HUNTINGTON BANCSHARES INC/MD
Form 10-Q
August 09, 2010

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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 June 30, 2010
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 716,862,118 shares of Registrant s common stock ($0.01 par value) outstanding on July 31, 2010.

HUNTINGTON BANCSHARES INCORPORATED
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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; 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. 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.

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EXECUTIVE OVERVIEW

Summary of 2010 Second Quarter Results

Continuing to build upon the momentum from the prior quarter, we reported net income of $48.8 million, or $0.03 per common share, compared with $39.7 million, or $0.01 per common share, in the prior quarter (*see Table 1*). Pretax, pre-provision income was $270.5 million, up $18.6 million, or 7%, from the prior quarter, and primarily resulted from a $34.8 million, or 5% increase in fully-taxable equivalent revenue. Pretax, pre-provision income increased for the sixth consecutive quarter (*see Table 4*).

Credit quality performance in the current quarter continued to show improvement. This improvement reflected the benefits of our focused actions taken in 2009 to address credit-related issues. Compared with the prior quarter, nonperforming assets (NPAs) declined 17%, new NPAs declined 28%, and our nonaccrual loan coverage ratio improved to 120% from 87%. We also saw a decline in the level of criticized commercial loans reflecting a decrease in the level of inflows. Although net charge-offs (NCOs) increased $40.7 million, the current quarter was impacted by $80.0 million of NCOs related to our relationship with Franklin Credit Management Corporation (Franklin). Non-Franklin-related NCOs declined $27.8 million.

At the end of the current quarter, we transferred all of our Franklin-related loans to loans held-for-sale at a lower of cost or fair value of $323.4 million. This had a significant impact on the current quarter s performance as this action resulted in $75.5 million of charge-offs, with a commensurate increase in the provision for credit losses. As the current quarter progressed, we saw renewed buyer interest in distressed debt that, among other factors, provided us a business opportunity to move the portfolio to loans held for sale. *(See Significant Items for additional discussion).* On July 20, 2010, $274.2 million of the Franklin-related residential mortgages were sold, leaving the remaining Franklin-related portfolio balance of only $49.2 million. Going forward, we anticipate this sale will improve our overall future financial performance as we have essentially brought this relationship to a close. We have reinvested the sale proceeds in higher yielding investments and will no longer have expenses related to portfolio servicing and other support costs.

Our period-end capital position remained solid with increases in all of our capital ratios. At June 30, 2010, our regulatory Tier 1 and Total risk-based capital were $2.8 billion and $2.0 billion, respectively, above the well-capitalized regulatory thresholds. Our tangible common equity ratio improved 16 basis points to 6.12%. Also, our Tier 1 common risk-based capital ratio improved 53 basis points to 7.06%.

Business Overview

General

Our 2010 objectives remain the same: (a) grow revenue and profitability, (b) improve cross sell and share-of-wallet profitability across all business segments, (c) grow key fee businesses (existing and new), (d) lower NCOs and NPAs, (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 continues to remain 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 of sustainable economic recovery. One area of loan growth success, however, has been in automobile loans, a business we have been in for over 50 years. We have been able to take advantage of the fact that many competitors have decreased their automobile lending activities or exited the business entirely. We anticipate this will be an area where we will be able to continue to see good loan growth.

We face strong competition from other banks and financial service firms in our markets. As such, we have placed strong strategic emphasis on, and are continuing to develop and expand resources devoted to, improving cross-sell performance to take advantage of a loyal core customer base. To date, we have been successful as measured by our ability to expand our customer bases and successfully grow core deposits.

Legislative and Regulatory

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

The Federal Reserve Board recently 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 are 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 results have surpassed our expectations, however, until we have completed opt-in campaign, the ultimate impact to related revenue cannot be estimated.

While the recently passed Dodd-Frank Act is complex and we continue to assess how this legislation and subsequent rule-making will impact us, we currently believe there are two primary areas of focus for us: interchange fees and the eventual inability to include trust preferred capital as a component of our 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, and there will likely be months of proposals and debate before any specific rules are written.

At June 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 134 basis points. However, there is a 3-year phase-in period beginning on January 1, 2013, that we believe would provide sufficient time to evaluate and address the impacts to our capital structure around this new legislation. Accordingly, we do not anticipate that this potential change would have a significant impact to our business.

Prior legislative and regulatory actions that have affected us included the Federal Deposit Insurance Corporation s (FDIC) Transaction Account Guarantee Program (TAGP) and the U.S. Department of Treasury s Troubled Asset Relief Program (TARP). We elected to discontinue our participation in the TAGP, effective July 1, 2010. We intend to repay our TARP capital as soon as it is prudent to do so. Additional discussion regarding TAGP and TARP is located within the Liquidity Risk and Capital sections, respectively.

2010 Outlook

Our current expectation is that the economy will remain relatively unchanged for the rest of the year. We are not expecting a double-dip recession, but we do believe it will take longer for the economy to recover than we did 90 days ago, especially if home prices continue to decline.

Pretax, pre-provision income levels for the second half of 2010 are anticipated to be consistent with second quarter reported performance. Our net interest margin for the second half of the year is expected to approximate first half performance. We anticipate modest growth in commercial and industrial (C&I) loans and continued strong automobile lending. However, commercial real estate (CRE) loans are expected to continue to contract while home equity and residential mortgages remain relatively flat. We are targeting continued strong growth in demand deposit and savings account balances. Fee income performance for the second half of the year is expected to be mixed with certain fee income activities increasing from the continued rollout of strategic initiatives, offset by lower mortgage banking income, as well as service charges due to Regulation E implementation. Expenses should also be relatively stable with increases related to growth initiatives, mostly offset by the elimination of Franklin-related loan portfolio servicing and other related costs, as well as lower overall loan portfolio monitoring expenses.

Nonperforming loans are expected to continue to decline, with NCOs and provision expense expected to be generally consistent with the current quarter s performance, excluding any Franklin-related impacts.

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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 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.

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Table 1 Selected Quarterly Income Statement Data (1)

	2010		2009		
(amounts in thousands, except per share amounts)	**Second**	First	Fourth	Third	Second
Interest income	**$ 535,653**	$ 546,779	$ 551,335	$ 553,846	$ 563,004
Interest expense	**135,997**	152,886	177,271	191,027	213,105
Net interest income	**399,656**	393,893	374,064	362,819	349,899
Provision for credit losses	**193,406**	235,008	893,991	475,136	413,707
Net interest income (loss) after provision for credit losses	**206,250**	158,885	(519,927)	(112,317)	(63,808)
Service charges on deposit accounts	**75,934**	69,339	76,757	80,811	75,353
Brokerage and insurance income	**36,498**	35,762	32,173	33,996	32,052
Mortgage banking income	**45,530**	25,038	24,618	21,435	30,827
Trust services	**28,399**	27,765	27,275	25,832	25,722
Electronic banking	**28,107**	25,137	25,173	28,017	24,479
Bank owned life insurance income	**14,392**	16,470	14,055	13,639	14,266
Automobile operating lease income	**11,842**	12,303	12,671	12,795	13,116
Securities gains (losses)	**156**	(31)	(2,602)	(2,374)	(7,340)
Other noninterest income	**28,785**	29,069	34,426	41,901	57,470
Total noninterest income	**269,643**	240,852	244,546	256,052	265,945
Personnel costs	**194,875**	183,642	180,663	172,152	171,735
Outside data processing and other services	**40,670**	39,082	36,812	38,285	40,006
Deposit and other insurance expense	**26,067**	24,755	24,420	23,851	48,138
Net occupancy	**25,388**	29,086	26,273	25,382	24,430
OREO and foreclosure expense	**4,970**	11,530	18,520	38,968	26,524
Equipment	**21,585**	20,624	20,454	20,967	21,286
Professional services	**24,388**	22,697	25,146	18,108	16,658
Amortization of intangibles	**15,141**	15,146	17,060	16,995	17,117
Automobile operating lease expense	**9,667**	10,066	10,440	10,589	11,400
Marketing	**17,682**	11,153	9,074	8,259	7,491
Telecommunications	**6,205**	6,171	6,099	5,902	6,088
Printing and supplies	**3,893**	3,673	3,807	3,950	4,151
Goodwill impairment					4,231
Gain on early extinguishment of debt(2)			(73,615)	(60)	(73,038)
Other noninterest expense	**23,279**	20,468	17,443	17,749	13,765
Total noninterest expense	**413,810**	398,093	322,596	401,097	339,982
Income (loss) before income taxes	**62,083**	1,644	(597,977)	(257,362)	(137,845)
Provision (benefit) for income taxes	**13,319**	(38,093)	(228,290)	(91,172)	(12,750)
Net income (loss)	**$ 48,764**	$ 39,737	$ (369,687)	$ (166,190)	$ (125,095)
Dividends on preferred shares	**29,426**	29,357	29,289	29,223	57,451

Net income (loss) applicable to common shares	**$ 19,338**	$ 10,380	$ (398,976)	$ (195,413)	$ (182,546)
Average common shares basic	**716,580**	716,320	715,336	589,708	459,246
Average common shares diluted[3]	**719,387**	718,593	715,336	589,708	459,246
Net income (loss) per common share basic	**$ 0.03**	$ 0.01	$ (0.56)	$ (0.33)	$ (0.40)
Net income (loss) per common share diluted	**0.03**	0.01	(0.56)	(0.33)	(0.40)
Cash dividends declared per common share	**0.01**	0.01	0.01	0.01	0.01
Return on average total assets	**0.38%**	0.31%	(2.80)%	(1.28)%	(0.97)%
Return on average total shareholders equity	**3.6**	3.0	(25.6)	(12.5)	(10.2)
Return on average tangible shareholders equity[4]	**4.9**	4.2	(27.9)	(13.3)	(10.3)
Net interest margin[5]	**3.46**	3.47	3.19	3.20	3.10
Efficiency ratio[6]	**59.4**	60.1	49.0	61.4	51.0
Effective tax rate (benefit)	**21.5**	N.M.	(38.2)	(35.4)	(9.2)
Revenue fully-taxable equivalent (FTE)					
Net interest income	**$ 399,656**	$ 393,893	$ 374,064	$ 362,819	$ 349,899
FTE adjustment	**2,490**	2,248	2,497	4,177	1,216
Net interest income[5]	**402,146**	396,141	376,561	366,996	351,115
Noninterest income	**269,643**	240,852	244,546	256,052	265,945
Total revenue[5]	**$ 671,789**	$ 636,993	$ 621,107	$ 623,048	$ 617,060

N.M., not a meaningful value.

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

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(2) The 2009 fourth quarter gain related to the purchase of certain subordinated bank notes. The 2009 second quarter gain included $67.4 million related to the purchase of certain trust preferred securities.

(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).

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Table 2 Selected Year to Date Income Statement Data[1]

(in thousands, except per share amounts)	Six Months Ended June 30, 2010	2009	Change Amount	Percent
Interest income	**$ 1,082,432**	$ 1,132,961	$ (50,529)	(4)%
Interest expense	**288,883**	445,557	(156,674)	(35)
Net interest income	**793,549**	687,404	106,145	15
Provision for credit losses	**428,414**	705,544	(277,130)	(39)
Net interest income (loss) after provision for credit losses	**365,135**	(18,140)	383,275	N.M.
Service charges on deposit accounts	**145,273**	145,231	42	
Brokerage and insurance income	**72,260**	72,000	260	
Mortgage banking income	**70,568**	66,245	4,323	7
Trust services	**56,164**	50,532	5,632	11
Electronic banking	**53,244**	46,961	6,283	13
Bank owned life insurance income	**30,862**	27,178	3,684	14
Automobile operating lease expense	**24,145**	26,344	(2,199)	(8)
Securities gains (losses)	**125**	(5,273)	5,398	N.M.
Other income	**57,854**	75,829	(17,975)	(24)
Total noninterest income	**510,495**	505,047	5,448	1
Personnel costs	**378,517**	347,667	30,850	9
Outside data processing and other services	**79,752**	72,998	6,754	9
Deposit and other insurance expense	**50,822**	65,559	(14,737)	(22)
Net occupancy	**54,474**	53,618	856	2
OREO and foreclosure expense	**16,500**	36,411	(19,911)	(55)
Equipment	**42,209**	41,696	513	1
Professional services	**47,085**	33,112	13,973	42
Amortization of intangibles	**30,287**	34,252	(3,965)	(12)
Automobile operating lease expense	**19,733**	22,331	(2,598)	(12)
Marketing	**28,835**	15,716	13,119	83
Telecommunications	**12,376**	11,978	398	3
Printing and supplies	**7,566**	7,723	(157)	(2)
Goodwill impairment		2,606,944	(2,606,944)	N.M.
Gain on early extinguishment of debt[2]		(73,767)	73,767	N.M.
Other expense	**43,747**	33,513	10,234	31
Total noninterest expense	**811,903**	3,309,751	(2,497,848)	(75)
Income (loss) before income taxes	**63,727**	(2,822,844)	2,886,571	N.M.
Benefit for income taxes	**(24,774)**	(264,542)	239,768	(91)

Net income (loss)	**$ 88,501**	$ (2,558,302)	$ 2,646,803	N.M.%
Dividends declared on preferred shares	**58,783**	116,244	(57,461)	(49)
Net income (loss) applicable to common shares	**$ 29,718**	$ (2,674,546)	$ 2,704,264	N.M.%
Average common shares basic	**716,450**	413,083	303,367	73%
Average common shares diluted[3]	**718,990**	413,083	305,907	74
Per common share				
Net income per common share basic	**$ 0.04**	$ (6.47)	$ 6.52	N.M.%
Net income (loss) per common share diluted	**0.04**	(6.47)	6.52	N.M.
Cash dividends declared	**0.0200**	0.0200		
Return on average total assets	**0.35%**	(9.77)%	10.12%	N.M.%
Return on average total shareholders equity	**3.3**	(85.0)	88.3	N.M.
Return on average tangible shareholders equity[4]	**4.6**	3.5	1.1	31
Net interest margin[5]	**3.47**	3.03	0.44	15
Efficiency ratio[6]	**59.7**	55.6	4.1	7
Effective tax rate (benefit)	**(38.9)**	(9.4)	(29.5)	N.M.
Revenue fully taxable equivalent (FTE)				
Net interest income	**$ 793,549**	$ 687,404	$ 106,145	15%
FTE adjustment	**4,738**	4,798	(60)	(1)
Net interest income	**798,287**	692,202	106,085	15
Noninterest income	**510,495**	505,047	5,448	1
Total revenue	**$ 1,308,782**	$ 1,197,249	$ 111,533	9%

N.M., not a meaningful value.

(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.

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(3) For the periods presented above, the impact of the convertible preferred stock issued in April of 2008 was excluded from the diluted share calculation because the result was more than basic earnings per common share (anti-dilutive) for the period.

(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 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 $2,602.7 million ($7.09 per common share) pretax charge to noninterest expense.

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

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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 following the acquisition, 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 other real estate owned (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).

   On July 20, 2010, $274.2 million of the $275.2 million of residential mortgages were sold.

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 (Series A Preferred Stock) 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.

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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 3 Significant Items Influencing Earnings Performance Comparison

	Three Months Ended					
	June 30, 2010		March 31, 2010		June 30, 2009	
(dollar amounts in thousands, except per share amounts)	**After-tax**	**EPS**	After-tax	EPS	After-tax	EPS
Net income (loss) GAAP	**$ 48,764**		$ 39,737		$ (125,095)	
Earnings per share, after-tax		**$ 0.03**		$ 0.01		$ (0.40)(3)
Change from prior quarter $		**0.02**		0.57		6.39
Change from prior quarter %		**N.M.%**		N.M.%		(94.1)%
Change from year-ago $		**$ 0.43**		$ 6.80		$ (0.65)
Change from year-ago %		**N.M.%**		N.M.%		N.M.%
Significant items - favorable (unfavorable) impact:	**Earnings (1)**	**EPS**	Earnings (1)	EPS	Earnings (1)	EPS
Franklin-related loans transferred to held for sale	**$ (75,500)**	**$ (0.07)**	$	$	$	$
Net tax benefit recognized (2)			38,222	0.05		
Net gain on early extinguishment of debt					67,409	0.10
Gain related to sale of Visa® stock					31,362	0.04
Deferred tax valuation allowance benefit (2)					2,388	0.01
Goodwill impairment					(4,231)	(0.01)
FDIC special assessment					(23,555)	(0.03)
Preferred stock conversion deemed dividend						(0.06)

	Six Months Ended			
	June 30, 2010		June 30, 2009	
(in thousands)	**After-tax**	**EPS**	After-tax	EPS
Net income (loss) reported earnings	**$ 88.5**		$ (2,558,302)	
Earnings per share, after tax		**$ 0.04**		$ (6.47)(3)
Change from a year-ago $		**6.51**		(7.06)
Change from a year-ago %		**N.M.%**		N.M.%
Significant items - favorable (unfavorable) impact:	**Earnings (1)**	**EPS**	Earnings (1)	EPS
Franklin-related loans transferred to held for sale	**$ (75,500)**	**$ (0.07)**	$	$
Net tax benefit recognized (2)	**38,222**	**0.05**		
Franklin relationship restructuring (2)			159,895	0.39
Gain on redemption of junior subordinated debt			67,409	0.11
Gain related to Visa® stock			31,362	0.05
Deferred tax valuation allowance benefit (2)			3,711	0.01
Goodwill impairment			(2,606,944)	(6.30)
FDIC special assessment			(23,555)	(0.04)
Preferred stock conversion deemed dividend				(0.14)

N.M., not a meaningful value.

(1) Pretax unless otherwise noted.

(2) After-tax.

(3) Reflects the impact of additional shares of common stock issued during the period. 24.6 million shares were issued late in the 2009 first quarter and 177.0 million shares were issued during the 2009 second quarter.

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Pretax, Pre-provision Income Trends

One non-GAAP performance measurement that we believe is useful in analyzing underlying performance trends is pretax, pre-provision income. This is the level of earnings adjusted to exclude the impact of: (a) provision expense, which is excluded because its absolute level is elevated and volatile, (b) investment securities gains/losses, which are excluded because securities market valuations may also 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 that 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 the each of the past five quarters:

Table 4 Pretax, Pre-provision Income (1)

	2010		2009		
(dollar amounts in thousands)	**Second**	First	Fourth	Third	Second
Income (loss) before income taxes	**$ 62,083**	$ 1,644	$ (597,977)	$ (257,362)	$ (137,845)
Add: Provision for credit losses	**193,406**	235,008	893,991	475,136	413,707
Less: Securities (losses) gains	**156**	(31)	(2,602)	(2,374)	(7,340)
Add: Amortization of intangibles	**15,141**	15,146	17,060	16,995	17,117
Less: Significant Items					
Gain on early extinguishment of debt (2)			73,615		67,409
Goodwill impairment					(4,231)
Gain related to Visa stock					31,362
FDIC special assessment					(23,555)
Total pretax, pre-provision income	**$ 270,474**	$ 251,829	$ 242,061	$ 237,143	$ 229,334
Change in total pretax, pre-provision income:					
Prior quarter change amount	$ 18,645	$ 9,768	$ 4,918	$ 7,809	$ 4,715
Prior quarter change percent	7%	4%	2%	3%	2%

(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) Includes only transactions related to the purchase of certain trust preferred securities during the 2009 second quarter.

As shown in the table above, pretax, pre-provision income was $270.5 million in the 2010 second quarter, up 7% from the prior quarter. As discussed in the sections that follow, the improvement from the prior quarter reflected higher revenue, primarily noninterest income and, to a lesser degree, net interest income. These improvements were partially offset by higher noninterest expense.

Net Interest Income / Average Balance Sheet

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

2010 Second Quarter versus 2009 Second Quarter

Fully-taxable equivalent net interest income increased $51.0 million, or 15%, from the year-ago quarter. This reflected the favorable impact of the significant increase in the net interest margin to 3.46% from 3.10%, as well as 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. The increase in average earning assets reflected a $3.5 billion, or 65%, increase in average total investment securities, partially offset by a $1.9 billion, or 5%, decline in average total loans and leases.

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

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

	Second Quarter		Change	
(dollar amounts in millions)	**2010**	2009	Amount	Percent
Loans/Leases				
Commercial and industrial	**$ 12,244**	$ 13,523	$ (1,279)	(9)%
Commercial real estate	**7,364**	9,199	(1,835)	(20)
Total commercial	**19,608**	22,722	(3,114)	(14)
Automobile loans and leases	**4,634**	3,290	1,344	41
Home equity	**7,544**	7,640	(96)	(1)
Residential mortgage	**4,608**	4,657	(49)	(1)
Other consumer	**695**	698	(3)	
Total consumer	**17,481**	16,285	1,196	7
Total loans and leases	**$ 37,089**	$ 39,007	$ (1,918)	(5)%
Deposits				
Demand deposits noninterest-bearing	**$ 6,849**	$ 6,021	$ 828	14%
Demand deposits interest-bearing	**5,971**	4,547	1,424	31
Money market deposits	**11,103**	6,355	4,748	75
Savings and other domestic time deposits	**4,677**	5,031	(354)	(7)
Core certificates of deposit	**9,199**	12,501	(3,302)	(26)
Total core deposits	**37,799**	34,455	3,344	10
Other deposits	**2,568**	5,079	(2,511)	(49)
Total deposits	**$ 40,367**	$ 39,534	$ 833	2%

The $1.9 billion, or 5%, decrease in average total loans and leases primarily reflected:

$3.1 billion, or 14%, decrease in average total commercial loans. A $1.3 billion, or 9%, decline in average C&I loans reflected a general decrease in borrowing as reflected in a decline in line-of-credit utilization, including reductions in our automobile dealer floorplan exposure, 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 on-going commitment to lower our overall CRE exposure. We continue to execute our plan to reduce our CRE exposure while maintaining a commitment to our core CRE borrowers. The decrease in average balances is associated with the noncore portfolio, as our core portfolio average balances were little changed during the current period.

Partially offset by:

$1.2 billion, or 7%, increase in average total consumer loans. This growth reflected a $1.3 billion, or 41%, 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. At June 30, 2010, these formerly securitized loans had a remaining balance of $0.7 billion *(see Note 5 of the Notes to the Unaudited Condensed Consolidated Financial Statements).* In addition, underlying growth in automobile loans continued to be strong, reflecting a 139% increase in loan originations for the first six 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-of-credit utilization. Increased line usage continued to be associated with higher quality customers taking advantage of the low interest rate environment. Average residential mortgages were essentially unchanged, reflecting the impact of the continued refinance of portfolio loans and the related increased sale of fixed-rate originations. The transfer of the Franklin-related loans into held for sale occurred at the end of the quarter and had no impact on related average residential mortgages or home equity loans *(see Significant Item 2).*

The $3.5 billion, or 65%, 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.

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The $0.8 billion, or 2%, increase in average total deposits reflected:

$3.3 billion, or 10%, growth in average total core deposits, primarily reflecting our focus on growing money market and demand deposit accounts.

Partially offset by:

$2.2 billion, or 60%, decline in brokered deposits and negotiable CDs and a $0.2 billion, or 25%, decrease in average other domestic deposits over $250,000, primarily reflecting a reduction of noncore funding sources.

2010 Second Quarter versus 2010 First Quarter

Compared with the 2010 first quarter, fully-taxable equivalent net interest income increased $6.0 million, or 2%. This reflected a 1% increase in average earning assets as the fully-taxable equivalent net interest margin declined slightly to 3.46% from 3.47%. The increase in average earning assets primarily reflected a $0.3 billion, or 3%, increase in average investment securities, as average total loans and leases were up $0.1 billion, or less than 1%.

The net interest margin declined 1 basis point. Favorable trends in the mix and pricing of deposits were offset by lower yields on Franklin-related loans, a lower contribution from asset/liability management strategies implemented in the first and second quarters of 2010, and one additional calendar day in the 2010 second quarter.

