, the net amounts resulted in an increase to net interest income of \$150.3 million and \$121.6 million, respectively.

In connection with securitization activities, Huntington purchased interest rate caps with a notional value totaling \$1.0 billion. These purchased caps were assigned to the securitization trust for the benefit of the security holders. Interest rate caps were also sold totaling \$1.0 billion outside the securitization structure. Both the purchased and sold caps are marked to market through income.

In connection with the sale of Huntington's class B Visa shares, Huntington entered into a swap agreement with the purchaser of the shares. The swap agreement adjusts for dilution in the conversion ratio of class B shares resulting from the Visa litigation. At September 30, 2010, the fair value of the swap liability of \$3.6 million is an estimate of the exposure liability based upon Huntington's assessment of the probability-weighted potential Visa litigation losses. The following table presents the fair values at September 30, 2010, December 31, 2009 and September 30, 2009 of Huntington's derivatives that are designated and not designated as hedging instruments. Amounts in the table below are presented gross without the impact of any net collateral arrangements.

**Asset derivatives included in accrued income and other assets**

| <i>(in thousands)</i> | <b>September<br/>30,<br/>2010</b> | <b>December<br/>31,<br/>2009</b> | <b>September<br/>30,<br/>2009</b> |
|-----------------------|-----------------------------------|----------------------------------|-----------------------------------|
|                       |                                   |                                  |                                   |

Edgar Filing: HUNTINGTON BANCSHARES INC/MD - Form 10-Q

|   |                   |                   |                   |
|---|-------------------|-------------------|-------------------|
| Interest rate contracts designated as hedging instruments     | \$ 190,045        | \$ 85,984         | \$ 176,756        |
| Interest rate contracts not designated as hedging instruments | 357,739           | 255,692           | 320,769           |
| <b>Total contracts</b>  | <b>\$ 547,784</b> | <b>\$ 341,676</b> | <b>\$ 497,525</b> |

**Liability derivatives included in accrued expenses and other liabilities**

|  | <b>September<br/>30,<br/>2010</b> | December<br>31,<br>2009 | September<br>30,<br>2009 |
|--|-----------------------------------|-------------------------|--------------------------|
| <i>(in thousands)</i>  |                                   |                         |                          |
| Interest rate contracts designated as hedging instruments        | \$                                | \$ 3,464                | \$                       |
| Interest rate contracts not designated as hedging instruments    | 297,380                           | 234,026                 | 268,212                  |
| Foreign exchange contracts not designated as hedging instruments | 2,440                             |                         |                          |
| <b>Total contracts</b>   | <b>\$ 299,820</b>                 | <b>\$ 237,490</b>       | <b>\$ 268,212</b>        |

**Table of Contents**

Fair value hedges are purchased to convert deposits and subordinated and other long term debt from fixed rate obligations to floating rate. The changes in fair value of the derivative are, to the extent that the hedging relationship is effective, recorded through earnings and offset against changes in the fair value of the hedged item.

The following table presents the increase or (decrease) to interest expense for the three months and nine month periods ended September 30, 2010 and 2009 for derivatives designated as fair value hedges:

| <b>Derivatives in fair value hedging relationships</b><br><i>(in thousands)</i> | <b>Location of change in fair value recognized in earnings on derivative</b> | <b>Three Months Ended</b> |                   | <b>Nine Months Ended</b>  |                    |
|---|--|---------------------------|-------------------|---------------------------|--------------------|
|   |  | <b>September 30, 2010</b> | <b>2009</b>       | <b>September 30, 2010</b> | <b>2009</b>        |
| <b>Interest Rate Contracts</b>  |  |                           |                   |                           |                    |
| Deposits  | Interest expense deposits  | \$ (2,031)                | \$ (1,771)        | \$ (3,631)                | \$ (2,874)         |
| Subordinated notes  | Interest expense subordinated notes and other long term debt                 | (3,846)                   | (8,092)           | (12,136)                  | (21,743)           |
| Other long term debt  | Interest expense subordinated notes and other long term debt                 | (354)                     | (91)              | (985)                     | 745                |
| <b>Total</b>  |  | <b>\$ (6,231)</b>         | <b>\$ (9,954)</b> | <b>\$ (16,752)</b>        | <b>\$ (23,872)</b> |

For cash flow hedges, interest rate swap contracts were entered into that pay fixed-rate interest in exchange for the receipt of variable-rate interest without the exchange of the contract's underlying notional amount, which effectively converts a portion of its floating-rate debt to fixed-rate. This reduces the potentially adverse impact of increases in interest rates on future interest expense. Other LIBOR-based commercial and industrial loans were effectively converted to fixed-rate by entering into contracts that swap certain variable-rate interest payments for fixed-rate interest payments at designated times.

To the extent these derivatives are effective in offsetting the variability of the hedged cash flows, changes in the derivatives' fair value will not be included in current earnings but are reported as a component of accumulated other comprehensive income in shareholders' equity. These changes in fair value will be included in earnings of future periods when earnings are also affected by the changes in the hedged cash flows. To the extent these derivatives are not effective, changes in their fair values are immediately included in interest income.

The following table presents the gains and (losses) recognized in other comprehensive income (loss) (OCI) and the location in the consolidated statements of income of gains and (losses) reclassified from OCI into earnings for the nine month periods ended September 30, 2010 and 2009 for derivatives designated as effective cash flow hedges:

| <b>Derivatives in cash flow hedging relationships</b><br><i>(in thousands)</i> | <b>Amount of gain or (loss) recognized in OCI on derivatives (effective portion)</b> |             | <b>Location of gain or (loss) reclassified from accumulated OCI into earnings (effective portion)</b> | <b>Amount of (gain) or loss reclassified from accumulated OCI into earnings (effective portion)</b> |             |
|--|--|-------------|---|---|-------------|
|  | <b>2010</b>  | <b>2009</b> |   | <b>2010</b>   | <b>2009</b> |
| <b>Interest rate contracts</b>   |  |             |   |   |             |
| Loans  | \$ 81,517  | \$ (977)    | Interest and fee income loans and leases  | \$ (100,623)  | \$ 1,168    |
| FHLB Advances  |  | 1,338       | Interest expense other borrowings   | 2,580   | 5,374       |
| Deposits   |  | 326         | Interest expense deposits   |   | 4,153       |
| Subordinated notes   |  | 101         | Interest expense other borrowings   | (1,264)   | (2,179)     |
| Other long term debt   |  |             | Interest expense other borrowings   |   | (378)       |





**Table of Contents**

The following table details the gains and (losses) recognized in noninterest income on the ineffective portion on interest rate contracts for derivatives designated as fair value and cash flow hedges for the three months and nine month periods ended September 30, 2010, and 2009.

