HUNTINGTON BANCSHARES INC/MD
Form 10-Q
July 29, 2013
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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, 2013**

**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. x Yes ¨ No

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

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

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

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

There were 829,674,914 shares of Registrant s common stock ($0.01 par value) outstanding on June 30, 2013.

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## Glossary of Acronyms and Terms

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

| | |
|---|---|
| 2012 Form 10-K | Annual Report on Form 10-K for the year ended December 31, 2012 |
| ABL | Asset Based Lending |
| ACL | Allowance for Credit Losses |
| AFCRE | Automobile Finance and Commercial Real Estate |
| ABS | Asset-Backed Securities |
| AFS | Available-for-Sale |
| ALCO | Asset & Liability Management Committee |
| ALLL | Allowance for Loan and Lease Losses |
| ARM | Adjustable Rate Mortgage |
| ASC | Accounting Standards Codification |
| ASU | Accounting Standards Update |
| ATM | Automated Teller Machine |
| AULC | Allowance for Unfunded Loan Commitments |
| AVM | Automated Valuation Methodology |
| C&I | Commercial and Industrial |
| CapPR | Capital Plan Review |
| CCAR | Comprehensive Capital Analysis and Review |
| CDO | Collateralized Debt Obligations |
| CDs | Certificates of Deposit |
| CFPB | Bureau of Consumer Financial Protection |
| CMO | Collateralized Mortgage Obligations |
| CRE | Commercial Real Estate |
| Dodd-Frank Act | Dodd-Frank Wall Street Reform and Consumer Protection Act |
| EPS | Earnings Per Share |
| EVE | Economic Value of Equity |
| FASB | Financial Accounting Standards Board |
| FDIC | Federal Deposit Insurance Corporation |
| FHA | Federal Housing Administration |
| FHLB | Federal Home Loan Bank |
| FHLMC | Federal Home Loan Mortgage Corporation |
| FICA | Federal Insurance Contributions Act |
| FICO | Fair Isaac Corporation |
| FNMA | Federal National Mortgage Association |

| | |
|---|---|
| FRB | Federal Reserve Bank |
| FTE | Fully-Taxable Equivalent |
| FTP | Funds Transfer Pricing |
| GAAP | Generally Accepted Accounting Principles in the United States of America |
| HAMP | Home Affordable Modification Program |
| HARP | Home Affordable Refinance Program |
| HTM | Held-to-Maturity |
| IRS | Internal Revenue Service |
| ISE | Interest Sensitive Earnings |
| LCR | Liquidity Coverage Ratio |

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| | |
|---|---|
| LIBOR | London Interbank Offered Rate |
| LGD | Loss-Given-Default |
| LTV | Loan to Value |
| MBS | Mortgage-Backed Security |
| MD&A | Management s Discussion and Analysis of Financial Condition and Results of Operations |
| MSA | Metropolitan Statistical Area |
| MSR | Mortgage Servicing Rights |
| NALs | Nonaccrual Loans |
| NCO | Net Charge-off |
| NIM | Net interest margin |
| NPAs | Nonperforming Assets |
| NPR | Notice of Proposed Rulemaking |
| N.R. | Not relevant. Denominator of calculation is a gain in the current period compared with a loss in the prior period, or vice-versa. |
| OCC | Office of the Comptroller of the Currency |
| OCI | Other Comprehensive Income (Loss) |
| OCR | Optimal Customer Relationship |
| OLEM | Other Loans Especially Mentioned |
| OREO | Other Real Estate Owned |
| OTTI | Other-Than-Temporary Impairment |
| PD | Probability-Of-Default |
| Plan | Huntington Bancshares Retirement Plan |
| Problem Loans | Includes nonaccrual loans and leases (Table 18), troubled debt restructured loans (Table 19), accruing loans and leases past due 90 days or more (aging analysis section of Footnote 3), and Criticized commercial loans (credit quality indicators section of Footnote 3). |
| REIT | Real Estate Investment Trust |
| ROC | Risk Oversight Committee |
| SAD | Special Assets Division |
| SBA | Small Business Administration |
| SEC | Securities and Exchange Commission |
| SERP | Supplemental Executive Retirement Plan |
| SRIP | Supplemental Retirement Income Plan |
| TDR | Troubled Debt Restructured Loan |
| U.S. Treasury | U.S. Department of the Treasury |
| UCS | Uniform Classification System |
| UPB | Unpaid Principal Balance |
| USDA | U.S. Department of Agriculture |
| VA | U.S. Department of Veteran Affairs |

| | |
|---|---|
| VIE | Variable Interest Entity |
| WGH | Wealth Advisors, Government Finance, and Home Lending |

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**PART I. FINANCIAL INFORMATION**

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

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

We are a multi-state diversified regional bank holding company organized under Maryland law in 1966 and headquartered in Columbus, Ohio. Through the Bank, we have 147 years of servicing the financial needs of our customers. Through our subsidiaries, we provide full-service commercial and consumer banking services, mortgage banking services, automobile financing, equipment leasing, investment management, trust services, brokerage services, customized insurance service programs, and other financial products and services. Our over 700 banking offices are located in Indiana, Kentucky, Michigan, Ohio, Pennsylvania, and West Virginia. Selected financial services and other activities are also conducted in various other states. International banking services are available through the headquarters office in Columbus, Ohio and a limited purpose office located in the Cayman Islands and another limited purpose office located in Hong Kong. Our foreign banking activities, in total or with any individual country, are not significant.

This MD&A provides information we believe necessary for understanding our financial condition, changes in financial condition, results of operations, and cash flows. The MD&A included in our 2012 Form 10-K should be read in conjunction with this MD&A as this discussion provides only material updates to the 2012 Form 10-K. This MD&A should also be read in conjunction with the financial statements, notes and other information contained in this report.

Our discussion is divided into key segments:

**Executive Overview** Provides a summary of our current financial performance and business overview, including our thoughts on the impact of the economy, legislative and regulatory initiatives, and recent industry developments. This section also provides our outlook regarding our expectations for the remainder of 2013.

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

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

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

**Additional Disclosures** Provides comments on important matters including forward-looking statements, critical accounting policies and use of significant estimates, recent accounting pronouncements and developments, and acquisitions.

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

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## EXECUTIVE OVERVIEW

### Summary of 2013 Second Quarter Results

For the quarter, we reported net income of $150.7 million, or $0.17 per common share, compared with $151.8 million, or $0.17 per common share, in the prior quarter (*see Table 1*).

Fully-taxable equivalent net interest income was $431.5 million for the quarter, down $1.4 million, or less than 1%, from the prior quarter. The decrease reflected a 4 basis point decrease in the net interest margin, partially offset by a $0.2 billion increase in average earnings assets as well as an additional day in the quarter. The primary items affecting the net interest margin were a 7 basis point negative impact from the mix and yield of earning assets, which was partially offset by a 3 basis point positive impact from the mix and cost of deposits.

The provision for credit losses decreased $4.9 million, or 16%, from the prior quarter. This reflected a $16.9 million, or 33%, decrease in NCOs to $34.8 million, or an annualized 0.34% of average total loans and leases, from $51.7 million, or an annualized 0.51%, in the prior quarter.

Noninterest income decreased $3.6 million, or 1%, from the prior quarter. The decrease in noninterest income reflected the $11.6 million, or 26%, decrease in mortgage banking income as the benefit of net mortgage servicing rights decreased by $11.6 million. Other income decreased $7.9 million, or 24%, as the prior quarter included a $7.6 million gain on the sale of Low Income Housing Tax Credit investments. These were partially offset by a $7.1 million, or 12%, increase in service charges on deposit accounts that follow yearly seasonal trends in customer activity, an 8% annualized growth in consumer checking households, and a $4.4 million, or 56%, increase in capital markets activity.

Noninterest expense increased $3.1 million, or 1%, from the prior quarter due to a $5.0 million, or 2%, increase in personnel costs, reflecting higher commission expense and a $3.3 million, or 30%, seasonal increase in marketing. These were partially offset by a $2.9 million decline in OREO and foreclosure expense.

The period-end ACL as a percentage of total loans and leases decreased to 1.86% from 1.91% in the prior quarter. The ACL as a percentage of period-end NALs increased 7 percentage points to 214%. NALs declined by $16.8 million, or 4%, to $363.5 million, or 0.87% of total loans. The decreases primarily reflected meaningful improvement in commercial real estate NALs.

The tangible common equity to tangible asset ratio decreased to 8.78% from 8.92% in the prior quarter, resulting primarily from net unrealized losses on available-for-sale debt securities and cash flow hedging derivatives during the quarter, partially offset by retained earnings. Our Tier 1 common risk-based capital ratio at quarter end was 10.71%, up from 10.62% in the prior quarter. The regulatory Tier 1 risk-based capital ratio at June 30, 2013 was 12.24%, up from 12.16%, at March 31, 2013. All capital ratios were impacted by the repurchase of 10.0 million common shares over the quarter at an average price per share of $7.50.

### Business Overview

#### *General*

Our general business objectives are: (1) grow net interest income and fee income, (2) increase cross-sell and share-of-wallet across all business segments, (3) improve efficiency ratio, (4) continue to strengthen risk management, including sustained improvement in credit metrics, and (5) maintain strong capital and liquidity positions.

During the 2013 second quarter, we continued to demonstrate progress in our strategic priorities. We returned to pre-recession, normal credit levels, reflecting our disciplined and prudent lending approach and also continued to experience double-digit household growth. Expenses were managed to levels slightly below our expectations. Revenue was relatively unchanged as strategic growth overcame multiple environmental headwinds and the prior quarters gains from the sale of Low Income Housing Tax Credit investments. We remain on track to deliver sustainable levels of long-term profitability. Existing strategic investments continue to mature and we are focused on expense management and a more robust continuous improvement effort across the enterprise.

#### *Economy*

Consumer lending and deposits increased over the same quarter last year as consumer confidence in the recovery rises. Our commercial loan pipeline continues to be strong as business owners are seeing more signs of economic growth. Employment across our Midwest markets continues to improve with Ohio creating the largest month-to-month employment increase in the nation in May and Michigan coming in third.

***Legislative and Regulatory***

Regulatory reforms continue to be released, which impose additional restrictions on current business practices. Recent items affecting us include the Federal Reserve s Comprehensive Capital Analysis and Review and the recently issued final Basel III rule.

*Capital Plans Rule / Supervisory and Company-Run Stress Test Requirements* During 2012, we participated in the Federal Reserve s Capital Plan Review (CapPR) process and made our capital plan submission in January 2013. On March 14, 2013, we announced that the Federal Reserve had completed its review of our capital plan submission and did not object to our proposed capital actions. The capital plan review process included reviews of our internal capital planning process and our plans to make capital distributions, such as dividend payments or stock repurchases, as well as a stress test requirement designed to test our capital adequacy throughout times of economic and financial stress.

Beginning with our Capital Plan submission in January 2014, we will be subject to the Federal Reserve s Comprehensive Capital Analysis and Review (CCAR) process. One of the primary additional elements of CCAR will be supervisory stress tests conducted by the Federal Reserve under different hypothetical macro-economic scenarios in addition to the stress tests routinely conducted by management. After completing its review, the Federal Reserve may object or not object to our proposed capital actions, such as plans to pay or increase common stock dividends or increase common stock repurchase programs. Beginning with our January 2014 submission, we will be subject to the OCC s Annual Stress Test at the bank-level. The OCC stipulated that it will consult closely with the Federal Reserve to provide common stress scenarios which can be used at both the depository institution and bank holding company levels.