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

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

	2010		Change	
(dollar amounts in millions)	**Second Quarter**	First Quarter	Amount	Percent
Loans/Leases				
Commercial and industrial	**$ 12,244**	$ 12,314	$ (70)	(1)%
Commercial real estate	**7,364**	7,677	(313)	(4)
Total commercial	**19,608**	19,991	(383)	(2)
Automobile loans and leases	**4,634**	4,250	384	9
Home equity	**7,544**	7,539	5	
Residential mortgage	**4,608**	4,477	131	3
Other consumer	**695**	723	(28)	(4)
Total consumer	**17,481**	16,989	492	3
Total loans and leases	**$ 37,089**	$ 36,980	$ 109	%
Deposits				
Demand deposits noninterest-bearing	**$ 6,849**	$ 6,627	$ 222	3%
Demand deposits interest-bearing	**5,971**	5,716	255	4
Money market deposits	**11,103**	10,340	763	7
Savings and other domestic time deposits	**4,677**	4,613	64	1
Core certificates of deposit	**9,199**	9,976	(777)	(8)
Total core deposits	**37,799**	37,272	527	1
Other deposits	**2,568**	2,951	(383)	(13)
Total deposits	**$ 40,367**	$ 40,223	$ 144	%

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

- $0.4 billion, or 2%, decline in average total commercial loans as average C&I loans declined $0.1 billion, or 1%, and average CRE declined $0.3 billion, or 4%. C&I loans declined as underlying growth was more than offset by a combination of continued lower line-of-credit utilization and paydowns on term debt. The economic environment continued to cause many customers to actively reduce their leverage position. Our line-of-credit utilization percentage was 43%, consistent with that of 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 sales pipeline. The decline in average CRE loans primarily resulted from the continuing paydowns and charge-off activity associated with our noncore CRE portfolio. Paydowns of $124.5 million were a result of our portfolio management and loan workout strategies, augmented by some early stage improvements in the markets. The portion of the CRE portfolio designated as core continued to perform as expected with average balances little changed from the prior quarter.

Partially offset by:

- $0.5 billion, or 3%, increase in total average consumer loans, primarily reflecting a $0.4 billion, or 9%, increase in average automobile loans and leases. This growth reflected record production of $943.6 million in the quarter. We continue to maintain high credit quality standards on this production while achieving an appropriate return. We have a high degree of confidence in our ability to originate quality automobile loans through our established dealer network, and as a natural extension of our Western Pennsylvania area operations, we have established a presence in the eastern portion of the state. Average residential mortgages increased $0.1 billion, or 3%, and average home equity loans were essentially unchanged from the prior quarter. The transfer of the Franklin-related loans into held for sale occurred at the end of the quarter and had no impact on related average residential mortgages or home equity loans *(see Significant Item 2)*.

The $0.3 billion, or 3%, increase in average total investment securities reflected the reinvestment of excess cash.

Average total deposits increased $0.1 billion from the prior quarter reflecting:

- $0.5 billion, or 1%, growth in average total core deposits, primarily reflecting our focus on growing money market and demand deposit accounts.

Partially offset by:

- $0.3 billion, or 18%, decline in brokered deposits and negotiable CDs, reflecting maturities.

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

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Table 7 Consolidated Quarterly Average Balance Sheets

	Average Balances					Change	
	2010		2009			2Q10 vs. 2Q09	
(dollar amounts in millions)	**Second**	First	Fourth	Third	Second	Amount	Percent
Assets							
Interest-bearing deposits in banks	**$ 309**	$ 348	$ 329	$ 393	$ 369	$ (60)	(16)%
Trading account securities	**127**	96	110	107	88	39	44
Federal funds sold and securities purchased under resale agreement			15	7			
Loans held for sale	**323**	346	470	524	709	(386)	(54)
Investment securities:							
Taxable	**8,367**	8,025	8,695	6,510	5,181	3,186	61
Tax-exempt	**391**	445	139	129	126	265	N.M.
Total investment securities	**8,758**	8,470	8,834	6,639	5,307	3,451	65
Loans and leases: (1)							
Commercial:							
Commercial and industrial	**12,244**	12,314	12,570	12,922	13,523	(1,279)	(9)
Construction	**1,279**	1,409	1,651	1,808	1,946	(667)	(34)
Commercial	**6,085**	6,268	6,807	7,071	7,253	(1,168)	(16)
Commercial real estate	**7,364**	7,677	8,458	8,879	9,199	(1,835)	(20)
Total commercial	**19,608**	19,991	21,028	21,801	22,722	(3,114)	(14)
Consumer:							
Automobile loans	**4,472**	4,031	3,050	2,886	2,867	1,605	56
Automobile leases	**162**	219	276	344	423	(261)	(62)
Automobile loans and leases	**4,634**	4,250	3,326	3,230	3,290	1,344	41
Home equity	**7,544**	7,539	7,561	7,581	7,640	(96)	(1)
Residential mortgage	**4,608**	4,477	4,417	4,487	4,657	(49)	(1)
Other loans	**695**	723	757	756	698	(3)	
Total consumer	**17,481**	16,989	16,061	16,054	16,285	1,196	7
Total loans and leases	**37,089**	36,980	37,089	37,855	39,007	(1,918)	(5)
Allowance for loan and lease losses	**(1,506)**	(1,510)	(1,029)	(950)	(930)	(576)	62
Net loans and leases	**35,583**	35,470	36,060	36,905	38,077	(2,494)	(7)
Total earning assets	**46,606**	46,240	46,847	45,525	45,480	1,126	2
Cash and due from banks	**1,509**	1,761	1,947	2,553	2,466	(957)	(39)
Intangible assets	**710**	725	737	755	780	(70)	(9)

All other assets	**4,384**	4,486	3,956	3,797	3,701	683	18
Total assets	**$ 51,703**	$ 51,702	$ 52,458	$ 51,680	$ 51,497	$ 206	%
Liabilities and Shareholders Equity							
Deposits:							
Demand deposits noninterest-bearing	**$ 6,849**	$ 6,627	$ 6,466	$ 6,186	$ 6,021	$ 828	14%
Demand deposits interest-bearing	**5,971**	5,716	5,482	5,140	4,547	1,424	31
Money market deposits	**11,103**	10,340	9,271	7,601	6,355	4,748	75
Savings and other domestic time deposits	**4,677**	4,613	4,686	4,771	5,031	(354)	(7)
Core certificates of deposit	**9,199**	9,976	10,867	11,646	12,501	(3,302)	(26)
Total core deposits	**37,799**	37,272	36,772	35,344	34,455	3,344	10
Other domestic time deposits of $250,000 or more	**661**	698	667	747	886	(225)	(25)
Brokered time deposits and negotiable CDs	**1,505**	1,843	2,353	3,058	3,740	(2,235)	(60)
Deposits in foreign offices	**402**	410	422	444	453	(51)	(11)
Total deposits	**40,367**	40,223	40,214	39,593	39,534	833	2
Short-term borrowings	**966**	927	879	879	879	87	10
Federal Home Loan Bank advances	**212**	179	681	924	947	(735)	(78)
Subordinated notes and other long-term debt	**3,836**	4,062	3,908	4,136	4,640	(804)	(17)
Total interest-bearing liabilities	**38,532**	38,764	39,216	39,346	39,979	(1,447)	(4)
All other liabilities	**924**	947	1,042	863	569	355	62
Shareholders equity	**5,398**	5,364	5,734	5,285	4,928	470	10
Total liabilities and shareholders equity	**$ 51,703**	$ 51,702	$ 52,458	$ 51,680	$ 51,497	$ 206	%

N.M., not a meaningful value.

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

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Table 8 Consolidated Quarterly Net Interest Margin Analysis

	Average Rates (2)				
	2010	2009			
Fully-taxable equivalent basis (1)	**Second**	First	Fourth	Third	Second
Assets					
Interest-bearing deposits in banks	**0.20%**	0.18%	0.16%	0.28%	0.37%
Trading account securities	**1.74**	2.15	1.89	1.96	2.22
Federal funds sold and securities purchased under resale agreement			0.03	0.14	0.82
Loans held for sale	**5.02**	4.98	5.13	5.20	5.19
Investment securities:					
Taxable	**2.85**	2.94	3.20	3.99	4.63
Tax-exempt	**4.60**	4.35	6.31	6.77	6.83
Total investment securities	**2.93**	3.01	3.25	4.04	4.69
Loans and leases: (3)					
Commercial:					
Commercial and industrial	**5.31**	5.60	5.20	5.19	5.00
Commercial real estate					
Construction	**2.61**	2.66	2.63	2.61	2.78
Commercial	**3.69**	3.60	3.40	3.43	3.56
Commercial real estate	**3.49**	3.43	3.25	3.26	3.39
Total commercial	**4.63**	4.76	4.41	4.40	4.35
Consumer:					
Automobile loans	**6.46**	6.64	7.15	7.34	7.28
Automobile leases	**6.58**	6.41	6.40	6.25	6.12
Automobile loans and leases	**6.46**	6.63	7.09	7.22	7.13
Home equity	**5.26**	5.59	5.82	5.75	5.75
Residential mortgage	**4.70**	4.89	5.04	5.03	5.12
Other loans	**6.84**	7.00	6.90	7.21	8.22
Total consumer	**5.49**	5.73	5.92	5.91	5.95
Total loans and leases	**5.04**	5.21	5.07	5.04	5.02
Total earning assets	**4.63%**	4.82%	4.70%	4.86%	4.99%
Liabilities and Shareholders Equity					
Deposits:					
Demand deposits noninterest-bearing	**%**	%	%	%	%
Demand deposits interest-bearing	**0.22**	0.22	0.22	0.22	0.18
Money market deposits	**0.93**	1.00	1.21	1.20	1.14

Savings and other domestic time deposits	**1.07**	1.19	1.27	1.33	1.37
Core certificates of deposit	**2.68**	2.93	3.07	3.27	3.50
Total core deposits	**1.33**	1.51	1.71	1.88	2.06
Other domestic time deposits of $250,000 or more	**1.37**	1.44	1.88	2.24	2.61
Brokered time deposits and negotiable CDs	**2.56**	2.49	2.52	2.49	2.54
Deposits in foreign offices	**0.19**	0.19	0.18	0.20	0.20
Total deposits	**1.37**	1.55	1.75	1.92	2.11
Short-term borrowings	**0.21**	0.21	0.24	0.25	0.26
Federal Home Loan Bank advances	**1.93**	2.71	1.01	0.92	1.13
Subordinated notes and other long-term debt	**2.05**	2.25	2.67	2.58	2.91
Total interest-bearing liabilities	**1.41%**	1.60%	1.80%	1.93%	2.14%
Net interest rate spread	**3.22%**	3.22%	2.90%	2.93%	2.85%
Impact of noninterest-bearing funds on margin	**0.24**	0.25	0.29	0.27	0.25
Net interest margin	**3.46%**	3.47%	3.19%	3.20%	3.10%

(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.

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2010 First Six Months versus 2009 First Six Months

Fully-taxable equivalent net interest income for the first six-month period of 2010 increased $106.1 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 3.47% from 3.03% and, to a lesser degree, a 1% 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 $3.7 million, or 77%, increase in average total investment securities, mostly offset by a $2.9 billion, or 7%, 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 Six Months vs. 2009 First Six Months

	Six Months Ended June 30,		Change	
(dollar amounts in millions)	**2010**	2009	Amount	Percent
Loans/Leases				
Commercial and industrial	**$ 12,279**	$ 13,532	$ (1,253)	(9)%
Commercial real estate	**7,520**	9,653	(2,133)	(22)
Total commercial	**19,799**	23,185	(3,386)	(15)
Automobile loans and leases	**4,443**	3,820	623	16
Home equity	**7,541**	7,609	(68)	(1)
Residential mortgage	**4,543**	4,634	(91)	(2)
Other consumer	**709**	683	26	4
Total consumer	**17,236**	16,746	490	3
Total loans and leases	**$ 37,035**	$ 39,931	$ (2,896)	(7)%
Deposits				
Demand deposits noninterest-bearing	**$ 6,739**	$ 5,784	$ 955	17%
Demand deposits interest-bearing	**5,844**	4,312	1,532	36
Money market deposits	**10,723**	5,975	4,748	79
Savings and other domestic time deposits	**4,645**	5,036	(391)	(8)
Core certificates of deposit	**9,586**	12,643	(3,057)	(24)
Total core deposits	**37,537**	33,750	3,787	11
Other deposits	**2,759**	5,115	(2,356)	(46)
Total deposits	**$ 40,296**	$ 38,865	$ 1,431	4%

The $2.9 billion, or 7%, decrease in average total loans and leases primarily reflected:

$3.4 billion, or 15%, decline in average total commercial loans as C&I loans declined $1.3 billion, or 9%, and CRE loans declined $2.1 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, including reductions in our automobile dealer floorplan exposure, 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:

$0.5 billion, or 3%, increase in average total consumer loans. This growth reflected a $0.6 billion, or 16%, 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 June 30, 2010, these securitized loans had a remaining balance of $0.7 billion. Additionally, underlying growth in automobile loans continued to be strong, reflecting a 139% increase in loan originations compared with the year-ago period. These increases were partially offset by a $0.3 billion, or 60%, 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. The transfer of the Franklin-related loans into loans held for sale occurred at the end of the 2010 second quarter and had no impact on related average residential mortgages or home equity loans *(see Significant Item 2).*

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Offsetting the decline in average total loans and leases on average earning assets was a $3.7 billion, or 77%, 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 $1.4 billion, or 4%, increase in average total deposits reflected:

- $3.8 billion, or 11%, growth in average total core deposits, primarily reflecting our focus on growing money market and demand deposit accounts.

Partially offset by:

- $1.9 billion, or 53%, decline in brokered and negotiable CDs, and a $0.3 billion, or 30%, decline in average other domestic deposits over $250,000, primarily reflecting a reduction of noncore funding sources.

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

	YTD Average Balances				YTD Average Rates (2)	
	Six Months Ended June 30,		Change		Six Months Ended June 30,	
Fully-taxable equivalent basis (1) *(dollar amounts in millions)*	**2010**	2009	Amount	Percent	**2010**	2009
Assets						
Interest-bearing deposits in banks	**$ 328**	$ 362	$ (34)	(9)%	**0.19%**	0.41%
Trading account securities	**112**	182	(70)	(38)	**1.92**	3.61
Federal funds sold and securities purchased under resale agreement		9	(9)	(100)		0.21
Loans held for sale	**334**	668	(334)	(50)	**5.00**	5.12
Investment securities:						
Taxable	**8,197**	4,575	3,622	79	**2.89**	5.05
Tax-exempt	**418**	295	123	42	**4.47**	6.68
Total investment securities	**8,615**	4,870	3,745	77	**2.97**	5.15
Loans and leases: (3)						
Commercial:						
Commercial and industrial	**12,279**	13,532	(1,253)	(9)	**5.45**	4.80
Construction	**1,344**	1,989	(645)	(32)	**2.64**	2.77
Commercial	**6,176**	7,664	(1,488)	(19)	**3.64**	3.66
Commercial real estate	**7,520**	9,653	(2,133)	(22)	**3.46**	3.48
Total commercial	**19,799**	23,185	(3,386)	(15)	**4.70**	4.25
Consumer:						
Automobile loans	**4,253**	3,350	903	27	**6.55**	7.23
Automobile leases	**190**	470	(280)	(60)	**6.49**	6.07
Automobile loans and leases	**4,443**	3,820	623	16	**6.54**	7.09
Home equity	**7,541**	7,609	(68)	(1)	**5.42**	5.44
Residential mortgage	**4,543**	4,634	(91)	(2)	**4.79**	5.41
Other loans	**709**	683	26	4	**6.92**	8.58
Total consumer	**17,236**	16,746	490	3	**5.61**	5.94
Total loans and leases	**37,035**	39,931	(2,896)	(7)	**5.12**	4.96

Allowance for loan and lease losses	**(1,508)**	(922)	(586)	64		
Net loans and leases	**35,527**	39,009	(3,482)	(9)		
Total earning assets	**46,424**	46,022	402	1	**4.72%**	5.00%
Cash and due from banks	**1,634**	2,012	(378)	(19)		
Intangible assets	**717**	2,069	(1,352)	(65)		
All other assets	**4,436**	3,637	799	22		
Total assets	**$ 51,703**	$ 52,818	$ (1,115)	(2)%		

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Fully-taxable equivalent basis (1) *(dollar amounts in millions)*	YTD Average Balances Six Months Ended June 30, **2010**	2009	Change Amount	Change Percent	YTD Average Rates (2) Six Months Ended June 30, **2010**	2009
Liabilities and Shareholders Equity						
Deposits:						
Demand deposits noninterest-bearing	**$ 6,739**	$ 5,784	$ 955	17%	**%**	%
Demand deposits interest-bearing	**5,844**	4,312	1,532	36	**0.22**	0.16
Money market deposits	**10,723**	5,975	4,748	79	**0.96**	1.09
Savings and other domestic time deposits	**4,645**	5,036	(391)	(8)	**1.13**	1.43
Core certificates of deposit	**9,586**	12,643	(3,057)	(24)	**2.81**	3.66
Total core deposits	**37,537**	33,750	3,787	11	**1.42**	2.17
Other domestic time deposits of $250,000 or more	**680**	977	(297)	(30)	**1.41**	2.78
Brokered time deposits and negotiable CDs	**1,673**	3,596	(1,923)	(53)	**2.52**	2.74
Deposits in foreign offices	**406**	542	(136)	(25)	**0.19**	0.18
Total deposits	**40,296**	38,865	1,431	4	**1.46**	2.22
Short-term borrowings	**947**	988	(41)	(4)	**0.21**	0.26
Federal Home Loan Bank advances	**196**	1,677	(1,481)	(88)	**2.28**	1.06
Subordinated notes and other long-term debt	**3,948**	4,627	(679)	(15)	**2.15**	3.10
Total interest-bearing liabilities	**38,648**	40,373	(1,725)	(4)	**1.51**	2.22
All other liabilities	**935**	591	344	58		
Shareholders equity	**5,381**	6,070	(689)	(11)		
Total liabilities and shareholders equity	**$ 51,703**	$ 52,818	$ (1,115)	(2)%		
Net interest rate spread					**3.21**	2.78
Impact of noninterest-bearing funds on margin					**0.26**	0.25
Net interest margin					**3.47%**	3.03%

(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.

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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 second quarter was $193.4 million, down $41.6 million, or 18%, from the prior quarter and down $220.3 million, or 53%, from the year-ago quarter. The 2010 second quarter included $80.0 million of Franklin-related credit provision, and reflected $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 utilization of previously established reserves, the current quarter s provision for credit losses was $85.8 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

	2010		2009		
(in millions)	**Second**	First	Fourth	Third	Second
Provision for (reduction to) credit losses					
Franklin	$ **80.0**	$ 11.5	$ 1.2	$ (3.5)	$ (10.1)
Non-Franklin	**113.4**	223.5	892.8	478.6	423.8
Total	$ **193.4**	$ 235.0	$ 894.0	$ 475.1	$ 413.7
Total net charge-offs (recoveries)					
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)	(10.1)
Non-Franklin	**199.2**	227.0	443.5	359.4	344.5
Total	$ **279.2**	$ 238.5	$ 444.7	$ 355.9	$ 334.4
Provision for (reduction to) credit losses in excess of net charge-offs					
Franklin	$	$	$	$	$
Non-Franklin	**(85.8)**	(3.5)	449.3	119.2	79.3
Total	$ **(85.8)**	$ (3.5)	$ 449.3	$ 119.2	$ 79.3

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

	2010		2009		
(dollar amounts in thousands)	**Second**	First	Fourth	Third	Second
Service charges on deposit accounts	**$ 75,934**	$ 69,339	$ 76,757	$ 80,811	$ 75,353
Brokerage and insurance income	**36,498**	35,762	32,173	33,996	32,052
Mortgage banking income	**45,530**	25,038	24,618	21,435	30,827
Trust services	**28,399**	27,765	27,275	25,832	25,722
Electronic banking	**28,107**	25,137	25,173	28,017	24,479
Bank owned life insurance income	**14,392**	16,470	14,055	13,639	14,266
Automobile operating lease income	**11,842**	12,303	12,671	12,795	13,116
Securities gains (losses)	**156**	(31)	(2,602)	(2,374)	(7,340)
Other income	**28,785**	29,069	34,426	41,901	57,470
Total noninterest income	**$ 269,643**	$ 240,852	$ 244,546	$ 256,052	$ 265,945

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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

	2010		2009		
(dollar amounts in thousands)	**Second**	First	Fourth	Third	Second
Mortgage Banking Income					
Origination and secondary marketing	**$ 19,778**	$ 13,586	$ 16,473	$ 16,491	$ 31,782
Servicing fees	**12,178**	12,418	12,289	12,320	12,045
Amortization of capitalized servicing	**(10,137)**	(10,065)	(10,791)	(10,050)	(14,445)
Other mortgage banking income	**3,664**	3,210	4,466	4,109	5,381
Sub-total	**25,483**	19,149	22,437	22,870	34,763
MSR valuation adjustment(1)	**(26,221)**	(5,772)	15,491	(17,348)	46,551
Net trading gain (loss) related to MSR hedging	**46,268**	11,661	(13,310)	15,913	(50,487)
Total mortgage banking income	**$ 45,530**	$ 25,038	$ 24,618	$ 21,435	$ 30,827
Mortgage originations (in millions)	**$ 1,161**	$ 869	$ 1,131	$ 998	$ 1,587
Average trading account securities used to hedge MSRs (in millions)	**28**	18	19	19	20
Capitalized mortgage servicing rights(2)	**179,138**	207,552	214,592	200,969	219,282
Total mortgages serviced for others (in millions)(2)	**15,954**	15,968	16,010	16,145	16,246
MSR % of investor servicing portfolio	**1.12%**	1.30%	1.34%	1.24%	1.35%
Net Impact of MSR Hedging					
MSR valuation adjustment(1)	**$ (26,221)**	$ (5,772)	$ 15,491	$ (17,348)	$ 46,551
Net trading gain (loss) related to MSR hedging	**46,268**	11,661	(13,310)	15,913	(50,487)
Net interest income related to MSR hedging	**58**	169	168	191	199
Net impact of MSR hedging	**$ 20,105**	$ 6,058	$ 2,349	$ (1,244)	$ (3,737)

(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 Second Quarter versus 2009 Second Quarter

Noninterest income increased $3.7 million, or 1%, from the year-ago quarter.

Table 14 Noninterest Income 2010 Second Quarter vs. 2009 Second Quarter

	Second Quarter		Change	
(dollar amounts in thousands)	**2010**	2009	Amount	Percent
Service charges on deposit accounts	**$ 75,934**	$ 75,353	$ 581	1%
Brokerage and insurance income	**36,498**	32,052	4,446	14
Mortgage banking income	**45,530**	30,827	14,703	48
Trust services	**28,399**	25,722	2,677	10
Electronic banking	**28,107**	24,479	3,628	15
Bank owned life insurance income	**14,392**	14,266	126	1
Automobile operating lease income	**11,842**	13,116	(1,274)	(10)
Securities gains (losses)	**156**	(7,340)	7,496	N.M.
Other income	**28,785**	57,470	(28,685)	(50)
Total noninterest income	**$ 269,643**	$ 265,945	$ 3,698	1%

N.M., not a meaningful value.

The $3.7 million, or 1%, increase in total noninterest income from the year-ago quarter reflected:

$14.7 million, or 48%, increase in mortgage banking income. MSR hedging-related activities contributed a $24.0 million net increase. We use an independent outside third party to monitor our MSR asset valuation and assumptions. Based on updated market data and trends, the prepayment assumptions were lowered, which increased the value of the MSR. Partially offsetting this benefit was a $12.0 million, or 38%, decline in origination and secondary marketing income as originations were 27% below the year-ago quarter.

$7.3 million of securities losses in the year-ago quarter.

$4.4 million, or 14%, increase in brokerage and insurance income, primarily reflecting higher annuity sales, and to a lesser degree an increase in mutual fund and fixed income product sales.

$3.6 million, or 15%, increase in electronic banking income reflecting higher debit-card transaction volumes.

$2.7 million, or 10%, increase in trust services income, reflecting a combination of higher asset market values, asset growth, fee increases, and income related to tax preparation fees.

Partially offset by:

$28.7 million, or 50%, decline in other income, as the year-ago quarter included a $31.4 million gain on the sale of Visa® stock.

2010 Second Quarter versus 2010 First Quarter

Noninterest income increased $28.8 million, or 12%, from the prior quarter.