| <i>(in thousands)</i>                                  | <b>Three Months Ended</b> |             | <b>Nine Months Ended</b> |             |
|--|---------------------------|-------------|--------------------------|-------------|
|  | <b>September 30,</b>      |             | <b>September 30,</b>     |             |
|  | <b>2010</b>               | <b>2009</b> | <b>2010</b>              | <b>2009</b> |
| <b>Derivatives in fair value hedging relationships</b> |                           |             |                          |             |
| <b>Interest rate contracts</b>                         |                           |             |                          |             |
| Deposits   | \$ (875)                  | \$ 8,566    | \$ (306)                 | \$ 8,969    |
| <b>Derivatives in cash flow hedging relationships</b>  |                           |             |                          |             |
| <b>Interest rate contracts</b>                         |                           |             |                          |             |
| Loans  | 89                        | 14,280      | 663                      | 12,101      |
| FHLB Advances  |                           |             |                          | (792)       |

**Derivatives used in trading activities**

Various derivative financial instruments are offered to enable customers to meet their financing and investing objectives and for their risk management purposes. Derivative financial instruments used in trading activities consisted predominantly of interest rate swaps, but also included interest rate caps, floors, and futures, as well as foreign exchange options. Interest rate options grant the option holder the right to buy or sell an underlying financial instrument for a predetermined price before the contract expires. Interest rate futures are commitments to either purchase or sell a financial instrument at a future date for a specified price or yield and may be settled in cash or through delivery of the underlying financial instrument. Interest rate caps and floors are option-based contracts that entitle the buyer to receive cash payments based on the difference between a designated reference rate and a strike price, applied to a notional amount. Written options, primarily caps, expose Huntington to market risk but not credit risk. Purchased options contain both credit and market risk. The interest rate risk of these customer derivatives is mitigated by entering into similar derivatives having offsetting terms with other counterparties. The credit risk to these customers is evaluated and included in the calculation of fair value.

The net fair values of these derivative financial instruments, for which the gross amounts are included in other assets or other liabilities at September 30, 2010, December 31, 2009, and September 30, 2009 were \$38.8 million, \$45.1 million and \$49.7 million, respectively. Changes in fair value of \$3.8 million and \$2.2 million for the three month period ended September 30, 2010 and 2009, respectively, and \$10.2 million and \$8.6 million for the nine month periods ended September 30, 2010 and 2009, respectively, were reflected in other noninterest income. The total notional values of derivative financial instruments used by Huntington on behalf of customers, including offsetting derivatives, were \$9.4 billion, \$9.6 billion and \$9.7 billion at September 30, 2010, December 31, 2009, and September 30, 2009, respectively. Huntington's credit risks from interest rate swaps used for trading purposes were \$357.7 million, \$255.7 million and \$320.8 million at the same dates, respectively.

**Derivatives used in mortgage banking activities**

Huntington also uses certain derivative financial instruments to offset changes in value of its residential mortgage servicing assets. These derivatives consist primarily of forward interest rate agreements and forward mortgage securities. The derivative instruments used are not designated as hedges. Accordingly, such derivatives are recorded at fair value with changes in fair value reflected in mortgage banking income. The following table summarizes the derivative assets and liabilities used in mortgage banking activities:

| <i>(in thousands)</i>         | <b>September</b> | <b>December</b> | <b>September</b> |
|-------------------------------|------------------|-----------------|------------------|
|                               | <b>30,</b>       | <b>31,</b>      | <b>30,</b>       |
|                               | <b>2010</b>      | <b>2009</b>     | <b>2009</b>      |
| <b>Derivative assets:</b>     |                  |                 |                  |
| Interest rate lock agreements | \$ 11,745        | \$ 995          | \$ 5,740         |
| Forward trades and options    | 980              | 7,711           | 41               |

|   |                 |                 |                   |
|---|-----------------|-----------------|-------------------|
| <b>Total derivative assets</b>          | <b>12,725</b>   | 8,706           | 5,781             |
| Derivative liabilities:                 |                 |                 |                   |
| Interest rate lock agreements           | <b>(379)</b>    | (1,338)         | (148)             |
| Forward trades and options              | <b>(6,604)</b>  | (119)           | (10,083)          |
| <b>Total derivative liabilities</b>     | <b>(6,983)</b>  | (1,457)         | (10,231)          |
| <b>Net derivative asset (liability)</b> | <b>\$ 5,742</b> | <b>\$ 7,249</b> | <b>\$ (4,450)</b> |

**Table of Contents**

The total notional value of these derivative financial instruments at September 30, 2010, December 31, 2009 and September 30, 2009, was \$2.8 billion, \$3.7 billion, and \$4.7 billion, respectively. The total notional amount at September 30, 2010 corresponds to trading assets with a fair value of \$13.8 million. Total MSR hedging gains and (losses) for the three month period ended September 30, 2010, and 2009, were \$24.3 million, and \$16.1 million, respectively, and \$82.5 million, and (\$24.7) million for the nine month periods ended September 30, 2010, and 2009, respectively. Included in total MSR hedging gains and losses for the three month period ended September 30, 2010, and 2009 were gains and (losses) related to derivative instruments of \$24.2 million, and \$15.7 million, respectively, and \$81.9 million, and (\$28.0) million for the nine month periods ended September 30, 2010, and 2009, respectively. These amounts are included in mortgage banking income in the condensed consolidated statements of income.

**15. VARIABLE INTEREST ENTITIES****Consolidated Variable Interest Entities**

Consolidated variable interest entities at September 30, 2010, consisted of the Franklin 2009 Trust (See Note 3) and certain loan securitization trusts. Loan securitizations include automobile loan and lease securitization trusts formed in 2009, 2008, 2006, and 2000. Huntington has determined the trusts are variable interest entities (VIEs). Through Huntington's continuing involvement in the trusts (including ownership of beneficial interests and certain servicing or collateral management activities), Huntington is the primary beneficiary.

With the adoption of amended accounting guidance for VIEs, Huntington consolidated the 2009 Trust containing automobile loans on January 1, 2010. Huntington has elected the fair value option under ASC 825, Financial Instruments, for both the automobile loans and the related debt obligations. Upon adoption of the new accounting standard, total assets increased \$621.6 million, total liabilities increased \$629.3 million, and a negative cumulative effect adjustment to other comprehensive income and retained earnings of \$7.7 million was recorded.