*Basel III Capital rules for U.S. banking organizations* On July 2, 2013, the Federal Reserve voted to adopt final Basel III capital rules for U.S. banking organizations. The final rules establish an integrated regulatory capital framework and will implement in the United States the Basel III regulatory capital reforms from the Basel Committee on Banking Supervision and certain changes required by the Dodd-Frank Act. Under the final rule, minimum requirements will increase for both the quantity and quality of capital held by banking organizations. Consistent with the international Basel framework, the final rule includes a new minimum ratio of common equity tier 1 capital (Tier I Common) to risk-weighted assets and a common equity tier 1 capital conservation buffer of 2.5% of risk-weighted assets that will apply to all supervised financial institutions. The rule also raises the minimum ratio of tier 1 capital to risk-weighted assets and includes a minimum leverage ratio of 4% for all banking organizations. These new minimum capital ratios will become effective for us on January 1, 2015 and will be fully phased-in on January 1, 2019.

Following the Basel III regulatory capital levels that we must satisfy to avoid limitations on capital distributions and discretionary bonus payments during the applicable transition period, from January 1, 2015 until January 1, 2019.

| | Basel III Regulatory Capital Levels | | | | |
|---|---|---|---|---|---|
| | January 1, 2015 | January 1, 2016 | January 1, 2017 | January 1, 2018 | January 1, 2019 |
| Tier 1 common equity | 4.5% | 5.125% | 5.75% | 6.375% | 7.0% |
| Tier 1 risk-based capital ratio | 6.0% | 6.625% | 7.25% | 7.875% | 8.5% |
| Total risk-based capital ratio | 8.0% | 8.625% | 9.25% | 9.875% | 10.5% |

The final rule emphasizes common equity tier 1 capital, the most loss-absorbing form of capital, and implements strict eligibility criteria for regulatory capital instruments. The final rule also improves the methodology for calculating risk-weighted assets to enhance risk sensitivity. Banks and regulators use risk weighting to assign different levels of risk to different classes of assets.

We have evaluated the impact of the Basel III final rule on our regulatory capital ratios and estimate a reduction of approximately 60 basis points to our Basel I Tier I Common risk-based capital ratio based on our June 30, 2013 balance sheet composition. The estimate is based on management s current interpretation, expectations, and understanding of the final U.S. Basel III rules. We anticipate that our capital ratios, on a Basel III basis, will continue to exceed the well capitalized minimum capital requirements. We are evaluating options to mitigate the capital impact of the final rule prior to its effective implementation date.

**Expectations**

We are seeing an uptick in manufacturing across our markets led by the auto industry along with continued investments in the local oil and gas exploration industry. We believe these developments, along with recent upward revisions to economic growth forecasts in 2014, will trigger further business investment. We also are seeing a stronger than expected housing recovery across much of our region. We believe this, along with an increase in consumer confidence, will lead to more consumer spending. We will remain disciplined as we manage our returns on an

aggregate moderate-to-low risk profile.

Net interest income is expected to modestly grow over the remainder of 2013. We anticipate an increase in total loans will be partially offset by a reduction in total securities, as the portfolio s cash flow is not reinvested into additional securities. However, those benefits to net interest income are expected to be mostly offset by continued downward NIM pressure. NIM for 2013 is not expected to fall below the mid 3.30%s due to continued deposit repricing and mix shift opportunities while maintaining a disciplined approach to loan pricing.

The C&I portfolio is expected to see growth consistent with the anticipated increase in customer activity. Our C&I loan pipeline remains robust with much of this reflecting the positive impact from our investments in specialized commercial verticals, focused OCR sales process, and continued support of middle market and small business lending. Given automobile loan yields are relatively more attractive than similar duration securities and the recent decline in estimated securitization gains, we currently do not anticipate any automobile securitizations in the second half of 2013. Residential mortgages and home equity loan balances are expected to increase modestly. CRE loans are expected to remain in the current $5 billion range.

We anticipate the increase in total loans will outpace growth in total deposits. This reflects our continued focus on the overall cost of funds, as well as the continued shift towards low- and no-cost demand deposits and money market deposit accounts.

Noninterest income, when compared with 2012 levels, is expected to be flat to slightly down, excluding the impact of any automobile loan sales and any net MSR impact. The anticipated slowdown in mortgage banking activity is expected to be mostly offset by continued growth in new customers, increased contribution from higher cross-sell, and the continued maturation of our previous strategic investments.

Effective December 31, 2013, the benefits earned in the Company s pension plan will be frozen, as approved by the board of directors on July 17, 2013. As a result of the accounting treatment for the unamortized prior service pension cost and the change in the projected benefit obligation related to the curtailment, a one-time non-cash pre-tax gain of approximately $35 million, or $0.03 per share, is expected to be recognized in the 2013 third quarter.

Third quarter expenses are expected to modestly increase due to higher commission expense and higher occupancy and equipment expense related to our continued in-store expansion. Expenses will be consistent with previous expectations, with a modest downward bias related to the pension related expense and excluding the aforementioned one-time gain. We continue to evaluate additional cost saving opportunities and remain committed to posting positive operating leverage in 2013.

NPAs are expected to experience continued improvement. This quarter, NCOs were slightly below our expected normalized range of 35 to 55 basis points. The level of provision for credit losses was below our long-term expectation, and we continue to expect moderate quarterly volatility.

The effective tax rate for 2013 is expected to be in the range of 25% to 28%, primarily reflecting the impacts of tax-exempt income, tax advantaged investments, and general business credits.

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**DISCUSSION OF RESULTS OF OPERATIONS**

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

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

| | **2013** | | | 2012 | |
|---|---|---|---|---|---|
| *(dollar amounts in thousands, except per share amounts)* | **Second** | First | Fourth | Third | Second |
| Interest income | **$ 462,582** | $ 465,319 | $ 478,995 | $ 483,787 | $ 487,544 |
| Interest expense | **37,645** | 41,149 | 44,940 | 53,489 | 58,582 |
| Net interest income | **424,937** | 424,170 | 434,055 | 430,298 | 428,962 |
| Provision for credit losses | **24,722** | 29,592 | 39,458 | 37,004 | 36,520 |
| Net interest income after provision for credit losses | **400,215** | 394,578 | 394,597 | 393,294 | 392,442 |
| Service charges on deposit accounts | **68,009** | 60,883 | 68,083 | 67,806 | 65,998 |
| Mortgage banking income | **33,659** | 45,248 | 61,711 | 44,614 | 38,349 |
| Trust services | **30,666** | 31,160 | 31,388 | 29,689 | 29,914 |
| Electronic banking | **23,345** | 20,713 | 21,011 | 22,135 | 20,514 |
| Brokerage income | **19,546** | 17,995 | 17,415 | 16,526 | 19,025 |
| Insurance income | **17,187** | 19,252 | 17,268 | 17,792 | 17,384 |
| Gain on sale of loans | **3,348** | 2,616 | 20,690 | 6,591 | 4,131 |
| Bank owned life insurance income | **15,421** | 13,442 | 13,767 | 14,371 | 13,967 |
| Capital markets fees | **12,229** | 7,834 | 12,694 | 11,596 | 13,260 |
| Securities gains (losses) | **(410)** | (509) | 863 | 4,169 | 350 |
| Other income | **25,655** | 33,575 | 32,761 | 25,778 | 30,927 |
| Total noninterest income | **248,655** | 252,209 | 297,651 | 261,067 | 253,819 |
| Personnel costs | **263,862** | 258,895 | 253,952 | 247,709 | 243,034 |
| Outside data processing and other services | **49,898** | 49,265 | 48,699 | 50,396 | 48,568 |
| Net occupancy | **27,656** | 30,114 | 29,008 | 27,599 | 25,474 |
| Equipment | **24,947** | 24,880 | 26,580 | 25,950 | 24,872 |
| Deposit and other insurance expense | **13,460** | 15,490 | 16,327 | 15,534 | 15,731 |
| Professional services | **9,341** | 7,192 | 22,514 | 17,510 | 15,037 |
| Marketing | **14,239** | 10,971 | 16,456 | 16,842 | 17,396 |
| Amortization of intangibles | **10,362** | 10,320 | 11,647 | 11,431 | 11,940 |
| OREO and foreclosure expense | **(271)** | 2,666 | 4,233 | 4,982 | 4,106 |
| Loss (Gain) on early extinguishment of debt | | | | 1,782 | (2,580) |
| Other expense | **32,371** | 33,000 | 41,212 | 38,568 | 40,691 |
| Total noninterest expense | **445,865** | 442,793 | 470,628 | 458,303 | 444,269 |
| Income before income taxes | **203,005** | 203,994 | 221,620 | 196,058 | 201,992 |
| Provision for income taxes | **52,354** | 52,214 | 54,341 | 28,291 | 49,286 |
| Net income | **$ 150,651** | $ 151,780 | $ 167,279 | $ 167,767 | $ 152,706 |
| Dividends on preferred shares | **7,967** | 7,970 | 7,973 | 7,983 | 7,984 |
| Net income applicable to common shares | **$ 142,684** | $ 143,810 | $ 159,306 | $ 159,784 | $ 144,722 |
| Average common shares basic | **834,730** | 841,103 | 847,220 | 857,871 | 862,261 |
| Average common shares diluted | **843,840** | 848,708 | 853,306 | 863,588 | 867,551 |
| Net income per common share basic | **$ 0.17** | $ 0.17 | $ 0.19 | $ 0.19 | $ 0.17 |
| Net income per common share diluted | **0.17** | 0.17 | 0.19 | 0.19 | 0.17 |

| | | | | | |
|---|---|---|---|---|---|
| Cash dividends declared per common share | **0.05** | 0.04 | 0.04 | 0.04 | 0.04 |
| Return on average total assets | **1.08%** | 1.10% | 1.19% | 1.19% | 1.10% |
| Return on average common shareholders equity | **10.4** | 10.7 | 11.6 | 11.9 | 11.1 |
| Return on average tangible common shareholders equity (2) | **12.0** | 12.4 | 13.5 | 13.9 | 13.1 |
| Net interest margin (3) | **3.38** | 3.42 | 3.45 | 3.38 | 3.42 |
| Efficiency ratio (4) | **64.0** | 63.3 | 62.3 | 64.5 | 62.8 |
| Effective tax rate | **25.8** | 25.6 | 24.5 | 14.4 | 24.4 |
| Revenue FTE | | | | | |
| Net interest income | **$ 424,937** | $ 424,170 | $ 434,055 | $ 430,298 | $ 428,962 |
| FTE adjustment | **6,587** | 5,923 | 5,470 | 5,254 | 5,747 |
| Net interest income (3) | **431,524** | 430,093 | 439,525 | 435,552 | 434,709 |
| Noninterest income | **248,655** | 252,209 | 297,651 | 261,067 | 253,819 |
| Total revenue (3) | **$ 680,179** | $ 682,302 | $ 737,176 | $ 696,619 | $ 688,528 |

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

(2) Net income excluding expense for amortization of intangibles for the period divided by average tangible common shareholders equity. Average tangible common shareholders equity equals average total common 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.

