HUNTINGTON BANCSHARES INC/MD
Form 10-Q
April 29, 2011

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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 March 31, 2011
Commission File Number 1-34073
Huntington Bancshares Incorporated

Maryland	**31-0724920**
(State or other jurisdiction of incorporation or organization)	(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. þ Yes o 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). þ Yes o 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 þ	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

There were 863,398,578 shares of Registrant s common stock ($0.01 par value) outstanding on March 31, 2011.

HUNTINGTON BANCSHARES INCORPORATED
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Glossary of Acronyms and Terms

The following listing provides a comprehensive reference of common acronyms and terms used throughout the document:

2010 Form 10-K	Annual Report on Form 10-K for the year ended December 31, 2010
ABL	Asset Based Lending
ACL	Allowance for Credit Losses
AFCRE	Automobile Finance and Commercial Real Estate
ALCO	Asset-Liability Management Committee
ALLL	Allowance for Loan and Lease Losses
ARM	Adjustable Rate Mortgage
ARRA	American Recovery and Reinvestment Act of 2009
ASC	Accounting Standards Codification
ATM	Automated Teller Machine
AULC	Allowance for Unfunded Loan Commitments
AVM	Automated Valuation Methodology
C&I	Commercial and Industrial
CDARS	Certificate of Deposit Account Registry Service
CDO	Collateralized Debt Obligations
CFPB	Bureau of Consumer Financial Protection
CMO	Collateralized Mortgage Obligations
CPP	Capital Purchase Program
CRE	Commercial Real Estate
DDA	Demand Deposit Account
DIF	Deposit Insurance Fund
Dodd-Frank Act	Dodd-Frank Wall Street Reform and Consumer Protection Act
EESA	Emergency Economic Stabilization Act of 2008
EPS	Earnings Per Share
ERISA	Employee Retirement Income Security Act
EVE	Economic Value of Equity
Fannie Mae	(see FNMA)
FASB	Financial Accounting Standards Board
FDIC	Federal Deposit Insurance Corporation
FDICIA	Federal Deposit Insurance Corporation Improvement Act of 1991
FFIEC	Federal Financial Institutions Examination Council
FHA	Federal Housing Administration
FHFA	Federal Housing Finance Agency
FHLB	Federal Home Loan Bank
FHLMC	Federal Home Loan Mortgage Corporation
FICA	Federal Insurance Contributions Act
FICO	Fair Isaac Corporation
FNMA	Federal National Mortgage Association
Franklin	Franklin Credit Management Corporation
Freddie Mac	(see FHLMC)
FSP	Financial Stability Plan
FTE	Fully-Taxable Equivalent
FTP	Funds Transfer Pricing

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GAAP	Generally Accepted Accounting Principles in the United States of America
GSE	Government Sponsored Enterprise
HASP	Homeowner Affordability and Stability Plan
HCER Act	Health Care and Education Reconciliation Act of 2010
IPO	Initial Public Offering
IRS	Internal Revenue Service
LIBOR	London Interbank Offered Rate
LTV	Loan to Value
MD&A	Management s Discussion and Analysis of Financial Condition and Results of Operations
MRC	Market Risk Committee
MSR	Mortgage Servicing Rights
NALs	Nonaccrual Loans
NAV	Net Asset Value
NCO	Net Charge-off
NPAs	Nonperforming Assets
NSF / OD	Nonsufficient Funds and Overdraft
OCC	Office of the Comptroller of the Currency
OCI	Other Comprehensive Income (Loss)
OCR	Optimal Customer Relationship
OLEM	Other Loans Especially Mentioned
OREO	Other Real Estate Owned
OTTI	Other-Than-Temporary Impairment
Plan	Huntington Bancshares Retirement Plan
Reg E	Regulation E, of the Electronic Fund Transfer Act
REIT	Real Estate Investment Trust
SAD	Special Assets Division
SBA	Small Business Administration
SEC	Securities and Exchange Commission
SERP	Supplemental Executive Retirement Plan
Sky Financial	Sky Financial Group, Inc.
SRIP	Supplemental Retirement Income Plan
Sky Trust	Sky Bank and Sky Trust, National Association
TAGP	Transaction Account Guarantee Program
TARP	Troubled Asset Relief Program
TARP Capital	Series B Preferred Stock
TCE	Tangible Common Equity
TDR	Troubled Debt Restructured Loan
TLGP	Temporary Liquidity Guarantee Program
Treasury	U.S. Department of the Treasury
UCS	Uniform Classification System
Unizan	Unizan Financial Corp.
USDA	U.S. Department of Agriculture
VA	U.S. Department of Veteran Affairs
VIE	Variable Interest Entity
WGH	Wealth Advisors, Government Finance, and Home Lending

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PART I. FINANCIAL INFORMATION

When we refer to we, our, and us in this report, we mean Huntington Bancshares Incorporated and our consolidated subsidiaries, unless the context indicates that we refer only to the parent company, Huntington Bancshares Incorporated. When we refer to the Bank in this report, we mean our only bank subsidiary, The Huntington National Bank, and its subsidiaries.