The carrying amount and classification of the trusts' assets and liabilities included in the consolidated balance sheet are as follows:

|  | <b>September 30, 2010</b> |               |            |              |               | <b>Total</b>        |
|--|---------------------------|---------------|------------|--------------|---------------|---------------------|
|  | Franklin<br>2009<br>Trust | 2009<br>Trust | 2008 Trust | 2006 Trust   | 2000<br>Trust |                     |
| <i>(in thousands)</i>                  |                           |               |            |              |               |                     |
| <b>Assets</b>                          |                           |               |            |              |               |                     |
| Cash                                   | \$                        | \$ 23,134     | \$ 22,322  | \$ 224,378   | \$ 1,483      | \$ <b>271,317</b>   |
| Loans and leases                       |                           | 590,223       | 348,797    | 1,242,156    |               | <b>2,181,176</b>    |
| Allowance for loan and lease losses    |                           |               | (2,790)    | (9,937)      |               | <b>(12,727)</b>     |
| Net loans and leases                   |                           | 590,223       | 346,007    | 1,232,219    |               | <b>2,168,449</b>    |
| Accrued income and other assets        | 47,091                    | 2,595         | 1,695      | 5,266        |               | <b>56,647</b>       |
| Total assets                           | \$ 47,091                 | \$ 615,952    | \$ 370,024 | \$ 1,461,863 | \$ 1,483      | \$ <b>2,496,413</b> |
| <b>Liabilities</b>                     |                           |               |            |              |               |                     |
| Other long-term debt                   | \$ 10,019                 | \$ 422,294    | \$ 204,804 | \$ 1,065,031 |               | \$ <b>1,702,148</b> |
| Accrued interest and other liabilities | 8,957                     | 805           | 414        | 13,370       |               | <b>23,546</b>       |
| Total liabilities                      | \$ 18,976                 | \$ 423,099    | \$ 205,218 | \$ 1,078,401 |               | \$ <b>1,725,694</b> |

The automobile loans and leases were designated to repay the securitized notes. Huntington services the loans and leases and uses the proceeds from principal and interest payments to pay the securitized notes during the amortization

period. Huntington has not provided financial or other support that was not previously contractually required.

**Table of Contents****Trust Preferred Securities**

Huntington has certain wholly-owned trusts that are not consolidated. The trusts have been formed for the sole purpose of issuing trust preferred securities, from which the proceeds are then invested in Huntington junior subordinated debentures, which are reflected in Huntington's condensed consolidated balance sheet as subordinated notes. The trust securities are the obligations of the trusts and are not consolidated within Huntington's balance sheet. A list of trust preferred securities outstanding at September 30, 2010 follows:

| <i>(in thousands)</i>           | <b>Rate</b> | <b>Principal amount of<br/>subordinated note/<br/>debenture issued to trust<br/>(1)</b> | <b>Investment in<br/>unconsolidated<br/>subsidiary (2)</b> |
|---------------------------------|-------------|---|--|
| Huntington Capital I            | 1.17%(3)    | \$ 138,816  | \$ 6,186   |
| Huntington Capital II           | 0.92(4)     | 60,093  | 3,093  |
| Huntington Capital III          | 6.69        | 114,065   | 10   |
| BancFirst Ohio Trust Preferred  | 8.54        | 23,261  | 619  |
| Sky Financial Capital Trust I   | 8.52(5)     | 64,544  | 1,856  |
| Sky Financial Capital Trust II  | 3.46(6)     | 30,929  | 929  |
| Sky Financial Capital Trust III | 1.27(7)     | 77,564  | 2,320  |
| Sky Financial Capital Trust IV  | 1.51(7)     | 77,565  | 2,320  |
| Prospect Trust I                | 3.78        | 6,186   | 186  |
| <b>Total</b>                    |             | <b>\$ 593,023</b>   | <b>\$ 17,519</b>   |

(1) Represents the principal amount of debentures issued to each trust, including unamortized original issue discount.

(2) Huntington's investment in the unconsolidated trusts represents the only risk of loss.

(3) Variable effective rate at September 30, 2010, based on three month LIBOR + 0.70.

- (4) Variable effective rate at September 30, 2010, based on three month LIBOR + 0.625.
- (5) Variable effective rate at September 30, 2010, based on three month LIBOR + 2.95.
- (6) Variable effective rate at September 30, 2010, based on three month LIBOR + 3.25.
- (7) Variable effective rate at September 30, 2010, based on three month LIBOR + 1.40.

Each issue of the junior subordinated debentures has an interest rate equal to the corresponding trust securities distribution rate. Huntington has the right to defer payment of interest on the debentures at any time, or from time to time for a period not exceeding five years, provided no extension period may extend beyond the stated maturity of the related debentures. During any such extension period, distributions to the trust securities will also be deferred and Huntington's ability to pay dividends on its common stock will be restricted. Periodic cash payments and payments upon liquidation or redemption with respect to trust securities are guaranteed by Huntington to the extent of funds held by the trusts. The guarantee ranks subordinate and junior in right of payment to all indebtedness of the company to the same extent as the junior subordinated debt. The guarantee does not place a limitation on the amount of additional indebtedness that may be incurred by Huntington.

#### **Low Income Housing Tax Credit Partnerships**

Huntington makes certain equity investments in various limited partnerships that sponsor affordable housing projects utilizing the Low Income Housing Tax Credit (LIHTC) pursuant to Section 42 of the Internal Revenue Code. The purpose of these investments is to achieve a satisfactory return on capital, to facilitate the sale of additional affordable housing product offerings, and to assist us in achieving goals associated with the Community Reinvestment Act. The primary activities of the limited partnerships include the identification, development, and operation of multi-family housing leased to qualifying residential tenants. Generally, these types of investments are funded through a combination of debt and equity.

Huntington does not own a majority of the limited partnership interests in these entities and is not the primary beneficiary. Huntington uses the equity method to account for the majority of its investments in these entities. These investments are included in accrued income and other assets. At September 30, 2010, December 31, 2009 and September 30, 2009, Huntington had commitments of \$269.4 million, \$285.3 million and \$274.2 million, respectively of which \$238.9 million, \$192.7 million and \$187.6 million, respectively were funded. The unfunded portion is included in accrued expenses and other liabilities.





**Table of Contents****16. COMMITMENTS AND CONTINGENT LIABILITIES****Commitments to extend credit**

In the ordinary course of business, Huntington makes various commitments to extend credit that are not reflected in the financial statements. The contractual amounts of these financial agreements at September 30, 2010, December 31, 2009 and September 30, 2009, were as follows:

| <i>(in millions)</i>                          | <b>September<br/>30,<br/>2010</b> | December<br>31,<br>2009 | September<br>30,<br>2009 |
|---|-----------------------------------|-------------------------|--------------------------|
| <b>Contract amount represents credit risk</b> |                                   |                         |                          |
| Commitments to extend credit                  |                                   |                         |                          |
| Commercial                                    | \$ 5,854                          | \$ 5,834                | \$ 6,055                 |
| Consumer                                      | 5,264                             | 5,028                   | 4,964                    |
| Commercial real estate                        | 644                               | 1,075                   | 1,177                    |
| Standby letters of credit                     | 477                               | 577                     | 624                      |

Commitments to extend credit generally have fixed expiration dates, are variable-rate, and contain clauses that permit Huntington to terminate or otherwise renegotiate the contracts in the event of a significant deterioration in the customer's credit quality. These arrangements normally require the payment of a fee by the customer, the pricing of which is based on prevailing market conditions, credit quality, probability of funding, and other relevant factors. Since many of these commitments are expected to expire without being drawn upon, the contract amounts are not necessarily indicative of future cash requirements. The interest rate risk arising from these financial instruments is insignificant as a result of their predominantly short-term, variable-rate nature.

Standby letters of credit are conditional commitments issued to guarantee the performance of a customer to a third party. These guarantees are primarily issued to support public and private borrowing arrangements, including commercial paper, bond financing, and similar transactions. Most of these arrangements mature within two years. The carrying amount of deferred revenue associated with these guarantees was \$2.0 million, \$2.8 million and \$3.0 million at September 30, 2010, December 31, 2009 and September 30, 2009, respectively.