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

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

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**Table 2 Selected Year to Date Income Statement Data(1)**

| | Six Months Ended June 30, | | Change | |
|---|---|---|---|---|
| *(dollar amounts in thousands, except per share amounts)* | **2013** | 2012 | Amount | Percent |
| Interest income | **$ 927,901** | $ 967,481 | $ (39,580) | (4)% |
| Interest expense | **78,794** | 121,310 | (42,516) | (35) |
| Net interest income | **849,107** | 846,171 | 2,936 | |
| Provision for credit losses | **54,314** | 70,926 | (16,612) | (23) |
| Net interest income after provision for credit losses | **794,793** | 775,245 | 19,548 | 3 |
| Service charges on deposit accounts | **128,892** | 126,290 | 2,602 | 2 |
| Mortgage banking income | **78,907** | 84,767 | (5,860) | (7) |
| Trust services | **61,826** | 60,820 | 1,006 | 2 |
| Electronic banking | **44,058** | 39,144 | 4,914 | 13 |
| Brokerage income | **37,541** | 38,285 | (744) | (2) |
| Insurance income | **36,439** | 36,259 | 180 | |
| Gain on sale of loans | **5,964** | 30,901 | (24,937) | (81) |
| Bank owned life insurance income | **28,863** | 27,904 | 959 | 3 |
| Capital markets fees | **20,063** | 23,056 | (2,993) | (13) |
| Securities gains (losses) | **(919)** | (263) | (656) | 249 |
| Other income | **59,230** | 71,976 | (12,746) | (18) |
| Total noninterest income | **500,864** | 539,139 | (38,275) | (7) |
| Personnel costs | **522,757** | 486,532 | 36,225 | 7 |
| Outside data processing and other services | **99,163** | 91,160 | 8,003 | 9 |
| Net occupancy | **57,770** | 54,553 | 3,217 | 6 |
| Equipment | **49,827** | 50,417 | (590) | (1) |
| Deposit and other insurance expense | **28,950** | 36,469 | (7,519) | (21) |
| Professional services | **16,533** | 25,734 | (9,201) | (36) |
| Marketing | **25,210** | 30,965 | (5,755) | (19) |
| Amortization of intangibles | **20,682** | 23,471 | (2,789) | (12) |
| OREO and foreclosure expense | **2,395** | 9,056 | (6,661) | (74) |
| Gain on early extinguishment of debt | | (2,580) | 2,580 | (100) |
| Other expense | **65,371** | 101,168 | (35,797) | (35) |
| Total noninterest expense | **888,658** | 906,945 | (18,287) | (2) |
| Income before income taxes | **406,999** | 407,439 | (440) | |
| Provision for income taxes | **104,568** | 101,463 | 3,105 | 3 |
| Net income | **$ 302,431** | $ 305,976 | $ (3,545) | (1)% |
| Dividends declared on preferred shares | **15,937** | 16,033 | (96) | (1) |
| Net income applicable to common shares | **$ 286,494** | $ 289,943 | $ (3,449) | (1)% |
| Average common shares basic | **837,917** | 863,380 | (25,463) | (3)% |
| Average common shares diluted | **846,274** | 868,357 | (22,083) | (3) |
| Per common share | | | | |
| Net income per common share - basic | **$ 0.34** | $ 0.34 | $ | % |

| | | | | |
|---|---|---|---|---|
| Net income per common share - diluted | **0.34** | 0.33 | 0.01 | 3 |
| Cash dividends declared | **0.09** | 0.08 | 0.01 | 13 |
| Revenue FTE | | | | |
| Net interest income | **$ 849,107** | $ 846,171 | $ 2,936 | % |
| FTE adjustment | **12,510** | 9,682 | 2,828 | 29 |
| Net interest income (2) | **861,617** | 855,853 | 5,764 | 1 |
| Noninterest income | **500,864** | 539,139 | (38,275) | (7) |
| Total revenue (2) | **$ 1,362,481** | $ 1,394,992 | $ (32,511) | (2)% |

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

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

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**Significant Items**

***Definition of Significant Items***

From time-to-time, revenue, expenses, or taxes are impacted by items judged by us to be outside of ordinary banking activities and / or by items that, while they may be associated with ordinary banking activities, are so unusually large that their outsized impact is believed by us at that time to be infrequent or short-term in nature. We refer to such items as Significant Items. Most often, these Significant Items result from factors originating outside the company; e.g., regulatory actions / assessments, windfall gains, changes in accounting principles, one-time tax assessments / refunds, litigation actions, etc. In other cases, they may result from our decisions associated with significant corporate actions outside of the ordinary course of business; e.g., merger / restructuring charges, recapitalization actions, goodwill impairment, etc.

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

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

Significant Items for any particular period are not intended to be a complete list of items that may materially impact current or future period performance.

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

Earnings comparisons were impacted by the Significant Items summarized below:

1. **Litigation Reserve.** During the 2012 first quarter, a $23.5 million addition to litigation reserves was recorded in other noninterest expense. This resulted in a negative impact of $0.02 per common share on a year-to-date basis.

2. **Bargain Purchase Gain.** During the 2012 first quarter, an $11.4 million bargain purchase gain associated with the FDIC-assisted Fidelity Bank acquisition was recorded in noninterest income. This resulted in a positive impact of $0.01 per common share on a year-to-date basis.

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, 2013** | | March 31, 2013 | | June 30, 2012 | |
| *(dollar amounts in thousands, except per share amounts)* | **After-tax** | **EPS (2)** | After-tax | EPS (2) | After-tax | EPS (2) |
| Net income | **$ 150,651** | | $ 151,780 | | $ 152,706 | |
| Earnings per share, after-tax | | **$ 0.17** | | $ 0.17 | | $ 0.17 |
| Change from prior quarter $ | | | | (0.02) | | |
| Change from prior quarter % | | **%** | | (11)% | | % |
| Change from year-ago $ | | **$** | | $ | | $ 0.01 |
| Change from year-ago % | | **%** | | % | | 6 % |

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| | Six Months Ended | | | |
|---|---|---|---|---|
| | **June 30, 2013** | | June 30, 2012 | |
| *(dollar amounts in thousands)* | **After-tax** | **EPS (2)** | After-tax | EPS (2) |
| Net income | **$ 302,431** | | $ 305,976 | |
| Earnings per share, after-tax | | **$ 0.34** | | $ 0.33 |
| Change from a year-ago $ | | **0.01** | | 0.03 |
| Change from a year-ago % | | **3%** | | 10% |
| Significant Items - favorable (unfavorable) impact: | **Earnings (1)** | **EPS (2)** | Earnings (1) | EPS (2) |
| Bargain purchase gain | | | 11,409 | 0.01 |
| Litigation reserves addition | | | (23,500) | (0.02) |

(1) Pretax unless otherwise noted.

(2) After-tax.

**Net Interest Income / Average Balance Sheet**

The following tables detail the change in our average balance sheet and the net interest margin:

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**Table 4 Consolidated Quarterly Average Balance Sheets**

| | Average Balances | | | | | Change | |
|---|---|---|---|---|---|---|---|
| | **2013** | | 2012 | | | 2Q13 vs. 2Q12 | |
| *(dollar amounts in millions)* | **Second** | First | Fourth | Third | Second | Amount | Percent |
| *Assets:* | | | | | | | |
| Interest-bearing deposits in banks | **$ 84** | $ 72 | $ 73 | $ 82 | $ 124 | $ (40) | (32)% |
| Loans held for sale | **678** | 709 | 840 | 1,829 | 410 | 268 | 65 |
| Securities: | | | | | | | |
| Available-for-sale and other securities: | | | | | | | |
| Taxable | **6,728** | 6,964 | 7,131 | 8,014 | 8,285 | (1,557) | (19) |
| Tax-exempt | **591** | 549 | 492 | 423 | 387 | 204 | 53 |
| Total available-for-sale and other securities | **7,319** | 7,513 | 7,623 | 8,437 | 8,672 | (1,353) | (16) |
| Trading account securities | **84** | 85 | 97 | 66 | 54 | 30 | 56 |
| Held-to-maturity securities taxable | **1,711** | 1,717 | 1,652 | 796 | 611 | 1,100 | 180 |
| Total securities | **9,114** | 9,315 | 9,372 | 9,299 | 9,337 | (223) | (2) |
| Loans and leases: (1) | | | | | | | |
| Commercial: | | | | | | | |
| Commercial and industrial | **17,033** | 16,954 | 16,507 | 16,343 | 16,094 | 939 | 6 |
| Commercial real estate: | | | | | | | |
| Construction | **586** | 598 | 576 | 569 | 584 | 2 | |
| Commercial | **4,429** | 4,694 | 4,897 | 5,153 | 5,491 | (1,062) | (19) |
| Commercial real estate | **5,015** | 5,292 | 5,473 | 5,722 | 6,075 | (1,060) | (17) |
| Total commercial | **22,048** | 22,246 | 21,980 | 22,065 | 22,169 | (121) | (1) |
| Consumer: | | | | | | | |
| Automobile | **5,283** | 4,833 | 4,486 | 4,065 | 4,985 | 298 | 6 |
| Home equity | **8,263** | 8,395 | 8,345 | 8,369 | 8,310 | (47) | (1) |
| Residential mortgage | **5,225** | 4,978 | 5,155 | 5,177 | 5,253 | (28) | (1) |
| Other consumer | **461** | 412 | 431 | 444 | 462 | (1) | |
| Total consumer | **19,232** | 18,618 | 18,417 | 18,055 | 19,010 | 222 | 1 |
| Total loans and leases | **41,280** | 40,864 | 40,397 | 40,120 | 41,179 | 101 | |
| Allowance for loan and lease losses | **(746)** | (772) | (783) | (855) | (908) | 162 | (18) |
| Net loans and leases | **40,534** | 40,092 | 39,614 | 39,265 | 40,271 | 263 | 1 |
| Total earning assets | **51,156** | 50,960 | 50,682 | 51,330 | 51,050 | 106 | |
| Cash and due from banks | **940** | 904 | 1,459 | 960 | 928 | 12 | 1 |
| Intangible assets | **563** | 571 | 581 | 597 | 609 | (46) | (8) |
| All other assets | **3,976** | 4,065 | 4,115 | 4,106 | 4,158 | (182) | (4) |
| Total assets | **$ 55,889** | $ 55,728 | $ 56,054 | $ 56,138 | $ 55,837 | $ 52 | % |
| *Liabilities and Shareholders Equity:* | | | | | | | |
| Deposits: | | | | | | | |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Demand deposits noninterest-bearing | **$ 12,879** | $ 12,165 | $ 13,121 | $ 12,329 | $ 12,064 | $ 815 | 7 % |
| Demand deposits interest-bearing | **5,927** | 5,977 | 5,843 | 5,814 | 5,939 | (12) | |
| Total demand deposits | **18,806** | 18,142 | 18,964 | 18,143 | 18,003 | 803 | 4 |
| Money market deposits | **15,069** | 15,045 | 14,749 | 14,515 | 13,182 | 1,887 | 14 |
| Savings and other domestic deposits | **5,115** | 5,083 | 4,960 | 4,975 | 4,978 | 137 | 3 |
| Core certificates of deposit | **4,778** | 5,346 | 5,637 | 6,131 | 6,618 | (1,840) | (28) |
| Total core deposits | **43,768** | 43,616 | 44,310 | 43,764 | 42,781 | 987 | 2 |
| Other domestic time deposits of $250,000 or more | **324** | 360 | 359 | 300 | 298 | 26 | 9 |
| Brokered deposits and negotiable CDs | **1,779** | 1,697 | 1,756 | 1,878 | 1,421 | 358 | 25 |
| Deposits in foreign offices | **316** | 340 | 342 | 356 | 357 | (41) | (11) |
| Total deposits | **46,187** | 46,013 | 46,767 | 46,298 | 44,857 | 1,330 | 3 |
| Short-term borrowings | **701** | 762 | 1,012 | 1,329 | 1,391 | (690) | (50) |
| Federal Home Loan Bank advances | **757** | 686 | 42 | 107 | 626 | 131 | 21 |
| Subordinated notes and other long-term debt | **1,292** | 1,348 | 1,374 | 1,638 | 2,251 | (959) | (43) |
| Total interest-bearing liabilities | **36,058** | 36,644 | 36,074 | 37,043 | 37,061 | (1,003) | (3) |
| All other liabilities | **1,064** | 1,085 | 1,017 | 1,035 | 1,094 | (30) | (3) |
| Shareholders equity | **5,888** | 5,834 | 5,842 | 5,731 | 5,618 | 270 | 5 |
| Total liabilities and shareholders equity | **$ 55,889** | $ 55,728 | $ 56,054 | $ 56,138 | $ 55,837 | $ 52 | % |