Table 15 Noninterest Income 2010 Second Quarter vs. 2010 First Quarter

(dollar amounts in thousands)	**2010 Second Quarter**	2010 First Quarter	Change Amount	Change Percent
Service charges on deposit accounts	**$ 75,934**	$ 69,339	$ 6,595	10%
Brokerage and insurance income	**36,498**	35,762	736	2
Mortgage banking income	**45,530**	25,038	20,492	82
Trust services	**28,399**	27,765	634	2
Electronic banking	**28,107**	25,137	2,970	12
Bank owned life insurance income	**14,392**	16,470	(2,078)	(13)
Automobile operating lease income	**11,842**	12,303	(461)	(4)
Securities gains (losses)	**156**	(31)	187	N.M.
Other income	**28,785**	29,069	(284)	(1)
Total noninterest income	**$ 269,643**	$ 240,852	$ 28,791	12%

N.M., not a meaningful value.

The $28.8 million, or 12%, increase in total noninterest income from the prior quarter reflected:

$20.5 million, or 82%, increase in mortgage banking income. MSR hedging-related activities contributed a $14.2 million net increase, with the increase reflecting updated market data and trends, and lowered prepayment assumptions. In addition, origination and secondary marketing income increased $6.2 million, or 46%, from the prior quarter, reflecting a 34% increase in mortgage originations as borrowers took advantage of low interest rates.

$6.6 million, or 10%, increase in service charges on deposit accounts, primarily reflecting seasonally higher personal nonsufficient funds and overdraft service charges.

$3.0 million, or 12%, increase in electronic banking income reflecting higher debit-card transaction volumes.

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Partially offset by:

$2.1 million, or 13%, decline in bank owned life insurance income as the prior quarter included $2.6 million in realized policy benefits.

2010 First Six Months versus 2009 First Six Months

The following table reflects noninterest income for the first six-month period of 2010 and the first six-month period of 2009:

Table 16 Noninterest Income 2010 First Six Months vs. 2009 First Six Months

	Six Months Ended June 30,		Change	
(dollar amounts in thousands)	**2010**	2009	Amount	Percent
Service charges on deposit accounts	**$ 145,273**	$ 145,231	$ 42	%
Brokerage and insurance income	**72,260**	72,000	260	
Mortgage banking income	**70,568**	66,245	4,323	7
Trust services	**56,164**	50,532	5,632	11
Electronic banking	**53,244**	46,961	6,283	13
Bank owned life insurance income	**30,862**	27,178	3,684	14
Automobile operating lease income	**24,145**	26,344	(2,199)	(8)
Securities losses	**125**	(5,273)	5,398	N.M.
Other income	**57,854**	75,829	(17,975)	(24)
Total noninterest income	**$ 510,495**	$ 505,047	$ 5,448	1%

N.M., not a meaningful value.

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

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

(in thousands, except as noted)	**Six Months Ended June 30, 2010**	2009	YTD Change 2010 vs 2009 Amount	Percent
Mortgage Banking Income				
Origination and secondary marketing	**$ 33,364**	$ 61,747	$ (28,383)	(46)%
Servicing fees	**24,596**	23,885	711	3
Amortization of capitalized servicing	**(20,202)**	(26,730)	6,528	(24)
Other mortgage banking income	**6,874**	14,785	(7,911)	(54)
Subtotal	**44,632**	73,687	(29,055)	(39)
MSR valuation adjustment[1]	**(31,993)**	36,162	(68,155)	N.M.
Net trading gains (losses) related to MSR hedging	**57,929**	(43,604)	101,533	N.M.
Total mortgage banking income	**$ 70,568**	$ 66,245	$ 4,323	7%
Mortgage originations (in millions)	**$ 2,030**	$ 3,133	$ (1,103)	(35)%
MSRs (in millions)	**23**	121	(98)	(81)
Capitalized mortgage servicing rights[2]	**179,138**	219,282	(40,144)	(18)
Total mortgages serviced for others (in millions)[2]	**15,954**	16,246	(292)	(2)
MSR % of investor servicing portfolio	**1.12%**	1.35%	(0.23)%	N.M.%
MSR valuation adjustment[1]	**$ (31,993)**	$ 36,162	$ (68,155)	N.M.%
Net trading gains (losses) related to MSR hedging	**57,929**	(43,604)	101,533	N.M.
Net interest income related to MSR hedging	**227**	2,640	(2,413)	(91)
Net impact of MSR hedging	**$ 26,163**	$ (4,802)	$ 30,965	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 $5.4 million, or 1%, increase in total noninterest income reflected:

- $6.3 million, or 13%, increase in electronic banking reflecting increased debit card transaction volumes.
- $5.6 million, or 11%, increase in trust services income reflecting a combination of higher asset market values, asset growth, fee increases, and income related to tax preparation fees.
- $5.3 million securities losses in the year-ago period.
- $4.3 million, or 7%, increase in mortgage banking income. MSR hedging-related activity improved $33.4 million compared with the year-ago period reflecting updated market data and trends, as well as lowered prepayment assumptions. This benefit was partially offset by a $28.4 million decline in origination and secondary marketing income as originations were 35% below the year-ago period.
- $3.7 million, or 14%, increase in bank owned life insurance income reflecting $1.7 million in realized policy benefits.

Partially offset by:

- $18.0 million, or 24%, decline in other income as the year-ago period included a $31.4 million gain on the sale of Visa® stock, partially offset by a $5.9 million automobile loan securitization loss.

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

	2010		2009		
(dollar amounts in thousands)	**Second**	First	Fourth	Third	Second
Personnel costs	**$ 194,875**	$ 183,642	$ 180,663	$ 172,152	$ 171,735
Outside data processing and other services	**40,670**	39,082	36,812	38,285	40,006
Deposit and other insurance expense	**26,067**	24,755	24,420	23,851	48,138
Net occupancy	**25,388**	29,086	26,273	25,382	24,430
OREO and foreclosure expense	**4,970**	11,530	18,520	38,968	26,524
Equipment	**21,585**	20,624	20,454	20,967	21,286
Professional services	**24,388**	22,697	25,146	18,108	16,658
Amortization of intangibles	**15,141**	15,146	17,060	16,995	17,117
Automobile operating lease expense	**9,667**	10,066	10,440	10,589	11,400
Marketing	**17,682**	11,153	9,074	8,259	7,491
Telecommunications	**6,205**	6,171	6,099	5,902	6,088
Printing and supplies	**3,893**	3,673	3,807	3,950	4,151
Goodwill impairment					4,231
Gain on early extinguishment of debt			(73,615)	(60)	(73,038)
Other	**23,279**	20,468	17,443	17,749	13,765
Total noninterest expense	**$ 413,810**	$ 398,093	$ 322,596	$ 401,097	$ 339,982
Number of employees (full-time equivalent), at period-end	**11,117**	10,678	10,272	10,194	10,338

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2010 Second Quarter versus 2009 Second Quarter

Noninterest expense increased $73.8 million, or 22%, from the year-ago quarter.

Table 19 Noninterest Expense 2010 Second Quarter vs. 2009 Second Quarter

	Second Quarter		Change	
(dollar amounts in thousands)	**2010**	2009	Amount	Percent
Personnel costs	**$ 194,875**	$ 171,735	$ 23,140	13%
Outside data processing and other services	**40,670**	40,006	664	2
Deposit and other insurance expense	**26,067**	48,138	(22,071)	(46)
Net occupancy	**25,388**	24,430	958	4
OREO and foreclosure expense	**4,970**	26,524	(21,554)	(81)
Equipment	**21,585**	21,286	299	1
Professional services	**24,388**	16,658	7,730	46
Amortization of intangibles	**15,141**	17,117	(1,976)	(12)
Automobile operating lease expense	**9,667**	11,400	(1,733)	(15)
Marketing	**17,682**	7,491	10,191	N.M.
Telecommunications	**6,205**	6,088	117	2
Printing and supplies	**3,893**	4,151	(258)	(6)
Goodwill impairment		4,231	(4,231)	N.M.
Gain on early extinguishment of debt		(73,038)	73,038	N.M.
Other expense	**23,279**	13,765	9,514	69
Total noninterest expense	**$ 413,810**	$ 339,982	$ 73,828	22%
Number of employees, (full-time equivalent), at period-end	11,117	10,338	779	8%

N.M., not a meaningful value.

The $73.8 million, or 22%, increase in total noninterest expense from the year-ago quarter reflected:

- $73.0 million benefit in the year-ago quarter from a gain on the early extinguishment of debt.
- $23.1 million, or 13%, increase in personnel costs, primarily reflecting an 8% 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.
- $10.2 million increase in marketing expense reflecting increases in branding and product advertising activities in support of strategic initiatives.
- $9.5 million, or 69%, increase in other expense, reflecting a combination of factors including a $5.2 million 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.
- $7.7 million, or 46%, increase in professional services, reflecting higher consulting and legal expenses.

Partially offset by:

- $22.1 million, or 46%, decrease in deposit and other insurance expense primarily due to a $23.6 million FDIC insurance special assessment in the year-ago quarter.
- $21.6 million, or 81%, decline in OREO and foreclosure expense.
- $4.2 million goodwill impairment in the year-ago quarter.

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2010 Second Quarter versus 2010 First Quarter

Noninterest expense increased $15.7 million, or 4%, from the prior quarter.

Table 20 Noninterest Expense 2010 Second Quarter vs. 2010 First Quarter

(dollar amounts in thousands)	**2010 Second Quarter**	2010 First Quarter	Change Amount	Change Percent
Personnel costs	**$ 194,875**	$ 183,642	$ 11,233	6%
Outside data processing and other services	**40,670**	39,082	1,588	4
Deposit and other insurance expense	**26,067**	24,755	1,312	5
Net occupancy	**25,388**	29,086	(3,698)	(13)
OREO and foreclosure expense	**4,970**	11,530	(6,560)	(57)
Equipment	**21,585**	20,624	961	5
Professional services	**24,388**	22,697	1,691	7
Amortization of intangibles	**15,141**	15,146	(5)	
Automobile operating lease expense	**9,667**	10,066	(399)	(4)
Marketing	**17,682**	11,153	6,529	59
Telecommunications	**6,205**	6,171	34	1
Printing and supplies	**3,893**	3,673	220	6
Other expense	**23,279**	20,468	2,811	14
Total noninterest expense	**$ 413,810**	$ 398,093	$ 15,717	4%
Number of employees, (full-time equivalent), at period-end	**11,117**	10,678	439	4%

The $15.7 million, or 4%, increase in total noninterest expense from the prior quarter reflected:

- $11.2 million, or 6%, increase in personnel costs, primarily reflecting higher salaries due to a 4% increase in full-time equivalent staff in support of strategic initiatives, as well as a full quarter s impact of merit increases and reinstatement of our 401(k) plan matching contribution.
- $6.5 million, or 59%, increase in marketing expense, reflecting increases in branding and product advertising activities in support of strategic initiatives.
- $2.8 million, or 14%, increase in other expense, reflecting a $5.4 million increase in repurchase reserves related to representations and warranties made on mortgage loans sold, partially offset by a decrease in franchise and other taxes.

Partially offset by:

- $6.6 million, or 57%, decrease in OREO and foreclosure expense.
- $3.7 million, or 13%, decrease in net occupancy expense, primarily reflecting seasonally lower expenses.

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2010 First Six Months versus 2009 First Six Months

The following table reflects noninterest expense for the first six-month period of 2010 and the first six-month period of 2009:

Table 21 Noninterest Expense 2010 First Six Months vs. 2009 First Six Months

	Six Months Ended June 30,		Change	
(dollar amounts in thousands)	**2010**	2009	Amount	Percent
Personnel costs	**$ 378,517**	$ 347,667	$ 30,850	9%
Outside data processing and other services	**79,752**	72,998	6,754	9
Deposit and other insurance expense	**50,822**	65,559	(14,737)	(22)
Net occupancy	**54,474**	53,618	856	2
OREO and foreclosure expense	**16,500**	36,411	(19,911)	(55)
Equipment	**42,209**	41,696	513	1
Professional services	**47,085**	33,112	13,973	42
Amortization of intangibles	**30,287**	34,252	(3,965)	(12)
Automobile operating lease expense	**19,733**	22,331	(2,598)	(12)
Marketing	**28,835**	15,716	13,119	83
Telecommunications	**12,376**	11,978	398	3
Printing and supplies	**7,566**	7,723	(157)	(2)
Goodwill impairment		2,606,944	(2,606,944)	N.M.
Gain on early extinguishment of debt		(73,767)	73,767	N.M.
Other expense	**43,747**	33,513	10,234	31
Total noninterest expense	**$ 811,903**	$ 3,309,751	$ (2,497,848)	(75)%
Number of employees, (full-time equivalent), at period-end	11,117	10,338	779	8%

N.M., not a meaningful value.

The $2,497.8 million, or 75%, decrease in total noninterest expense reflected:

- $2,606.9 million of goodwill impairment in the year-ago period.
- $19.9 million, or 55%, decline in OREO and foreclosure expense reflecting lower OREO losses.
- $14.7 million, or 22%, 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.
- $30.9 million, or 9%, increase in personnel costs, primarily reflecting an 8% 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.
- $14.0 million, or 42%, increase in professional services reflecting higher collection-related expenses, as well as an increase in consulting expenses and legal expenses.
- $13.1 million, or 83%, increase in marketing expense, reflecting increases in branding and product advertising activities in support of strategic initiatives.
- $10.2 million, or 31%, increase in other expense reflecting $7.1 million of higher franchise and other taxes, $5.7 million of legal fees associated with redemption of a bank note, and a $6.3 million increase in

repurchase reserves related to representations and warranties made on mortgage loans sold. These increases were partially offset by $5.6 million of lower automobile lease residual value expense as used vehicle prices improved.

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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 second quarter was $13.3 million. This compared with a tax benefit of $38.1 million in the 2010 first quarter and a tax benefit of $12.8 million in the 2009 second quarter. As of June 30, 2010, we had a net deferred tax asset of $389.8 million. 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 that 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 that 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.*)

RISK MANAGEMENT AND CAPITAL

Risk identification and monitoring are key elements in overall risk management. We believe our primary risk exposures are credit, market, liquidity, and operational risk. We hold capital proportionately against these risks. More information on risk can be found under the heading Risk Factors included in Item 1A of our 2009 Form 10-K, and subsequent filings with the Securities and Exchange Commission. Additionally, the MD&A included in our 2009 Form 10-K, should be read in conjunction with the MD&A as this report provides only material updates to the 2009 Form 10-K. Our definition, philosophy, and approach to risk management have not materially changed from the discussion presented in the 2009 Form 10-K.

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)*. Credit risk is mitigated through a combination of credit policies and processes, market risk management activities, and portfolio diversification.

Credit Loan and Lease Exposure Mix

At June 30, 2010, commercial loans totaled $19.6 billion, and represented 53% 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 vast majority of these borrowers are commercial customers doing business within our geographic regions. C&I loans are generally underwritten individually and usually 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 sale of the real estate is not considered the primary repayment source for the loan.

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.

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 otherwise have secured permanent financing, as well as loans to real estate companies that have significant equity invested in each project. These loans are generally 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 $17.4 billion at June 30, 2010, and represented 47% 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).*

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. Real estate market values as of the time the loan or line is granted directly affect the amount of credit extended and, in addition, changes in these values impact the severity of losses.

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 majority of our fixed-rate originations in the secondary market.

Automobile loans/leases Automobile loans/leases is primarily comprised of loans made through automotive dealerships, and includes exposure in selected out-of-market states. However, no out-of-market state represented more than 10% of our total automobile loan and lease portfolio. Our automobile lease portfolio will continue to decline as we exited the automobile leasing business during the 2008 fourth quarter.

Table 22 Loan and Lease Portfolio Composition

	2010						2009			
(dollar amounts in millions)	**June 30,**		March 31,		December 31,		September 30,		June 30,	
Commercial[1]										
Commercial and industrial[2]	**$ 12,392**	**34%**	$ 12,245	33%	**$** 12,888	35%	$ 12,547	34%	$ 13,320	35%
Construction	**1,106**	**3**	1,443	4	1,469	4	1,815	5	1,857	5
Commercial[2]	**6,078**	**16**	6,013	16	6,220	17	6,900	18	7,089	18
Total commercial real estate	**7,184**	**19**	7,456	20	7,689	21	8,715	23	8,946	23
Total commercial	**19,576**	**53**	19,701	53	20,577	56	21,262	57	22,266	58
Consumer:										
Automobile loans[3]	**4,712**	**13**	4,212	11	3,144	9	2,939	8	2,855	7
Automobile leases	**135**		191	1	246	1	309	1	383	1
Home equity	**7,510**	**20**	7,514	20	7,563	21	7,576	20	7,631	20
Residential mortgage	**4,354**	**12**	4,614	12	4,510	12	4,468	12	4,646	12
Other loans	**683**	**2**	700	3	751	2	750	2	714	2
Total consumer	**17,394**	**47**	17,231	47	16,214	44	16,042	43	16,229	42
Total loans and leases	**$ 36,970**	**100%**	$ 36,932	100%	$ 36,791	100%	$ 37,304	100%	$ 38,495	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 first quarter and 2009 fourth quarter reflected net reclassifications from commercial real

estate loans to commercial and industrial loans of $782.2 million and $589.0 million, respectively.

(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 automobile loan securitization transaction.

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. 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 continuous analysis and review process results in a determination of the risk level and an appropriate ALLL amount for our commercial loan portfolio.

Credit exposures may be designated as monitored credits when warranted by individual borrower performance, or by industry and environmental factors. Monitored credits are subjected to additional monthly reviews in order to adequately assess the borrower s credit status and to take appropriate action.

Our Special Assets Division (SAD) is a specialized credit group that handles workouts, commercial recoveries, and problem loan sales. This group is involved in the day-to-day management of relationships rated substandard or lower. 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 monitored credits.

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Our commercial loan portfolio, including CRE loans, is diversified by customer size, as well as throughout our geographic footprint. Beginning in 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 that the changes provide improved visibility and clarity to us and our investors.

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 $7.2 billion and represented 19% of our total loan exposure at June 30, 2010.

Table 23 Commercial Real Estate Loans by Property Type and Property Location

	June 30, 2010									
(dollar amounts in millions)	Ohio	Michigan	Pennsylvania	Indiana	Kentucky	Florida	West Virginia	Other	**Total Amount**	**%**
Retail properties	$ 786	$ 190	$ 150	$ 201	$ 8	$ 66	$ 46	$ 513	$ **1,960**	**27**%
Multi family	791	118	104	71	37	1	75	112	**1,309**	**18**
Office	596	233	112	59	19	25	59	59	**1,162**	**16**
Industrial and warehouse	426	187	37	85	14	35	11	84	**879**	**12**
Single family home builders	429	64	39	18	16	63	18	37	**684**	**10**
Lines to real estate companies	489	28	17	24	1	1	7	3	**570**	**8**
Hotel	139	52	18	36			44	95	**384**	**5**
Raw land and other land uses	49	31	3	7	5	5	4	17	**121**	**2**
Health care	27	30	15	2					**74**	**1**
Other	26	3	2	1	8			1	**41**	**1**
Total	**$** 3,758	**$** 936	**$** 497	**$** 504	**$** 108	**$** 196	**$** 264	**$** 921	$ **7,184**	**100**%
% of total portfolio	52%	13%	7%	7%	2%	3%	4%	13%	**100%**	
Net charge-offs (for the first six-month period of 2010)	$ 79.6	$ 23.1	$ 4.5	$ 1.8	$ 2.6	$ 10.7	$ 0.5	$ 44.2	$ **167.0**	
Net charge-offs - annualized %	4.05%	4.71%	1.73%	0.68%	4.54%	10.50%	0.38%	9.17%	**4.44%**	
Nonaccrual loans	$ 358.3	$ 54.7	$ 39.1	$ 27.8	$ 8.0	$ 28.0	$ 19.5	$ 127.7	$ **663.1**	
% of related outstandings	10%	6%	8%	6%	7%	14%	7%	14%	**9%**	

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

	Net Charge-offs				Nonaccrual Loans			
	Six Months Ended June 30,				**June 30,**		December 31,	
	2010		2009		**2010**		2009	
(dollar amounts in millions)	**Amount**	**Percentage**	Amount	Percentage	**Amount**	**Percent (1)**	Amount	Percent (1)
Retail properties	**$ 69.5**	**6.73%**	$ 79.1	6.88%	**$ 184.6**	**9%**	$ 253.6	12%
Industrial and warehouse	**25.9**	**5.75**	15.2	2.53	**93.1**	**11**	120.8	13
Single family home builder	**32.9**	**8.32**	81.8	14.08	**150.0**	**22**	262.4	31
Multi family	**17.3**	**2.61**	29.4	3.69	**105.5**	**8**	129.0	9
Lines to real estate companies	**3.4**	**1.08**	32.1	5.72	**18.5**	**3**	22.7	4
Office	**9.9**	**1.73**	9.8	1.52	**62.6**	**5**	87.3	8
Hotel	**1.8**	**0.93**			**18.0**	**5**	10.9	3
Raw land and other land uses	**6.0**	**8.94**	7.4	7.56	**23.6**	**20**	42.4	32
Health care	**0.2**	**0.39**			**0.5**	**1**	0.7	1
Other	**0.1**	**0.53**	0.6	2.01	**6.7**	**17**	6.0	16
Total	**$ 167.0**	**4.44%**	$ 255.4	5.29%	**$ 663.1**	**9%**	$ 935.8	12%

(1) Represents percentage of related outstanding loans.

As shown in the table above, NCOs during the first six-month period of 2010 were materially lower than in the comparable year-ago period. Although NCOs in the industrial and warehouse segment increased, this increase was not an indication of a significant increasing trend. While there has been some recent stabilization in the market, we anticipate the current stress within this portfolio will continue for the foreseeable future.

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 loan-to-value (LTV), 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 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 loan 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 have initiated 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 actions indicated that additional stress is likely due to the current economic conditions. Property values are updated using appraisals on a regular basis to ensure that 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 $2.0 billion, or approximately 5% of total loans and leases, at June 30, 2010. Loans within this portfolio segment declined $0.2 billion, or 7%, from 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 weakness of the economic environment in our geographic regions continues to significantly impact the projects that secure the loans in this portfolio segment. Lower occupancy rates, reduced rental rates, increased unemployment levels compared with recent years, and the expectation that these levels will continue to increase 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 to this portfolio segment, and we analyze our retail property loans in detail by combining property type, geographic location, tenants, and other data, to assess and manage our credit concentration risks.

Single Family Home Builders

At June 30, 2010, we had $0.7 billion of CRE loans to single family home builders. Such loans represented 2% of total loans and leases. Of this portfolio segment, 66% were to finance construction projects, 15% to finance land under development, and 19% to finance land held for development. The $0.7 billion represented a $0.2 billion, or 20%, decrease compared with $0.9 billion at December 31, 2009. The decrease primarily reflected run-off activity as no new loans have been originated since 2008, property sale activity, and charge-offs. Based on portfolio management processes, including charge-off activity, over the past 30 months, we believe that we have substantially addressed the credit issues in this portfolio. We do not anticipate any future significant credit impact from this portfolio segment.

Core and Noncore portfolios

Each CRE loan is classified as either core or noncore. We segmented the CRE portfolio into these designations in order to provide more clarity around our portfolio management strategies and to provide additional clarity for us and our investors. 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 or the prospective of establishing one, that generates an acceptable return on capital. The core CRE portfolio was $4.0 billion at June 30, 2010, representing 55% 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 the extensive project level assessment process, including forward-looking collateral valuations, we are comfortable with the credit quality of the core portfolio at this time.

A CRE loan is generally considered noncore based on a 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 $3.2 billion at June 30, 2010, and represented 45% of total CRE loans. Of the loans in the noncore portfolio at June 30, 2010, 46% were classified as pass or better, 95% had guarantors, 99% was secured, and 89% was located within our geographic footprint. However, it is within the noncore portfolio where most of the credit quality challenges exist. For example, $0.6 billion, or 19%, of related outstanding balances, are classified as NALs. SAD administered $1.6 billion, or 50%, of total noncore CRE loans at June 30, 2010. It is expected that we will exit the majority of noncore CRE relationships over time. This would reflect normal repayments, possible sales should economically attractive opportunities arise, or the reclassification as a core CRE relationship if it expands to meet the core requirements.