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

INTRODUCTION

We are a multi-state diversified regional bank holding company organized under Maryland law in 1966 and headquartered in Columbus, Ohio. Through the Bank, we have 145 years of servicing the financial needs of our customers. Through our subsidiaries, we provide full-service commercial and consumer banking services, mortgage banking services, automobile financing, equipment leasing, investment management, trust services, brokerage services, customized insurance service programs, and other financial products and services. Our over 600 banking offices are located in Indiana, Kentucky, Michigan, Ohio, Pennsylvania, and West Virginia. Selected financial services and other activities are also conducted in various other states. International banking services are available through the headquarters office in Columbus, Ohio and a limited purpose office located in the Cayman Islands and another limited purpose office located in Hong Kong. Our foreign banking activities, in total or with any individual country, are not significant.

This MD&A provides information we believe necessary for understanding our financial condition, changes in financial condition, results of operations, and cash flows. The MD&A included in our 2010 Form 10-K should be read in conjunction with this MD&A as this discussion provides only material updates to the 2010 Form 10-K. This MD&A should also be read in conjunction with 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, and business overview, including our thoughts on the impact of the economy, legislative and regulatory initiatives, and recent industry developments. This section also provides our outlook regarding our expectations for the remainder of 2011.
- **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, operational, and compliance 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 forward-looking statements, critical accounting policies and use of significant estimates, recent accounting pronouncements and developments, and acquisitions.

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

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EXECUTIVE OVERVIEW

Summary of 2011 First Quarter Results

For the quarter, we reported net income of $126.4 million, or $0.14 per common share, compared with $122.9 million, or $0.05 per common share, in the prior quarter (*see Table 1*). The 2010 fourth quarter included a nonrecurring reduction of $0.07 per common share for the deemed dividend resulting from the repurchase of $1.4 billion in TARP Capital.

Fully-taxable equivalent net interest income was $408.3 million for the quarter, down $10.7 million, or 3%, from the 2010 fourth quarter. The decline primarily reflected the impact of fewer days and a decline in average investment securities. The fully-taxable equivalent net interest margin increased to 3.42% from 3.37%.

Total noninterest income declined $27.3 million, or 10%. This reflected a $30.5 million, or 57%, decline in mortgage banking income from the prior quarter primarily related to a 49% decline in mortgage originations. The anticipated decline was due to expected lower originations as mortgage interest rates increased late in the prior quarter. The decline was partially offset by a 5% increase in trust services income and a 21% increase in brokerage income.

Total noninterest expense declined $3.9 million, or 1%, reflecting declines in legal costs as collection activities declined, consulting expenses, OREO and foreclosure expense, and several other expense categories. Partially offsetting these declines were $17.0 million in additions to litigation reserves, seasonal increases in certain expenses, most notably personnel costs related to the annual FICA and other benefit expense resets, as well as annual merit increases for nonexecutives.

Credit quality performance in the current quarter continued to show significant improvement as NALs and criticized loans declined 18% and 13%, respectively. NCOs were $165.1 million, or an annualized 1.73% of average total loans and leases, down from $172.3 million, or 1.82%, in the 2010 fourth quarter. This helped drive a $37.6 million, or 43%, decline in the provision for credit losses. While the ACL as a percentage of loans and leases was 3.07%, down from 3.39% at December 31, 2010, the ACL as a percentage of NALs increased to 185% from 166%.

On January 19, 2011, we repurchased for $49.1 million the warrant to purchase 23.6 million common shares issued to the Treasury in connection with the CPP under the TARP. While the repurchase of this warrant had the positive effect of removing any possible future share dilutive impact, it negatively impacted our capital ratios. For example, the warrant repurchase negatively impacted our tangible common equity ratio by 9 basis points. Despite this impact, as a result of the first quarter s earnings, our March 31, 2011, capital ratios increased from the end of last year.

Business Overview

General

Our general business objectives are: (1) grow revenue and profitability, (2) grow key fee businesses (existing and new), (3) improve credit quality, including lower NCOs and NPAs, (4) improve cross-sell and share-of-wallet across all business segments, (5) reduce noncore CRE exposure, and (6) continue to improve our overall management of risk.

Throughout last year, and continuing into this year, we are taking advantage of what we view as an opportunity to make significant investments in strategic initiatives to position us for more profitable and sustainable long-term growth. This includes implementing our Fair Play banking philosophy value proposition for our customers, deepening product penetration, investing in expanding existing business, and launching new businesses.