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

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**Table 5 Consolidated Quarterly Net Interest Margin Analysis**

| | Average Rates (2) | | | | |
|---|---|---|---|---|---|
| | **2013** | | 2012 | | |
| Fully-taxable equivalent basis (1) | **Second** | First | Fourth | Third | Second |
| Assets | | | | | |
| Interest-bearing deposits in banks | **0.27%** | 0.16% | 0.28% | 0.21% | 0.31% |
| Loans held for sale | **3.39** | 3.22 | 3.18 | 3.18 | 3.46 |
| Securities: | | | | | |
| Available-for-sale and other securities: | | | | | |
| Taxable | **2.29** | 2.31 | 2.32 | 2.29 | 2.33 |
| Tax-exempt | **3.94** | 3.96 | 4.03 | 4.15 | 4.23 |
| Total available-for-sale and other securities | **2.42** | 2.43 | 2.43 | 2.39 | 2.41 |
| Trading account securities | **0.60** | 0.50 | 1.01 | 1.07 | 1.64 |
| Held-to-maturity securities taxable | **2.29** | 2.29 | 2.24 | 2.81 | 2.97 |
| Total securities | **2.38** | 2.39 | 2.38 | 2.41 | 2.45 |
| Loans and leases: (3) | | | | | |
| Commercial: | | | | | |
| Commercial and industrial | **3.75** | 3.83 | 3.88 | 3.90 | 3.99 |
| Commercial real estate: | | | | | |
| Construction | **3.93** | 4.05 | 4.13 | 3.84 | 3.66 |
| Commercial | **4.13** | 4.00 | 4.20 | 3.85 | 3.93 |
| Commercial real estate | **4.09** | 4.01 | 4.19 | 3.85 | 3.89 |
| Total commercial | **3.83** | 3.87 | 3.96 | 3.89 | 3.97 |
| Consumer: | | | | | |
| Automobile | **3.96** | 4.28 | 4.52 | 4.87 | 4.68 |
| Home equity | **4.16** | 4.20 | 4.24 | 4.27 | 4.30 |
| Residential mortgage | **3.82** | 3.97 | 4.07 | 4.02 | 4.14 |
| Other consumer | **6.66** | 7.05 | 7.16 | 7.16 | 7.42 |
| Total consumer | **4.07** | 4.22 | 4.33 | 4.40 | 4.43 |
| Total loans and leases | **3.95** | 4.03 | 4.13 | 4.12 | 4.18 |
| Total earning assets | **3.68%** | 3.75% | 3.80% | 3.79% | 3.89% |
| Liabilities | | | | | |
| Deposits: | | | | | |
| Demand deposits noninterest-bearing | **%** | % | % | % | % |
| Demand deposits interest-bearing | **0.04** | 0.04 | 0.05 | 0.07 | 0.07 |
| Total demand deposits | **0.01** | 0.01 | 0.02 | 0.02 | 0.02 |
| Money market deposits | **0.24** | 0.23 | 0.27 | 0.33 | 0.30 |
| Savings and other domestic deposits | **0.27** | 0.30 | 0.33 | 0.37 | 0.39 |
| Core certificates of deposit | **1.13** | 1.19 | 1.21 | 1.25 | 1.38 |
| Total core deposits | **0.34** | 0.37 | 0.41 | 0.47 | 0.50 |

| | | | | | |
|---|---|---|---|---|---|
| Other domestic time deposits of $250,000 or more | **0.50** | 0.52 | 0.61 | 0.68 | 0.66 |
| Brokered deposits and negotiable CDs | **0.62** | 0.67 | 0.71 | 0.71 | 0.75 |
| Deposits in foreign offices | **0.14** | 0.17 | 0.18 | 0.18 | 0.19 |
| Total deposits | **0.36** | 0.38 | 0.42 | 0.48 | 0.51 |
| Short-term borrowings | **0.10** | 0.12 | 0.14 | 0.16 | 0.16 |
| Federal Home Loan Bank advances | **0.14** | 0.18 | 1.20 | 0.50 | 0.21 |
| Subordinated notes and other long-term debt | **2.35** | 2.54 | 2.55 | 2.91 | 2.83 |
| Total interest-bearing liabilities | **0.42%** | 0.45% | 0.50% | 0.58% | 0.63% |
| Net interest rate spread | **3.26%** | 3.30% | 3.30% | 3.21% | 3.26% |
| Impact of noninterest-bearing funds on margin | **0.12** | 0.12 | 0.15 | 0.17 | 0.16 |
| Net interest margin | **3.38%** | 3.42% | 3.45% | 3.38% | 3.42% |

(1) 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, NALs are reflected in the average balances of loans.

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**Table 6 Average Loans/Leases and Deposits**

| (dollar amounts in millions) | Second Quarter 2013 | Second Quarter 2012 | First Quarter 2013 | 2Q13 vs 2Q12 Amount | 2Q13 vs 2Q12 Percent | 2Q13 vs 1Q13 Amount | 2Q13 vs 1Q13 Percent |
|---|---|---|---|---|---|---|---|
| *Loans/Leases:* | | | | | | | |
| Commercial and industrial | **$ 17,033** | $ 16,094 | $ 16,954 | $ 939 | 6% | $ 79 | % |
| Commercial real estate | **5,015** | 6,075 | 5,292 | (1,060) | (17) | (277) | (5) |
| Total commercial | **22,048** | 22,169 | 22,246 | (121) | (1) | (198) | (1) |
| Automobile | **5,283** | 4,985 | 4,833 | 298 | 6 | 450 | 9 |
| Home equity | **8,263** | 8,310 | 8,395 | (47) | (1) | (132) | (2) |
| Residential mortgage | **5,225** | 5,253 | 4,978 | (28) | (1) | 247 | 5 |
| Other loans | **461** | 462 | 412 | (1) | (0) | 49 | 12 |
| Total consumer | **19,232** | 19,010 | 18,618 | 222 | 1 | 614 | 3 |
| Total loans and leases | **$ 41,280** | $ 41,179 | $ 40,864 | $ 101 | % | $ 416 | 1% |
| *Deposits:* | | | | | | | |
| Demand deposits noninterest-bearing | **$ 12,879** | $ 12,064 | $ 12,165 | $ 815 | 7% | $ 714 | 6% |
| Demand deposits interest-bearing | **5,927** | 5,939 | 5,977 | (12) | (0) | (50) | (1) |
| Total demand deposits | **18,806** | 18,003 | 18,142 | 803 | 4 | 664 | 4 |
| Money market deposits | **15,069** | 13,182 | 15,045 | 1,887 | 14 | 24 | |
| Savings and other domestic time deposits | **5,115** | 4,978 | 5,083 | 137 | 3 | 32 | 1 |
| Core certificates of deposit | **4,778** | 6,618 | 5,346 | (1,840) | (28) | (568) | (11) |
| Total core deposits | **43,768** | 42,781 | 43,616 | 987 | 2 | 152 | |
| Other deposits | **2,419** | 2,076 | 2,397 | 343 | 17 | 22 | 1 |
| Total deposits | **$ 46,187** | $ 44,857 | $ 46,013 | $ 1,330 | 3% | $ 174 | % |

***2013 Second Quarter versus 2012 Second Quarter***

Fully-taxable equivalent net interest income decreased $3.2 million, or 1%, from the year-ago quarter. This reflected a 4 basis point decrease in the FTE net interest margin, partially offset by a $0.1 billion, or less than 1%, increase in average total earning assets. The primary items impacting the decrease in the net interest margin were:

21 basis point negative impact from the mix and yield of earning assets primarily reflecting a decrease in consumer loan yields.

Partially offset by:

16 basis point positive impact from the mix and yield of deposits reflecting the strategic focus on changing the funding sources to no-cost demand deposits and low cost money market deposits.

The $0.1 billion, or less than 1%, increase in average total loans and leases primarily reflected:

$0.9 billion, or 6%, growth in average C&I loans. This reflected the continued growth across most business lines, with particularly strong growth in the healthcare vertical, dealer floorplan, and equipment finance.

$0.3 billion, or 6%, increase in average automobile loans. In addition, $0.3 billion of automobile loans were transferred from held for sale to automobile loans and leases on June 30, as there are no securitizations expected for the remainder of 2013. This transfer had a minimal impact on average balances.

Partially offset by:

$1.1 billion, or 17%, decrease in average commercial real estate (CRE) loans. This reflected continued runoff of the noncore portfolio and managed reduction of the core portfolios as acceptable returns for new core origination were balanced against internal concentration limits and increased competition for projects sponsored by high quality developers.

The $1.0 billion, or 3%, decrease in average interest-bearing liabilities from the year-ago quarter reflected:

- $1.5 billion, or 36%, decrease in subordinated notes and other short and long-term debt including the repayment of $0.6 billion of TLGP related debt and the redemption of $0.2 billion of trust preferred securities in 2012 second half.
- $1.8 billion, or 28%, decrease in average core certificates of deposit due to the strategic focus on changing the funding sources to no-cost demand deposits and low cost money markets deposits.

Partially offset by:

- $1.9 billion, or 14%, increase in money market deposits reflecting the strategic focus on increased share of wallet and customer preference for increased liquidity.

***2013 Second Quarter versus 2013 First Quarter***

Fully-taxable equivalent net interest income increased $1.4 million, or less than 1%, from the last quarter reflecting a $0.2 billion increase in average earnings assets as well as an additional day in the quarter, partially offset by a 4 basis point decrease in net interest margin. The primary items affecting the net interest margin were:

- 7 basis point negative impact from the mix and yield of earning assets.

Partially offset by:

- 2 basis point positive impact from the mix and yield of deposits.

The $0.4 billion, or 1%, increase in average total loans and leases from the 2013 first quarter reflected:

- $0.5 billion, or 9%, increase in automobile loans.
- $0.2 billion, or 5%, increase in residential mortgage loans.

Partially offset by:

- $0.3 billion, or 5%, decrease in commercial real estate loans.

The $0.6 billion, or 2%, decrease in average interest-bearing liabilities from the 2013 first quarter reflected:

- $0.6 billion, or 11%, decrease in core certificates of deposits.

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**Table 7 Consolidated YTD Average Balance Sheets and Net Interest Margin Analysis**

| Fully-taxable equivalent basis (1) | YTD Average Balances Six Months Ended June 30, | | Change | | YTD Average Rates (2) Six Months Ended June 30, | |
|---|---|---|---|---|---|---|
| *(dollar amounts in millions)* | **2013** | 2012 | Amount | Percent | **2013** | 2012 |
| *Assets:* | | | | | | |
| Interest-bearing deposits in banks | **$ 78** | $ 112 | $ (34) | (30)% | **0.22%** | 0.19% |
| Loans held for sale | **694** | 837 | (143) | (17) | **3.35** | 3.71 |
| Securities: | | | | | | |
| Available-for-sale and other securities: | | | | | | |
| Taxable | **6,845** | 8,228 | (1,383) | (17) | **2.30** | 2.36 |
| Tax-exempt | **570** | 396 | 174 | 44 | **3.95** | 4.20 |
| Total available-for-sale and other securities | **7,415** | 8,624 | (1,209) | (14) | **3.95** | 4.20 |
| Trading account securities | **85** | 52 | 33 | 63 | **0.55** | 1.65 |
| Held-to-maturity securities taxable | **1,714** | 622 | 1,092 | 176 | **2.29** | 2.98 |
| Total securities | **9,214** | 9,298 | (84) | (1) | **2.38** | 2.47 |
| Loans and leases: (3) | | | | | | |
| Commercial: | | | | | | |
| Commercial and industrial | **16,994** | 15,458 | 1,536 | 10 | **3.79** | 4.00 |
| Commercial real estate: | | | | | | |
| Construction | **592** | 591 | 1 | | **3.99** | 3.76 |
| Commercial | **4,561** | 5,373 | (812) | (15) | **4.06** | 3.88 |
| Commercial real estate | **5,153** | 5,964 | (811) | (14) | **4.06** | 3.87 |
| Total commercial | **22,147** | 21,422 | 725 | 3 | **3.85** | 3.96 |
| Consumer: | | | | | | |
| Automobile | **5,058** | 4,781 | 277 | 6 | **4.11** | 4.77 |
| Home equity | **8,277** | 8,272 | 5 | | **4.17** | 4.30 |
| Residential mortgage | **5,102** | 5,214 | (112) | (2) | **3.89** | 4.15 |
| Other consumer | **488** | 473 | 15 | 3 | **6.76** | 7.44 |
| Total consumer | **18,925** | 18,740 | 185 | 1 | **4.15** | 4.46 |
| Total loans and leases | **41,072** | 40,162 | 910 | 2 | **3.99** | 4.20 |
| Allowance for loan and lease losses | **(758)** | (934) | 176 | (19) | | |
| Net loans and leases | **40,314** | 39,228 | 1,086 | 3 | | |
| Total earning assets | **51,058** | 50,409 | 649 | 1 | **3.71%** | 3.90% |
| Cash and due from banks | **922** | 970 | (48) | (5) | | |
| Intangible assets | **567** | 611 | (44) | (7) | | |
| All other assets | **4,020** | 4,191 | (171) | (4) | | |
| Total assets | **$ 55,809** | $ 55,247 | $ 562 | 1% | | |