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

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

	June 30, 2010									
(dollar amounts in millions)	Ohio	Michigan	Pennsylvania	Indiana	Kentucky	Florida	West Virginia	Other	**Total Amount**	%
Core portfolio:										
Retail properties	$ 462	$ 108	$ 83	$ 84	$ 3	$ 42	$ 39	$ 369	$ **1,190**	**16**%
Office	338	149	74	36	11	9	40	43	**700**	**10**
Multi family	269	87	62	32	8		44	64	**566**	**8**
Industrial and warehouse	287	64	19	45	1	3	9	84	**512**	**7**
Lines to real estate companies	346	19	9	19		1	6	2	**402**	**6**
Hotel	75	35	8	25			37	82	**262**	**4**
Single family home builders	127	32	7	3		21	10	1	**201**	**3**
Raw land and other land uses	22	29	1	2	2	2	4	10	**72**	**1**
Health care	13	7	13	2					**35**	
Other	11	2	2	1	8			1	**25**	
Total core portfolio	1,950	532	278	249	33	78	189	656	**3,965**	**55**
Total noncore portfolio	1,808	404	219	255	75	118	75	265	**3,219**	**45**
Total	**$** 3,758	**$** 936	**$** 497	**$** 504	**$** 108	**$** 196	**$** 264	**$** 921	**$ 7,184**	**100**%

Credit quality data regarding the allowance for credit losses (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

	June 30, 2010					
(dollar amounts in millions)	Ending Balance	Prior NCOs	ACL $	ACL %	Credit Mark (1)	Nonaccrual Loans
Total core	$ 3,965	$	$ 165	4.16%	4.16%	$ 39.1
Noncore Special Assets Division (2)	1,618	549	390	24.09	43.33	564.3
Noncore Other	1,601	24	150	9.37	10.71	59.7
Total noncore	3,219	573	540	16.78	29.35	624.0
Total commercial real estate	**$ 7,184**	**$ 573**	**$ 705**	**9.81%**	**16.48%**	**$ 663.1**
	December 31, 2009					
Total core	$ 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
Total noncore	3,651	537	596	16.32	27.05	932.0
Total commercial real estate	**$ 7,689**	**$ 537**	**$ 764**	**9.94%**	**15.82%**	**$ 935.8**

(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 June 30, 2010 declined $0.5 billion compared with December 31, 2009. Of this decline, 86% occurred in the noncore segment of the portfolio, and was a function 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.

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Also as shown above, substantial reserves for the noncore portfolio have been established. At June 30, 2010, the ACL related to the noncore portfolio was 16.78%. We believe segregating the noncore CRE from core CRE improves our ability to understanding the nature, performance prospects, and problem resolution opportunities of this segment, thus allowing us to continue to deal proactively with future credit issues.

The combination of prior NCOs and the existing ACL 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 that 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 sale 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 that would be considered an unwarranted 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 weak economy for consecutive years, and some borrowers may no longer have sufficient capital to withstand the protracted stress and, as a result, 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.

As shown in the following table, C&I loans totaled $12.4 billion at June 30, 2010.

Table 27 Commercial and Industrial Loans and Leases by Industry Classification

	June 30, 2010			
	Commitments		Loans Outstanding	
(dollar amounts in millions)	Amount	Percent	Amount	Percent
Industry Classification:				
Services	$ 4,655	26%	$ 3,600	28%
Manufacturing	3,371	19	2,162	17
Finance, insurance, and real estate	1,920	11	1,455	12
Retail trade auto dealers	1,652	9	1,063	9
Retail trade other than auto dealers	1,706	9	1,238	10
Wholesale trade	1,409	8	839	7
Transportation, communications, and utilities	1,266	7	720	6
Contractors and construction	938	5	561	5
Energy	667	4	433	3
Agriculture and forestry	330	2	235	2
Public administration	85		78	1
Other	10		8	
Total	**$** 18,009	100%	$ 12,392	100%

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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

	Net Charge-offs				Nonaccrual Loans			
	Six Months Ended June 30,				**June 30,**		At December 31,	
	2010		2009		**2010**		2009	
(dollar amounts in millions)	**Amount**	**Annualized %**	Amount	Annualized %	Amount	Percent (1)	Amount	Percent (1)
Industry Classification:								
Manufacturing	$ **37.2**	**3.62%**	$ 59.4	5.09%	$ **132.9**	**6%**	$ 136.8	6%
Services	**49.0**	**2.67**	34.7	1.78	**109.5**	**3**	163.9	4
Contractors and construction	**10.1**	**4.38**	6.6	2.59	**22.8**	**4**	41.6	9
Finance, insurance, and real estate (2)	**12.8**	**1.25**	153.3		**54.0**	**4**	98.0	4
Transportation, communications, and utilities	**8.6**	**2.53**	5.0	1.36	**18.3**	**3**	30.6	4
Retail trade other than auto dealers	**11.0**	**2.21**	31.2	6.69	**53.8**	**4**	58.5	6
Energy	**1.3**	**0.64**	3.0	1.43	**9.9**	**2**	10.7	3
Retail trade auto dealers	**1.1**	**0.23**	0.2	0.03	**3.0**		3.0	
Public administration	**0.2**	**0.48**	0.3	0.44	**0.1**		0.1	
Wholesale trade	**0.9**	**0.25**	14.2	3.15	**21.3**	**3**	29.5	4
Other	**1.2**	**18.18**	1.0	9.30	**0.1**	**1**	0.6	2
Total (2)	**$ 133.6**	**2.18%**	$ 308.9	4.57%	$ **429.6**	**3%**	$ 578.4	4%

(1) Represents percentage of total related outstanding loans.

(2) The six-month period of 2009 included charge-offs totaling $118.5 million associated with the 2009 Franklin restructuring (see Significant Item 2).

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.)

Our relationship with Franklin was acquired in the Sky Financial acquisition in 2007. On March 31, 2009, we restructured this relationship. As a result of the restructuring, we began reporting the loans as secured by first- and second- mortgages on residential properties and OREO properties, both of which had previously been assets of Franklin or its subsidiaries and were pledged to secure our loan to Franklin. At the time of the restructuring, the loans had a fair value of $493.6 million and the OREO properties had a fair value of $79.6 million.

During the 2010 second quarter, the remaining $397.7 million of Franklin-related loans ($333.0 million of residential mortgages and $64.7 million of home equity loans) were transferred to loans held for sale. At the time of the transfer, the loans were marked to the lower of cost or fair value totaling $323.4 million, resulting in $75.5 million of charge-offs. On July 20, 2010, substantially all of the residential mortgage loans were sold. The remaining Franklin-related portfolio after the sale primarily consists of $48.3 million of home equity loans held for sale and $24.5 million of OREO properties, both of which are carried at the lower of cost or current 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, 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 results in a determination of an appropriate ALLL amount for our consumer loan portfolio.

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The residential mortgage and home equity portfolios are primarily located throughout our geographic footprint. The general 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)

	Home Equity Loans		Home Equity Lines of Credit		Residential Mortgages	
(dollar amounts in millions)	**06/30/10**	12/31/09	**06/30/10**	12/31/09	**06/30/10**	12/31/09
Ending Balance	**$ 2,416**	$ 2,616	**$ 5,094**	$ 4,946	**$ 4,354**	$ 4,510
Portfolio Weighted Average LTV ratio(2)	**71%**	71%	**77%**	77%	**77%**	76%
Portfolio Weighted Average FICO(3)	**726**	716	**739**	723	**717**	698

	Six Months Ended June 30, 2010		
	Home Equity Loans	Home Equity Lines of Credit	Residential Mortgages (4)
Originations	$ 218.9	$ 661.7	$ 694.0
Origination Weighted Average LTV ratio(2)	61%	73%	80%
Origination Weighted Average FICO(3)	762	765	761

(1) Excludes Franklin-related loans.

(2) The loan-to-value (LTV) ratios for home equity loans and home equity lines of credit are cumulative LTVs reflecting the balance of any senior loans.

(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.

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. Over time, borrower FICO scores at loan origination for this portfolio have increased, and loan originations to borrowers with lower FICO scores have decreased. 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 have utilized 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 as some loans with an original LTV ratio of less than 100% currently have an LTV ratio above 100%. At June 30, 2010, 45% of our home equity loan portfolio, and 25% of our home equity line-of-credit portfolio were 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 2010 second quarter, over 50% of our home equity portfolio originations (both loans and lines-of-credit) were loans where the loan was 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. 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 are payment option adjustable-rate mortgages .

All residential mortgage loans are originated based on a full 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 the loans in our loan portfolio 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 59% of our total residential mortgage loan portfolio at June 30, 2010. At June 30, 2010, ARM loans that were expected to have rates reset totaled $418.3 million for 2010, and $795.6 million for 2011. Given the quality of our borrowers and the relatively low current interest rates, we believe there exists a 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 resetting, 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 June 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 for this limited segment including reliance on stated income , stated assets , or higher acceptable LTV ratios. Our exposure related to this product will continue to decline in the future as we stopped originating these loans in 2007**.** At June 30, 2010, borrowers for Alt-A mortgages had an average current FICO score of 680 and the loans had an average LTV ratio of 87%, compared with 662 and 87%, respectively, at December 31, 2009. Total Alt-A NCOs during the first six-month period of 2010 were $8.6 million, or an annualized 4.87%, compared with $6.2 million, or an annualized 2.91%, in the first six-month period of 2009. As with the entire residential mortgage portfolio, the increase in NCOs reflected, among other actions, earlier recognition of losses. At June 30, 2010, $16.5 million of the ALLL was allocated to the Alt-A mortgage portfolio, representing 4.89% of period-end Alt-A mortgages.

Interest-only loans comprised $0.6 billion of residential real estate loans at June 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 June 30, 2010, borrowers for interest-only loans had an average current FICO score of 733 and the loans had an average LTV ratio of 77%, compared with 718 and 77%, respectively, at December 31, 2009. Total interest-only NCOs during the first six-month period of 2010 were $5.1 million, or an annualized 3.59%, compared with $4.5 million, or an annualized 2.72%, in the first six-month period of 2009. As with the entire residential mortgage portfolio, the increase in NCOs reflected, among other actions, earlier recognition of losses. At June 30, 2010, $9.9 million of the ALLL was allocated to the interest-only loan portfolio, representing 1.78% 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. Various refinance programs 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.

Overall credit quality performance in the 2010 second quarter showed continued improvement across several credit quality metrics, although NCOs increased from the prior quarter as a result of Franklin-related charge-offs *(see Significant Item 2).* NCOs increased $40.7 million, or 17%, from the prior quarter including $80.0 million of Franklin-related NCOs. Total NCOs were $199.2 million excluding the Franklin-related impact, representing a

$27.8 million decline on this same basis from the prior quarter to the lowest level since the third quarter of 2008. Other key credit quality metrics also showed improvement, including a 17% decline in NPAs. Contributing to the decline in NPAs was a 28% linked-quarter decline in new NPAs to $171.6 million. We also saw a decline in the level of criticized commercial loans reflecting pay-offs and loan risk-rating upgrade activity combined with a decrease in the level of inflows. The inflow migration levels for both new criticized loans and NALs in the current quarter were the lowest since 2008, an indicator of likely improved future NAL and NPA trends.

The current quarter also saw a significant decline in delinquency levels. Our commercial delinquency levels were essentially unchanged compared with the prior quarter, while our consumer delinquency level continued their downward trend of the past four quarters. Home equity loans and residential mortgage delinquencies declined. While there were declines in both NCOs and delinquencies in the home equity and residential mortgage portfolios, there remains significant opportunity for further improvement. Automobile loan delinquency rates also declined in the quarter, continuing a year-long trend. We remain comfortable with the on-going performance of our automobile loan portfolio.

The economic environment remains challenging. Yet, reflecting the benefit of our focused credit actions of last year, this year we are experiencing declines in total NPAs, new NPAs, and the amount of loan exposure on our watchlist. This quarter s NCOs, with the exception of the $75.5 million associated with the transfer of Franklin-related loans into loans held for sale *(see Significant Item 2),* were related to reserves established in prior periods. Our allowance for credit losses declined by $86.0 million to $1,441.8 million, or 3.90%, of period-end total loans and leases from $1,527.9 million, or 4.14%, at March 31, 2010. Importantly, our allowance for credit losses as a percent of period-end NALs increased to 120% from 87%, 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 that are 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 that there is not sufficient equity in the collateral property to cover our position. In all 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 collectiblity is no longer in doubt, the loan or lease is returned to accrual status.

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 following is a summary of our TDRs (both accrual and nonaccrual) by loan type as of June 30, 2010:

(dollar amounts in thousands)	
Restructured loans and leases accruing:	
Mortgage loans	$ 269,570
Other consumer loans	65,061
Commercial loans	141,353
Restructured loans and leases nonaccrual:	
Mortgage loans	13,499
Other consumer loans	
Commercial loans	90,266

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 customer 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.

The modifications are classified as TDRs when we have determined that a concession should be provided given that these borrowers cannot obtain the modified mortgages through other independent sources or our normal mortgage origination channels. 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.

Non-government guaranteed residential mortgage loans, including restructured loans, are reported as accrual or nonaccrual based upon delinquency status. Nonaccrual loans 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 $1.2 million during the 2010 second quarter, and $2.5 million for first six-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 $0.5 million during the 2010 second quarter, and $0.9 million for first six-month period of 2010.

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 the substandard ratings, 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 June 30, 2010, approximately $36.6 million of our nonaccrual TDRs resulted from such workouts, of which $8.5 million were restructured in the 2010 second quarter. The remaining $53.7 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 that 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 that 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.

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Table 30 reflects period-end NALs and NPAs detail for each of the last five quarters, and Table 31 reflects period-end accruing TDRs and past due loans and leases detail for each of the last five quarters.

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

	2010		2009		
(dollar amounts in thousands)	**June 30,**	**March 31,**	December 31,	September 30,	June 30,
Nonaccrual loans and leases (NALs)					
Commercial and industrial	**$ 429,561**	$ 511,588	$ 578,414	$ 612,701	$ 456,734
Commercial real estate	**663,103**	826,781	935,812	1,133,661	850,846
Alt-A mortgages	**15,119**	13,368	11,362	9,810	25,861
Interest-only mortgages	**13,811**	8,193	7,445	8,336	17,428
Franklin residential mortgages		297,967	299,670	322,796	342,207
Other residential mortgages	**57,556**	53,422	44,153	49,579	89,992
Total residential mortgages	**86,486**	372,950	362,630	390,521	475,488
Home equity	**22,199**	54,789	40,122	44,182	35,299
Total nonaccrual loans and leases	**1,201,349**	1,766,108	1,916,978	2,181,065	1,818,367
Other real estate owned (OREO), net					
Residential	**71,937**	68,289	71,427	81,807	107,954
Commercial	**67,189**	83,971	68,717	60,784	64,976
Total other real estate, net	**139,126**	152,260	140,144	142,591	172,930
Impaired loans held for sale(1)	**242,227**		969	20,386	11,287
Total nonperforming assets (NPAs)	**$ 1,582,702**	$ 1,918,368	$ 2,058,091	$ 2,344,042	$ 2,002,584
NALs as a % of total loans and leases	**3.25%**	4.78%	5.21%	5.85%	4.72%
NPA ratio(2)	**4.24**	5.17	5.57	6.26	5.18
Nonperforming Franklin assets					
Residential mortgage	**$**	$ 297,967	$ 299,670	$ 322,796	$ 342,207
Home equity		31,067	15,004	15,704	2,437
OREO	**24,515**	24,423	23,826	30,996	43,623
Impaired loans held for sale	**242,227**				
Total Nonperforming Franklin assets	**$ 266,742**	$ 353,457	$ 338,500	$ 369,496	$ 388,267

(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.

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Table 31 Accruing Past Due Loans and Leases and Accruing Troubled Debt Restructured Loans

	2010			2009	
(dollar amounts in thousands)	**June 30,**	March 31,	December 31,	September 30,	June 30,
Accruing loans and leases past due 90 days or more					
Commercial and industrial	$	$ 475	$	$	$
Commercial real estate				2,546	
Residential mortgage (excluding loans guaranteed by the U.S. government	**47,036**	72,702	78,915	65,716	97,937
Home equity	**26,797**	29,438	53,343	45,334	35,328
Other loans and leases	**9,533**	10,598	13,400	14,175	13,474
Total, excl. loans guaranteed by the U.S. government	**83,366**	113,213	145,658	127,771	146,739
Add: loans guaranteed by the U.S. government	**95,421**	96,814	101,616	102,895	99,379
Total accruing loans and leases past due 90 days or more, including loans guaranteed by the U.S. government	**$ 178,787**	$ 210,027	$ 247,274	$ 230,666	$ 246,118
Ratios: (1)					
Excluding loans guaranteed by the U.S. government, as a percent of total loans and leases	**0.23%**	0.31%	0.40%	0.34%	0.38%
Guaranteed by the U.S. government, as a percent of total loans and leases	**0.26**	0.26	0.28	0.28	0.26
Including loans guaranteed by the U.S. government, as a percent of total loans and leases	**0.49**	0.57	0.68	0.62	0.64
Accruing troubled debt restructured loans					
Commercial	**$ 141,353**	**$** 117,667	$ 157,049	$ 153,010	$ 267,975
Alt-A mortgages	**57,993**	57,897	57,278	58,367	46,657
Interest-only mortgages	**7,794**	8,413	7,890	10,072	12,147
Other residential mortgages	**203,783**	176,560	154,471	136,024	99,764
Total residential mortgages	**269,570**	242,870	219,639	204,463	158,568

Other	**65,061**	62,148	52,871	42,406	35,720
Total accruing troubled debt restructured loans	$ **475,984**	$ 422,685	$ 429,559	$ 399,879	$ 462,263

(1) Percent of related loans and leases.

NALs were $1,201.3 million at June 30, 2010, and represented 3.25% of related loans. This compared with $1,766.1 million, or 4.78% of related loans, at March 31, 2010. The decrease of $564.8 million, or 32%, included the transfer of $316.6 million of Franklin related NALs to loans held for sale *(see Significant Item 2).* Also contributing to the decrease compared with the prior quarter were declines in C&I and CRE NALs.

In addition to the above, the decrease in NALs was a result of a significant decrease in the level of new NALs, as well as increased payments and payoffs of existing NALs. New NALs declined to $171.6 million during the 2010 second quarter, compared with $237.9 million in the 2010 first quarter and $494.6 million in the 2009 fourth quarter. Payments and payoffs of existing commercial NALs were substantially higher than in prior quarters, reflecting the continued impact of our workout efforts by our SAD.

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The decline in NALs by specific loan type is summarized below:

$286.5 million decline in residential mortgage NALs, of which essentially all were Franklin-related.

$163.7 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 is 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.

$82.0 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. The commercial segment also showed a significant decline in new NALs, giving us additional confidence for further improvement in future periods.

$32.6 million decline in home equity NALs, essentially all of which were Franklin-related.

NPAs, which include NALs, were $1,582.7 million at June 30, 2010, and represented 4.24% of related assets. This compared with $1,918.4 million, or 5.17% of related assets, at March 31, 2010. The $335.7 million decrease reflected:

$564.8 million decrease to NALs, discussed above.

Partially offset by:

$242.2 million increase in impaired loans held for sale, reflecting the transfer of Franklin-related loans to loans held for sale.

The over 90-day delinquent, but still accruing, ratio excluding loans guaranteed by the U.S. Government, was 0.23% at June 30, 2010, representing an 8 basis points decline compared with March 31, 2010. On this same basis, the over 90-day delinquency ratio for total consumer loans was 0.48% at June 30, 2010, representing a 17 basis point decline compared with March 31, 2010.

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

Compared with December 31, 2009, NALs, decreased $715.6 million, or 37%. This decrease included the transfer of $316.6 million of Franklin related NALs to loans held for sale.

The decline in NALs is summarized below:

$276.1 million decline in residential mortgage NALs, essentially all Franklin-related.

$272.7 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. Also key to this significant improvement was the significantly lower level of inflows.

$148.9 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. The commercial segment also showed a significant decline in new NALs.

$17.9 million decline in home equity NALs, reflecting the transfer of Franklin-related loans to loans held for sale, partially offset by an increase in non-Franklin-related loans. All home equity accruing loans have been written down to the lower of cost or fair value less selling costs.

Compared with December 31, 2009, NPAs, which include NALs, decreased $475.4 million, or 23%, reflecting:

$715.6 million decrease to NALs, discussed above.

Partially offset by:

$241.3 million increase in impaired loans held for sale, primarily reflecting the transfer of Franklin-related loans to loans held for sale.

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

Table 32 Nonperforming Asset Activity

	2010		2009		
(dollar amounts in thousands)	**Second**	First	Fourth	Third	Second
Nonperforming assets, beginning of year	**$ 1,918,368**	$ 2,058,091	$ 2,344,042	$ 2,002,584	$ 1,775,743
New nonperforming assets	**171,595**	237,914	494,607	899,855	750,318
Franklin impact, net	**(86,715)**	14,957	(30,996)	(18,771)	(57,436)
Returns to accruing status	**(78,739)**	(80,840)	(85,867)	(52,498)	(40,915)
Loan and lease losses	**(173,159)**	(185,387)	(391,635)	(305,405)	(282,713)
OREO gains (losses)	**2,483**	(4,160)	(7,394)	(30,623)	(20,614)
Payments	**(140,881)**	(107,640)	(222,790)	(117,710)	(95,124)
Sales	**(30,250)**	(14,567)	(41,876)	(33,390)	(26,675)
Nonperforming assets, end of period	**$ 1,582,702**	$ 1,918,368	$ 2,058,091	$ 2,344,042	$ 2,002,584

ALLOWANCES 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 are available to absorb credit losses: the ALLL and the AULC. When summed together, 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, net of 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.

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

Table 33 Quarterly Allowance for Credit Losses Analysis

	2010			2009	
(dollar amounts in thousands)	**Second**	First	Fourth	Third	Second
Allowance for loan and lease losses, beginning of period	**$ 1,477,969**	$ 1,482,479	$ 1,031,971	$ 917,680	$ 838,549
Loan and lease losses	**(312,954)**	(264,222)	(471,486)	(377,443)	(359,444)
Recoveries of loans previously charged off	**33,726**	25,741	26,739	21,501	25,037
Net loan and lease losses	**(279,228)**	(238,481)	(444,747)	(355,942)	(334,407)
Provision for loan and lease losses	**203,633**	233,971	895,255	472,137	413,538
Allowance for loans transferred to held-for-sale				(1,904)	
Allowance of assets sold	**(214)**				
Allowance for loan and lease losses, end of period	**$ 1,402,160**	$ 1,477,969	$ 1,482,479	$ 1,031,971	$ 917,680
Allowance for unfunded loan commitments and letters of credit, beginning of period	**49,916**	$ 48,879	$ 50,143	$ 47,144	$ 46,975
Provision for (reduction in) unfunded loan commitments and letters of credit losses	**(10,227)**	1,037	(1,264)	2,999	169
Allowance for unfunded loan commitments and letters of credit, end of period	**$ 39,689**	$ 49,916	$ 48,879	$ 50,143	$ 47,144
Total allowances for credit losses	**$ 1,441,849**	$ 1,527,885	$ 1,531,358	$ 1,082,114	$ 964,824
Allowance for loan and lease losses (ALLL) as % of:					
Total loans and leases	**3.79%**	4.00%	4.03%	2.77%	2.38%
Nonaccrual loans and leases (NALs)	**117**	84	77	47	50
Nonperforming assets (NPAs)	**89**	77	72	44	46
Total allowances for credit losses (ACL) as % of:					

Total loans and leases	**3.90%**	4.14%	4.16%	2.90%	2.51%
NALs	**120**	87	80	50	53
NPAs	**91**	80	74	46	48

The reduction in the ACL, compared with both March 31, 2010 and December 31, 2009, was primarily centered in the C&I and CRE ALLL, reflecting charge-offs on loans with specific reserves, and an overall reduction in the level of problem credits. The consumer loan ALLL was essentially unchanged. The AULC declined as a result of a substantive reduction in the level of unfunded loan commitments in the commercial portfolio. We have made a concerted effort to reduce potential exposure associated with unfunded lines, and to generate an appropriate level of return on those that remain in place. We also experienced a number of our borrowers reassess their borrowing needs and reduce their availability.

Despite the decline in the ACL as a percentage of total loans and leases, the coverage ratio associated with NALs increased to 120%. We believe our ACL coverage levels are appropriate given the continued challenges in the economic environment combined with the positive asset quality trends regarding delinquencies, NPAs, and NCOs.