This quarter, we are especially pleased with the increase in our net interest margin as this primarily reflected the benefit of continued growth in low cost noninterest-bearing demand deposits. These represent our most profitable deposits and the primary customer banking relationship. During the quarter, consumer checking account households grew at a 9% annualized rate, reflecting the traction we are gaining with customers in our markets as they increasingly embrace the benefits offered through our Fair Play banking philosophy with programs such as 24-Hour Grace on overdrafts.

Economy

Borrower and consumer confidence and the sustainability of the slow economic recovery remain major factors impacting growth opportunities for the rest of 2011. Some signs that our footprint states of Indiana, Kentucky, Michigan, Ohio, Pennsylvania, and West Virginia have been experiencing cyclical recovery in line with, and in certain instances stronger than, the national average over the past year include:

Increase in total payroll for all of our footprint states, with all but Indiana and West Virginia (two of our smaller regions) exceeding the national average.

Strong manufacturing growth providing a boost to the regional economy as evidenced by the first manufacturing payroll growth since the 1990 s.

Decline in unemployment rates for all of our footprint states, except West Virginia.
Combined exports from our footprint states have risen 51% between the recession low in January 2009 and February 2011.
With the exception of Michigan, the FHFA House Price Index in the Huntington footprint states declined by less than the national average during the recession and all footprint states outperformed the FHFA House Price Index during 2010. Overall regional vacancy rates have shown signs of stabilization along with the national vacancy rate in 2010.

Unfortunately, during the 2011 first quarter a number of issues have emerged that could negatively impact the recovery. These include the continued instability in the Middle East with its ramifications on the cost of oil translating to higher gas prices, and the crisis in Japan which could negatively impact the production of consumer goods and services, most notably the electronics and automobile sectors. In addition, above average office vacancy rates in large metropolitan areas indicate the possibility for some continued softness in commercial real estate in 2011. For now, we continue to believe that the economy will remain relatively stable throughout 2011, with the potential for improvement in the latter half.

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 Reg E relating to certain overdraft fees for consumer deposit accounts and the passage of the Dodd-Frank Act.

Durbin Amendment The Durbin Amendment to the Dodd-Frank Act instructed the Federal Reserve to establish the rate merchants pay banks for electronic clearing of debit card transactions (i.e., the interchange rate). Interchange fees accounted for about $90 million, or just over 80%, of our electronic banking income last year, our fourth largest fee income activity. In the fourth quarter, the Federal Reserve put out a proposal for comment that would cap the interchange rate at either $0.07 or $0.12 per transaction. While these rates are not finalized, if they stand, we estimate that between 75%-85% of our interchange income could be lost. The new rate is scheduled to take effect July 21, 2011.

Recent Industry Developments

Foreclosure Documentation We are continuing to evaluate our foreclosure process and procedures given the recent consent orders entered into by some of the largest servicers regarding their foreclosure activities. We have determined that there is no reason to conclude that foreclosures were filed that should not have been filed. We have identified and are implementing process and control enhancements to ensure that our foreclosure processes are in compliance with applicable laws and regulations. We are consulting with counsel as necessary with respect to requirements imposed on the largest servicers in the consent orders and by the courts in which foreclosure proceedings are pending, which could impact our foreclosure actions.

Representation and Warranty Reserve We primarily conduct our loan sale and securitization activity with FNMA and FHLMC. In connection with these and other sale and securitization transactions, we make certain representations and warranties that the loans meet certain criteria, such as collateral type and underwriting standards. In the future, we may be required to repurchase individual loans and / or indemnify these organizations against losses due to material breaches of these representations and warranties. At March 31, 2011, we have a reserve for such losses of $23.8 million, which is included in accrued expenses and other liabilities.

Mortgage Servicing Rights MSR fair values are estimated based on residential mortgage servicing revenue in excess of estimated market costs to service the underlying loans. Historically, the estimated market cost to service has been stable. Due to changes in the regulatory environment related to loan servicing and foreclosure activities, costs to service may potentially increase, however the potential impact on the market costs to service remains uncertain. Certain large residential mortgage loan servicers entered into consent orders with banking regulators in April 2011, which require the banks to remedy deficiencies and unsafe or unsound practices and to enhance residential mortgage servicing and foreclosure processes. It is unclear what impact this may ultimately have on market costs to service. At March 31, 2011, we estimated a 25% increase to our loan servicing market cost assumption would result in a fair value impairment charge of approximately $8 million.

Expectations

We are optimistic about our prospects for continued earnings growth for the rest of the year.

Net income is expected to grow from the current quarter level throughout the rest of the year as pretax, pre-provision income rebounds from the current quarter s level.