*Liabilities and Shareholders Equity:*

| | | | | | | |
|---|---|---|---|---|---|---|
| Deposits: | | | | | | |
| Demand deposits noninterest-bearing | **$ 12,524** | $ 11,668 | $ 856 | 7% | **%** | % |
| Demand deposits interest-bearing | **5,952** | 5,792 | 160 | 3 | **0.04** | 0.06 |
| Total demand deposits | **18,476** | 17,460 | 1,016 | 6 | **0.01** | 0.02 |
| Money market deposits | **15,057** | 13,162 | 1,895 | 14 | **0.23** | 0.28 |
| Savings and other domestic deposits | **5,099** | 4,898 | 201 | 4 | **0.29** | 0.42 |
| Core certificates of deposit | **5,060** | 6,564 | (1,504) | (23) | **1.16** | 1.49 |
| Total core deposits | **43,692** | 42,084 | 1,608 | 4 | **0.36** | 0.52 |
| Other domestic time deposits of $250,000 or more | **342** | 323 | 19 | 6 | **0.51** | 0.67 |
| Brokered deposits and negotiable CDs | **1,738** | 1,361 | 377 | 28 | **0.65** | 0.77 |
| Deposits in foreign offices | **328** | 393 | (65) | (17) | **0.15** | 0.19 |
| Total deposits | **46,100** | 44,161 | 1,939 | 4 | **0.37** | 0.53 |
| Short-term borrowings | **732** | 1,451 | (719) | (50) | **0.11** | 0.16 |
| Federal Home Loan Bank advances | **722** | 523 | 199 | 38 | **0.16** | 0.21 |
| Subordinated notes and other long-term debt | **1,320** | 2,452 | (1,132) | (46) | **2.45** | 2.78 |
| Total interest-bearing liabilities | **36,350** | 36,919 | (569) | (2) | **0.44** | 0.66 |
| All other liabilities | **1,074** | 1,105 | (31) | (3) | | |
| Shareholders equity | **5,861** | 5,555 | 306 | 6 | | |
| Total liabilities and shareholders equity | **$ 55,809** | $ 55,247 | $ 562 | 1% | | |
| Net interest rate spread | | | | | **3.28** | 3.24 |
| Impact of noninterest-bearing funds on margin | | | | | **0.12** | 0.17 |
| Net interest margin | | | | | **3.40%** | 3.41% |

(1) 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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***2013 First Six Months versus 2012 First Six Months***

Fully-taxable equivalent net interest income for the first six-month period of 2013 increased $5.8 million, or less than 1%, from the comparable year-ago period. This reflected the benefit of a $0.6 billion, or 1%, increase in average total earning assets. The fully-taxable equivalent net interest margin decreased to 3.40% from 3.41%. The increase in average earning assets reflected:

$0.9 billion, or 2%, increase in average total loans and leases.

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

**Table 8 Average Loans/Leases and Deposits 2013 First Six Months vs. 2012 First Six Months**

| | Six Months Ended June 30, | | Change | |
|---|---|---|---|---|
| *(dollar amounts in millions)* | **2013 (1)** | 2012 | Amount | Percent |
| *Loans/Leases:* | | | | |
| Commercial and industrial | **$ 16,994** | $ 15,458 | $ 1,536 | 10% |
| Commercial real estate | **5,153** | 5,964 | (811) | (14) |
| Total commercial | **22,147** | 21,422 | 725 | 3 |
| Automobile | **5,058** | 4,781 | 277 | 6 |
| Home equity | **8,277** | 8,272 | 5 | |
| Residential mortgage | **5,102** | 5,214 | (112) | (2) |
| Other consumer | **488** | 473 | 15 | 3 |
| Total consumer | **18,925** | 18,740 | 185 | 1 |
| Total loans and leases | **$ 41,072** | $ 40,162 | $ 910 | 2% |
| *Deposits:* | | | | |
| Demand deposits noninterest-bearing | **$ 12,524** | $ 11,668 | $ 856 | 7% |
| Demand deposits interest-bearing | **5,952** | 5,792 | 160 | 3 |
| Total demand deposits | **18,476** | 17,460 | 1,016 | 6 |
| Money market deposits | **15,057** | 13,162 | 1,895 | 14 |
| Savings and other domestic deposits | **5,099** | 4,898 | 201 | 4 |
| Core certificates of deposit | **5,060** | 6,564 | (1,504) | (23) |
| Total core deposits | **43,692** | 42,084 | 1,608 | 4 |
| Other deposits | **2,408** | 2,077 | 331 | 16 |
| Total deposits | **$ 46,100** | $ 44,161 | $ 1,939 | 4% |

(1) The acquisition of Fidelity Bank on March 30, 2012, contributed to the increase in average loans and deposits.

The $0.9 billion, or 2%, increase in average total loans and leases primarily reflected:

$1.5 billion, or 10%, increase in the average C&I portfolio, primarily reflecting a combination of factors, including growth across multiple business lines including healthcare vertical, dealer floorplan, and equipment finance.

$0.3 billion, or 6%, increase in the average automobile portfolio. While having a minimal impact on average balances, $0.3 billion of automobile loans were transferred from held for sale to automobile loan and leases on June 30, 2013, as there are no securitizations expected for the remainder of 2013.

Partially offset by:

$0.8 billion, or 14%, decline in the average CRE loans. This reflected continued runoff of the noncore and core portfolios as we balanced acceptable returns for new core origination against internal concentration limits and increased competition, particularly pricing, for high quality developers and projects.

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The $1.9 billion, or 4%, increase in average total deposits reflected:

- $1.9 billion, or 14%, increase in money market deposits.

- $1.0 billion, or 6%, increase in total demand deposits.

Partially offset by:

- $1.5 billion, or 23%, decline in core certificates of deposits.

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**Provision for Credit Losses**

*(This section should be read in conjunction with the Credit Risk section.)*

The provision for credit losses is the expense necessary to maintain the ALLL and the AULC at levels appropriate 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 2013 second quarter declined $4.9 million, or 16%, from the prior quarter and declined $11.8 million, or 32%, from the year-ago quarter. The provision for credit losses for the first six-month period of 2013 declined $16.6 million, or 23%, compared with the first six-month period of 2012. The current quarter s provision for credit losses was $10.1 million less than total NCOs, and the provision for credit losses for the first six-month period of 2013 was $32.2 million less than total NCOs for the same period. *(See Credit Quality discussion).* Given the absolute low level of the provision for credit losses and the uncertain and uneven nature of the economic recovery, some degree of volatility on a quarter-to-quarter basis is expected.

**Noninterest Income**

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

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

**Table 9 Noninterest Income**

| | 2013 | | | 2012 | | 2Q13 vs 2Q12 | | 2Q13 vs 1Q13 | |
|---|---|---|---|---|---|---|---|---|---|
| *(dollar amounts in thousands)* | **Second** | First | Fourth | Third | Second | Amount | Percent | Amount | Percent |
| Service charges on deposit accounts | **$ 68,009** | $ 60,883 | $ 68,083 | $ 67,806 | $ 65,998 | $ 2,011 | 3% | $ 7,126 | 12% |
| Mortgage banking income | **33,659** | 45,248 | 61,711 | 44,614 | 38,349 | (4,690) | (12) | (11,589) | (26) |
| Trust services | **30,666** | 31,160 | 31,388 | 29,689 | 29,914 | 752 | 3 | (494) | (2) |
| Electronic banking | **23,345** | 20,713 | 21,011 | 22,135 | 20,514 | 2,831 | 14 | 2,632 | 13 |
| Brokerage income | **19,546** | 17,995 | 17,415 | 16,526 | 19,025 | 521 | 3 | 1,551 | 9 |
| Insurance income | **17,187** | 19,252 | 17,268 | 17,792 | 17,384 | (197) | (1) | (2,065) | (11) |
| Gain on sale of loans | **3,348** | 2,616 | 20,690 | 6,591 | 4,131 | (783) | (19) | 732 | 28 |
| Bank owned life insurance income | **15,421** | 13,442 | 13,767 | 14,371 | 13,967 | 1,454 | 10 | 1,979 | 15 |
| Capital markets fees | **12,229** | 7,834 | 12,694 | 11,596 | 13,260 | (1,031) | (8) | 4,395 | 56 |
| Securities gains (losses) | **(410)** | (509) | 863 | 4,169 | 350 | (760) | (217) | 99 | (19) |
| Other income | **25,655** | 33,575 | 32,761 | 25,778 | 30,927 | (5,272) | (17) | (7,920) | (24) |
| Total noninterest income | **$ 248,655** | $ 252,209 | $ 297,651 | $ 261,067 | $ 253,819 | $ (5,164) | (2)% | $ (3,554) | (1)% |

***2013 Second Quarter versus 2012 Second Quarter***

The $5.2 million, or 2%, decrease in total noninterest income from the year-ago quarter reflected:

- $5.3 million, or 17%, decrease in other noninterest income including a $4.3 million reduction in gains on the sale of Low Income Housing Tax Credit investments.

- $4.7 million, or 12%, decrease in mortgage banking income as the benefit of net mortgage servicing rights decreased by $2.5 million while origination and secondary marketing income declined $2.3 million primarily due to lower spreads.

Partially offset by:

- $2.8 million, or 14%, increase in electronic banking.

- $1.5 million, or 10%, increase in bank owned life insurance income.

***2013 Second Quarter versus 2013 First Quarter***

The $3.6 million, or 1%, decrease in total noninterest income from the prior quarter reflected:

- $11.6 million, or 26%, decrease in mortgage banking income as the benefit of net mortgage servicing rights decreased by $11.6 million.

- $7.9 million, or 24%, decrease in other noninterest income as the prior quarter included a $7.6 million gain on the sale of Low Income Housing Tax Credit investments.

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Partially offset by:

$7.1 million, or 12%, increase in service charges on deposit accounts which reflect yearly seasonality trends in customer activity and an 8% annualized growth in consumer checking households.

$4.4 million, or 56%, increase in capital markets activity.

$2.6 million, or 13%, increase in electronic banking.

***2013 First Six Months versus 2012 First Six Months***

Noninterest income for the first six-month period of 2013 decreased $38.3 million, or 7%, from the comparable year-ago period.

**Table 10 Noninterest Income 2013 First Six Months vs. 2012 First Six Months**

| | **Six Months Ended June 30,** | | Change | |
|---|---|---|---|---|
| *(dollar amounts in thousands)* | **2013** | 2012 | Amount | Percent |
| Service charges on deposit accounts | **$ 128,892** | $ 126,290 | $ 2,602 | 2% |
| Mortgage banking income | **78,907** | 84,767 | (5,860) | (7) |
| Trust services | **61,826** | 60,820 | 1,006 | 2 |
| Electronic banking | **44,058** | 39,144 | 4,914 | 13 |
| Brokerage income | **37,541** | 38,285 | (744) | (2) |
| Insurance income | **36,439** | 36,259 | 180 | |
| Gain on sale of loans | **5,964** | 30,901 | (24,937) | (81) |
| Bank owned life insurance income | **28,863** | 27,904 | 959 | 3 |
| Capital markets fees | **20,063** | 23,056 | (2,993) | (13) |
| Securities gains (losses) | **(919)** | (263) | (656) | N.M. |
| Other income | **59,230** | 71,976 | (12,746) | (18) |
| Total noninterest income | **$ 500,864** | $ 539,139 | $ (38,275) | (7)% |

The $38.3 million, or 7%, decrease in total noninterest income reflected:

$24.9 million, or 81%, decrease in gain on sale of loans, primarily related to the year-ago period s automobile loan securitization.