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

Table 34 Allocation of Allowances for Credit Losses (1)

	2010				2009					
(dollar amounts in thousands)	**June 30,**		March 31,		December 31,		September 30,		June 30,	
Commercial										
Commercial and industrial	**$ 426,767**	**34%**	$ 459,011	33%	$ 492,205	35%	$ 381,912	34%	$ 347,339	35%
Commercial real estate	**695,778**	**19**	741,669	20	751,875	21	436,661	23	368,464	23
Total commercial	**1,122,545**	**53**	1,200,680	53	1,244,080	56	818,573	57	715,803	58
Consumer										
Automobile loans and leases	**41,762**	**13**	56,111	12	57,951	9	59,134	9	60,995	8
Home equity	**117,708**	**20**	127,970	20	102,039	21	86,989	20	76,653	20
Residential mortgage	**79,105**	**12**	60,295	12	55,903	12	50,177	12	48,093	12
Other loans	**41,040**	**2**	32,913	3	22,506	2	17,098	2	16,136	2
Total consumer	**279,615**	**47**	277,289	47	238,399	44	213,398	43	201,877	42
Total ALLL	**1,402,160**	**100%**	1,477,969	100%	1,482,479	100%	1,031,971	100%	917,680	100%
AULC	**39,689**		49,916		48,879		50,143		47,144	
Total ACL	**$ 1,441,849**		$ 1,527,885		$ 1,531,358		$ 1,082,114		$ 964,824	

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

The following table provides additional detail regarding the ACL coverage ratio for NPAs.

Table 35 ACL/NPA Coverage Ratios Analysis

June 30, 2010

(dollar amounts in thousands)	Franklin	Other	Total
Nonperforming Assets (NPAs)	$ 242,227	$ 1,340,475	$ 1,582,702
Allowance for Credit Losses (ACL)	NA(1)	1,441,849	1,441,849
ACL as a % of NPAs (coverage ratio)		108%	91%

(1) Not applicable. Franklin-related loans were

acquired at the lower of cost of fair value on March 31, 2009. Under guidance provided by the Financial Accounting Standards Board (FASB) regarding acquired impaired loans, a nonaccretable discount was recorded to reduce the carrying value of the loans to the amount of future cash flows we expect to receive.

We believe that the total ACL/NPA coverage ratio of 91% at June 30, 2010, represented an appropriate level of reserves for the remaining inherent risk in the portfolio. The Franklin-related NPA balance of $242.2 million does not have reserves assigned as those loans are recorded at the lower of cost or fair value. Eliminating the impact of the Franklin-related loans, the ACL/NAL coverage ratio was 108% as of June 30, 2010.

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

Table 36 Year to Date Allowance for Credit Losses Analysis

	Six Months Ended June 30,	
(in thousands)	**2010**	2009
Allowance for loan and lease losses, beginning of period	**$ 1,482,479**	$ 900,227
Acquired allowance for loan and lease losses		
Loan and lease losses	**(577,176)**	(712,449)
Recoveries of loans previously charged off	**59,467**	36,551
Net loan and lease losses	**(517,709)**	(675,898)
Provision for loan and lease losses	**437,604**	702,539
Allowance for loans transferred to held-for-sale		
Economic reserve transfer	**(214)**	(9,188)
Allowance for loan and lease losses, end of period	**$ 1,402,160**	$ 917,680
Allowance for unfunded loan commitments and letters of credit, beginning of period	**$ 48,879**	$ 44,139
Acquired AULC		
Provision for (reduction in) unfunded loan commitments and letters of credit losses	**(9,190)**	3,005
Allowance for unfunded loan commitments and letters of credit, end of period	**$ 39,689**	$ 47,144
Total allowances for credit losses	**$ 1,441,849**	$ 964,824
Allowance for loan and lease losses (ALLL) as % of:		
Total loans and leases	**3.79%**	2.38%
Nonaccrual loans and leases (NALs)	**117**	50
Nonperforming assets (NPAs)	**89**	46
Total allowances for credit losses (ACL) as % of:		
Total loans and leases	**3.90%**	2.51%
NALs	**120**	53
Nonperforming assets	**91**	48

NET CHARGE-OFFS (NCOs)

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

Table 37 reflects NCO detail for each of the last five quarters. Table 38 displays the Franklin-related impacts for each of the last five quarters.

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Table 37 Quarterly Net Charge-off Analysis

	2010		2009		
(dollar amounts in thousands)	**Second**	First	Fourth	Third	Second
Net charge-offs by loan and lease type					
Commercial:					
Commercial and industrial[(1), (2)]	**$ 58,128**	$ 75,439	$ 109,816	$ 68,842	$ 98,300
Construction	**45,562**	34,426	85,345	50,359	31,360
Commercial	**36,169**	50,873	172,759	118,866	141,261
Commercial real estate	**81,731**	85,299	258,104	169,225	172,621
Total commercial	**139,859**	160,738	367,920	238,067	270,921
Consumer:					
Automobile loans	**5,219**	7,666	11,374	8,988	12,379
Automobile leases	**217**	865	1,554	1,753	2,227
Automobile loans and leases	**5,436**	8,531	12,928	10,741	14,606
Home equity[(3)]	**44,470**	37,901	35,764	28,045	24,687
Residential mortgage[(4), (5)]	**82,848**	24,311	17,789	68,955	17,160
Other loans	**6,615**	7,000	10,346	10,134	7,033
Total consumer	**139,369**	77,743	76,827	117,875	63,486
Total net charge-offs	**$ 279,228**	$ 238,481	$ 444,747	$ 355,942	$ 334,407
Net charge-offs annualized percentages					
Commercial:					
Commercial and industrial[(1), (2)]	**1.90%**	2.45%	3.49%	2.13%	2.91%
Construction	**14.25**	9.77	20.68	11.14	6.45
Commercial	**2.38**	3.25	10.15	6.72	7.79
Commercial real estate	**4.44**	4.44	12.21	7.62	7.51
Total commercial	**2.85**	3.22	7.00	4.37	4.77
Consumer:					
Automobile loans	**0.47**	0.76	1.49	1.25	1.73
Automobile leases	**0.54**	1.58	2.25	2.04	2.11
Automobile loans and leases	**0.47**	0.80	1.55	1.33	1.78
Home equity[(3)]	**2.36**	2.01	1.89	1.48	1.29
Residential mortgage[(4), (5)]	**7.19**	2.17	1.61	6.15	1.47
Other loans	**3.81**	3.87	5.47	5.36	4.03

Total consumer	**3.19**	1.83	1.91	2.94	1.56
Net charge-offs as a % of average loans	**3.01%**	2.58%	4.80%	3.76%	3.43%

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

(2) The 2009 second quarter included net recoveries totaling $9,884 thousand associated with the 2009 Franklin restructuring.

(3) 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.

(4) 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.

(5) Effective with the 2009 third quarter, a change to accelerate the timing for 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 38 Quarterly NCOs Franklin-Related Impact

	2010		2009		
(dollar amounts in millions)	**Second**	First	Fourth	Third	Second
Commercial and industrial net charge-offs (recoveries)					
Franklin	**$ (0.2)**	$ (0.3)	$ 0.1	$ (4.1)	$ (9.9)
Non-Franklin	**58.3**	75.7	109.7	72.9	108.2
Total	**$ 58.1**	$ 75.4	$ 109.8	$ 68.8	$ 98.3
Commercial and industrial net charge-offs annualized percentages					
Total	**1.90%**	2.45%	3.49%	2.13%	2.91%
Non-Franklin	**1.90**	2.46	3.49	2.26	3.20
Total commercial charge-offs (recoveries)					
Franklin	**$ (0.2)**	$ (0.3)	$ 0.1	$ (4.1)	$ (9.9)
Non-Franklin	**140.1**	161.0	367.8	242.2	280.8
Total	**$ 139.9**	$ 160.7	$ 367.9	$ 238.1	$ 270.9
Total commercial loan net charge-offs annualized percentages					
Total	**2.85%**	3.22%	7.00%	4.37%	4.77%
Non-Franklin	**2.86**	3.22	7.00	4.44	4.94
Total home equity loan charge-offs (recoveries)					
Franklin	**$ 15.9**	$ 3.7	$	$ (0.1)	$ (0.1)
Non-Franklin	**28.6**	34.2	35.8	28.1	24.7
Total	**$ 44.5**	$ 37.9	$ 35.8	$ 28.0	$ 24.6
Total home equity loan net charge-offs annualized percentages					
Total	**2.36%**	2.01%	1.89%	1.48%	1.29%
Non-Franklin	**1.53**	1.83	1.91	1.50	1.30
Total residential mortgage loan charge-offs (recoveries)					
Franklin	**$ 64.2**	$ 8.1	$ 1.1	$ 0.6	$ (0.1)
Non-Franklin	**18.6**	16.2	16.7	68.4	17.3
Total	**$ 82.8**	$ 24.3	$ 17.8	$ 69.0	$ 17.2

Total residential mortgage loan net charge-offs annualized percentages					
Total	**7.19%**	2.17%	1.61%	6.15%	1.47%
Non-Franklin	**1.74**	1.57	1.66	6.71	1.64
Total consumer loan charge-offs (recoveries)					
Franklin	**$ 80.2**	$ 11.9	$ 1.1	$ 0.6	$ (0.2)
Non-Franklin	**59.2**	65.8	75.7	117.3	63.7
Total	**$ 139.4**	$ 77.7	$ 76.8	$ 117.9	$ 63.5
Total consumer loan net charge-offs annualized percentages					
Total	**3.19%**	1.83%	1.91%	2.94%	1.56%
Non-Franklin	**1.39**	1.59	1.94	3.01	1.61
Total net charge-offs (recoveries)					
Franklin	**$ 80.0**	$ 11.5	$ 1.2	$ (3.5)	$ (10.1)
Non-Franklin	**199.2**	227.0	443.5	359.4	344.5
Total	**$ 279.2**	$ 238.5	$ 444.7	$ 355.9	$ 334.4
Total net charge-offs annualized percentages					
Total	3.01%	2.58%	4.80%	3.76%	3.43
Non-Franklin	2.17	2.48	4.84	3.85	3.58

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Total NCOs during the 2010 second quarter were $279.2 million, or an annualized 3.01% of average related balances, compared with $238.5 million, or annualized 2.58%, of average related balances in 2010 first quarter. The increase from the prior quarter included $80.0 million of Franklin-related charge-offs, and reflected $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 current quarter were $199.2 million, or an annualized 2.17%, down $27.8 million, or 12%, from the 2010 first quarter on this same basis.

Total commercial NCOs during 2010 second quarter were $139.9 million, or an annualized 2.85% of average related balances, compared with $160.7 million, or an annualized 3.22% in 2010 first quarter.

C&I NCOs in the 2010 second quarter were $58.1 million, or an annualized 1.90%, compared with $75.4 million, or an annualized 2.45%, in the 2010 first quarter. The decrease of $17.3 million was consistent with our view that we have proactively addressed our credit issues over the past 18 months. There was also a reduced level of larger dollar charge-offs, indicating the beginning of a return toward more historically normalized levels. Contributing to the lower level of NCOs in the current quarter was an increase in recoveries, representing the first material increase in recoveries in over a year. While there continues to be concern regarding the impact of the economic conditions on our commercial customers, the lower inflow of new NALs, the reduction in criticized loans, and the significant decline in early stage delinquencies support our outlook for continued improved credit quality performance throughout the remainder of 2010.

CRE NCOs in the 2010 second quarter were $81.7 million, or an annualized 4.44%, compared with $85.3 million, or an annualized 4.44%, in the 2010 first quarter. While the level of NCOs declined only slightly from the prior quarter, virtually all other asset quality metrics showed improvement. The level of new NALs and criticized loans were both at their lowest levels since 2008, and early-stage delinquency improved substantially from the prior quarter. Although NCOs associated with construction projects increased during the current quarter, we do not believe this to be an indication of a long-term trend, and we anticipate improvement in the overall CRE portfolio in future periods.

In assessing commercial NCOs 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 commercial 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, 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 credit, a reduction in the overall level of the reserve could be recognized. In summary, if loan quality deteriorates, the typical credit sequence for commercial loans are periods of reserve building, followed by periods of higher NCOs as previously established reserves are utilized. Additionally, it is helpful to understand that increases in reserves either precede or are in conjunction with increases in NALs. When a credit 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 consumer NCOs during the 2010 second quarter were $139.4 million, or an annualized 3.19%, compared with $77.7 million, or an annualized 1.83%, in 2010 first quarter. The current quarter included $80.2 million of Franklin-related charge-offs. Excluding the Franklin-related impact, our consumer NCO rate was an annualized 1.39%, down from 1.59% in the prior quarter on this same basis. While this loss rate indicates progress, and our improving delinquency trends are also positive, the overall level of losses in the portion of the consumer loan portfolio secured by residential properties remain elevated. There is a continued impact associated with home prices in the current market.

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Automobile loan and lease NCOs in the 2010 second quarter were $5.4 million, or an annualized 0.47%, compared with $8.5 million, or an annualized 0.80%, in 2010 first quarter. The decline in the annualized NCO percentage was consistent with our expectations, and reflected the resulted of our continued strategy of originating high quality automobile loans. During the current quarter, we originated $943.6 of automobile loans with an average FICO score of 770.

Home equity NCOs in the 2010 second quarter were $44.5 million, or an annualized 2.36%, compared with $37.9 million, or an annualized 2.01%, in 2010 first quarter. The current quarter included $15.9 million of Franklin-related NCOs. Excluding the Franklin-related impact, home equity NCOs were $28.6 million, or an annualized 1.53%, down from $34.2 million, or an annualized 1.83%, in the prior quarter on this same basis. While there continues to be a declining trend in the early-stage delinquency level in the home equity line-of-credit portfolio, this portfolio remained stressed as a result of the current economic environment and lower housing prices. Although NCOs in the current quarter declined compared with the prior quarter, we anticipate that NCOs levels in this portfolio will remain elevated for the remainder of 2010.

Residential mortgage NCOs in the 2010 second quarter were $82.8 million, or an annualized 7.19%, compared with $24.3 million, or an annualized 2.17%, in 2010 first quarter. The current quarter included $64.2 million of Franklin-related NCOs. Excluding the Franklin-related impact, residential mortgage NCOs were $18.6 million, or an annualized 1.74%, up $2.4 million from $16.2 million, or an annualized 1.57%, in the 2010 first quarter on this same basis. This increase excluding Franklin-related NCOs reflected the continuing impact of the adverse economic environment as loss severity rates remained high. Despite the continued valuation pressure, there continued to be positive trends in early-stage delinquencies.

Table 39 reflects NCO activity for the first six-month period of 2010 and the first six-month period of 2009. Table 40 displays the NCO Franklin-related impacts for the first six-month period of 2010 and the first six-month period of 2009.

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Table 39 Year to Date Net Charge-off Analysis

	Six Months Ended June 30,	
(dollar amounts in thousands)	**2010**	2009
Net charge-offs by loan and lease type:		
Commercial:		
Commercial and industrial[1]	$ **133,567**	$ 308,948
Commercial real estate:		
Construction	**79,988**	57,002
Commercial	**87,042**	198,400
Commercial real estate	**167,030**	255,402
Total commercial	**300,597**	564,350
Consumer:		
Automobile loans	**12,885**	27,350
Automobile leases	**1,082**	5,313
Automobile loans and leases	**13,967**	32,663
Home equity[2]	**82,371**	42,367
Residential mortgage[3]	**107,159**	23,458
Other loans	**13,615**	13,060
Total consumer	**217,112**	111,548
Total net charge-offs	$ **517,709**	$ 675,898
Net charge-offs annualized percentages:		
Commercial:		
Commercial and industrial[1]	**2.18%**	4.57%
Commercial real estate:		
Construction	**11.90**	5.73
Commercial	**2.82**	5.18
Commercial real estate	**4.44**	5.29
Total commercial	**3.04**	4.87
Consumer:		
Automobile loans	**0.61**	1.63
Automobile leases	**1.14**	2.26
Automobile loans and leases	**0.63**	1.71
Home equity[2]	**2.18**	1.11
Residential mortgage[3]	**4.72**	1.01
Other loans	**3.84**	3.82

Total consumer	**2.52**	1.33
Net charge-offs as a % of average loans	**2.80%**	3.39%

(1) The first six-month period of 2009 included net charge-offs totaling $118,454 thousand associated with the Franklin restructuring.

(2) The 2010 first six-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 $4,991 thousand of other Franklin-related net charge-offs.

(3) The 2010 first six-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 $11,525 thousand of other Franklin-related net charge-offs.

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Table 40 Year to Date NCOs Franklin-Related Impact

	June 30,	
(in millions)	**2010**	2009
Commercial and industrial net charge-offs (recoveries)		
Franklin	**$ (0.5)**	$ 118.5
Non-Franklin	**134.1**	190.4
Total	**$ 133.6**	$ 308.9
Commercial and industrial net charge-offs annualized percentages		
Total	**2.18%**	4.57%
Non-Franklin	**2.18**	2.88
Total commercial net charge-offs (recoveries)		
Franklin	**$ (0.5)**	$ 118.4
Non-Franklin	**301.1**	446.0
Total	**$ 300.6**	$ 564.4
Total commercial net charge-offs annualized percentages		
Total	**3.04%**	4.87%
Non-Franklin	**3.04**	3.90
Total home equity net charge-offs (recoveries)		
Franklin	**$ 19.7**	$ (0.1)
Non-Franklin	**62.7**	42.5
Total	**$ 82.4**	$ 42.4
Total home equity net charge-offs annualized percentages		
Total	**2.18%**	1.11%
Non-Franklin	**1.68**	1.12
Total residential mortgage net charge-offs (recoveries)		
Franklin	**$ 72.3**	$ (0.1)
Non-Franklin	**34.9**	23.6
Total	**$ 107.2**	$ 23.5
Total residential mortgage net charge-offs annualized percentages		
Total	**4.72%**	1.01%
Non-Franklin	**1.66**	1.07
Total consumer net charge-offs (recoveries)		
Franklin	**$ 92.1**	$ (0.2)
Non-Franklin	**125.0**	111.7
Total	**$ 217.1**	$ 111.5

Total consumer net charge-offs annualized percentages		
Total	**2.52%**	1.33%
Non-Franklin	**1.49**	1.35
Total net charge-offs (recoveries)		
Franklin	**91.5**	118.3
Non-Franklin	**426.2**	557.6
Total	**$ 517.7**	$ 675.9
Total net charge-offs annualized percentages		
Total	**2.80%**	3.39%
Non-Franklin	**2.33**	2.83

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Total NCOs during the first six-month period of 2010 were $517.7 million, or an annualized 2.80% of average related balances, compared with $675.9 million, or annualized 3.39% of average related balances in the first six-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 six-month period of 2010 were $300.6 million, or an annualized 3.04% of average related balances, compared with $564.4 million, or an annualized 4.87% in the first six-month period of 2009.

C&I NCOs in the first six-month period of 2010 were $133.6 million, or an annualized 2.18% of average related balances, compared with $308.9 million, or an annualized 4.57% in the first six-month period of 2009. The first six-month period of 2009 included $118.5 million of Franklin-related NCOs. Excluding the Franklin-related impact, C&I NCOs decreased $56.3 million. The year-ago period was impacted by four relationships, each with a charge-off in excess of $5 million.

CRE NCOs in the first six-month period of 2010 decreased $88.4 million to $167.0 million from $255.4 million. The year-ago period was impacted by significant charge-offs associated with five borrowers, while 2010 has not experienced that 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 six-month period of 2010 were $217.1 million, or an annualized 2.52%, compared with $111.5 million, or an annualized 1.33%, in the first six-month period of 2009. The first six-month period of 2010 included $92.1 million of Franklin-related NCOs. Excluding the Franklin-related impact, consumer NCOs increased $13.3 million. The non-Franklin-related increases were largely centered in the residential mortgage and home equity portfolios reflecting the continued stress in our markets, and an earlier loss recognition policy implemented during the 2009 third quarter.

Automobile loan and lease NCOs in the first six-month period of 2010 decreased $18.7 million, or 57%, compared with the first six-month period of 2009, reflecting the expected decline based on our consistent high quality origination profile over the past 24 months. This focus on quality associated with the 2008 and 2009 originations was 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 six-month period of 2010 were $82.4 million, or an annualized 2.18% of average related balances, compared with $42.4 million, or an annualized 1.11%, in first six-month period of 2009. The first six-month period of 2010 included $19.7 million of Franklin-related NCOs. Excluding the Franklin-related impacts, home equity NCOs increased $20.2 million compared with the first six-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 six-month period of 2010 were $107.2 million, or an annualized 4.72% of average related balances, compared with $23.5 million, or an annualized 1.01%, in first six-month period of 2009. The first six-month period of 2010 included $72.3 million of Franklin-related NCOs. Excluding the Franklin-related impacts, residential mortgage NCOs increased $11.3 million compared with the first six-month period of 2009. 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, an increased number of short sales, and earlier loss recognition. We continued to see positive trends in early-stage delinquencies, indicating that even with the economic stress on our borrowers, losses are expected to remain manageable.

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.

Our investment securities portfolio is comprised of various financial instruments. At June 30, 2010, our investment securities portfolio totaled $8.8 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.

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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 six-month period of 2010, we recorded $9.3 million of credit OTTI losses. This amount was comprised of $3.2 million related to the pooled-trust-preferred securities portfolio, $4.9 million related to the CMO securities portfolio, and $1.2 million related to the Alt-A securities portfolio *(see below for additional discussion of these portfolios)*. Given the continued disruption in the 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 June 30, 2010:

Table 41 Credit Ratings of Selected Investment Securities (1)

(in millions)

	Amortized	Fair	**Average Credit Rating of Fair Value Amount**				
	Cost	Value	AAA	AA +/-	A +/-	BBB +/-	<BBB-
Private label CMO securities	$ 426.7	$ 394.6	$ 31.3	$ 21.9	$ 5.5	$ 21.1	$ 314.8
Alt-A mortgage-backed securities	127.3	112.2	20.3	28.4			63.5
Pooled-trust-preferred securities	237.9	106.7		24.4		12.1	70.2
Total At June 30, 2010	**$ 791.9**	**$ 613.5**	**$ 51.6**	**$ 74.7**	**$ 5.5**	**$ 33.2**	**$ 448.5**
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, which could result in a reduction to our regulatory capital ratios.

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

Table 42 Trust Preferred Securities Data

June 30, 2010

(dollar amounts in thousands)

Deal Name	Par Value	Book Value	Fair Value	Unrealized Loss	Lowest Credit Rating(2)	# of Issuers Currently Performing/ Remaining(3)	Actual Deferrals and Defaults as a % of Original Collateral	Expected Defaults as a % of Remaining Performing Collateral	Excess Subordination(4)
Alesco II[1]	$ 40,609	$ 31,540	$ 11,034	$ 20,506	C	33/43	23%	15%	%
Alesco IV[1]	20,443	10,605	2,386	8,219	C	38/53	28	18	
ICONS	20,000	20,000	12,078	7,922	BBB	29/30	3	15	53
I-Pre TSL II	36,916	36,814	24,370	12,444	AA	29/29		15	71
MM Comm II[1]	24,336	23,258	20,016	3,242	BB	5/8	5	5	
MM Comm III[1]	11,823	11,296	5,753	5,543	B	8/12	10	14	
Pre TSL IX[1]	5,017	4,108	1,474	2,634	C	35/49	26	23	
Pre TSL X[1]	17,322	9,915	3,073	6,842	C	36/57	40	38	
Pre TSL XI[1]	25,000	24,040	8,860	15,180	C	49/65	21	21	
Pre TSL XIII[1]	27,530	23,291	8,487	14,804	C	52/65	21	22	
Reg Diversified[1]	25,500	7,499	505	6,994	D	28/45	34	26	
Soloso[1]	12,500	4,486	527	3,959	C	49/70	21	25	
Tropic III	31,000	31,000	8,147	22,853	CCC-	28/45	33	23	15
Total	$ 297,996	$ 237,852	$ 106,710	$ 131,142					

(1) Security was determined to have other-than-temporary impairment. As such, the book value is net of recorded 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 that the security 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

<u>OVERVIEW</u>

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 an increase in short-term interest rates that is expected to generate higher net interest income as 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 an increase in short-term interest rates that is expected to generate lower net interest income as 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.

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 that 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 June 30, 2010, and December 31, 2009. All of the positions were within the board of directors policy limits.