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We believe the momentum we are seeing in loan and deposit growth, coupled with a stable net interest margin, will contribute to growth in net interest income. Our C&I portfolio is expected to continue to show meaningful growth with much of this reflecting the positive impact from strategic initiatives to expand our commercial lending expertise into areas like specialty banking, asset based lending, and equipment financing, in addition to our long-standing continued support of small business lending. Growth in automobile loans is also expected to remain strong, aided by our recent expansion into new markets. Home equity and residential mortgages are likely to show only modest growth until there is more consumer confidence in the sustainability of the economic recovery. Our noncore CRE portfolio is expected to continue to decline, but likely at a slower rate.

We anticipate our core deposits will continue to grow, reflecting growth in consumer households and business relationships. Further, we expect the shift toward lower-cost noninterest-bearing demand deposit accounts will continue.

From a fee income perspective, first quarter results reflect for the most part the negative run rate impacts from the decline in mortgage banking income and deposit service charges. Mortgage banking income will likely show only modest, if any, growth throughout the rest of this year. Service charge income should begin to show modest growth later in this year as the benefits from our Fair Play banking philosophy continue to gain momentum commensurate with consumer household growth and increased product penetration.

Electronic banking income in the second half of the year could be negatively impacted by as much as $45 million if the Federal Reserve s currently proposed interchange fee structure is implemented July 21, 2011 as planned. There are some congressional movements to block or postpone the implementation, but any outcome is uncertain at this time.

We also expect to see continued growth in the earnings contribution from other key fee income activities including capital markets, treasury management services, and brokerage, reflecting the impact of our cross-sell and product penetration initiatives throughout the Company, as well as the positive impact from strategic initiatives.

Expense levels are expected to remain relatively stable with declines resulting from continued low credit costs and improved expense efficiencies, offset by continued investments in strategic initiatives.

Nonaccrual loans are expected to decline meaningfully throughout the year.

We anticipate an effective tax rate for the remainder of the year to approximate 35% of income before income taxes less approximately $60.0 million of permanent tax differences over the remainder of 2011 primarily related to tax-exempt income, tax-advantaged investments, and general business credits.

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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 Unaudited Condensed Consolidated Balance Sheet and Statement of Income 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.

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Table 1 Selected Quarterly Income Statement Data (1)

	2011	2010			
(dollar amounts in thousands, except per share amounts)	**First**	Fourth	Third	Second	First
Interest income	**$ 501,877**	$ 528,291	$ 534,669	$ 535,653	$ 546,779
Interest expense	**97,547**	112,997	124,707	135,997	152,886
Net interest income	**404,330**	415,294	409,962	399,656	393,893
Provision for credit losses	**49,385**	86,973	119,160	193,406	235,008
Net interest income after provision for credit losses	**354,945**	328,321	290,802	206,250	158,885
Service charges on deposit accounts	**54,324**	55,810	65,932	75,934	69,339
Mortgage banking income	**22,684**	53,169	52,045	45,530	25,038
Trust services income	**30,742**	29,394	26,997	28,399	27,765
Electronic banking income	**28,786**	28,900	28,090	28,107	25,137
Insurance income	**17,945**	19,678	19,801	18,074	18,860
Brokerage income	**20,511**	16,953	16,575	18,425	16,902
Bank owned life insurance income	**14,819**	16,113	14,091	14,392	16,470
Automobile operating lease income	**8,847**	10,463	11,356	11,842	12,303
Securities gains (losses)	**40**	(103)	(296)	156	(31)
Other income	**38,247**	33,843	32,552	28,784	29,069
Total noninterest income	**236,945**	264,220	267,143	269,643	240,852
Personnel costs	**219,028**	212,184	208,272	194,875	183,642
Outside data processing and other services	**40,282**	40,943	38,553	40,670	39,082
Net occupancy	**28,436**	26,670	26,718	25,388	29,086
Deposit and other insurance expense	**17,896**	23,320	23,406	26,067	24,755
Professional services	**13,465**	21,021	20,672	24,388	22,697
Equipment	**22,477**	22,060	21,651	21,585	20,624
Marketing	**16,895**	16,168	20,921	17,682	11,153
Amortization of intangibles	**13,370**	15,046	15,145	15,141	15,146
OREO and foreclosure expense	**3,931**	10,502	12,047	4,970	11,530
Automobile operating lease expense	**6,836**	8,142	9,159	9,667	10,066
Other expense	**48,083**	38,537	30,765	33,377	30,312
Total noninterest expense	**430,699**	434,593	427,309	413,810	398,093
Income before income taxes	**161,191**	157,948	130,636	62,083	1,644
Provision (benefit) for income taxes	**34,745**	35,048	29,690	13,319	(38,093)
Net income	**$ 126,446**	$ 122,900	$ 100,946	$ 48,764	$ 39,737
Dividends on preferred shares	**7,703**	83,754	29,495	29,426	29,357
Net income applicable to common shares	**$ 118,743**	$ 39,146	$ 71,451	$ 19,338	$ 10,380
Average common shares basic	**863,359**	757,924	716,911	716,580	716,320