$12.7 million, or 18%, decrease in other noninterest income, primarily related to prior year s $11.4 million bargain purchase gain from the FDIC-assisted Fidelity Bank acquisition and due to auto operating lease portfolio run off.

$5.9 million, or 7%, decrease in mortgage banking income. This primarily reflected a $6.2 million decrease in origination and secondary marketing income.

Partially offset by:

$4.9 million, or 13%, increase in electronic banking income, primarily reflecting the seasonality and increase in debit card usage.

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**Noninterest Expense**

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

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

**Table 11 Noninterest Expense**

| | **2013** | | 2012 | | | 2Q13 vs 2Q12 | | 2Q13 vs 1Q13 | |
|---|---|---|---|---|---|---|---|---|---|
| *(dollar amounts in thousands)* | **Second** | First | Fourth | Third | Second | Amount | Percent | Amount | Percent |
| Personnel costs | **$ 263,862** | $ 258,895 | $ 253,952 | $ 247,709 | $ 243,034 | $ 20,828 | 9% | $ 4,967 | 2% |
| Outside data processing and other services | **49,898** | 49,265 | 48,699 | 50,396 | 48,568 | 1,330 | 3 | 633 | 1 |
| Net occupancy | **27,656** | 30,114 | 29,008 | 27,599 | 25,474 | 2,182 | 9 | (2,458) | (8) |
| Equipment | **24,947** | 24,880 | 26,580 | 25,950 | 24,872 | 75 | | 67 | |
| Deposit and other insurance expense | **13,460** | 15,490 | 16,327 | 15,534 | 15,731 | (2,271) | (14) | (2,030) | (13) |
| Professional services | **9,341** | 7,192 | 22,514 | 17,510 | 15,037 | (5,696) | (38) | 2,149 | 30 |
| Marketing | **14,239** | 10,971 | 16,456 | 16,842 | 17,396 | (3,157) | (18) | 3,268 | 30 |
| Amortization of intangibles | **10,362** | 10,320 | 11,647 | 11,431 | 11,940 | (1,578) | (13) | 42 | |
| OREO and foreclosure expense | **(271)** | 2,666 | 4,233 | 4,982 | 4,106 | (4,377) | (107) | (2,937) | (110) |
| Loss (Gain) on early extinguishment of debt | | | | 1,782 | (2,580) | 2,580 | (100) | | |
| Other expense | **32,371** | 33,000 | 41,212 | 38,568 | 40,691 | (8,320) | (20) | (629) | (2) |
| Total noninterest expense | **$ 445,865** | $ 442,793 | $ 470,628 | $ 458,303 | $ 444,269 | $ 1,596 | % | $ 3,072 | 1% |
| Number of employees (full-time equivalent), at period-end | **12,155** | 12,052 | 11,806 | 11,731 | 11,417 | 738 | 6 | 103 | 1 |

***2013 Second Quarter versus 2012 Second Quarter***

The $1.6 million, or less than 1%, increase in total noninterest expense from the year-ago quarter reflected:

- $20.8 million, or 9%, increase in personnel costs, reflecting increased salaries and benefits and a 6% increase in the number of full-time equivalent employees, primarily reflecting growth in the in-store initiative and mortgage business.

Partially offset by:

- $8.3 million, or 20%, decrease in other expense, reflecting lower representations and warranties-related expenses and lower litigation expense.

- $5.7 million, or 38%, decrease in professional services, reflecting a decrease in legal and outside consultant expenses.

- $4.4 million, or 107%, decline in OREO and foreclosure expense, as there were net recoveries of $0.3 million during the 2013 second quarter.

$3.2 million, or 18%, decrease in marketing, primarily reflecting the refinement of targeted marketing programs and reduced promotional offers.

***2013 Second Quarter versus 2013 First Quarter***

The $3.1 million, or 1%, increase in total noninterest expense from the prior quarter reflected:

$5.0 million, or 2%, increase in personnel costs reflecting higher commission expense.

$3.3 million, or 30%, seasonal increase in marketing.

Partially offset by:

$2.9 million, or 110%, decrease in OREO and foreclosure.

$2.0 million, or 13%, decrease in deposit and other insurance expense.

***2013 First Six Months versus 2012 First Six Months***

Noninterest expense for the first six-month period of 2013 decreased $18.3 million, or 2%, from the comparable year-ago period.

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**Table 12 Noninterest Expense 2013 First Six Months vs. 2012 First Six Months**

| | Six Months Ended June 30, | | Change | |
|---|---|---|---|---|
| *(dollar amounts in thousands)* | **2013** | 2012 | Amount | Percent |
| Personnel costs | **$ 522,757** | $ 486,532 | $ 36,225 | 7% |
| Outside data processing and other services | **99,163** | 91,160 | 8,003 | 9 |
| Net occupancy | **57,770** | 54,553 | 3,217 | 6 |
| Equipment | **49,827** | 50,417 | (590) | (1) |
| Deposit and other insurance expense | **28,950** | 36,469 | (7,519) | (21) |
| Professional services | **16,533** | 25,734 | (9,201) | (36) |
| Marketing | **25,210** | 30,965 | (5,755) | (19) |
| Amortization of intangibles | **20,682** | 23,471 | (2,789) | (12) |
| OREO and foreclosure expense | **2,395** | 9,056 | (6,661) | (74) |
| Gain on early extinguishment of debt | | (2,580) | 2,580 | N.M. |
| Other expense | **65,371** | 101,168 | (35,797) | (35) |
| Total noninterest expense | **$ 888,658** | $ 906,945 | $ (18,287) | (2)% |
| Number of employees (full-time equivalent), at period-end | **12,155** | 11,417 | 738 | 6% |

The $18.3 million, or 2%, decrease in total noninterest expense reflected:

$35.8 million, or 35%, decrease in other expense, primarily reflecting a decrease in operating lease expense as the automobile lease portfolio continues to run off and is expected to be essentially zero by the end of the year and the decrease in the provision for mortgage representations and warranties. The year-ago period s included a $23.5 million addition to litigation reserves.

$9.2 million, or 36%, decrease in professional services.

$7.5 million, or 21%, decrease in deposit and other insurance, reflecting lower insurance premiums.

Partially offset by:

$36.2 million, or 7%, increase in personnel costs, primarily reflecting an increase in bonuses, commissions, and full-time equivalent employees, as well as increased salaries and benefits.

$8.0 million, or 9%, increase in outside data processing and other services primarily related to continued IT infrastructure investments.

**Provision for Income Taxes**

The provision for income taxes in the 2013 second quarter was $52.4 million and $49.3 million in the 2012 second quarter. The provision for income taxes for the six month periods ended June 30, 2013 and June 30, 2012 was $104.6 million and $101.5 million, respectively. Both quarters included the benefits from tax-exempt income, tax-advantaged investments, and general business credits. At June 30, 2013, we had a net federal deferred tax asset of $159.0 million and a net state deferred tax asset of $39.7 million. At December 31, 2012, we had a net federal deferred tax asset of $171.4 million and a net state deferred tax asset of $32.4 million. Based on both positive and negative evidence and our level of forecasted future taxable income, there was no impairment to the net deferred tax asset at June 30, 2013 and December 31, 2012. As of June 30, 2013 and December 31, 2012, there was no disallowed deferred tax asset for regulatory capital purposes.

We file income tax returns with the IRS and various state, city, and foreign jurisdictions. Federal income tax audits have been completed for tax years through 2009. We have appealed certain proposed adjustments resulting from the IRS examination of our 2006, 2007, 2008 and 2009 tax returns. We believe the tax positions taken related to such proposed adjustments are correct and supported by applicable statutes, regulations, and judicial authority, and intend to vigorously defend them. In 2011, we entered into discussions with the Appeals Division of the IRS for the 2006 and 2007 tax returns. It is possible the ultimate resolution of the proposed adjustments, if unfavorable, may be material to the results of operations in the period it occurs. Nevertheless, although no assurances can be given, we believe the resolution of these examinations will not, individually or in the aggregate, have a material adverse impact on our consolidated financial position. In the first quarter of 2013, the IRS began an examination of our 2010 and 2011 consolidated federal income tax returns. Various state and other jurisdictions remain open to examination, including Kentucky, Indiana, Michigan, Pennsylvania, West Virginia, and Illinois.

**RISK MANAGEMENT AND CAPITAL**

Risk awareness, identification and assessment, reporting, and active management are key elements in overall risk management. We manage risk to an aggregate moderate-to-low risk profile through a control framework and by monitoring and responding to identified potential risks. Controls include, among others, effective segregation of duties, access, authorization and reconciliation procedures, as well as staff education and a disciplined assessment process.

We identify primary risks, and the sources of those risks, within each business unit. We utilize Risk and Control Self-Assessments (RCSA) to identify exposure risks. Through this RCSA process, we continually assess the effectiveness of controls associated with the identified risks, regularly monitor risk profiles and material exposure to losses, and identify stress events and scenarios to which we may be exposed. Our chief risk officer is responsible for ensuring that appropriate systems of controls are in place for managing and monitoring risk across the Company. Potential risk concerns are shared with the Risk Management Committee, Risk Oversight Committee, and the board of directors, as appropriate. Our internal audit department performs on-going independent reviews of the risk management process and ensures the adequacy of documentation. The results of these reviews are reported regularly to the audit committee and board of directors.

We believe that our primary risk exposures are credit, market, liquidity, operational, and compliance oriented. More information on risk can be found in the Risk Factors section included in Item 1A of our 2012 Form 10-K and subsequent filings with the SEC. Additionally, the MD&A included in our 2012 Form 10-K should be read in conjunction with this MD&A as this discussion provides only material updates to the 2012 Form 10-K. Our definition, philosophy, and approach to risk management have not materially changed from the discussion presented in the 2012 Form 10-K.

**Credit Risk**

Credit risk is the risk of financial loss if a counterparty is not able to meet the agreed upon terms of the financial obligation. 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 significant credit risk associated with our available-for-sale and other investment and held-to-maturity securities portfolios *(see Note 4 and Note 5 of the Notes to the Unaudited Condensed Consolidated Financial Statements)*. We engage with other financial counterparties for a variety of purposes including investing, asset and liability management, mortgage banking, and trading activities. While there is credit risk associated with derivative activity, we believe this exposure is minimal.

We continue to focus on the identification, monitoring, and managing of our credit risk. In addition to the traditional credit risk mitigation strategies of credit policies and processes, market risk management activities, and portfolio diversification, we use additional quantitative measurement capabilities utilizing external data sources, enhanced use of modeling technology, and internal stress testing processes. Our portfolio management resources demonstrate our commitment to maintaining an aggregate moderate-to-low risk profile. In our efforts to continue to identify risk mitigation techniques, we have focused on product design features, origination policies, and treatment strategies for delinquent or stressed borrowers.

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

At June 30, 2013, loans and leases totaled $41.7 billion, representing a $1.0 billion, or 2%, increase compared to $40.7 billion at December 31, 2012, primarily reflecting growth in the automobile portfolio, partially offset by a decline in the CRE portfolio. The automobile portfolio increase reflected a continued strong level of high quality originations.