Table 43 Net Interest Income at Risk

	Net Interest Income at Risk (%)			
Basis point change scenario	-200	-100	+100	+200
Board policy limits	-4.0%	-2.0%	-2.0%	-4.0%
June 30, 2010	**-2.6%**	**-1.3%**	**+0.1%**	**0.0%**
December 31, 2009	-0.3%	+0.2%	-0.1%	-0.4%

The net interest income at risk reported as of June 30, 2010 for the +200 basis points scenario shows a change to a neutral near-term interest rate-risk position compared with December 31, 2009. The primary factor contributing to this change is lower market interest rates which result in the expectation for faster prepayments on residential mortgage-related assets.

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 June 30, 2010, results compared with December 31, 2009. All of the positions were within the board of directors policy limits.

Table 44 Economic Value of Equity at Risk

	Economic Value of Equity at Risk (%)			
Basis point change scenario	-200	-100	+100	+200
Board policy limits	-12.0%	-5.0%	-5.0%	-12.0%
June 30, 2010	**-5.5%**	**-1.2%**	**-1.9%**	**-6.1%**
December 31, 2009	+0.8%	+2.7%	-3.7%	-9.1%

The EVE at risk reported as of June 30, 2010 for the +200 basis points scenario shows a change to a lower long-term liability sensitive position compared with December 31, 2009. The June 30, 2010, results included the estimated impact of interest rate swaps executed early in the 2010 third quarter. The primary factors contributing to this change are lower market interest rates which result in the expectation for faster prepayments on residential mortgage-related assets, as well as an increase in the volume of deposits and net free funds.

MORTGAGE SERVICING RIGHTS (MSRs)

(This section should be read in conjunction with Note 5 of the Notes to the Unaudited Condensed Consolidated Financial Statements.)

At June 30, 2010, we had a total of $179.1 million of capitalized MSRs representing the right to service $16.0 billion in residential mortgage loans. Of this $179.1 million, $132.4 million was recorded using the fair value method, and $46.7 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 current quarter, MSR hedging-related activities contributed $20.0 million to mortgage banking income, compared with $5.9 million in the prior quarter. In the current quarter, prepayment assumptions were lowered, which increased the value of the MSR, reflecting updated market data and trends.

MSRs 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 that 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 time 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.

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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% are fully guaranteed by the FDIC for the customers entire account balance.

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. As a result, transaction account balances declined an estimated $0.4 billion due to the elimination of the TAGP.

At June 30, 2010, noninterest-bearing transaction account balances exceeding $250,000 totaled $1.9 billion, and represented the amount of noninterest-bearing transaction customer deposits that would not have been FDIC insured without the additional coverage provided by the TAGP. Of this $1.9 billion, $0.8 billion were deposits belonging to state and local municipalities. Substantial excess securities are being held in reserve for potential pledging requirements upon the expiration of our TAGP participation on June 30, 2010.

As referenced in the above paragraph, the FDIC establishes a coverage limit, generally $250,000 currently, for interest-bearing deposit balances. To provide our customers deposit insurance above the established $250,000, we have joined the Certificate of Deposit Account Registry Service (CDARS), a program that allows customers to invest up to $50 million in certificates of deposit through one participating financial institution, with the entire amount covered by FDIC insurance. At June 30, 2010, we had $398.4 million of CDARS deposit balances.

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

Table 45 Deposit Composition

	2010				2009					
(dollar amounts in millions)	**June 30,**		March 31,		December 31,		September 30,		June 30,	
By Type										
Demand deposits noninterest-bearing	**$ 6,463**	**16%**	$ 6,938	17%	$ 6,907	17%	$ 6,306	16%	$ 6,169	16%
Demand deposits interest-bearing	**5,850**	**15**	5,948	15	5,890	15	5,401	14	4,842	12
Money market deposits	**11,437**	**29**	10,644	26	9,485	23	8,548	21	6,622	17
Savings and other domestic time deposits	**4,652**	**12**	4,666	12	4,652	11	4,631	12	4,859	12
Core certificates of deposit	**8,974**	**23**	9,441	23	10,453	26	11,205	28	12,197	31
Total core deposits	**37,376**	**95**	37,637	93	37,387	92	36,091	91	34,689	88
Other domestic time deposits of $250,000 or more	**678**	**2**	684	2	652	2	689	2	846	2
Brokered deposits and negotiable CDs	**1,373**	**3**	1,605	4	2,098	5	2,630	7	3,229	8
Deposits in foreign offices	**422**		377	1	357	1	419		401	2
Total deposits	**$ 39,849**	**100%**	$ 40,303	100%	$ 40,494	100%	$ 39,829	100%	$ 39,165	100%
Total core deposits:										
Commercial	**$ 11,515**	**31%**	$ 11,844	31%	$ 11,368	30%	$ 10,884	30%	$ 9,738	28%
Personal	**25,861**	**69**	25,793	69	26,019	70	25,207	70	24,951	72

Total core deposits	**$ 37,376**	**100%**	$ 37,637	100%	$ 37,387	100%	$ 36,091	100%	$ 34,689	100%

Total core deposits were essentially unchanged compared with December 31, 2009.
To the extent that 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.

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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, for the ability to borrow if necessary, and unused borrowing capacity at both the Federal Reserve and the FHLB-Cincinnati, are outlined in the following table:

Table 46 Federal Reserve and FHLB-Cincinnati Borrowing Capacity

(dollar amounts in billions)	**June 30, 2010**	December 31, 2009
Loans and Securities Pledged:		
Federal Reserve Bank	$ **8.6**	$ 8.5
FHLB-Cincinnati	**7.9**	8.0
Total loans and securities pledged	$ **16.5**	$ 16.5
Total unused borrowing capacity at Federal Reserve Bank and FHLB-Cincinnati	$ **7.1**	$ 7.9

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.

At June 30, 2010, 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 June 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 $0.3 billion contribution of additional capital to the Bank. Also, in July of 2010, the parent company made an additional $0.1 billion contribution of 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.

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 June 30, 2010, without regulatory approval. We do not anticipate that 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 that 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 that the parent company, and the Bank, are required to hold.

Through our credit process, we monitor 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 June 30, 2010, we had $0.5 billion of standby letters of credit outstanding, of which 71% 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 June 30, 2010, December 31, 2009, and June 30, 2009, we had commitments to sell residential real estate loans of $735.1 million, $662.9 million, and $828.9 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 that 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 June 30, 2010, December 31, 2009, and June 30, 2009, this reserve was $6.2 million, $1.8 million, and $1.4 million, respectively. The reserve was estimated based on historical repurchase activity, average loss rates, and current economic trends, including an increase in the amount of repurchase losses in recent quarters.

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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 $5.4 billion at June 30, 2010, an increase of $0.1 billion, or 2%, compared with December 31, 2009. This increase primarily reflected improvements in the components of accumulated OCI.

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

Table 47 Capital Adequacy

		2010		2009		
(dollar amounts in millions)		**June 30,**	March 31,	December 31,	September 30,	June 30,
Consolidated capital calculations:						
Shareholders common equity		**$ 3,742**	$ 3,678	$ 3,648	$ 3,992	$ 3,541
Shareholders preferred equity		**1,696**	1,692	1,688	1,683	1,679
Total shareholders equity		**5,438**	5,370	5,336	5,675	5,220
Goodwill		**(444)**	(444)	(444)	(444)	(448)
Intangible assets		**(259)**	(274)	(289)	(303)	(322)
Intangible asset deferred tax liability (1)		**91**	95	101	106	113
Total tangible equity (2)		**4,826**	4,747	4,704	5,034	4,563
Shareholders preferred equity		**(1,696)**	(1,692)	(1,688)	(1,683)	(1,679)
Total tangible common equity (2)		**$ 3,130**	$ 3,055	$ 3,016	$ 3,351	$ 2,884
Total assets		$ 51,771	$ 51,867	$ 51,555	$ 52,513	$ 51,397
Goodwill		**(444)**	(444)	(444)	(444)	(448)
Other intangible assets		**(259)**	(274)	(289)	(303)	(322)
Intangible asset deferred tax liability (1)		91	95	101	106	113
Total tangible assets (2)		$ 51,159	$ 51,244	$ 50,923	$ 51,872	$ 50,740
Tier 1 equity		$ 5,317	$ 5,090	$ 5,201	$ 5,755	$ 5,390
Shareholders preferred equity		**(1,696)**	(1,692)	(1,688)	(1,683)	(1,679)
Trust preferred securities		**(570)**	(570)	(570)	(570)	(570)
REIT preferred stock		**(50)**	(50)	(50)	(50)	(50)
Tier 1 common equity (2)		**$ 3,001**	$ 2,778	$ 2,893	$ 3,452	$ 3,091
Risk-weighted assets (RWA)	Consolidated	**$ 42,486**	$ 42,522	$ 43,248	$ 44,142	$ 45,463
	Bank	**42,249**	42,511	43,149	43,964	45,137

Tier 1 common equity / RWA ratio (2), (3)	**7.06** %	6.53 %	6.69 %	7.82 %	6.80 %
Tangible equity / tangible asset ratio (2)	**9.43**	9.26	9.24	9.71	8.99
Tangible common equity / tangible asset ratio (2)	**6.12**	5.96	5.92	6.46	5.68

(1) 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.

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Our consolidated tangible-common-equity (TCE) ratio was 6.12% at June 30, 2010, an increase from 5.92% at December 31, 2009. The 20 basis point increase from December 31, 2009, primarily reflected improvements in the components of accumulated OCI.

In April of 2010, shareholders passed a proposal to amend our charter that resulted in an increase of authorized common stock to 1.5 billion shares from 1.0 billion shares. Although we are comfortable with our current level of capital, 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 our consolidated Tier 1, Tier 2, and Total risk-based capital amounts during the first six-month period of 2010.

Table 48 Consolidated Regulatory Capital Activity

(dollar amounts in millions)	Shareholder Common Equity (1)	Preferred Equity	Qualifying Core Capital (2)	Disallowed Goodwill & Intangible assets	Disallowed Other Adjustments (net)	**Tier 1 Capital**
Balance at December 31, 2009	$ 3,804.9	$ 1,687.5	$ 620.5	$ (632.2)	$ (279.5)	**$ 5,201.2**
Cumulative effect accounting changes	(3.5)					**(3.5)**
Earnings	88.5					**88.5**
Changes to disallowed adjustments				17.9	(0.8)	**17.1**
Dividends	(64.7)					**(64.7)**
Issuance of common stock	2.3					**2.3**
Amortization of preferred discount	(8.4)	8.4				
Disallowance of deferred tax assets					69.0	**69.0**
Other	7.1					**7.1**
Balance at June 30, 2010	$ 3,826.2	$ 1,695.9	$ 620.5	$ (614.3)	$ (211.3)	**$ 5,317.0**

	Qualifying ACL	Qualifying Subordinated Debt	**Tier 2 Capital**	**Tier 1 Capital (from above)**	**Total risk-based capital**
Balance at December 31, 2009	$ 556.3	$ 473.2	**$ 1,029.5**	**$ 5,201.2**	**$ 6,230.7**
Change in qualifying subordinated debt		(48.0)	**(48.0)**		**(48.0)**

Change in qualifying ACL		(14.0)				**(14.0)**				**(14.0)**
Changes to Tier 1 Capital (see above)								**115.8**		**115.8**
Balance at June 30, 2010	$	542.3	$	425.2	**$**	**967.5**	**$**	**5,317.0**	**$**	**6,284.5**

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

(2) Includes minority interest.

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

Table 49 Regulatory Capital Ratios

		2010			2009	
		June 30,	March 31,	December 31,	September 30,	June 30,
Total risk-weighted assets (in millions)	Consolidated	**$ 42,486**	$ 42,522	$ 43,248	$ 44,142	$ 45,463
	Bank	**42,249**	42,511	43,149	43,964	45,137
Tier 1 leverage ratio[1]	Consolidated	**10.45%**	10.05%	10.09%	11.30%	10.62%
	Bank	**6.54**	5.99	5.59	6.48	6.46
Tier 1 risk-based capital ratio[1]	Consolidated	**12.51**	11.97	12.03	13.04	11.85
	Bank	**7.80**	7.11	6.66	7.46	7.14
Total risk-based capital ratio[1]	Consolidated	**14.79**	14.28	14.41	16.23	14.94
	Bank	**12.23**	11.53	11.08	11.75	11.35

(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 March 31, 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 as a result of the recognition of the tax impact of the Franklin-related charge-offs *(see Significant Items).*

At June 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 $2.8 billion and $2.0 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 $0.8 billion and $0.9 billion, respectively, at June 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, we believe that there are three factors to consider before repayment: (a) evidence of a sustained economic recovery, (b) our demonstration of profitable performance with growth in earnings, and (c) additional clarity of any new regulatory capital thresholds. Although the recently passed Dodd-Frank Wall Street Reform and Consumer Protection Act gave the authority to set these thresholds, it will likely be a sustained period of time before any specific regulations are written and specific thresholds established.

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 six-month period of 2010. Also, as we continue to focus on maintaining our strong capital levels, we do not anticipate an increase in our dividends for the foreseeable future.

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.

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.

Fee 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.

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.

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.

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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 $88.5 million during the first six-month period of 2010. This compared with a net loss of $2,558.3 million during the first six-month period of 2009. The segregation of net income by business segment for the first six-month period of 2010 and the first six-month period of 2009 is presented in the following table:

Table 50 Net Income (Loss) by Business Segment

	Six Months Ended June 30,	
(dollar amounts in thousands)	**2010**	2009
Retail and Business Banking	$ **58,532**	**$** 51,738
Commercial Banking	**19,132**	(21,249)
Commercial Real Estate	**(75,282)**	(181,502)
AFDS	**49,024**	(11,041)
PFG	**26,376**	121
Treasury/Other	**10,719**	177,449
Unallocated goodwill impairment (1)		(2,573,818)
Total net income (loss)	$ **88,501**	**$** (2,558,302)

(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.

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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 six-month period of 2010, is presented in the following table:

Table 51 Average Loans/Leases and Deposits by Business Segment

Six Months Ended June 30, 2010

(dollar amounts in millions)	Retail and Business Banking	Commercial Banking	Commercial Real Estate	AFDS	PFG	Treasury / Other	TOTAL
Average Loans/Leases							
Commercial and industrial	$ 2,915	$ 7,026	$ 698	$ 1,039	$ 601	$	$ **12,279**
Commercial real estate	548	308	6,503	5	156		**7,520**
Total commercial	3,463	7,334	7,201	1,044	757		**19,799**
Automobile loans and leases				4,443			**4,443**
Home equity	6,789	19			666	67	**7,541**
Residential mortgage	3,579	3			613	348	**4,543**
Other consumer	515	6		166	22		**709**
Total consumer	10,883	28		4,609	1,301	415	**17,236**
Total loans	$ 14,346	$ 7,362	$ 7,201	$ 5,653	$ 2,058	$ 415	$ **37,035**
Average Deposits							
Demand deposits noninterest-bearing	$ 3,493	$ 2,257	$ 280	$ 77	$ 532	$ 100	$ **6,739**
Demand deposits interest-bearing	4,152	976	43		671	2	**5,844**
Money market deposits	7,033	1,833	216	5	1,636		**10,723**
Savings and other domestic time deposits	4,482	91	3		68	1	**4,645**
Core certificates of deposit	9,366	27	2		191		**9,586**
Total core deposits	28,526	5,184	544	82	3,098	103	**37,537**
Other deposits	240	1,238	23	6	139	1,113	**2,759**
Total deposits	$ 28,766	$ 6,422	$ 567	$ 88	$ 3,237	$ 1,216	$ **40,296**

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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 June 30, 2010, Retail and Business Banking accounted for 39% and 72% of consolidated loans and leases and deposits, respectively.

The Retail and Business Banking strategy is to focus on building a deeper relationship with our customers by providing an exceptional service experience. This focus on service involves continued investments in state-of-the-art platform technology in our branches, award-winning retail and business websites for our customers, extensive development of employees, and internal processes that empower our local bankers to serve our customers.

Table 52 Key Performance Indicators for Retail and Business Banking

	Six Months Ended June 30,		Change	
(dollar amounts in thousands unless otherwise noted)	**2010**	2009	Amount	Percent
Net interest income	**$ 445,700**	$ 456,379	$ (10,679)	(2)%
Provision for credit losses	**(121,874)**	(194,108)	72,234	(37)
Noninterest income	**262,151**	253,890	8,261	3
Noninterest expense	**(495,928)**	(436,564)	(59,364)	14
Provision for income taxes	**(31,517)**	(27,859)	(3,658)	13
Net income	**$ 58,532**	$ 51,738	$ 6,794	13%
Number of employees (full-time equivalent)	**6,497**	6,050	447	7%
Total average assets (in millions)	**$ 16,556**	$ 17,141	$ (585)	(3)
Total average loans/leases (in millions)	**14,346**	15,066	(720)	(5)
Total average deposits (in millions)	**28,766**	27,548	1,218	4
Net interest margin	**3.11%**	3.33%	(0.22)%	(7)
Net charge-offs (NCOs)	**$ 138,726**	$ 165,719	$ (26,993)	(16)
NCOs as a % of average loans and leases	**1.93%**	2.20%	(0.27)%	(12)
Return on average equity	**6.9**	8.0	(1.1)	(14)
Retail banking # demand deposit account (DDA) households (eop)	**952,525**	905,314	47,211	5
Retail banking # new relationships 90-day cross-sell (eop)	**3.11**	2.61	0.50	19
Business banking # business DDA relationships (eop)	**116,087**	109,598	6,489	6
Business banking # new relationships 90-day cross-sell (eop)	**2.27**	2.21	0.06	3
Mortgage banking closed loan volume (in millions)	**$ 2,030**	$ 3,133	$ (1,103)	(35)%

eop End of Period.

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2010 First Six Months vs. 2009 First Six Months

Retail and Business Banking reported net income of $58.5 million in the first six-month period of 2010, compared with net income of $51.7 million in the first six-month period of 2009. As discussed below, the $6.8 million, or 13% increase, primarily reflected a $72.2 million, or 37%, decline in the provision for loan losses, partially offset by a $59.4 million, or 14%, increase in noninterest expense.

Net interest income decreased $10.7 million, or 2%, primarily reflecting a 22 basis point decline in the net interest margin, as well as a $0.7 billion decline in total average loans and leases. The net interest margin decline primarily reflected a 5 basis point decline in our deposit spread, partially offset by a $1.2 billion increase in average total deposits. The decline in deposit spread resulted from a decrease in the liquidity premium allocated to deposits.

The $0.7 billion, or 5%, decline in total average loans and leases primarily reflected a $0.5 billion decrease in average commercial loans and a $0.2 billion decrease in average residential mortgages. The $0.5 billion decrease in average commercial loans was largely focused within the CRE portfolio, and primarily reflected our on-going commitment to reduce our exposure to real estate 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. The $0.2 billion decline in average residential mortgages primarily reflected the impact of loans sales.

Average total deposits increased $1.2 billion, or 4%, reflecting a 5% increase in the number of DDA households. These increases were the result of increased sales efforts throughout 2009 and the first six-month period of 2010, particularly in our money market and checking account deposit products.

Provision for loan losses declined $72.2 million, or 37%, reflecting lower NCOs, a $0.7 billion decrease in average loans and leases, and an improvement in delinquencies. NCOs declined $27.0 million, or 16%, and reflected a $57.7 million decline in total commercial NCOs, offset by a $30.7 million increase in total consumer NCOs. The decrease in commercial NCOs reflected a lower level of large dollar charge-offs and improvement in delinquencies. The increase in consumer NCOs reflected: (a) a more conservative position regarding the timing of loss recognition in our residential mortgage portfolio, and (b) our more proactive loss mitigation strategies, which we believe are in the best interest of both our company and our customers.

Noninterest income increased $8.3 million, or 3%, reflecting a $5.0 million increase in mortgage banking income. The increase to mortgage banking income primarily reflected a $33.4 million improvement of MSR valuation, net of hedging, partially offset by a $28.4 million decline in origination and secondary marketing fees as a result of a 35% decrease in mortgage originations. Also contributing to the increase in noninterest income was a $6.2 million, or 13%, increase in electronic banking income, primarily reflecting an increased number of deposit accounts and transaction volumes. Partially offsetting these increases was a $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 $59.4 million, or 14%. This increase reflected: (a) $23.8 million of higher allocated expenses; (b) $12.2 million increase in personnel expense reflecting a 7% increase in average full-time equivalent employees and salary increases; (c) $12.0 million increase in marketing expense as a result of increased sales efforts, and branch and ATM branding investments in support of strategic initiatives; (d) $9.5 million increase in deposit and other insurance expense reflecting increased premiums and higher deposit balances; and (e) $4.7 million increase in repurchase reserves related to representations and warranties made on mortgage loans sold. These increases were partially offset by a $6.6 million improvement in OREO losses.

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, 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 strategy is to focus on building a deep relationship with our customers by providing an exceptional service experience. This focus on service requires continued investments in technology for our product offerings, websites for our customers, extensive development of employees, and internal processes that empower our local bankers to better serve our customers.

Table 53 Key Performance Indicators for Commercial Banking

	Six Months Ended June 30,		Change	
(dollar amounts in thousands unless otherwise noted)	**2010**	2009	Amount	Percent
Net interest income	**$ 109,851**	$ 104,509	$ 5,342	5%
Provision for credit losses	**(53,597)**	(115,657)	62,060	(54)
Noninterest income	**52,384**	45,683	6,701	15
Noninterest expense	**(79,204)**	(67,226)	(11,978)	18
(Provision) benefit for income taxes	**(10,302)**	11,442	(21,744)	N.M.
Net income (loss)	**$ 19,132**	$ (21,249)	$ 40,381	N.M.%
Number of employees (full-time equivalent)	**487**	433	54	12%
Total average assets (in millions)	**$ 7,623**	$ 8,514	$ (891)	(10)
Total average loans/leases (in millions)	**7,362**	8,148	(786)	(10)
Total average deposits (in millions)	**6,422**	5,963	459	8
Net interest margin	**3.05%**	2.60%	0.45%	17
Net charge-offs (NCOs)	**$ 59,540**	$ 131,355	$ (71,815)	(55)
NCOs as a % of average loans and leases	**1.62%**	3.22%	(1.60)%	(50)
Return on average equity	**5.6**	(5.2)	10.8	N.M.

N.M., not a meaningful value.

2010 First Six Months vs. 2009 First Six Months

Commercial Banking reported net income of $19.1 million in the first six-month period of 2010, compared with a net loss of $21.2 million in the first six-month period of 2009. As discussed below, this $40.4 million improvement primarily reflected a $62.1 million decline in provision for loan losses, partially offset by a $12.0 million increase in noninterest expense.

Net interest income increased $5.3 million, or 5%, primarily reflecting a 45 basis point increase in the net interest margin, partially offset by a $0.8 billion, or 10%, decline in average total loans. This increase in the net interest margin was almost entirely reflective of the 44 basis point improvement in our commercial loan spread as a result of strategic pricing decisions.

Average total loans declined $0.8 billion, or 10%, primarily reflecting strategic and credit 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 $0.7 billion decline in noncore deposits. The increase in core deposits reflected: (a) $0.6 billion increase in public funds deposits, (b) $0.3 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 strengthen our relationships with these customers. The decrease in noncore deposits primarily reflected a $0.5 billion reduction in brokered and negotiable deposits as that portfolio continues to run-off.

Provision for loan losses declined $62.1 million, or 54%, reflecting the lower level of related loan balances, as well as a $71.8 million decline in NCOs. Expressed as a percentage of related average balances, NCOs decreased to 1.62% from 3.22%. The decline in NCOs was driven by: (a) $36.7 million of lower C&I charge-offs; (b) $18.1 million of lower CRE NCOs; and (c) $17.3 million of higher C&I recoveries, and represented a material increase in recoveries compared with the year-ago period. The overall decline in NCOs was the result of an improved credit environment.

Noninterest income increased $6.7 million, or 15%, and primarily reflected: (a) $2.0 million increase in loan commitment fee income; (b) $1.6 million in gains on terminated leases, reflecting strategically accelerated equipment sales to capture disposal gains; (c) $1.6 million increase of loan-related fees relating to the improved collection of such fees from customers; and (d) $1.4 million increase in third-party print and mail income. These increases were partially offset by a $2.0 million decline in equipment operating lease income as lease originations were recorded as direct finance leases rather than operating leases effective with the 2009 second quarter.