Average common shares diluted[2]	**867,237**	760,582	719,567	719,387	718,593
Net income per common share basic	**$ 0.14**	$ 0.05	$ 0.10	$ 0.03	$ 0.01
Net income per common share diluted	**0.14**	0.05	0.10	0.03	0.01
Cash dividends declared per common share	**0.01**	0.01	0.01	0.01	0.01
Return on average total assets	**0.96%**	0.90%	0.76%	0.38%	0.31%
Return on average common shareholders equity	**10.3**	3.8	7.4	2.1	1.1
Return on average common tangible shareholders equity[3]	**12.7**	5.6	10.0	3.8	2.7
Net interest margin[4]	**3.42**	3.37	3.45	3.46	3.47
Efficiency ratio[5]	**64.7**	61.4	60.6	59.4	60.1
Effective tax rate	**21.6**	22.2	22.7	21.5	(2,317.1)
Revenue FTE					
Net interest income	**$ 404,330**	$ 415,294	$ 409,962	$ 399,656	$ 393,893
FTE adjustment	**3,945**	3,708	2,631	2,490	2,248
Net interest income[4]	**408,275**	419,002	412,593	402,146	396,141
Noninterest income	**236,945**	264,220	267,143	269,643	240,852
Total revenue[4]	**$ 645,220**	$ 683,222	$ 679,736	$ 671,789	$ 636,993

(1) Comparisons for presented periods are impacted by a number of factors. Refer to Significant Items for additional discussion regarding these key factors.

(2) For all periods presented, the impact of the convertible preferred stock issued in 2008 and the warrants issued to the U.S. Department of the Treasury in 2008 related to Huntington s participation in the voluntary Capital Purchase Program was excluded from the diluted share calculation because the result was more than basic earnings per common share (anti-dilutive) for the periods. The convertible preferred stock and warrants were repurchased in December 2010, and January 2011, respectively.

(3) 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.

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

(5) 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. 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, litigation actions, 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 provides a better understanding of 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.

Significant Items Influencing Financial Performance Comparisons

Earnings comparisons were impacted by the Significant Items summarized below.

1. **Litigation Reserve.** During the 2011 first quarter, $17.0 million of additions to litigation reserves were recorded as other noninterest expense. This resulted in a negative impact of $0.01 per common share.
2. **TARP Capital Purchase Program Repurchase.** During the 2010 fourth quarter, we issued $920.0 million of our common stock and $300.0 million of subordinated debt. The net proceeds, along with other available funds, were used to repurchase all $1.4 billion of TARP capital that we issued to the Treasury under its TARP CPP in 2008. As part of this transaction, there was a deemed dividend that did not impact net income, but resulted in a negative impact of $0.07 per common share for the 2010 fourth quarter.
3. **Franklin Relationship.** Our relationship with Franklin was acquired in the Sky Financial acquisition in 2007. On March 31, 2009, we restructured our relationship with Franklin. 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.

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

Table 2 Significant Items Influencing Earnings Performance Comparison

	Three Months Ended					
	March 31, 2011		December 31, 2010		March 31, 2010	
(dollar amounts in thousands, except per share amounts)	**After-tax**	**EPS**	After-tax	EPS	After-tax	EPS
Net income GAAP	**$ 126,446**		$ 122,900		$ 39,737	
Earnings per share, after-tax		**$ 0.14**		$ 0.05		$ 0.01
Change from prior quarter $		**0.09**		(0.05)		0.57
Change from prior quarter %		**180.0%**		(50)%		N.R.%
Change from year-ago $		**$ 0.13**		$ 0.61		$ 6.80
Change from year-ago %		**1,300%**		109%		N.R.%

Significant Items - favorable (unfavorable) impact:	**Earnings (1)**	**EPS**	Earnings (1)	EPS	Earnings (1)	EPS
Net tax benefit recognized (2)					38,222	0.05
Litigation reserves addition	**(17,028)**	**(0.01)**				
Preferred stock conversion deemed dividend				(0.07)		

N.R. not relevant. The numerator of the calculation is a positive value and the dominator is a negative 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.