At June 30, 2013, commercial loans and leases totaled $22.0 billion and represented 52% of our total loan and lease credit exposure. Our commercial portfolio is diversified along product type, customer size, and geography, and is comprised of the following (*see Commercial Credit discussion)*:

*C&I* C&I loans and leases are made to commercial customers for use in normal business operations to finance working capital needs, equipment purchases, or other projects. The majority of these borrowers are customers doing business within our geographic regions. C&I loans and leases are generally underwritten individually and secured with the assets of the company and/or the personal guarantee of the business owners. The financing of owner occupied facilities is considered a C&I loan even though there is improved real estate as collateral. This treatment is a result of the credit decision process, which focuses on cash flow from operations of the business to repay the debt. The operation, sale, rental, or refinancing of the real estate is not considered the primary repayment source for these types of loans. As we expand our C&I portfolio, we have developed a vertical strategy to ensure that new products or lending types are embedded within the structured, centralized Commercial Lending area with designated experienced credit officers.

*CRE* 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.

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*Construction CRE* Construction CRE loans are loans to developers, companies, or individuals 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, multi family, office, and warehouse project types. Generally, these loans are for construction projects that have been presold or preleased, or have secured permanent financing, as well as loans to real estate companies with significant equity invested in each project. These loans are underwritten and managed by a specialized real estate lending group that actively monitors the construction phase and manages the loan disbursements according to the predetermined construction schedule.

Total consumer loans and leases were $19.7 billion at June 30, 2013 and represented 48% of our total loan and lease credit exposure. The consumer portfolio is primarily comprised of automobile, home equity loans and lines-of-credit, and residential mortgages *(see Consumer Credit discussion)*.

*Automobile* Automobile loans are primarily comprised of loans made through automotive dealerships and include exposure in selected states outside of our primary banking markets. No state outside of our primary banking markets represented more than 5% of our total automobile portfolio at June 30, 2013.

*Home equity* Home equity lending includes both home equity loans and lines-of-credit. This type of lending, which is secured by a first-lien or junior-lien on the borrower s residence, allows customers to borrow against the equity in their home or refinance existing mortgage debt. Products include closed-end loans which are generally fixed-rate with principal and interest payments, and variable-rate, interest-only lines-of-credit which do not require payment of principal during the 10-year revolving period of the line-of-credit. Applications are underwritten centrally in conjunction with an automated underwriting system. The home equity underwriting criteria is based on minimum credit scores, debt-to-income ratios, and LTV ratios, with current collateral valuations.

*Residential mortgage* Residential mortgage loans represent loans to consumers for the purchase or refinance of a residence. These loans are generally financed over a 15-year to 30-year term, and in most cases, are extended to borrowers to finance their primary residence. Applications are underwritten centrally and we do not originate residential mortgages that allow negative amortization or allow the borrower multiple payment options. Residential mortgage loans include a complete full appraisal for collateral valuation.

*Other consumer* Primarily consists of consumer loans not secured by real estate, including personal unsecured loans.

The table below provides the composition of our total loan and lease portfolio:

**Table 13 Loan and Lease Portfolio Composition**

| | **2013** | | | | 2012 | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| *(dollar amounts in millions)* | **June 30,** | | March 31, | | December 31, | | September 30, | | June 30, | |
| Commercial:[1] | | | | | | | | | | |
| Commercial and industrial | **$ 17,113** | **41%** | $ 17,267 | 42% | $ 16,971 | 42% | $ 16,478 | 41% | $ 16,322 | 41% |
| Commercial real estate: | | | | | | | | | | |
| Construction | **607** | **1** | 574 | 1 | 648 | 2 | 541 | 1 | 591 | 1 |
| Commercial | **4,286** | **10** | 4,485 | 11 | 4,751 | 12 | 4,956 | 12 | 5,317 | 13 |
| Total commercial real estate | **4,893** | **11** | 5,059 | 12 | 5,399 | 14 | 5,497 | 13 | 5,908 | 14 |
| Total commercial | **22,006** | **52** | 22,326 | 54 | 22,370 | 56 | 21,975 | 54 | 22,230 | 55 |
| Consumer: | | | | | | | | | | |
| Automobile | **5,810** | **14** | 5,036 | 12 | 4,634 | 11 | 4,276 | 11 | 3,808 | 10 |
| Home equity | **8,369** | **20** | 8,474 | 21 | 8,335 | 20 | 8,381 | 21 | 8,344 | 21 |
| Residential mortgage | **5,168** | **12** | 5,051 | 12 | 4,970 | 12 | 5,192 | 13 | 5,123 | 13 |
| Other consumer | **387** | **2** | 397 | 1 | 419 | 1 | 436 | 1 | 454 | 1 |
| Total consumer | **19,734** | **48** | 18,958 | 46 | 18,358 | 44 | 18,285 | 46 | 17,729 | 45 |

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Total loans and leases | **$ 41,740** | **100%** | $ 41,284 | 100% | $ 40,728 | 100% | $ 40,260 | 100% | $ 39,959 | 100% |

(1) As defined by regulatory guidance, there were no commercial loans outstanding that would be considered a concentration of lending to a particular industry or group of industries.

As shown in the table above, our loan portfolio is diversified by consumer and commercial credit. We designate specific loan types, collateral types, and loan structures as part of our credit concentration policy. C&I lending by segment, specific limits for CRE primary project types, loans secured by residential real estate, shared national credit exposure, and unsecured lending represent examples of specifically tracked components of our concentration management process. Our concentration management process is approved by our Risk Oversight Committee and is one of the strategies utilized to ensure a high quality, well diversified portfolio that is consistent with our overall objective of maintaining an aggregate moderate-to-low risk profile.

The table below provides our total loan and lease portfolio segregated by the type of collateral securing the loan or lease:

**Table 14 Loan and Lease Portfolio by Collateral Type**

| | **2013** | | | | 2012 | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| *(dollar amounts in millions)* | **June 30,** | | March 31, | | December 31, | | September 30, | | June 30, | |
| Secured loans: | | | | | | | | | | |
| Real estate commercial | **$ 8,749** | 21% | $ 9,041 | 22% | $ 9,128 | 22% | $ 9,278 | 23% | $ 9,398 | 23% |
| Real estate consumer | **13,537** | 32 | 13,525 | 33 | 13,305 | 33 | 13,573 | 33 | 13,467 | 33 |
| Vehicles | **7,763** | 19 | 6,924 | 17 | 6,659 | 16 | 6,096 | 15 | 5,650 | 14 |
| Receivables/Inventory | **5,260** | 13 | 5,383 | 13 | 5,178 | 13 | 5,046 | 13 | 5,026 | 13 |
| Machinery/Equipment | **2,831** | 7 | 2,815 | 7 | 2,749 | 7 | 2,639 | 7 | 2,759 | 7 |
| Securities/Deposits | **924** | 2 | 840 | 2 | 826 | 2 | 717 | 2 | 789 | 2 |
| Other | **1,020** | 2 | 1,014 | 2 | 1,090 | 3 | 1,110 | 3 | 1,043 | 3 |
| Total secured loans and leases | **40,084** | 96 | 39,542 | 96 | 38,935 | 96 | 38,459 | 96 | 38,132 | 95 |
| Unsecured loans and leases | **1,656** | 4 | 1,742 | 4 | 1,793 | 4 | 1,801 | 4 | 1,827 | 5 |
| Total loans and leases | **$ 41,740** | 100% | $ 41,284 | 100% | $ 40,728 | 100% | $ 40,260 | 100% | $ 39,959 | 100% |

***Commercial Credit***

Refer to the Commercial Credit section of our 2012 Form 10-K for our commercial credit underwriting and on-going credit management processes.

C&I PORTFOLIO

The C&I portfolio continues to have strong origination activity as evidenced by the growth over the past 12 months. The credit quality of the portfolio continues to improve as we maintain focus on high quality originations. Problem loans have trended downward, reflecting a combination of proactive risk identification and effective workout strategies implemented by the SAD. Nevertheless, we continue to proactively identify borrowers that may be facing financial difficulty to assess all potential solutions.

CRE PORTFOLIO

We manage the risks inherent in this portfolio specific to CRE lending, focusing on the quality of the developer, and the specifics associated with each project. Generally, we: (1) limit our loans to 80% of the appraised value of the commercial real estate at origination, (2) require net operating cash flows to be 125% of required interest and principal payments, and (3) if the commercial real estate is nonowner occupied, require that at least 50% of the space of the project be preleased. We actively monitor both geographic and project-type concentrations and performance metrics of all CRE loan types, with a focus on loans identified as higher risk based on the risk rating methodology. Both macro-level and loan-level stress-test scenarios based on existing and forecast market conditions are part of the on-going portfolio management process for the CRE portfolio.

In 2010, we segregated our CRE portfolio into core and noncore segments. We believe segregating noncore CRE from core CRE improved our ability to understand the nature, performance prospects, and problem resolution opportunities of these segments, thus allowing us to continue to deal proactively with any emerging credit issues.

A CRE loan is generally considered core when the borrower is an experienced, well-capitalized developer in our Midwest footprint, and has either an established meaningful relationship with us that generated an acceptable return on capital or demonstrates the prospect of becoming one. The core CRE portfolio was $3.7 billion at June 30, 2013, representing 76% of total CRE loans. The performance of the core portfolio has met our expectations based on the consistency of the asset quality metrics within the portfolio. Based on our extensive project level assessment process, including forward-looking collateral valuations, we continue to believe the credit quality of the core portfolio is stable. Loans are not reclassified between the core and noncore segments based on performance.

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

**Table 15 Commercial Real Estate Core vs. Noncore Portfolios**

| | **June 30, 2013** | | | | | |
|---|---|---|---|---|---|---|
| *(dollar amounts in millions)* | Ending Balance | Prior NCOs | ACL $ | ACL % | Credit Mark (1) | Nonaccrual Loans |
| Total core | **$ 3,704** | **$ 32** | **$ 86** | **2.32%** | **3.16%** | **$ 38** |
| Noncore SAD (2) | **487** | **116** | **119** | **24.44** | **38.97** | **54** |
| Noncore Other | **702** | **8** | **55** | **7.83** | **8.87** | **2** |
| Total noncore | **1,189** | **124** | **174** | **14.63** | **22.70** | **56** |
| Total commercial real estate | **$ 4,893** | **$ 156** | **$ 260** | **5.31%** | **8.24%** | **$ 94** |

| | December 31, 2012 | | | | | |
|---|---|---|---|---|---|---|
| *(dollar amounts in millions)* | Ending Balance | Prior NCOs | ACL $ | ACL % | Credit Mark (1) | Nonaccrual Loans |
| Total core | $ 3,937 | $ 21 | $ 100 | 2.54% | 3.06% | $ 41 |
| Noncore SAD (2) | 597 | 145 | 129 | 21.61 | 36.93 | 82 |
| Noncore Other | 865 | 18 | 61 | 7.05 | 8.95 | 4 |
| Total noncore | 1,462 | 163 | 190 | 13.00 | 21.72 | 86 |
| Total commercial real estate | $ 5,399 | $ 184 | $ 290 | 5.37% | 8.49% | $ 127 |

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

(2) Noncore loans managed by SAD, the area responsible for managing loans and relationships designated as Classified Loans.

As shown in the above table, the ending balance of the CRE portfolio at June 30, 2013, declined $0.5 billion, or 9%, compared with December 31, 2012. The decline in the noncore segment primarily reflected amortization and payoffs as we actively focus on the noncore portfolio to reduce our overall CRE exposure. This reduction demonstrates our continued commitment to achieving a materially lower risk profile in the CRE portfolio, consistent with our overall objective of maintaining an aggregate moderate-to-low risk profile. The decline in the core segment primarily reflected continued payoffs, partially offset by originations. We continue to support our core developer customers as appropriate. However, new core originations are balanced against internal concentration limits and increased competition, particularly pricing, for high quality developers and projects.