Through the Company's credit process, Huntington monitors the credit risks of outstanding standby letters of credit. When it is probable that a standby letter of credit will be drawn and not repaid in full, losses are recognized in the provision for credit losses. At September 30, 2010, Huntington had \$0.5 billion of standby letters of credit outstanding, of which 72% were collateralized.

Huntington uses an internal loan grading system to assess an estimate of loss on its loan and lease portfolio. This same loan grading system is used to monitor credit risk associated with standby letters of credit. Under this risk rating system as of September 30, 2010, approximately \$61.3 million of the standby letters of credit were rated strong with sufficient asset quality, liquidity, and good debt capacity and coverage, approximately \$353.7 million were rated average with acceptable asset quality, liquidity, and modest debt capacity; and approximately \$62.3 million were rated substandard with negative financial trends, structural weaknesses, operating difficulties, and higher leverage.

Commercial letters of credit represent short-term, self-liquidating instruments that facilitate customer trade transactions and generally have maturities of no longer than 90 days. The goods or cargo being traded normally secures these instruments.

**Commitments to sell loans**

Huntington enters into forward contracts relating to its mortgage banking business to hedge the exposures from commitments to make new residential mortgage loans with existing customers and from mortgage loans classified as held for sale. At September 30, 2010, December 31, 2009 and September 30, 2009, Huntington had commitments to sell residential real estate loans of \$1,254.4 million, \$662.9 million and \$729.5 million, respectively. These contracts mature in less than one year.

**Income Taxes**

The Company and its subsidiaries file income tax return in the U.S. federal jurisdiction and various state, city and foreign jurisdictions. Federal income tax audits have been completed through 2005. Various state and other jurisdictions remain open to examination for tax years 2000 and forward.

Both the IRS and state tax officials from Ohio, Kentucky, and Illinois have proposed adjustments to the Company's previously filed tax returns. Management believes the tax positions taken by the Company related to such proposed adjustments were correct and supported by applicable statutes, regulations, and judicial authority, and intends to vigorously defend them. It is possible the ultimate resolution of the proposed adjustments, if unfavorable, may be material to the results of operations in the period it occurs. However, although no assurance can be given, the Company believes that the resolution of these examinations will not, individually or in the aggregate, have a material adverse impact on our consolidated financial position.

**Table of Contents**

Huntington accounts for uncertainties in income taxes in accordance with ASC 740, *Income Taxes*. At September 30, 2010, the Company had a net unrecognized tax benefit of \$22.8 million in income tax reserves related to tax positions. Due to the complexity of some of these uncertainties, the ultimate resolution may result in a payment that is materially different from our current estimate of the tax liabilities. However, any ultimate settlement is not expected to be material to the financial statements as a whole. The company recognizes interest and penalties on income tax assessments or income tax refunds in the financial statements as a component of its provision for income taxes. Huntington does not anticipate the total amount of unrecognized tax benefits to significantly change within the next 12 months.

**Health Care and Education Reconciliation Act of 2010 (HCER Act)**

On March 23, 2010, the HCER Act was signed into law. The HCER Act includes a provision to repeal the deduction for employer subsidies for retiree drug coverage under Medicare Part D. Under prior law, an employer offering retiree prescription drug coverage that is at least as valuable as Medicare Part D was entitled to a subsidy. Employers were able to deduct the entire cost of providing prescription drug coverage, even though a portion was offset by the subsidy. For taxable years beginning after December 31, 2012, the HCER Act repeals the current rule permitting the deduction of the portion of the expense that was offset by the Part D subsidy. As a result of this provision, the deferred tax asset associated with prescription drug coverage was reduced by \$3.6 million.

**Litigation**

Between December 19, 2007 and February 1, 2008, two putative class actions were filed in the United States District Court for the Southern District of Ohio, Eastern Division, against Huntington and certain of its current or former officers and directors purportedly on behalf of purchasers of Huntington securities during the periods July 20, 2007 to November 16, 2007, or July 20, 2007 to January 10, 2008. On June 5, 2008, the two cases were consolidated into a single action. On August 22, 2008, a consolidated complaint was filed asserting a class period of July 19, 2007 through November 16, 2007, alleging the defendants violated Section 10(b) of the Securities Exchange Act of 1934, as amended (the Exchange Act), and Rule 10b-5 promulgated thereunder, and Section 20(a) of the Exchange Act by issuing a series of allegedly false and/or misleading statements concerning Huntington's financial results, prospects, and condition, relating, in particular, to its transactions with Franklin. The action was dismissed on December 4, 2009, and the plaintiffs thereafter filed a Notice of Appeal to the United States Court of Appeals for the Sixth Circuit. On April 22, 2010 the plaintiffs dismissed their appeal with prejudice.

Three putative derivative lawsuits were filed in the Court of Common Pleas of Delaware County, Ohio, the United States District Court for the Southern District of Ohio, Eastern Division, and the Court of Common Pleas of Franklin County, Ohio, between January 16, 2008, and April 17, 2008, against certain of Huntington's current or former officers and directors variously seeking to allege breaches of fiduciary duty, waste of corporate assets, abuse of control, gross mismanagement, and unjust enrichment, all in connection with Huntington's acquisition of Sky Financial, certain transactions between Huntington and Franklin, and the financial disclosures relating to such transactions. Huntington is named as a nominal defendant in each of these actions. The derivative action filed in the United States District Court for the Southern District of Ohio was dismissed on September 23, 2009. The plaintiff in that action thereafter filed a Notice of Appeal to the United States Court of Appeals for the Sixth Circuit, but the appeal was dismissed at the plaintiff's request on January 12, 2010. That plaintiff subsequently sent a letter to Huntington's Board of Directors demanding that it initiate certain litigation. The Board has appointed a special independent committee to review and investigate the allegations made in the letter, and based upon that investigation, to recommend to the Board what actions, if any, should be taken. The Court of Common Pleas of Franklin County, Ohio granted the defendant's motion to dismiss the derivative lawsuit pending in that court. On October 8, 2010, an agreed order to dismiss the derivative suit was entered in the Court of Common Pleas of Delaware County, Ohio. At this stage of the proceedings, it is not possible for management to assess the probability of an adverse outcome, or reasonably estimate the amount of any potential loss.