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

Table 3 Pretax, Pre-provision Income (1)

	2011	2010			
(dollar amounts in thousands)	**First**	Fourth	Third	Second	First
Income before income taxes	**$ 161,191**	$ 157,948	$ 130,636	$ 62,083	$ 1,644
Add: Provision for credit losses	**49,385**	86,973	119,160	193,406	235,008
Less: Securities gains (losses)	**40**	(103)	(296)	156	(31)
Add: Amortization of intangibles	**13,370**	15,046	15,145	15,141	15,146
Less: Litigation reserves addition	**(17,028)**				
Total pretax, pre-provision income	**$ 240,934**	$ 260,070	$ 265,237	$ 270,474	$ 251,829

Change in total pretax, pre-provision income:						
Prior quarter change	amount	**$ (19,136)**	$ (5,167)	$ (5,237)	$ 18,645	$ 9,768
Prior quarter change	percent	**(7)%**	(2)%	(2)%	7%	4%

(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.

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Pretax, pre-provision income was $240.9 million in the 2011 first quarter, down $19.1 million, or 7%, from the prior quarter. From a run-rate basis, the decline reflected:

- $8.8 million seasonal reduction in revenue as the current quarter had fewer days than the prior quarter. This included a $7.0 million reduction in net interest income and a $1.8 million reduction in service charge and electronic banking income.
- $6.9 million seasonal increase in noninterest expense, primarily associated with the annual reset of FICA and other payroll taxes.

Net Interest Income / Average Balance Sheet

2011 First Quarter versus 2010 First Quarter

Fully-taxable equivalent net interest income increased $12.1 million, or 3%, from the year-ago quarter. This reflected the benefit of a $2.1 billion, or 5%, increase in average earning assets. The FTE net interest margin declined to 3.42% from 3.47%. The increase in average earning assets reflected a combination of factors including:

- $1.1 billion, or 3%, increase in average total loans and leases.
- $1.1 billion, or 13%, increase in average total available-for-sale and other securities, reflecting the deployment of cash from core deposit growth.

The 5 basis point decline in the FTE net interest margin reflected the impact of stronger deposit growth funding available-for-sale and other securities purchases at a lower incremental spread.

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

Table 4 Average Loans/Leases and Deposits 2011 First Quarter vs. 2010 First Quarter

	First Quarter		Change	
(dollar amounts in millions)	**2011**	2010	Amount	Percent
Loans/Leases				
Commercial and industrial	**$ 13,121**	$ 12,314	$ 807	7%
Commercial real estate	**6,524**	7,677	(1,153)	(15)
Total commercial	**19,645**	19,991	(346)	(2)
Automobile	**5,701**	4,250	1,451	34
Home equity	**7,728**	7,539	189	3
Residential mortgage	**4,465**	4,477	(12)	
Other loans	**559**	723	(164)	(23)
Total consumer	**18,453**	16,989	1,464	9
Total loans and leases	**$ 38,098**	$ 36,980	$ 1,118	3%
Deposits				
Demand deposits noninterest-bearing	**$ 7,333**	$ 6,627	$ 706	11%
Demand deposits interest-bearing	**5,357**	5,716	(359)	(6)
Money market deposits	**13,492**	10,340	3,152	30
Savings and other domestic time deposits	**4,701**	4,613	88	2
Core certificates of deposit	**8,391**	9,976	(1,585)	(16)
Total core deposits	**39,274**	37,272	2,002	5
Other deposits	**2,390**	2,951	(561)	(19)
Total deposits	**$ 41,664**	$ 40,223	$ 1,441	4%

The $1.1 billion, or 3%, increase in average total loans and leases primarily reflected:

$1.5 billion, or 34%, increase in the average automobile portfolio. Automobile lending is a core competency and continued to be an area of growth. The growth from the year-ago quarter exhibited further penetration within our historical geographic footprint, as well as the positive impact of our expansion into Eastern Pennsylvania and five New England states. Origination quality remained high.

$0.8 billion, or 7%, increase in the average C&I portfolio. Growth from the year-ago quarter reflected the benefits from our strategic initiatives including large corporate, asset based lending, and equipment finance. In addition, we continued to see growth in automobile floor plan lending as well as more traditional middle-market loans. This growth is evident despite line-of-credit utilization rates that remain well below historical norms.

$0.2 billion, or 3%, increase in the average home equity portfolio, reflecting higher originations and continued slower runoff.

Partially offset by:

- $1.2 billion, or 15%, decrease in average CRE loans reflecting the continued execution of our plan to reduce CRE exposure, primarily in the noncore CRE segment. This reduction will continue through 2011, reflecting normal amortization, paydowns, and refinancing.

Average total deposits increased $1.4 billion, or 4%, from the year-ago quarter reflecting:

- $2.0 billion, or 5%, growth in average total core deposits. The drivers of this change were a $3.2 billion, or 30%, growth in average money market deposits, and a $0.7 billion, or 11%, growth in average noninterest-bearing demand deposits. These increases were partially offset by a $1.6 billion, or 16%, decline in average core certificates of deposit and a $0.4 billion, or 6%, decrease in average interest-bearing demand deposits. Contributing to the growth in noninterest-bearing demand deposits was 7% growth in the number of retail banking DDA households.