Noninterest expense increased $12.0 million, or 18%, and reflected: (a) $9.3 million increase in personnel expense primarily reflecting higher incentive plan payouts; (b) $2.3 million of higher allocated expenses, and (c) $2.2 million increase in deposit and other insurance expense reflecting increased premiums and higher deposit balances. These increases were partially offset by a $1.8 million decrease in equipment operating lease expense reflecting the change in accounting for lease originations effective with the 2009 second quarter as described above.

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, and capital market alternatives. 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 (top-tier developers); 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 top-tier developers in our footprint.

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 54 Key Performance Indicators for Commercial Real Estate

	Six Months Ended June 30,		Change	
(dollar amounts in thousands unless otherwise noted)	**2010**	2009	Amount	Percent
Net interest income	**$ 79,587**	$ 67,322	$ 12,265	18%
Provision for credit losses	**(178,997)**	(332,363)	153,366	(46)
Noninterest income	**4,125**	1,370	2,755	N.M.
Noninterest expense	**(20,534)**	(15,563)	(4,971)	32
Benefit for income taxes	**40,537**	97,732	(57,195)	(59)
Net loss	**$ (75,282)**	$ (181,502)	$ 106,220	59%
Number of employees (full-time equivalent)	**108**	87	21	24%
Total average assets (in millions)	**$ 6,609**	$ 8,346	$ (1,737)	(21)
Total average loans/leases (in millions)	**7,201**	8,463	(1,262)	(15)
Total average deposits (in millions)	**567**	471	96	20
Net interest margin	**2.23%**	1.61%	0.62%	39
Net charge-offs (NCOs)	**$ 199,600**	$ 212,933	$ (13,333)	(6)
NCOs as a % of average loans and leases	**5.54%**	5.03%	0.51%	10
Return on average equity	**(23.8)**	(71.8)	48.00	(67)

N.M., not a meaningful value.

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2010 First Six Months vs. 2009 First Six Months

Commercial Real Estate reported a net loss of $75.3 million in the first six-month period of 2010, compared with a net loss of $181.5 million in the first six-month period of 2009. The improvement reflected a $153.4 million decrease to the provision for credit losses reflecting the stabilization of the overall credit quality in the underlying portfolio.

Net interest income increased $12.3 million, or 18%, reflecting a 62 basis point increase in net interest margin, partially offset by a $1.3 billion, or 15%, decrease in average earning assets. The net interest margin increase primarily reflected the utilization of a new risk-based pricing strategy implemented in early 2009.

Average total loans declined $1.3 billion, and was almost entirely centered in the CRE portfolio. The decline in the CRE portfolio primarily reflected our on-going commitment to reduce our exposure to real estate and to maintain a low to moderate risk profile for the portfolio. We have executed several initiatives that have resulted in lower balances through payoffs and paydowns.

Average total deposits increased $0.1 billion, or 20%. These increases were primarily centered in commercial demand deposits and commercial money-market deposits, primarily reflecting a commitment to strengthen relationships with top-tier develops within our geographic footprint.

Noninterest income increased $2.8 million, primarily reflecting a $1.5 million improvement in interest rate swap losses and a $1.4 million increase in loan-related fees, primarily reflecting improved collection of such fees from customers.

Noninterest expense increased $5.0 million, or 32%, reflecting: (a) $2.7 million increase in real estate taxes paid on NPAs; and (b) $1.9 million increase in personnel expense, due to an increased investment in portfolio management staffing in support of strategic initiatives.

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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. 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 55 Key Performance Indicators for Auto Finance and Dealer Services (AFDS)

	Six Months Ended June 30,		Change	
(dollar amounts in thousands unless otherwise noted)	**2010**	2009	Amount	Percent
Net interest income	**$ 83,301**	$ 71,678	$ 11,623	16%
Reduction (provision) for credit losses	**14,093**	(57,178)	71,271	N.M.
Noninterest income	**33,062**	27,080	5,982	22
Noninterest expense	**(55,035)**	(58,566)	3,531	(6)
(Provision) benefit for income taxes	**(26,397)**	5,945	(32,342)	N.M.
Net income (loss)	**$ 49,024**	$ (11,041)	$ 60,065	N.M.%
Number of employees (full-time equivalent)	**408**	445	(37)	(8)%
Total average assets (in millions)	**$ 6,117**	$ 5,410	$ 707	13
Total average loans/leases (in millions)	**5,653**	5,276	377	7
Net interest margin	**2.82%**	2.59%	0.23%	9
Net charge-offs (NCOs)	**$ 15,677**	$ 34,236	$ (18,559)	(54)
NCOs as a % of average loans and leases	**0.55%**	1.30%	(0.75)	(58)
Return on average equity	**40.0**	(8.8)	48.8	N.M.
Automobile loans production (in millions)	**$ 1,621.3**	$ 679.4	$ 942	N.M.

N.M., not a meaningful value.

2010 First Six Months vs. 2009 First Six Months

AFDS reported net income of $49.0 million in the first six-month period of 2010, compared with a net loss of $11.0 million in the first six-month period of 2009. This $60.1 million increase reflected a $71.3 million decline to the provision for loan losses, due to a reduction in reserves as the underlying credit quality of the loan portfolios improved. The comparable year-ago period included higher provision for credit losses to increase reserves due to economic and automobile-industry related weaknesses in our markets. Total NCO s declined $18.6 million, or 54%, and automobile loan and lease delinquency levels declined to 1.25% from 2.14%. At June 30, 2010, the ALLL as a percentage of total loans decreased to 0.99% from 1.77% at December 31, 2009 and 1.59% at June 30, 2009.

Net interest income increased $11.6 million, or 16%, reflecting a 23 basis point increase in the net interest margin, and a $0.4 billion, or 7%, increase in average total loans. The increase in average total loans reflected a $0.9 billion increase in average automobile loans that resulted from record loan origination levels, as well as the impact of the transferring of $1.0 billion automobile loans and leases 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, (b) $0.2 billion decline in average C&I loans primarily reflecting lower floorplan credit-line utilization as dealership inventories have declined to historically lower levels.

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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. We elected to account for these loans, as well as the underlying debt, at fair value. At June 30, 2010, these formerly securitized loans had a remaining balance of $0.7 billion.

Noninterest income (excluding operating lease income of $24.1 million during the current period, and $26.3 million in the comparable year-ago period) increased $8.2 million. Performance for the first six-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 six-month period of 2010 included a $3.3 million net gain resulting from valuation adjustments of the loans and associated notes payable held by the consolidated trust *(discussed above)*.

Noninterest expense (excluding operating lease expense of $19.7 million in the current period, and $22.3 million in the comparable year-ago period) decreased $0.9 million. This decline reflected the benefit of a $5.6 million decrease in losses associated with sales of vehicles returned at the end of their lease terms as used vehicle values in the current period are at higher levels and the number of vehicles being returned has declined compared to the year-ago period. In addition, collections and repossession related costs declined $0.5 million. These decreases were partially offset by a $4.1 million increase in allocated expenses and a $1.4 million increase in personnel expense, much of which related to increased loan origination and servicing related activities.

Net automobile operating lease income decreased $0.4 million, reflecting the discontinuation of all lease origination activities in 2008 and the resulting continued run-off of the automobile operating lease portfolio.

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 56 Key Performance Indicators for Private Financial Group (PFG)

	Six Months Ended June 30,		Change	
(dollar amounts in thousands unless otherwise noted)	**2010**	2009	Amount	Percent
Net interest income	**$ 46,049**	$ 37,781	$ 8,268	22%
Reduction (provision) for credit losses	**4,799**	(17,984)	22,783	N.M.
Noninterest income	**129,242**	124,719	4,523	4
Noninterest expense excluding goodwill impairment	**(139,511)**	(115,435)	(24,076)	21
Goodwill impairment		(28,895)	28,895	N.M.
Provision for income taxes	**(14,203)**	(65)	(14,138)	N.M.
Net income	**$ 26,376**	$ 121	$ 26,255	N.M.%
Number of employees (full-time equivalent)	**1,467**	1,360	107	8%
Total average assets (in millions)	**$ 3,269**	$ 3,325	$ (56)	(2)
Total average loans/leases (in millions)	**2,058**	2,418	(360)	(15)
Total average deposits (in millions)	**3,237**	2,138	1,099	51
Net interest margin	**3.85%**	3.00%	0.85%	28
Net charge-offs (NCOs)	**$ 12,647**	$ 13,420	$ (773)	(6)
NCOs as a % of average loans and leases	**1.23%**	1.11%	0.12%	11
Return on average equity	**15.2**	0.1	15.1	N.M.
Total trust assets (in billions)- eop	**50.9**	44.9	6.0	13
Total assets under management (in billions) eop	**12.7**	12.3	0.4	3
Total Huntington Funds (in billions) eop	**3.2**	3.1	0.1	3
Number of proprietary mutual funds eop	**24**	20	4	20

Number of proprietary variable annuity funds eop	**12**	12		
Noninterest income, excluding impact of fee sharing	**$ 150,062**	$ 143,496	$ 6,566	5
Noninterest income shared with other business segments	**20,820**	18,777	2,043	11
Noninterest income, reported (above)	**$ 129,242**	$ 124,719	$ 4,523	4%

eop End of Period.
N.M., not a meaningful value.

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2010 First Six Months vs. 2009 First Six Months

PFG reported net income of $26.4 million in the first six-month period of 2010, compared with net income of $0.1 million in the first six-month period of 2009. The $26.3 million improvement reflected a $28.9 million goodwill impairment charge recorded during the year-ago period, as well as a $22.8 million decline in the provision for loan losses. Additionally, provision for income taxes expense increased $14.1 million reflecting the increase in total net income.

Net interest income increased $8.3 million, or 22%, reflecting an 85 basis point improvement in the net interest margin. The growth in net interest income was driven by improved spreads on earning assets, and a $1.1 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 $1.1 billion, or 51%. A substantial portion of the deposit growth resulted from the introduction of three deposit products during 2009 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), and (c) the Bank Deposit Sweep Product (BDSP). These three accounts had balances in excess of $1.1 billion at June 30, 2010.

As previously mentioned, provision for credit losses decreased $22.8 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 $0.8 million, or 6%.

Noninterest income increased $4.5 million, or 4%, primarily reflecting a $6.0 million increase in trust services revenue, as a result of an increase in trust asset market values, as well as increased fees on personal trust accounts and in-sourcing of certain mutual fund administrative services.

Noninterest expense decreased $4.8 million, or 3%. This decrease includes a $28.9 million goodwill impairment charge recorded during the 2009 first quarter. After adjusting for the goodwill impairment, noninterest expense increased $24.1 million. This increase reflected a $11.0 million of higher allocated expenses, and a $10.5 million increase in personnel expense resulting from an 8% increase in average full-time equivalent employees.

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 (Dodd-Frank Act) and future regulations which will be adopted by the relevant regulatory agencies to implement the Dodd-Frank 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.
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 Allowances 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 June 30, 2010, the ACL was $1,441.8 million, or 3.90% 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 unoberservable.

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.

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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, and as such, 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 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 June 30, 2010, our Alt-A securities portfolio had a fair value of $112.2 million, and our CMO securities portfolio had a fair value of $394.6 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 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 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.

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 that all contractual cash flows would not be collected. All securities in these portfolios remained current with respect to interest and principal at June 30, 2010.

Our analysis indicated, as of June 30, 2010, a total of three Alt-A mortgage-backed securities and 11 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 1.55% to 40.97% of their par value. These losses were projected to occur between 5 months to 18 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. As a result, during the 2010 second quarter, we recorded $0.6 million of OTTI in our Alt-A mortgage-backed securities portfolio and $2.3 million of OTTI adjustments in our private-label CMO securities portfolio. For the first six-month period of 2010, we recorded $1.2 million of OTTI adjustments in our Alt-A mortgage-backed securities portfolio, and $4.9 million of OTTI adjustments in our private-label CMO securities portfolio. These OTTI adjustments negatively impacted our earnings.

Pooled-trust-preferred securities represent collateralized debt obligations (CDOs) backed by a pool of debt securities issued by financial institutions. At June 30, 2010, our pooled-trust-preferred securities portfolio had a fair value of $106.7 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. Relying on cash flows was necessary because there was a lack of observable transactions in the market and many of the original sponsors or dealers for these securities were no longer able to provide a fair value that was compliant with ASC 820, Fair Value Measurements and Disclosures .

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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 who are in default. The recovery assumptions on issuers who are 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 10 securities; however, because profitability and credit quality continue to improve for many of the underlying issuers, the estimated amount of credit losses declined in the second quarter, and as such, we recorded no OTTI adjustment in the 2010 second quarter relating to these securities. For the first six-month period of 2010, we recorded $3.2 million of OTTI adjustments relating to these securities. These OTTI adjustments negatively impacted our earnings.

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 indicating that goodwill of a reporting unit may be impaired during either the 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 June 30, 2010, OREO totaled $139.1 million, representing a 1% decrease compared with $140.1 million at December 31, 2009.

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Income Taxes and Deferred Tax Assets

DEFERRED TAX ASSETS

At June 30, 2010, we had a net deferred tax asset of $389.8 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 June 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*) had 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.

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.

Item 1: Financial Statements
Huntington Bancshares Incorporated
Condensed Consolidated Balance Sheets
(Unaudited)

(in thousands, except number of shares)	**2010 June 30,**	2009 December 31,	2009 June 30,
Assets			
Cash and due from banks	$ **1,125,776**	$ 1,521,344	$ 2,092,604
Interest bearing deposits in banks	**289,468**	319,375	383,082
Trading account securities	**106,858**	83,657	95,920
Loans held for sale (includes $404,817; $459,179 and $545,119 respectively, measured at fair value) (1)	**777,843**	461,647	559,017
Investment securities	**8,803,718**	8,587,914	5,934,704
Loans and leases (includes $657,213 at June 30, 2010 measured at fair value) (2)	**36,969,695**	36,790,663	38,494,889
Allowance for loan and lease losses	**(1,402,160)**	(1,482,479)	(917,680)
Net loans and leases	**35,567,535**	35,308,184	37,577,209
Bank owned life insurance	**1,436,433**	1,412,333	1,391,045
Premises and equipment	**492,859**	496,021	503,877
Goodwill	**444,268**	444,268	447,879
Other intangible assets	**258,811**	289,098	322,467
Accrued income and other assets	**2,467,269**	2,630,824	2,089,448
Total assets	$ **51,770,838**	$ 51,554,665	$ 51,397,252
Liabilities and shareholders equity			
Liabilities			
Deposits	$ **39,848,507**	$ 40,493,927	$ 39,165,132
Short-term borrowings	**1,093,218**	876,241	862,056
Federal Home Loan Bank advances	**599,798**	168,977	926,937
Other long-term debt (includes $494,512 at June 30, 2010 measured at fair value) (2)	**2,569,934**	2,369,491	2,508,144
Subordinated notes	**1,195,210**	1,264,202	1,672,887
Accrued expenses and other liabilities	**1,025,735**	1,045,825	1,041,574
Total liabilities	**46,332,402**	46,218,663	46,176,730
Shareholders equity			
Preferred stock authorized 6,617,808 shares;			
5.00% Series B Non-voting, Cumulative Preferred Stock, par value of $0.01 and liquidation value per share of $1,000	**1,333,433**	1,325,008	1,316,854
8.50% Series A Non-cumulative Perpetual Convertible Preferred Stock, par value of $0.01 and liquidation value per share of $1,000	**362,507**	362,507	362,507

Common stock	**7,175**	7,167	5,696
Capital surplus	**6,739,069**	6,731,796	6,134,590
Less treasury shares, at cost	**(9,235)**	(11,465)	(12,223)
Accumulated other comprehensive loss	**(84,398)**	(156,985)	(273,525)
Retained (deficit) earnings	**(2,910,115)**	(2,922,026)	(2,313,377)
Total shareholders equity	**5,438,436**	5,336,002	5,220,522
Total liabilities and shareholders equity	**$ 51,770,838**	$ 51,554,665	$ 51,397,252
Common shares authorized (par value of $0.01)	**1,500,000,000**	1,000,000,000	1,000,000,000
Common shares issued	**717,487,003**	716,741,249	569,646,682
Common shares outstanding	**716,622,592**	715,761,672	568,741,245
Treasury shares outstanding	**864,411**	979,577	905,437
Preferred shares issued	**1,967,071**	1,967,071	1,967,071
Preferred shares outstanding	**1,760,578**	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

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Huntington Bancshares Incorporated
Condensed Consolidated Statements of Income
(Unaudited)

(in thousands, except per share amounts)	Three Months Ended June 30, **2010**	Three Months Ended June 30, 2009	Six Months Ended June 30, **2010**	Six Months Ended June 30, 2009
Interest and fee income				
Loans and leases				
Taxable	$ **467,268**	$ 491,082	$ **946,389**	$ 988,670
Tax-exempt	**1,302**	604	**2,015**	1,702
Investment securities				
Taxable	**59,614**	60,029	**118,601**	115,490
Tax-exempt	**2,859**	1,343	**5,950**	6,098
Other	**4,610**	9,946	**9,477**	21,001
Total interest income	**535,653**	563,004	**1,082,432**	1,132,961
Interest expense				
Deposits	**114,822**	176,081	**243,124**	363,650
Other borrowings	**21,175**	37,024	**45,759**	81,907
Total interest expense	**135,997**	213,105	**288,883**	445,557
Net interest income	**399,656**	349,899	**793,549**	687,404
Provision for credit losses	**193,406**	413,707	**428,414**	705,544
Net interest income (loss) after provision for credit losses	**206,250**	(63,808)	**365,135**	(18,140)
Service charges on deposit accounts	**75,934**	75,353	**145,273**	145,231
Brokerage and insurance income	**36,498**	32,052	**72,260**	72,000
Mortgage banking income	**45,530**	30,827	**70,568**	66,245
Trust services	**28,399**	25,722	**56,164**	50,532
Electronic banking	**28,107**	24,479	**53,244**	46,961
Bank owned life insurance income	**14,392**	14,266	**30,862**	27,178
Automobile operating lease income	**11,842**	13,116	**24,145**	26,344
Net gains on sales of investment securities	**2,980**	12,246	**9,410**	18,235
Impairment losses on investment securities:				
Impairment recoveries (losses) on investment securities	**5,193**	(88,114)	**(3,207)**	(92,036)
Noncredit-related (recoveries) losses on securities not expected to be sold (recognized in other comprehensive income)	**(8,017)**	68,528	**(6,078)**	68,528
Net impairment losses on investment securities	**(2,824)**	(19,586)	**(9,285)**	(23,508)
Other income	**28,785**	57,470	**57,854**	75,829
Total non-interest income	**269,643**	265,945	**510,495**	505,047

Personnel costs	**194,875**	171,735	**378,517**	347,667
Outside data processing and other services	**40,670**	40,006	**79,752**	72,998
Deposit and other insurance expense	**26,067**	48,138	**50,822**	65,559
Net occupancy	**25,388**	24,430	**54,474**	53,618
OREO and foreclosure expense	**4,970**	26,524	**16,500**	36,411
Equipment	**21,585**	21,286	**42,209**	41,696
Professional services	**24,388**	16,658	**47,085**	33,112
Amortization of intangibles	**15,141**	17,117	**30,287**	34,252
Automobile operating lease expense	**9,667**	11,400	**19,733**	22,331
Marketing	**17,682**	7,491	**28,835**	15,716
Telecommunications	**6,205**	6,088	**12,376**	11,978
Printing and supplies	**3,893**	4,151	**7,566**	7,723
Goodwill impairment		4,231		2,606,944
Gain on early extinguishment of debt		(73,038)		(73,767)
Other expense	**23,279**	13,765	**43,747**	33,513
Total non-interest expense	**413,810**	339,982	**811,903**	3,309,751
Income (loss) before income taxes	**62,083**	(137,845)	**63,727**	(2,822,844)
Provision (benefit) for income taxes	**13,319**	(12,750)	**(24,774)**	(264,542)
Net income (loss)	**48,764**	(125,095)	**88,501**	(2,558,302)
Dividends on preferred shares	**29,426**	57,451	**58,783**	116,244
Net income (loss) applicable to common shares	**$ 19,338**	$ (182,546)	**$ 29,718**	$ (2,674,546)
Average common shares basic	**716,580**	459,246	**716,450**	413,083
Average common shares diluted	**719,387**	459,246	**718,990**	413,083
Per common share				
Net income (loss) basic	**$ 0.03**	$ (0.40)	**$ 0.04**	$ (6.47)
Net income (loss) diluted	**0.03**	(0.40)	**0.04**	(6.47)
Cash dividends declared	**0.0100**	0.0100	**0.0200**	0.0200

See Notes to Unaudited Condensed Consolidated Financial Statements

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

	Preferred Stock									Accumulated		
	Series B		Series A		Common Stock		Capital	Treasury Stock		Other Comprehensive	Retained Earnings	
nds)	Shares	Amount	Shares	Amount	Shares	Amount	Surplus	Shares	Amount	Loss	(Deficit)	T
ths une 30,												
g of	1,398	$ 1,308,667	569	$ 569,000	366,972	$ 3,670	$ 5,322,428	(915)	$ (15,530)	$ (326,693)	$ 365,599	$ 7,
ve effect in g for olling											1,765	
g of as	1,398	$ 1,308,667	569	$ 569,000	366,972	$ 3,670	$ 5,322,428	(915)	$ (15,530)	(326,693)	$ 367,364	$ 7,
ensive												
											(2,558,302)	(2,
ve effect in g for n- ly debt										(3,541)	3,541	
it-related nt losses ecurities ted to be										(44,543)		
d net										128,716		
nt arising period,												
cation												

alized d gains ow es										(30,419)		
n ted d losses on and t- t ns										2,955		
ensive												(2,
of stock					161,549	1,614	550,850					
on of Series A			(206)	(206,493)	41,072	411	262,117				(56,035)	
tion of		7,887									(7,887)	
dends												
($0.02)											(9,167)	
Series B er share)											(34,952)	
Series A er share)											(17,370)	
on of alue of ed ation							2,640					
re-based ation					54	1	35				(108)	
		300					(3,480)	10	3,307		(461)	
end of	1,398	$ 1,316,854	363	$ 362,507	569,647	$ 5,696	$ 6,134,590	(905)	$ (12,223)	$ (273,525)	$ (2,313,377)	$ 5,
ths une 30,												
g of	1,398	$ 1,325,008	363	$ 362,507	716,741	$ 7,167	$ 6,731,796	(980)	$ (11,465)	$ (156,985)	$ (2,922,026)	$ 5,

ve effect e in g for tion of nterest et of tax										(4,249)	(3,462)	
g of as	1,398	1,325,008	363	362,507	716,741	7,167	6,731,796	(980)	(11,465)	(161,234)	(2,925,488)	5.
ensive												
ne											88,501	
it-related nt losses ecurities ted to be										3,951		
d net nt arising e period, cation alized										69,779		
d gains ow es										774		
n ted d losses on and t- t ns										2,332		
ensive												
of stock tion of					537	5	2,264					
		8,425									(8,425)	
dends											(14,332)	

($0.02)												
Series B er share)											(34,952)	
Series A er share)											(15,406)	
on of alue of ed ation							6,609					
re-based ation					209	3	199				(22)	
							(1,799)	116	2,230		9	
end of	1,398	$ 1,333,433	363	$ 362,507	717,487	$ 7,175	$ 6,739,069	(864)	$ (9,235)	$ (84,398)	$ (2,910,115)	$ 5,

See Notes to Unaudited Condensed Consolidated Financial Statements

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

	Six Months Ended June 30,	
(in thousands)	**2010**	2009
Operating activities		
Net income (loss)	**$ 88,501**	$ (2,558,302)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Impairment of goodwill		2,606,944
Provision for credit losses	**428,414**	705,544
Depreciation and amortization	**135,957**	105,608
Change in current and deferred income taxes	**123,436**	(153,958)
Net (purchases) sales of trading account securities	**(23,201)**	843,849
Originations of loans held for sale	**(1,336,732)**	(3,036,331)
Principal payments on and proceeds from loans held for sale	**1,383,151**	2,830,066
Other, net	**(14,877)**	205,147
Net cash provided by operating activities	**784,649**	1,548,567
Investing activities		
Increase (decrease) in interest bearing deposits in banks	**18,042**	(232,753)
Proceeds from:		
Maturities and calls of investment securities	**1,691,002**	293,663
Sales of investment securities	**2,303,397**	1,614,172
Purchases of investment securities	**(3,985,907)**	(3,068,943)
Net proceeds from sales of loans	**199,196**	949,398
Net loan and lease activity, excluding sales	**(814,944)**	722,076
Purchases of operating lease assets		(119)
Proceeds from sale of operating lease assets	**11,783**	4,599
Purchases of premises and equipment	**(32,121)**	(21,096)
Proceeds from sales of other real estate	**44,888**	21,312
Other, net	**1,442**	2,700
Net cash (used for) provided by investing activities	**(563,222)**	285,009
Financing activities		
(Decrease) increase in deposits	**(650,432)**	1,232,510
Increase (decrease) in short-term borrowings	**166,533**	(549,727)
Maturity/redemption of subordinated notes	**(83,870)**	(136,942)
Proceeds from Federal Home Loan Bank advances	**450,000**	201,083
Maturity/redemption of Federal Home Loan Bank advances	**(19,317)**	(1,863,345)
Proceeds from issuance of long-term debt		598,200
Maturity/redemption of long-term debt	**(415,484)**	(514,989)
Dividends paid on preferred stock	**(50,358)**	(56,905)
Dividends paid on common stock	**(14,247)**	(43,780)
Net proceeds from issuance of common stock		548,327

Other, net	**180**	(72)
Net cash used for financing activities	**(616,995)**	(585,640)
(Decrease) increase in cash and cash equivalents	**(395,568)**	1,247,936
Cash and cash equivalents at beginning of period	**1,521,344**	844,668
Cash and cash equivalents at end of period	**$ 1,125,776**	$ 2,092,604
Supplemental disclosures:		
Income taxes refunded	**$ 148,210**	$ 110,584
Interest paid	**309,420**	485,439
Non-cash activities		
Dividends accrued, paid in subsequent quarter	**23,390**	21,697

See Notes to Unaudited Condensed Consolidated Financial Statements.