Between February 20, 2008 and February 29, 2008, three putative class action lawsuits were filed in the United States District Court for the Southern District of Ohio, Eastern Division, against Huntington, the Huntington Bancshares Incorporated Pension Review Committee, the Huntington Investment and Tax Savings Plan (the Plan) Administrative Committee, and certain of the Company's officers and directors purportedly on behalf of participants in or

beneficiaries of the Plan between either July 1, 2007 or July 20, 2007 and the present. On May 14, 2008, the three cases were consolidated into a single action. On August 4, 2008, a consolidated complaint was filed asserting a class period of July 1, 2007 through the present, alleging breaches of fiduciary duties in violation of the Employee Retirement Income Security Act (ERISA) relating to Huntington stock being offered as an investment alternative for participants in the Plan and seeking money damages and equitable relief. On February 9, 2009, the court entered an order dismissing with prejudice the consolidated lawsuit in its entirety, and the plaintiffs thereafter filed a Notice of Appeal to the United States Court of Appeals for the Sixth Circuit. During the pendency of the appeal, the parties to the appeal commenced settlement discussions and have reached an agreement in principle to settle this litigation on a classwide basis for \$1,450,000, subject to the drafting of definitive settlement documentation and court approval. Because the settlement has not been finalized or approved, it is not possible for management to make further comment at this time.

**Table of Contents****17. PARENT COMPANY FINANCIAL STATEMENTS**

The parent company condensed financial statements, which include transactions with subsidiaries, are as follows.

| <b>Balance Sheets</b><br><i>(in thousands)</i>             | <b>September<br/>30,<br/>2010</b> | <b>December 31,<br/>2009</b> | <b>September 30,<br/>2009</b> |
|--|-----------------------------------|------------------------------|-------------------------------|
| <b>ASSETS</b>  |                                   |                              |                               |
| Cash and cash equivalents (1)                              | \$ 858,965                        | \$ 1,376,539                 | \$ 1,780,345                  |
| Due from The Huntington National Bank (2)                  | 953,074                           | 955,695                      | 540,741                       |
| Due from non-bank subsidiaries                             | 246,458                           | 273,317                      | 280,338                       |
| Investment in The Huntington National Bank                 | 3,524,432                         | 2,821,181                    | 3,157,018                     |
| Investment in non-bank subsidiaries                        | 813,788                           | 815,730                      | 859,202                       |
| Accrued interest receivable and other assets               | 167,712                           | 112,557                      | 194,654                       |
| <b>Total assets</b>  | <b>\$ 6,564,429</b>               | <b>\$ 6,355,019</b>          | <b>\$ 6,812,298</b>           |
| <b>LIABILITIES AND SHAREHOLDERS EQUITY</b>                 |                                   |                              |                               |
| Short-term borrowings                                      | \$ 687                            | \$ 1,291                     | \$ 1,290                      |
| Long-term borrowings                                       | 637,434                           | 637,434                      | 637,434                       |
| Dividends payable, accrued expenses, and other liabilities | 358,905                           | 380,292                      | 498,468                       |
| <b>Total liabilities</b>                                   | <b>997,026</b>                    | <b>1,019,017</b>             | <b>1,137,192</b>              |
| Shareholders' equity (3)                                   | 5,567,403                         | 5,336,002                    | 5,675,106                     |
| <b>Total liabilities and shareholders' equity</b>          | <b>\$ 6,564,429</b>               | <b>\$ 6,355,019</b>          | <b>\$ 6,812,298</b>           |

(1) Includes restricted cash of \$125,000

(2) Related to subordinated notes described in Note 7.

(3) See Huntington's Condensed Consolidated Statements of Changes in Shareholders' Equity.

| <b>Statements of Income</b><br><i>(in thousands)</i> | <b>Three Months Ended<br/>September 30,</b> |             | <b>Nine Months Ended<br/>September 30,</b> |             |
|--|---|-------------|--|-------------|
|  | <b>2010</b>                                 | <b>2009</b> | <b>2010</b>                                | <b>2009</b> |
| Income   |   |             |  |             |

Edgar Filing: HUNTINGTON BANCSHARES INC/MD - Form 10-Q

|   |                   |              |                   |                |
|---|-------------------|--------------|-------------------|----------------|
| Dividends from  |                   |              |                   |                |
| The Huntington National Bank  | \$                | \$           | \$                | \$             |
| Non-bank subsidiaries   | <b>15,000</b>     | 15,450       | <b>33,000</b>     | 24,700         |
| Interest from   |                   |              |                   |                |
| The Huntington National Bank  | <b>20,611</b>     | 11,841       | <b>62,351</b>     | 34,828         |
| Non-bank subsidiaries   | <b>2,873</b>      | 3,581        | <b>9,322</b>      | 11,872         |
| Other   | <b>461</b>        | 435          | <b>2,537</b>      | 68,004         |
| <b>Total income</b>   | <b>38,945</b>     | 31,307       | <b>107,210</b>    | 139,404        |
| Expense   |                   |              |                   |                |
| Personnel costs   | <b>9,751</b>      | 11,120       | <b>22,769</b>     | 13,835         |
| Interest on borrowings  | <b>6,028</b>      | 5,838        | <b>17,303</b>     | 23,755         |
| Other   | <b>11,416</b>     | 8,621        | <b>37,321</b>     | 21,148         |
| <b>Total expense</b>  | <b>27,195</b>     | 25,579       | <b>77,393</b>     | 58,738         |
| Income before income taxes and equity in undistributed net income of subsidiaries | <b>11,750</b>     | 5,728        | <b>29,817</b>     | 80,666         |
| Income taxes  | <b>(656)</b>      | (2,072)      | <b>15,088</b>     | 17,130         |
| Income before equity in undistributed net income of subsidiaries                  | <b>12,406</b>     | 7,800        | <b>14,729</b>     | 63,536         |
| Increase (decrease) in undistributed net income of:                               |                   |              |                   |                |
| The Huntington National Bank  | <b>95,156</b>     | (168,462)    | <b>196,214</b>    | (2,761,828)    |
| Non-bank subsidiaries   | <b>(6,616)</b>    | (5,528)      | <b>(21,496)</b>   | (26,200)       |
| <b>Net income (loss)</b>  | \$ <b>100,946</b> | \$ (166,190) | \$ <b>189,447</b> | \$ (2,724,492) |

**Table of Contents**

| <b>Statements of Cash Flows</b><br><i>(in thousands)</i>                         | <b>Nine Months Ended</b> |                               |
|--|--------------------------|-------------------------------|
|  | <b>2010</b>              | <b>September 30,<br/>2009</b> |
| Operating activities   |                          |                               |
| Net income (loss)  | \$ 189,447               | \$ (2,724,492)                |
| Adjustments to reconcile net income to net cash provided by operating activities |                          |                               |
| Equity in undistributed net income of subsidiaries                               | (192,718)                | 2,788,028                     |
| Depreciation and amortization  | 765                      | 3,204                         |
| Other, net   | (76,881)                 | (91,326)                      |
| <b>Net cash (used for) provided by operating activities</b>                      | <b>(79,387)</b>          | <b>(24,586)</b>               |
| Investing activities   |                          |                               |
| Repayments from subsidiaries   | (384,162)                | 369,861                       |
| Advances to subsidiaries   | 43,572                   | (591,640)                     |
| <b>Net cash used for investing activities</b>                                    | <b>(340,590)</b>         | <b>(221,779)</b>              |
| Financing activities   |                          |                               |
| Payment of borrowings  | (604)                    | (99,418)                      |
| Dividends paid on preferred stock  | (75,537)                 | (82,084)                      |
| Dividends paid on common stock   | (21,437)                 | (49,349)                      |
| Proceeds from issuance of common stock   |                          | 1,135,662                     |
| Other, net   | (19)                     | (157)                         |
| <b>Net cash (used for) provided by financing activities</b>                      | <b>(97,597)</b>          | <b>904,654</b>                |
| Change in cash and cash equivalents  | (517,574)                | 658,289                       |
| Cash and cash equivalents at beginning of period                                 | 1,376,539                | 1,122,056                     |
| <b>Cash and cash equivalents at end of period</b>                                | <b>\$ 858,965</b>        | <b>\$ 1,780,345</b>           |
| <b>Supplemental disclosure:</b>  |                          |                               |
| Interest paid  | \$ 17,303                | \$ 23,755                     |

**18. SEGMENT REPORTING**

Huntington operates as five distinct segments: Retail and Business Banking, Commercial Banking, Commercial Real Estate, Auto Finance and Dealer Services (AFDS), and the Private Financial Group (PFG). A sixth group includes the Treasury function and other unallocated assets, liabilities, revenue, and expense.