Partially offset by:

- $0.4 billion, or 23%, decline in average brokered deposits and negotiable CDs, reflecting a strategy of reducing such noncore funding.

2011 First Quarter versus 2010 Fourth Quarter

FTE net interest income decreased $10.7 million, or 3%, from the 2010 fourth quarter. This reflected a 2% (8% annualized) decrease in average earning assets as the FTE net interest margin increased to 3.42% from 3.37%. The decrease in average earning assets reflected a combination of factors including:

- $0.6 billion, or 6% (25% annualized), decrease in average available-for-sale and other securities, primarily related to two funding requirements. The first was to fund the repurchase of TARP capital and related warrants and the second was the $0.4 billion decline in noncore deposits.
- $0.4 billion, or 46%, decline in loans held for sale as our mortgage pipeline slowed considerably during the current quarter.

Partially offset by:

- $0.3 billion, or 1% (3% annualized), increase in average total loans and leases.

The net interest margin increased 5 basis points, reflecting the positive impacts of increases in lower cost deposits, improved deposit pricing, and day count, partially offset by the negative impacts of a reduction in swap income, lower loan yields, and the issuance of subordinated debt.

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

Table 5 Average Loans/Leases and Deposits 2011 First Quarter vs. 2010 Fourth Quarter

(dollar amounts in millions)	**2011 First Quarter**	2010 Fourth Quarter	Change Amount	Change Percent
Loans/Leases				
Commercial and industrial	**$ 13,121**	$ 12,767	$ 354	3%
Commercial real estate	**6,524**	6,798	(274)	(4)
Total commercial	**19,645**	19,565	80	
Automobile	**5,701**	5,520	181	3
Home equity	**7,728**	7,709	19	
Residential mortgage	**4,465**	4,430	35	1
Other consumer	**559**	576	(17)	(3)
Total consumer	**18,453**	18,235	218	1
Total loans and leases	**$ 38,098**	$ 37,800	$ 298	1%
Deposits				
Demand deposits noninterest-bearing	**$ 7,333**	$ 7,188	$ 145	2%
Demand deposits interest-bearing	**5,357**	5,317	40	1
Money market deposits	**13,492**	13,158	334	3
Savings and other domestic time deposits	**4,701**	4,640	61	1
Core certificates of deposit	**8,391**	8,646	(255)	(3)
Total core deposits	**39,274**	38,949	325	1
Other deposits	**2,390**	2,755	(365)	(13)
Total deposits	**$ 41,664**	$ 41,704	$ (40)	%

The $0.3 billion, or 1% (3% annualized), increase in average total loans and leases primarily reflected:

$0.4 billion, or 3% (11% annualized), growth in the average C&I portfolio. The growth in the C&I portfolio during the 2011 first quarter came from several business lines including large corporate, middle market, asset based lending, automobile floor plan lending, and equipment finance. On a geographic basis, nine of our eleven regions experienced loan growth in the quarter, adding to the diversity of the portfolio growth. Line-of-credit utilization rates remained low and little changed from the end of the prior quarter.

$0.2 billion, or 3% (13% annualized), growth in the average automobile portfolio. We continue to originate high quality loans with acceptable returns. To date, we have seen no material change in our outlook for automobile originations as a result of the crisis in Japan. While the crisis in Japan has resulted in a selective slowdown in automobile production, we currently do not see this having a material negative impact on our automobile finance business. We focus on larger, multi-franchised, well-capitalized dealers that are rarely reliant on the success of one franchise to generate profitability. In addition, the slowdown is only impacting new automobile production, which is providing support to used automobile pricing and sales activity. More than half of our loan production represents used automobile financing.

Partially offset by:

$0.3 billion, or 4% (16% annualized), decline in average CRE loans, primarily as a result of our ongoing strategy to reduce our exposure to the commercial real estate market. The decline in noncore CRE accounted for 63% of the decline in the total CRE portfolio. The noncore CRE declines reflected paydowns, refinancing, and NCOs. The core CRE portfolio continued to exhibit high quality characteristics with minimal downgrade or NCO activity.

Average total deposits were little changed from the prior quarter reflecting:

$0.3 billion, or 1% (3% annualized), growth in average total core deposits. The primary drivers of this growth were a 3% (10% annualized) increase in average money market deposits, partially reflecting funds from maturing CDs flowing into money market accounts given the low absolute level of rates on new CD offerings. The growth in average total core deposits also reflected 2% (8% annualized) growth in average noninterest-bearing demand deposits. Contributing to the growth in noninterest-bearing demand deposits was a 9% annualized prior quarter growth in consumer checking account households.