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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.

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3. LOANS AND LEASES

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

(in thousands)	**June 30, 2010**	December 31, 2009	June 30, 2009
Loans and leases:			
Commercial and industrial loans and leases	$ **12,392,309**	$ 12,888,100	$ 13,320,500
Commercial real estate loans	**7,183,817**	7,688,827	8,946,025
Automobile loans	**4,711,827**	3,144,329	2,854,663
Automobile leases	**134,739**	246,265	382,709
Home equity loans	**7,510,393**	7,562,060	7,631,445
Residential mortgage loans	**4,354,287**	4,510,347	4,646,298
Other consumer loans	**682,323**	750,735	713,249
Loans and leases	**36,969,695**	36,790,663	38,494,889
Allowance for loan and lease losses	**(1,402,160)**	(1,482,479)	(917,680)
Net loans and leases	$ **35,567,535**	$ 35,308,184	$ 37,577,209

The Bank has access to the Federal Reserve s discount window and advances from the FHLB - Cincinnati. As of June 30, 2010, these borrowings and advances are generally secured by $16.5 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 that the investor will be unable to collect all contractually required payments.

At the end of the 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. In July, we sold substantially all of the residential mortgages. The remaining portfolio primarily consists of $48.3 million of home equity loans held for sale and $24.5 million of OREO, both of which have been written down to current fair value, less costs to sell.

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The following table presents a rollforward of the accretable discount for the three months and six months ended June 30, 2010 and 2009:

	Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands)	**2010**	2009	**2010**	2009
Balance, beginning of period	$ **27,661**	$ 39,781	$ **35,286**	$
Additions				39,781
Accretion	**(264)**	(750)	**(1,773)**	(750)
Reclassification to nonaccretable difference (1)	**(1,344)**		**(7,460)**	
Transfer to loans held for sale	**(26,053)**		**(26,053)**	
Balance, end of period	**$**	$ 39,031	**$**	$ 39,031

(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 June 30, 2010 and 2009:

	June 30, 2010		December 31, 2009		June 30, 2009	
(in thousands)	**Carrying Value**	**Outstanding Balance**	Carrying Value	Outstanding Balance	Carrying Value	Outstanding Balance
Residential mortgage	**$**	$	$ 373,117	**$** 680,068	**$** 415,029	$ 740,850
Home equity			70,737	810,139	56,944	829,994
Total	**$**	**$**	$ 443,854	**$** 1,490,207	**$** 471,973	$ 1,570,844

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.

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4. INVESTMENT SECURITIES

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

	June 30, 2010		December 31, 2009		June 30, 2009	
	Amortized Cost	**Fair Value**	Amortized Cost	Fair Value	Amortized Cost	Fair Value
U.S. Treasury						
Under 1 year	**$**	**$**	$	$	$ 50,480	$ 50,497
1-5 years	**49,997**	**50,328**	99,735	99,154		
6-10 years						
Over 10 years						
Total U.S. Treasury	**49,997**	**50,328**	99,735	99,154	50,480	50,497
Federal agencies mortgage backed securities						
Mortgage backed securities						
Under 1 year						
1-5 years						
6-10 years	**716,844**	**731,350**	692,119	688,420	1	1
Over 10 years	**3,689,229**	**3,774,601**	2,752,317	2,791,688	1,845,469	1,870,855
Total mortgage-backed Federal agencies	**4,406,073**	**4,505,951**	3,444,436	3,480,108	1,845,470	1,870,856
Temporary Liquidity Guarantee Program (TLGP) securities						
Under 1 year						
1-5 years	**182,552**	**184,757**	258,672	260,388	319,737	320,021
6-10 years						
Over 10 years						
Total TLGP securities	**182,552**	**184,757**	258,672	260,388	319,737	320,021
Other agencies						
Under 1 year	**187,627**	**188,549**	159,988	162,518	2,206	2,271
1-5 years	**1,692,684**	**1,703,421**	2,556,213	2,555,782	1,965,647	1,979,813
6-10 years	**11,030**	**11,478**	8,614	8,703	7,018	7,189
Over 10 years						
Total other Federal agencies	**1,891,341**	**1,903,448**	2,724,815	2,727,003	1,974,871	1,989,273
Total U.S. Government backed agencies	**6,529,963**	**6,644,484**	6,527,658	6,566,653	4,190,558	4,230,647
Municipal securities						

Under 1 year						
1-5 years	**26,393**	**27,164**	6,050	6,123	1,165	1,191
6-10 years	**87,428**	**90,904**	54,445	58,037	53,148	56,223
Over 10 years	**254,786**	**257,848**	57,952	60,625	65,254	67,106
Total municipal securities	**368,607**	**375,916**	118,447	124,785	119,567	124,520
Private label CMO						
Under 1 year						
1-5 years						
6-10 years	**13,820**	**14,031**				
Over 10 years	**412,882**	**380,580**	534,377	477,319	603,099	510,503
Total private label CMO	**426,702**	**394,611**	534,377	477,319	603,099	510,503
Asset backed securities (1)						
Under 1 year	**40,000**	**40,138**				
1-5 years	**588,876**	**592,301**	352,850	353,114		
6-10 years	**168,382**	**169,246**	256,783	262,826	132,205	134,270
Over 10 years	**365,201**	**218,940**	518,841	364,376	554,032	402,928
Total asset-backed securities	**1,162,459**	**1,020,625**	1,128,474	980,316	686,237	537,198
Other						
Under 1 year	**300**	**308**	2,250	2,250	2,350	2,350
1-5 years	**6,722**	**6,884**	4,656	4,798	4,451	4,513
6-10 years	**1,104**	**1,222**	1,104	1,166	50,038	50,336
Over 10 years					63	137
Non-marketable equity securities	**304,915**	**304,915**	376,640	376,640	427,772	427,772
Marketable equity securities	**55,436**	**54,753**	54,482	53,987	47,369	46,728
Total other	**368,477**	**368,082**	439,132	438,841	532,043	531,836
Total investment securities	**$ 8,856,208**	**$ 8,803,718**	$ 8,748,088	$ 8,587,914	$ 6,131,504	$ 5,934,704

(1) Amounts at June 30, 2010 and December 31, 2009 include automobile asset backed securities with a fair value of $562.3 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.

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Other securities at June 30, 2010, December 31, 2009 and June 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 $93.6 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 June 30, 2010, December 31, 2009 and June 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 June 30, 2010, December 31, 2009, and June 30, 2009.

		Unrealized		
	Amortized	**Gross**	**Gross**	**Fair**
(in thousands)	**Cost**	**Gains**	**Losses**	**Value**
June 30, 2010				
U.S. Treasury	$ 49,997	$ 331	$	$ 50,328
Federal Agencies				
Mortgage-backed securities	4,406,073	102,435	(2,557)	4,505,951
TLGP securities	182,552	2,205		184,757
Other agencies	1,891,341	12,108	(1)	1,903,448
Total U.S. Government backed securities	6,529,963	117,079	(2,558)	6,644,484
Municipal securities	368,607	7,334	(25)	375,916
Private label CMO	426,702	534	(32,625)	394,611
Asset backed securities	1,162,459	4,805	(146,639)	1,020,625
Other securities	368,477	367	(762)	368,082
Total investment securities	**$ 8,856,208**	**$ 130,119**	**$ (182,609)**	**$ 8,803,718**

		Unrealized		
	Amortized	**Gross**	**Gross**	**Fair**
(in thousands)	**Cost**	**Gains**	**Losses**	**Value**
December 31, 2009				
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
Total investment securities	**$ 8,748,088**	**$ 67,746**	**$ (227,920)**	**$ 8,587,914**

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		Unrealized		
(in thousands)	Amortized Cost	Gross Gains	Gross Losses	Fair Value
June 30, 2009				
U.S. Treasury	$ 50,480	$ 17	$	$ 50,497
Federal Agencies				
Mortgage-backed securities	1,845,470	34,269	(8,883)	1,870,856
TLGP securities	319,737	1,084	(800)	320,021
Other agencies	1,974,871	15,666	(1,264)	1,989,273
Total U.S. Government backed securities	4,190,558	51,036	(10,947)	4,230,647
Municipal securities	119,567	5,442	(489)	124,520
Private label CMO	603,099		(92,596)	510,503
Asset backed securities	686,237	16,195	(165,234)	537,198
Other securities	532,043	442	(649)	531,836
Total investment securities	**$ 6,131,504**	**$ 73,115**	**$ (269,915)**	**$ 5,934,704**

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 June 30, 2010 , December 31, 2009, and June 30, 2009.

	Less than 12 Months		Over 12 Months		Total	
(in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
June 30, 2010						
U.S. Treasury	$	$	$	$	$	$
Federal Agencies						
Mortgage-backed securities	257,773	(2,557)			257,773	(2,557)
TLGP securities						
Other agencies			250	(1)	250	(1)
Total U.S. Government backed securities	257,773	(2,557)	250	(1)	258,023	(2,558)
Municipal securities	3,992	(8)	3,803	(17)	7,795	(25)
Private label CMO			337,044	(32,625)	337,044	(32,625)
Asset backed securities	77,834	(7,990)	206,835	(138,649)	284,669	(146,639)
Other securities	39,427	(519)	811	(243)	40,238	(762)
Total temporarily impaired securities	**$ 379,026**	**$ (11,074)**	**$ 548,743**	**$ (171,535)**	**$ 927,769**	**$ (182,609)**

	Less than 12 Months		Over 12 Months		Total	
(in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
December 31, 2009						
U.S. Treasury	$ 99,154	$ (581)	$	$	$ 99,154	$ (581)

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)
Total temporarily impaired securities	**$ 3,212,235**	**$ (27,178)**	**$ 670,646**	**$ (200,742)**	**$ 3,882,881**	**$ (227,920)**

	Less than 12 Months		Over 12 Months		Total	
(in thousands)	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**
June 30, 2009						
U.S. Treasury	$	$	$	$	$	$
Federal Agencies						
Mortgage-backed securities	518,356	(8,883)			518,356	(8,883)
TLGP securities	132,758	(800)			132,758	(800)
Other agencies	551,296	(1,218)	6,830	(46)	558,126	(1,264)
Total U.S. Government backed securities	1,202,410	(10,901)	6,830	(46)	1,209,240	(10,947)
Municipal securities	8,893	(103)	10,949	(386)	19,842	(489)
Private label CMO	17,889	(2,536)	492,599	(90,060)	510,488	(92,596)
Asset backed securities	17,561	(99)	217,425	(165,135)	234,986	(165,234)
Other securities	38,913	(240)	2,541	(409)	41,454	(649)
Total temporarily impaired securities	**$ 1,285,666**	**$ (13,879)**	**$ 730,344**	**$ (256,036)**	**$ 2,016,010**	**$ (269,915)**

The following table is a summary of realized securities gains and losses for the three months and six months ended June 30, 2010, and 2009:

	Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands)	**2010**	2009	**2010**	2009
Gross gains on sales of securities	**$ 8,105**	$ 15,697	**$ 14,881**	$ 28,491
Gross (losses) on sales of securities	**(5,125)**	(3,451)	**(5,471)**	(10,256)
Net gain on sales of securities	**2,980**	12,246	**9,410**	18,235
other-than-temporary impairment recorded pre adoption (1)				(3,922)
other-than-temporary impairment recorded post adoption (1)	**(2,824)**	(19,586)	**(9,285)**	(19,586)
Net other-than-temporary impairment recorded	**(2,824)**	(19,586)	**(9,285)**	(23,508)
Total securities gain (loss)	**$ 156**	$ (7,340)	**$ 125**	$ (5,273)

(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 that 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.

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

For the three months and six months ended June 30, 2010 and 2009, the following tables summarizes 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 June 30,			
(in thousands)	**Alt-A Mortgage-backed**	**Pooled Trust-Preferred**	**Private Label CMO**	**Total**
2010				
Total OTTI recoveries (losses) (unrealized and realized)	$ 399	$ 3,001	$ 1,793	$ 5,193
Unrealized OTTI recognized in OCI	(959)	(3,001)	(4,057)	(8,017)
Net impairment losses recognized in earnings	**$ (560)**	**$**	**$ (2,264)**	**$ (2,824)**
2009				
Total OTTI recoveries (losses) (unrealized and realized)	$ (5,980)	$ (13,479)	$ (68,655)	$ (88,114)
Unrealized OTTI recognized in OCI	99	12,228	56,201	68,528
Net impairment losses recognized in earnings	**$ (5,881)**	**$ (1,251)**	**$ (12,454)**	**$ (19,586)**

	Six Months Ended June 30,			
(in thousands)	**Alt-A Mortgage-backed**	**Pooled Trust-Preferred**	**Private Label CMO**	**Total**
2010				
Total OTTI recoveries (losses) (unrealized and realized)	$ (4,177)	$ 2,352	$ (1,382)	$ (3,207)
Unrealized OTTI recognized in OCI	2,975	(5,567)	(3,486)	(6,078)
Net impairment losses recognized in earnings	**$ (1,202)**	**$ (3,215)**	**$ (4,868)**	**$ (9,285)**
2009 (1)				
Total OTTI recoveries (losses) (unrealized and realized)	$ (5,980)	$ (13,479)	$ (68,655)	$ (88,114)
Unrealized OTTI recognized in OCI	99	12,228	56,201	68,528
Net impairment losses recognized in earnings	**$ (5,881)**	**$ (1,251)**	**$ (12,454)**	**$ (19,586)**

(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 June 30, 2009.

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

	Three Months Ended June 30,			
(in thousands)	**Alt-A Mortgage-backed**	**Pooled Trust-Preferred**	**Private Label CMO**	**Total**
2010				
Balance, beginning of period	$ 10,120	$ 90,925	$ 25,302	$ 126,347
Credit losses not previous recognized			786	786
Change in expected cash flows	(1,082)	(3,588)	(4,843)	(9,513)
Additional credit losses	123	587		710
Balance, end of period	**$** 9,161	**$** 87,924	**$** 21,245	**$** 118,330
2009				
Balance, beginning of period	$	$	$	$
Credit losses not previous recognized	5,881	1,251	12,454	19,586
Change in expected cash flows				
Additional credit losses				
Balance, end of period	**$** 5,881	**$** 1,251	**$** 12,454	**$** 19,586

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	Six Months Ended June 30,			
(in thousands)	**Alt-A Mortgage-backed**	**Pooled Trust-Preferred**	**Private Label CMO**	**Total**
2010				
Balance, beginning of period	$ 6,186	$ 93,491	$ 24,731	$ 124,408
Credit losses not previous recognized	3,972		4,937	8,909
Change in expected cash flows	(1,316)	(7,564)	(8,780)	(17,660)
Additional credit losses	319	1,997	357	2,673
Balance, end of period	**$** 9,161	**$** 87,924	**$** 21,245	**$** 118,330
2009 (1)				
Balance, beginning of period	$	$	$	$
Credit losses not previous recognized	5,881	1,251	12,454	19,586
Change in expected cash flows				
Additional credit losses				
Balance, end of period	**$** 5,881	**$** 1,251	**$** 12,454	**$** 19,586

(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 June 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 that are 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 June 30, 2010.

As of June 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 months ended June 30, 2010, and 2009, Huntington sold $0.8 billion, and $1.2 billion of residential mortgage loans with servicing retained, resulting in net pre-tax gains of $18.7 million, and $27.1 million, respectively, recorded in other non-interest income. During the six months ended June 30, 2010, and 2009, sales of residential mortgage loans with servicing retained were $1.5 billion, and $2.7 billion, respectively, resulting in net pre-tax gains of $33.4 million, and $55.5 million, respectively.

A mortgage servicing right (MSR) is established only 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 that are 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 or amortized cost of MSRs carried under the fair value 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.

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The following tables summarize the changes in MSRs recorded using either the fair value method or the amortization method for the three months and six months ended June 30, 2010 and 2009:

Fair Value Method	Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands)	**2010**	2009	**2010**	2009
Fair value, beginning of period	**$ 162,106**	$ 167,838	**$ 176,427**	$ 167,438
New servicing assets created				23,074
Change in fair value during the period due to:				
Time decay (1)	**(1,536)**	(1,705)	**(3,208)**	(3,328)
Payoffs (2)	**(6,800)**	(12,646)	**(13,677)**	(23,308)
Changes in valuation inputs or assumptions (3)	**(21,365)**	46,551	**(27,137)**	36,162
Other changes		(3,106)		(3,106)
Fair value, end of period	**$ 132,405**	$ 196,932	**$ 132,405**	$ 196,932

(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.

Amortization Method	Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands)	**2010**	2009	**2010**	2009
Carrying value, beginning of year	**$ 45,446**	$	**$ 38,165**	$

New servicing assets created		**7,944**		22,444		**16,741**		22,444
Impairment charge		**(4,856)**				**(4,856)**		
Amortization and other		**(1,801)**		(94)		**(3,317)**		(94)
Carrying value, end of period	**$**	**46,733**	$	22,350	**$**	**46,733**	$	22,350
Fair value, end of period	**$**	**47,565**	$	23,840	**$**	**47,565**	$	23,840

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 June 30, 2010 to changes in these assumptions follows:

		Decline in fair value due to			
(in thousands)	Actual		10% adverse change		20% adverse change
Constant pre-payment rate	14.02%	$	(7,120)	$	(13,132)
Spread over forward interest rate swap rates	479bps		(2,629)		(5,259)

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.

Total servicing fees included in mortgage banking income amounted to $12.2 million, and $12.0 million for the three months ended June 30, 2010, and 2009, respectively. For the six months ended June 30, 2010, and 2009, servicing fees totaled $24.6 million and $23.9 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. 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 under 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 six months ended June 30, 2010 and 2009, and the fair value at the end of each period were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands)	**2010**	2009	**2010**	2009
Carrying value, beginning of period	**$ 499**	$ 20,051	**$ 12,912**	$ 1,656
New servicing assets created				19,538
Amortization and other (1)	**(126)**	(2,628)	**(12,539)**	(3,771)
Carrying value, end of period	**$ 373**	$ 17,423	**$ 373**	$ 17,423
Fair value, end of period	**$ 631**	$ 18,401	**$ 631**	$ 18,401

(1) The six months ended June 30, 2010, included a $12.3 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 $0.8 million, and $1.6 million for the three months ended June 30, 2010, and 2009, respectively. For the six months ended June 30, 2010, and 2009, servicing income, net of amortization of capitalized servicing assets, was $1.6 million and $2.8 million, respectively.

6. GOODWILL AND OTHER INTANGIBLE ASSETS

A rollforward of goodwill by business segment for the six months ended June 30, 2010, was as follows:

(in thousands)	Retail & Business Banking	Commercial Banking	Commercial Real Estate	PFG	Treasury/ Other	Huntington Consolidated
Balance, beginning of period	$ 310,138	$ 5,008	$	$ 124,283	$ 4,839	$ 444,268

Other adjustments						
Balance, end of period	**$ 310,138**	**$ 5,008**	**$**	**$ 124,283**	**$ 4,839**	**$ 444,268**

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 that the carrying value may not be recoverable. We concluded that no goodwill impairment was required or existed during the first quarter or second quarter of 2010.

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

(in thousands)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Value
June 30, 2010			
Core deposit intangible	$ 376,846	$ (193,989)	$ 182,857
Customer relationship	104,574	(30,386)	74,188
Other	25,164	(23,398)	1,766
Total other intangible assets	**$ 506,584**	**$ (247,773)**	**$ 258,811**
December 31, 2009			
Core deposit intangible	$ 376,846	$ (168,651)	$ 208,195
Customer relationship	104,574	(26,000)	78,574
Other	26,465	(24,136)	2,329
Total other intangible assets	**$ 507,885**	**$ (218,787)**	**$ 289,098**
June 30, 2009			
Core deposit intangible	$ 373,300	$ (139,826)	$ 233,474
Customer relationship	104,574	(21,399)	83,175
Other	29,327	(23,509)	5,818
Total other intangible assets	**$ 507,201**	**$ (184,734)**	**$ 322,467**

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

(in thousands)	Amortization Expense
2010	$ 30,237
2011	53,289
2012	46,075
2013	40,511
2014	35,858
2015	19,756

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7. OTHER LONG-TERM DEBT AND SUBORDINATED NOTES

The following table summarizes the changes in other long-term debt and subordinated notes during the six months ended June 30, 2010 and 2009:

(in thousands)	Other Long-term Debt	Subordinated Notes
Balance, January 1, 2010	**$ 2,369,491**	**$ 1,264,202**
Notes payable from consolidation of variable interest entities (VIE)	**634,125(1)**	
Redemptions/maturities	**(415,484)**	**(83,870)**
Amortization of issued discount	**(2,213)**	**(357)**
Fair value changes related to hedging	**2,668**	**15,235**
Other	**(18,653)**	
Balance, June 30, 2010	**$ 2,569,934**	**$ 1,195,210**
Balance, January 1, 2009	$ 2,331,632	$ 1,950,097
Issuances	600,000(2)	
Redemptions/maturities	(519,542)(2)	(208,315)(3)
Amortization of issued discount		109
Fair value changes related to hedging	(4,326)	(69,004)
Franklin 2009 Trust liability	95,833(4)	
Other	4,547	
Balance, June 30, 2009	$ 2,508,144	$ 1,672,887

(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.

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8. OTHER COMPREHENSIVE INCOME

The components of Huntington s other comprehensive income for the three months and six months ended June 30, 2010 and 2009, were as follows:

	Three Months Ended June 30, 2010		
(in thousands)	Pretax	Tax (expense) Benefit	After-tax
Non-credit-related impairment recoveries on debt securities not expected to be sold	$ 8,017	$ (2,806)	$ 5,211
Unrealized holding gains (losses) on debt securities available for sale arising during the period	70,354	(24,897)	45,457
Less: Reclassification adjustment for net losses (gains) losses included in net income	(156)	55	(101)
Net change in unrealized holding gains (losses) on debt securities available for sale	**78,215**	**(27,648)**	**50,567**
Unrealized holding gains (losses) on equity securities available for sale arising during the period	(206)	72	(134)
Less: Reclassification adjustment for net losses (gains) losses included in net income			
Net change in unrealized holding gains (losses) on equity securities available for sale	**(206)**	**72**	**(134)**
Unrealized gains and losses on derivatives used in cash flow hedging relationships arising during the period	**(3,883)**	**1,359**	**(2,524)**
Change in pension and post-retirement benefit plan assets and liabilities	**1,794**	**(628)**	