Segment results are determined based upon the Company's management reporting system, which assigns balance sheet and income statement items to each of the business segments. The process is designed around the Company's organizational and management structure and, accordingly, the results derived are not necessarily comparable with similar information published by other financial institutions. An overview of this system is provided below, along with a description of each segment and discussion of financial results.

**Retail and Business Banking:** This segment provides traditional banking products and services to consumer and small business customers located within the six states of Ohio, Michigan, Pennsylvania, Indiana, West Virginia, and Kentucky. It provides these services through a banking network of over 600 branches, and over 1,300 ATMs, along with internet and telephone banking channels. It also provides certain services on a limited basis outside of these six states, including mortgage banking. Retail products and services include home equity loans and lines of credit, first mortgage loans, direct installment loans, small business loans, personal and business deposit products, treasury management products, as well as sales of investment and insurance services. At September 30, 2010, Retail and Business Banking accounted for 39% and 71% of consolidated loans and leases and deposits, respectively.

**Commercial Banking:** This segment provides a variety of banking products and services to customers within the Company's primary banking markets who generally have larger credit exposures and sales revenues compared with its Retail and Business Banking customers. Commercial Banking products include commercial loans, international trade, cash management, leasing, interest rate protection products, capital market alternatives, 401(k) plans, and mezzanine investment capabilities. The Commercial Banking team also serves customers that specialize in equipment leasing, as well as serves the commercial banking needs of government entities, not-for-profit organizations, and large corporations. Commercial bankers personally deliver these products and services by developing leads through community involvement, referrals from other professionals, and targeted prospect calling.



**Table of Contents**

**Commercial Real Estate:** This segment serves professional real estate developers or other customers with real estate project financing needs within the Company's primary banking markets. Commercial Real Estate products and services include CRE loans, cash management, interest rate protection products, and capital market alternatives. Commercial real estate bankers personally deliver these products and services by: (a) relationships with developers in the Company's footprint who are recognized as the most experienced, well-managed, and well-capitalized, and are capable of operating in all phases of the real estate cycle ( top-tier developers ), (b) leads through community involvement, and (c) referrals from other professionals.

**Auto Finance and Dealer Services (AFDS):** This segment provides a variety of banking products and services to approximately 2,300 automotive dealerships within the Company's primary banking markets, as well as Eastern Pennsylvania and five New England states. AFDS finances the purchase of automobiles by customers at the automotive dealerships; finances dealerships' new and used vehicle inventories, land, buildings, and other real estate owned by the dealership; finances dealership working capital needs; and provides other banking services to the automotive dealerships and their owners. Competition from the financing divisions of automobile manufacturers and from other financial institutions is intense. AFDS' production opportunities are directly impacted by the general automotive sales business, including programs initiated by manufacturers to enhance and increase sales directly. Huntington has been in this line of business for over 50 years.

**Private Financial Group (PFG):** This segment provides products and services designed to meet the needs of higher net worth customers. Revenue results from the sale of trust, asset management, investment advisory, brokerage, insurance, and private banking products and services including credit and lending activities. PFG also focuses on financial solutions for corporate and institutional customers that include investment banking, sales and trading of securities, and interest rate risk management products. To serve high net worth customers, we use a unique distribution model that employs a single, unified sales force to deliver products and services mainly through Retail and Business Banking distribution channels.

In addition to the Company's five business segments, the Treasury / Other group includes revenue and expense related to assets, liabilities, and equity that are not directly assigned or allocated to one of the five business segments. Assets in this group include investment securities and bank owned life insurance. Net interest income/(expense) includes the net impact of administering the Company's investment securities portfolios as part of overall liquidity management. A match-funded transfer pricing (FTP) system is used to attribute appropriate funding interest income and interest expense to other business segments. As such, net interest income includes the net impact of any over or under allocations arising from centralized management of interest rate risk. Furthermore, net interest income includes the net impact of derivatives used to hedge interest rate sensitivity. Non-interest income includes miscellaneous fee income not allocated to other business segments, including bank owned life insurance income. Fee income also includes asset revaluations not allocated to business segments, as well as any investment securities and trading assets gains or losses. The non-interest expense includes certain corporate administrative, merger costs, and other miscellaneous expenses not allocated to business segments. This group also includes any difference between the actual effective tax rate of Huntington and the statutory tax rate used to allocate income taxes to the other segments.

The management accounting process used to develop the business segment reporting utilized various estimates and allocation methodologies to measure the performance of the business segments. Huntington utilizes a full-allocation methodology, where all Treasury/Other expenses, except those related to servicing Franklin-related assets, reported Significant Items (excluding the goodwill impairment), and a small residual of other unallocated expenses, are allocated to the other five business segments.

Beginning in the 2010 fourth quarter, we intend to reorganize. The purpose of the reorganization is to better align certain business unit reporting to segment executives with more related business units, accelerating cross sell results. Our reorganization also addresses certain span of management opportunities allowing greater focus on execution of our strategic plans.

**Table of Contents**

Listed below is certain operating basis financial information reconciled to Huntington's 2010, and 2009 reported results by business segment:

| <b>Income Statements</b><br><i>(in thousands)</i> | Three Months Ended September 30, |                    |                        |                     |                  |                  |                      |                     |
|---|----------------------------------|--------------------|------------------------|---------------------|------------------|------------------|----------------------|---------------------|
|   | Retail & Business                |                    | Commercial Real Estate |                     | Former Regional  |                  | Treasury/ Huntington |                     |
|   | Banking                          | Commercial         | Estate                 | Banking             | AFDS             | PFG              | Other                | Consolidated        |
| <b>2010</b>                                       |                                  |                    |                        |                     |                  |                  |                      |                     |
| Net interest income                               | \$ 237,500                       | 59,487             | 43,775                 | \$ 340,762          | \$ 43,306        | 24,371           | 1,523                | \$ 409,962          |
| Provision for credit losses                       | (68,634)                         | (3,698)            | (32,433)               | (104,765)           | (5,089)          | (9,275)          | (31)                 | (119,160)           |
| Non interest income                               | 147,842                          | 25,999             | 4,432                  | 178,273             | 16,867           | 62,616           | 9,387                | 267,143             |
| Non interest expense                              | (261,951)                        | (42,212)           | (13,449)               | (317,612)           | (27,533)         | (72,601)         | (9,563)              | (427,309)           |
| Income taxes                                      | (19,165)                         | (13,852)           | (814)                  | (33,831)            | (9,643)          | (1,789)          | 15,573               | (29,690)            |
| <b>Operating/reported net income (loss)</b>       | <b>\$ 35,592</b>                 | <b>\$ 25,724</b>   | <b>\$ 1,511</b>        | <b>\$ 62,827</b>    | <b>\$ 17,908</b> | <b>\$ 3,322</b>  | <b>\$ 16,889</b>     | <b>\$ 100,946</b>   |
| <b>2009</b>                                       |                                  |                    |                        |                     |                  |                  |                      |                     |
| Net interest income                               | \$ 210,427                       | \$ 51,722          | 33,965                 | \$ 296,114          | \$ 33,438        | 19,493           | 13,774               | \$ 362,819          |
| Provision for credit losses                       | (116,699)                        | (92,010)           | (245,463)              | (454,172)           | (11,375)         | (9,035)          | (554)                | (475,136)           |
| Non-Interest income                               | 131,738                          | 23,828             | (591)                  | 154,975             | 17,247           | 58,938           | 24,892               | 256,052             |
| Non-Interest expense                              | (237,819)                        | (37,235)           | (9,826)                | (284,880)           | (27,340)         | (61,875)         | (27,002)             | (401,097)           |
| Income taxes                                      | 4,324                            | 18,793             | 77,671                 | 100,788             | (4,190)          | (2,632)          | (2,794)              | 91,172              |
| <b>Operating/reported net income (loss)</b>       | <b>\$ (8,029)</b>                | <b>\$ (34,902)</b> | <b>\$ (144,244)</b>    | <b>\$ (187,175)</b> | <b>\$ 7,780</b>  | <b>\$ 4,889</b>  | <b>\$ 8,316</b>      | <b>\$ (166,190)</b> |
| <b>Income Statements</b><br><i>(in thousands)</i> | Nine Months Ended September 30,  |                    |                        |                     |                  |                  |                      |                     |
|   | Retail & Business                |                    | Commercial Real Estate |                     | Former Regional  |                  | Treasury/ Huntington |                     |
|   | Banking                          | Commercial         | Estate                 | Banking             | AFDS             | PFG              | Other                | Consolidated        |
| <b>2010</b>                                       |                                  |                    |                        |                     |                  |                  |                      |                     |
| Net interest income                               | \$ 683,200                       | 169,338            | 123,362                | \$ 975,900          | \$ 126,607       | 70,420           | 30,584               | \$ 1,203,511        |
| Provision for credit losses                       | (190,508)                        | (57,295)           | (211,430)              | (459,233)           | 9,004            | (4,476)          | (92,869)             | (547,574)           |
| Non interest income                               | 409,993                          | 78,383             | 8,558                  | 496,934             | 49,929           | 191,858          | 38,917               | 777,638             |
| Non interest expense                              | (757,879)                        | (121,415)          | (33,984)               | (913,278)           | (82,568)         | (212,111)        | (31,256)             | (1,239,213)         |
| Income taxes                                      | (50,682)                         | (24,154)           | 39,723                 | (35,113)            | (36,040)         | (15,992)         | 82,230               | (4,915)             |
|   | <b>\$ 94,124</b>                 | <b>\$ 44,857</b>   | <b>\$ (73,771)</b>     | <b>\$ 65,210</b>    | <b>\$ 66,932</b> | <b>\$ 29,699</b> | <b>\$ 27,606</b>     | <b>\$ 189,447</b>   |

**Operating/reported  
net income (loss)****2009**

|   |            |             |              |                |            |           |             |                |
|---|------------|-------------|--------------|----------------|------------|-----------|-------------|----------------|
| Net interest income                                 | \$ 666,806 | 156,231     | 101,287      | \$ 924,324     | \$ 105,116 | \$ 57,274 | \$ (36,491) | \$ 1,050,223   |
| Provision for credit losses                         | (310,807)  | (207,667)   | (577,826)    | (1,096,300)    | (68,553)   | (27,019)  | 11,192      | (1,180,680)    |
| Non-Interest income                                 | 385,628    | 69,511      | 778          | 455,917        | 44,327     | 183,657   | 77,198      | 761,099        |
| Non-Interest expense, excluding goodwill impairment | (674,386)  | (104,461)   | (25,389)     | (804,236)      | (85,907)   | (177,310) | (36,451)    | (1,103,904)    |
| Goodwill impairment                                 |            |             |              | (2,573,818)(1) |            | (28,895)  | (4,231)     | (2,606,944)    |
| Income taxes  | (23,535)   | 30,235      | 175,402      | 182,102        | 1,756      | (2,697)   | 174,553     | 355,714        |
| Operating/reported net income (loss)                | \$ 43,706  | \$ (56,151) | \$ (325,748) | \$ (2,912,011) | \$ (3,261) | \$ 5,010  | \$ 185,770  | \$ (2,724,492) |

(1) Represents the 2009 first quarter goodwill impairment charge associated with the former Regional Banking segment.

The allocation of this amount to the new business segments was not practical.

**Table of Contents**

| <i>(in millions)</i>   | <b>September<br/>30,<br/>2010</b> | Assets at<br>December<br>31,<br>2009 | September<br>30,<br>2009 | <b>September<br/>30,<br/>2010</b> | Deposits at<br>December<br>31,<br>2009 | September<br>30,<br>2009 |
|------------------------|-----------------------------------|--------------------------------------|--------------------------|-----------------------------------|--|--------------------------|
| Retail & Business      |                                   |                                      |                          |                                   |  |                          |
| Banking                | \$ 17,099                         | \$ 16,565                            | \$ 17,604                | \$ 29,220                         | \$ 28,877                              | \$ 28,120                |
| Commercial Banking     | 7,819                             | 7,767                                | 8,281                    | 6,931                             | 6,031                                  | 6,241                    |
| Commercial Real Estate | 5,993                             | 7,426                                | 6,621                    | 637                               | 535                                    | 454                      |
| AFDS                   | 7,083                             | 5,142                                | 4,942                    | 103                               | 83                                     | 96                       |
| PFG                    | 3,430                             | 3,254                                | 3,403                    | 3,085                             | 3,409                                  | 2,954                    |
| Treasury / Other       | 11,823                            | 11,401                               | 11,662                   | 1,096                             | 1,559                                  | 1,964                    |
| <b>Total</b>           | <b>\$ 53,247</b>                  | <b>\$ 51,555</b>                     | <b>\$ 52,513</b>         | <b>\$ 41,072</b>                  | <b>\$ 40,494</b>                       | <b>\$ 39,829</b>         |

**Table of Contents**

**Item 3. Quantitative and Qualitative Disclosures about Market Risk**

Quantitative and qualitative disclosures for the current period can be found in the Market Risk section of this report, which includes changes in market risk exposures from disclosures presented in Huntington's 2009 Form 10-K.