Partially offset by:

$0.2 billion, or 10% (42% annualized), decline in average brokered deposits and negotiable CDs, reflecting a strategy of reducing such noncore funding.

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Tables 6 and 7 reflect quarterly average balance sheets and rates earned and paid on interest-earning assets and interest-bearing liabilities.

Table 6 Consolidated Quarterly Average Balance Sheets

	2011	2010				Change 1Q11 vs. 1Q10	
(dollar amounts in millions)	**First**	Fourth	Third	Second	First	Amount	Percent
Assets							
Interest-bearing deposits in banks	**$ 130**	$ 218	$ 282	$ 309	$ 348	$ (218)	(63)%
Trading account securities	**144**	297	110	127	96	48	50
Loans held for sale	**420**	779	663	323	346	74	21
Available-for-sale and other securities:							
Taxable	**9,108**	9,747	8,876	8,369	8,027	1,081	13
Tax-exempt	**445**	449	365	389	443	2	
Total available-for-sale and other securities	**9,553**	10,196	9,241	8,758	8,470	1,083	13
Loans and leases: (1)							
Commercial:							
Commercial and industrial	**13,121**	12,767	12,393	12,244	12,314	807	7
Commercial real estate:							
Construction	**611**	716	989	1,279	1,409	(798)	(57)
Commercial	**5,913**	6,082	6,084	6,085	6,268	(355)	(6)
Commercial real estate	**6,524**	6,798	7,073	7,364	7,677	(1,153)	(15)
Total commercial	**19,645**	19,565	19,466	19,608	19,991	(346)	(2)
Consumer:							
Automobile	**5,701**	5,520	5,140	4,634	4,250	1,451	34
Home equity	**7,728**	7,709	7,567	7,544	7,539	189	3
Residential mortgage	**4,465**	4,430	4,389	4,608	4,477	(12)	
Other consumer	**559**	576	653	695	723	(164)	(23)
Total consumer	**18,453**	18,235	17,749	17,481	16,989	1,464	9
Total loans and leases	**38,098**	37,800	37,215	37,089	36,980	1,118	3
Allowance for loan and lease losses	**(1,231)**	(1,323)	(1,384)	(1,506)	(1,510)	279	(18)
Net loans and leases	**36,867**	36,477	35,831	35,583	35,470	1,397	4
Total earning assets	**48,345**	49,290	47,511	46,606	46,240	2,105	5
Cash and due from banks	**1,299**	1,187	1,618	1,509	1,761	(462)	(26)
Intangible assets	**665**	679	695	710	725	(60)	(8)
All other assets	**4,291**	4,313	4,277	4,384	4,486	(195)	(4)
Total assets	**$ 53,369**	$ 54,146	$ 52,717	$ 51,703	$ 51,702	$ 1,667	3%
Liabilities and Shareholders Equity							

Deposits:							
Demand deposits noninterest-bearing	**$ 7,333**	$ 7,188	$ 6,768	$ 6,849	$ 6,627	$ 706	11%
Demand deposits interest-bearing	**5,357**	5,317	5,319	5,971	5,716	(359)	(6)
Money market deposits	**13,492**	13,158	12,336	11,103	10,340	3,152	30
Savings and other domestic deposits	**4,701**	4,640	4,639	4,677	4,613	88	2
Core certificates of deposit	**8,391**	8,646	8,948	9,199	9,976	(1,585)	(16)
Total core deposits	**39,274**	38,949	38,010	37,799	37,272	2,002	5
Other domestic time deposits of $250,000 or more	**606**	737	690	661	698	(92)	(13)
Brokered deposits and negotiable CDs	**1,410**	1,575	1,495	1,505	1,843	(433)	(23)
Deposits in foreign offices	**374**	443	451	402	410	(36)	(9)
Total deposits	**41,664**	41,704	40,646	40,367	40,223	1,441	4
Short-term borrowings	**2,134**	2,134	1,739	966	927	1,207	130
Federal Home Loan Bank advances	**30**	112	188	212	179	(149)	(83)
Subordinated notes and other long-term debt	**3,525**	3,558	3,672	3,836	4,062	(537)	(13)
Total interest-bearing liabilities	**40,020**	40,320	39,477	38,532	38,764	1,256	3
All other liabilities	**994**	993	952	924	947	47	5
Shareholders equity	**5,022**	5,645	5,520	5,398	5,364	(342)	(6)
Total liabilities and shareholders equity	**$ 53,369**	$ 54,146	$ 52,717	$ 51,703	$ 51,702	$ 1,667	3%

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

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Table 7 Consolidated Quarterly Net Interest Margin Analysis