**Item 4: Controls and Procedures**

**Disclosure Controls and Procedures**

Huntington maintains disclosure controls and procedures designed to ensure that the information required to be disclosed in the reports that it files or submits under the Securities Exchange Act of 1934, as amended, are recorded, processed, summarized, and reported within the time periods specified in the Commission's rules and forms.

Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in the reports that it files or submits under the Act is accumulated and communicated to the issuer's management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

Huntington's Management, with the participation of its Chief Executive Officer and the Chief Financial Officer, evaluated the effectiveness of Huntington's disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this report. Based upon such evaluation, Huntington's Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of such period, Huntington's disclosure controls and procedures were effective.

There have not been any significant changes in Huntington's internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the fiscal quarter to which this report relates that have materially affected, or are reasonably likely to materially affect, Huntington's internal control over financial reporting.

**PART II. OTHER INFORMATION**

In accordance with the instructions to Part II, the other specified items in this part have been omitted because they are not applicable or the information has been previously reported.

**Item 1. Legal Proceedings**

Information required by this item is set forth in Note 16 of the Notes to the Unaudited Condensed Consolidated Financial Statements included in Item 1 of this report and incorporated herein by reference.

**Item 1A. Risk Factors**

Information required by this item is set forth in Part 1 Item 2.- Management's Discussion and Analysis of Financial Condition and Results of Operations of this report and incorporated herein by reference.

**Table of Contents****Item 6. Exhibits****Exhibit Index**

This report incorporates by reference the documents listed below that we have previously filed with the SEC. The SEC allows us to incorporate by reference information in this document. The information incorporated by reference is considered to be a part of this document, except for any information that is superseded by information that is included directly in this document.

This information may be read and copied at the Public Reference Room of the SEC at 100 F Street, N.E., Washington, D.C. 20549. The SEC also maintains an Internet web site that contains reports, proxy statements, and other information about issuers, like us, who file electronically with the SEC. The address of the site is <http://www.sec.gov>. The reports and other information filed by us with the SEC are also available at our Internet web site. The address of the site is <http://www.huntington.com>. Except as specifically incorporated by reference into this Annual Report on Form 10-K, information on those web sites is not part of this report. You also should be able to inspect reports, proxy statements, and other information about us at the offices of the NASDAQ National Market at 33 Whitehall Street, New York, New York.

| <b>Exhibit Number</b> | <b>Document Description</b>   | <b>Report or Registration Statement</b>                          | <b>SEC File or Registration Number</b> | <b>Exhibit Reference</b> |
|-----------------------|---|--|--|--------------------------|
| 2.1                   | Agreement and Plan of Merger, dated December 20, 2006 by and among Huntington Bancshares Incorporated, Penguin Acquisition, LLC and Sky Financial Group, Inc. | Current Report on Form 8-K dated December 22, 2006.              | 000-02525                              | 2.1                      |
| 3.1                   | Articles of Restatement of Charter.   | Annual Report on Form 10-K for the year ended December 31, 1993. | 000-02525                              | 3(i)                     |
| 3.2                   | Articles of Amendment to Articles of Restatement of Charter.  | Current Report on Form 8-K dated May 31, 2007                    | 000-02525                              | 3.1                      |
| 3.3                   | Articles of Amendment to Articles of Restatement of Charter   | Current Report on Form 8-K dated May 7, 2008                     | 000-02525                              | 3.1                      |
| 3.4                   | Articles of Amendment to Articles of Restatement of Charter   | Current Report on Form 8-K dated April 27, 2010                  | 001-34073                              | 3.1                      |
| 3.5                   | Articles Supplementary of Huntington Bancshares Incorporated, as of April 22, 2008.   | Current Report on Form 8-K dated April 22, 2008                  | 000-02525                              | 3.1                      |
| 3.6                   | Articles Supplementary of Huntington Bancshares Incorporated, as of April 22, 2008.   | Current Report on Form 8-K dated April 22, 2008                  | 000-02525                              | 3.2                      |
| 3.7                   | Articles Supplementary of Huntington Bancshares Incorporated, as of November 12, 2008.  | Current Report on Form 8-K dated November 12, 2008               | 001-34073                              | 3.1                      |
| 3.8                   | Articles Supplementary of Huntington Bancshares Incorporated, as of December 31, 2006.  | Annual Report on Form 10-K for the year ended December 31, 2006  | 000-02525                              | 3.4                      |
| 3.9                   | Bylaws of Huntington Bancshares Incorporated, as amended and restated, as of April 22, 2010.  | Current Report on Form 8-K dated April 27, 2010.                 | 001-34073                              | 3.2                      |
| 4.1                   |   |  |  |                          |

Instruments defining the Rights of Security Holders reference is made to Articles Fifth, Eighth, and Tenth of Articles of Restatement of Charter, as amended and supplemented. Instruments defining the rights of holders of long-term debt will be furnished to the Securities and Exchange Commission upon request.

|       |   |  |           |      |
|-------|---|--|-----------|------|
| 10.1  | * Second amendment to the 2007 Stock and Long-Term Incentive Plan   | Definitive Proxy Statement for the 2010 Annual Meeting of Shareholders | 001-34073 | A    |
| 10.2  | * Form of Executive Agreement for certain executive officers  | Quarterly Report on Form 10-Q for the quarter ended March 30, 2010     | 001-34073 | 10.2 |
| 12.1  | Ratio of Earnings to Fixed Charges.   |  |           |      |
| 12.2  | Ratio of Earnings to Fixed Charges and Preferred Dividends.   |  |           |      |
| 31.1  | Rule 13a-14(a) Certification Chief Executive Officer.   |  |           |      |
| 31.2  | Rule 13a-14(a) Certification Chief Financial Officer.   |  |           |      |
| 32.1  | Section 1350 Certification Chief Executive Officer.   |  |           |      |
| 32.2  | Section 1350 Certification Chief Financial Officer.   |  |           |      |
| 101** | The following material from Huntington's Form 10-Q Report for the quarterly period ended June 30, 2010, formatted in XBRL: (i) Condensed Consolidated Balance Sheets, (ii) Condensed Consolidated Statements of Income, (iii) Condensed Consolidated Statement of Changes in Shareholders Equity, (iv) Condensed Consolidated Statements of Cash Flows, and (v) the Notes to Unaudited Condensed Consolidated Financial Statements, tagged as blocks of text. |  |           |      |

\* Denotes management contract or compensatory plan or arrangement.

\*\* Furnished, not filed.





**Table of Contents**

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Huntington Bancshares Incorporated  
(Registrant)

Date: October 29, 2010

/s/ Stephen D. Steinour  
Stephen D. Steinour  
Chairman, Chief Executive Officer and President

Date: October 29, 2010

/s/ Donald R. Kimble  
Donald R. Kimble  
Sr. Executive Vice President and Chief Financial  
Officer