Also, as shown above, substantial reserves for the noncore portfolio have been established. At June 30, 2013, the ACL related to the noncore portfolio was 14.63%. The combination of the existing ACL and prior NCOs represents the total credit actions taken on each segment of the portfolio. From this data, we calculate a credit mark that provides a consistent measurement of the cumulative credit actions taken against a specific portfolio segment. The 38.97% credit mark associated with the SAD-managed noncore portfolio is an indicator of the proactive portfolio management strategy employed for this portfolio.

***Consumer Credit***

Refer to the Consumer Credit section of our 2012 Form 10-K for our consumer credit underwriting and on-going credit management processes.

AUTOMOBILE PORTFOLIO

Our strategy in the automobile portfolio continued to focus on high quality borrowers as measured by both FICO and internal custom scores, combined with appropriate LTVs, terms, and profitability. Our strategy and operational capabilities allow us to appropriately manage the origination quality across the entire portfolio, including our newer markets. Although increased origination volume and entering new markets can be associated with increased risk levels, we believe our strategy and operational capabilities significantly mitigate these risks.

We have continued to consistently execute our value proposition and take advantage of available market opportunities. Importantly, we have maintained our high credit quality standard while expanding the portfolio. We have developed and implemented a loan securitization strategy to ensure we remain within our established portfolio concentration limits. During the 2013 second quarter, $0.3 billion was transferred from loans held for sale to the automobile portfolio based on our intent and ability to hold these loans for the foreseeable future.

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During the 2013 second quarter, we expanded further into New England by entering into the Connecticut market. Consistent with our expansion process, the Connecticut market is managed by seasoned professionals with local market knowledge.

RESIDENTIAL REAL ESTATE SECURED PORTFOLIOS

The properties securing our residential mortgage and home equity portfolios are primarily located within our geographic footprint. The continued stress on home prices has caused the performance in these portfolios to remain weaker than historical levels. The residential-secured portfolio originations continue to be of high quality, with the majority of the negative credit impact coming from loans originated in 2006 and earlier. We continue to evaluate all of our policies and processes associated with managing these portfolios. Our loss mitigation and foreclosure activities are consolidated in one location under common management. This structure allows us to focus on effectively helping our customers with appropriate solutions for their specific circumstances.

**Table 16 Selected Home Equity and Residential Mortgage Portfolio Data**

| | Home Equity | | | | Residential Mortgage | |
|---|---|---|---|---|---|---|
| | Secured by first-lien | | Secured by junior-lien | | | |
| *(dollar amounts in millions)* | **06/30/13** | 12/31/12 | **06/30/13** | 12/31/12 | **06/30/13** | 12/31/12 |
| Ending balance | **$ 4,641** | $ 4,380 | **$ 3,728** | $ 3,955 | **$ 5,168** | $ 4,970 |
| Portfolio weighted average LTV ratio(1) | **71%** | 71% | **81%** | 81% | **76%** | 76% |
| Portfolio weighted average FICO score(2) | **759** | 755 | **746** | 741 | **740** | 738 |

| | Home Equity | | | | Residential Mortgage (3) | |
|---|---|---|---|---|---|---|
| | Secured by first-lien | | Secured by junior-lien | | | |
| | Six Months Ended June 30, | | | | | |
| | **2013** | 2012 | **2013** | 2012 | **2013** | 2012 |
| Originations | **$ 952** | $ 886 | **$ 210** | $ 302 | **$ 816** | $ 532 |
| Origination weighted average LTV ratio(1) | **67%** | 72% | **81%** | 82% | **78%** | 84% |
| Origination weighted average FICO score(2) | **781** | 771 | **756** | 759 | **759** | 754 |

(1) The LTV ratios for home equity loans and home equity lines-of-credit are cumulative and reflect the balance of any senior loans. LTV ratios reflect collateral values at the time of loan origination.
(2) Portfolio weighted average FICO scores reflect currently updated customer credit scores whereas origination weighted average FICO scores reflect the customer credit scores at the time of loan origination.
(3) Represents only owned-portfolio originations.

Home Equity Portfolio

Our home equity portfolio (loans and lines-of-credit) consists of both first-lien and junior-lien mortgage loans with underwriting criteria based on minimum credit scores, debt-to-income ratios, and LTV ratios. We offer closed-end home equity loans which are generally fixed-rate with principal and interest payments, and variable-rate interest-only home equity lines-of-credit which do not require payment of principal during the 10-year revolving period of the line-of-credit. Applications are underwritten centrally in conjunction with an automated underwriting system.

Given the low interest rate environment over the past several years, many borrowers have utilized the line-of-credit home equity product as the primary source of financing their home versus residential mortgages. The proportion of the home equity portfolio secured by a first-lien has increased significantly over the past three years, positively impacting the portfolio s risk profile. At June 30, 2013, 55% of our total home equity portfolio was secured by first-lien mortgages. The first-lien position, combined with continued high average FICO scores, significantly reduces the PD associated with these loans.

Within the home equity line-of-credit portfolio, the standard product is a 10-year interest-only draw period with a 20-year fully amortizing term at the end of the draw period. Prior to 2007, the standard product was a 10-year draw period with a balloon payment, while subsequent originations convert to a 20-year amortizing loan structure. After the 10-year draw period, the borrower must reapply to extend the existing structure or begin repaying the debt in a traditional term structure.

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The principal and interest payment associated with the term structure will be higher than the interest-only payment, resulting in maturity risk. Our maturity risk can be segregated into two distinct segments: (1) home equity lines-of-credit underwritten with a balloon payment at maturity and (2) home equity lines-of-credit with an automatic conversion to a 20-year amortizing loan. We manage this risk based on both the actual maturity date of the line-of-credit structure and at the end of the 10-year draw period. This maturity risk is embedded in the portfolio which we address with proactive contact strategies beginning one year prior to maturity. In certain circumstances, our Home Saver group is able to provide payment and structure relief to borrowers experiencing significant financial hardship associated with the payment adjustment.

The table below summarizes our home equity line-of-credit portfolio by maturity date:

**Table 17 Maturity Schedule of Home Equity Line-of-Credit Portfolio**

| | June 30, 2013 | | | | | |
|---|---|---|---|---|---|---|
| *(dollar amounts in millions)* | 1 year or less | 1 to 2 years | 2 to 3 years | 3 to 4 years | More than 4 years | Total |
| Secured by first-lien | **$ 49** | **$ 58** | **$ 6** | **$** | **$ 2,245** | **$ 2,358** |
| Secured by junior-lien | **268** | **270** | **156** | **136** | **2,310** | **3,140** |
| Total home equity line-of-credit | **$ 317** | **$ 328** | **$ 162** | **$ 136** | **$ 4,555** | **$ 5,498** |

The amounts in the above table maturing in four years or less primarily consist of balloon payment structures and represent the most significant maturity risk. The amounts maturing in more than four years primarily consist of home equity lines-of-credit with a 20-year amortization period after the 10-year draw period.

Historically, less than 30% of our home equity lines-of-credit that are one year or less from maturity actually reach the maturity date as borrowers apply to re-establish the revolving period under current underwriting standards. We anticipate this percentage will decline in future periods as our proactive approach to managing maturity risk continues to evolve.

Residential Mortgages Portfolio

At June 30, 2013, 46% of our total residential mortgage portfolio were ARMs. These ARMs primarily consist of a fixed-rate of interest for the first 3 to 5 years and then adjust annually. At June 30, 2013, ARM loans that were expected to have rates reset through 2015 totaled $1.4 billion. These loans scheduled to reset are primarily associated with loans originated subsequent to 2007, and as such, are not subject to the most significant declines in underlying property value. Given the quality of our borrowers, the relatively low current interest rates, and the results of our continued analysis (including possible impacts of changes in interest rates), we believe that we have 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. Given the relatively low current interest rates, many fixed-rate products currently offer a better interest rate to our ARM borrowers.

Several government programs continued to impact the residential mortgage portfolio, including various refinance programs such as HARP and HAMP, which positively affected the availability of credit for the industry. During the six-month period ended June 30, 2013, we closed $360 million in HARP residential mortgages and $5 million in HAMP residential mortgages. The HARP and HAMP residential mortgage loans are part of our residential mortgage portfolio or serviced for others. We are subject to repurchase risk associated with residential mortgage loans sold in the secondary market. An appropriate level of reserve for representations and warranties related to residential mortgage loans sold has been established to address this repurchase risk inherent in the portfolio *(see Operational Risk discussion).*

***Credit Quality***

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

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

Credit quality performance in the 2013 second quarter reflected overall continued improvement. Our overall credit quality performance is returning to normalized, pre-recession levels. NALs and NCOs declined 4% and 33%, respectively, compared to the prior quarter. Commercial criticized and commercial classified loans also declined, reflecting the continued improvement in the commercial portfolio. The ACL to total loans ratio declined to 1.86% and our ACL coverage ratios remained at appropriate levels. Our ACL as a percentage of NALs remained strong at 214%. The improvement in the NCO rate was centered in the CRE and home equity portfolios. The remaining portfolios were relatively consistent compared to the prior quarter.

NPAs, NALs, AND TDRs

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

NPAs and NALs

NPAs consist of (1) NALs, which represent loans and leases no longer accruing interest, (2) impaired loans held for sale, (3) OREO properties, and (4) other NPAs. Any loan in our portfolio may be placed on nonaccrual status prior to the policies described below when collection of principal or interest is in doubt. Also, when a borrower with discharged non-reaffirmed debt in a Chapter 7 bankruptcy is identified and the loan is determined to be collateral dependent, the consumer loan is placed on nonaccrual status.

C&I and CRE loans are placed on nonaccrual status at 90-days past due. With the exception of residential mortgage loans guaranteed by government organizations which continue to accrue interest, residential mortgage loans are placed on nonaccrual status at 150-days past due. First-lien home equity loans are placed on nonaccrual status at 150-days past due. Junior-lien home equity loans are placed on nonaccrual status at the earlier of 120-days past due or when the related first-lien loan has been identified as nonaccrual. Automobile and other consumer loans are generally charged-off when the loan is 120-days past due.

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 collectability is no longer in doubt, the loan or lease is returned to accrual status.

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

**Table 18 Nonaccrual Loans and Leases and Nonperforming Assets**

| | 2013 | | | 2012 | |
|---|---|---|---|---|---|
| *(dollar amounts in thousands)* | **June 30,** | March 31, | December 31, | September 30, | June 30, |
| Nonaccrual loans and leases: | | | | | |
| Commercial and industrial | **$ 80,037** | $ 80,928 | $ 90,705 | $ 109,452 | $ 133,678 |
| Commercial real estate | **93,643** | 110,803 | 127,128 | 148,986 | 219,417 |
| Automobile | **7,743** | 6,770 | 7,823 | 11,814 | |
| Residential mortgage | **122,040** | 118,405 | 122,452 | 123,140 | 75,048 |
| Home equity | **60,083** | 63,405 | 59,525 | 51,654 | 46,023 |
| Total nonaccrual loans and leases(1) | **363,546** | 380,311 | 407,633 | 445,046 | 474,166 |
| Other real estate owned, net | | | | | |
| Residential | **17,353** | 19,538 | 21,378 | 23,640 | 21,499 |
| Commercial | **3,713** | 5,601 | 6,719 | 30,566 | 17,109 |
| Total other real estate owned, net | **21,066** | 25,139 | 28,097 | 54,206 | 38,608 |
| Other nonperforming assets(2) | **12,087** | 10,045 | 10,045 | 10,476 | 10,476 |
| Total nonperforming assets | **$ 396,699** | $ 415,495 | $ 445,775 | $ 509,728 | $ 523,250 |
| Nonaccrual loans as a % of total loans and leases | **0.87%** | 0.92% | 1.00% | 1.11% | 1.19% |
| Nonperforming assets ratio(3) | **0.95** | 1.01 | 1.09 | 1.26 | 1.31 |
| (NPA+90days)/(Loan+OREO)(4) | **1.38** | 1.48 | 1.59 | 1.75 | 1.76 |

(1) Nonaccrual loans and leases related to Chapter 7 bankruptcy loans were $59.6 million, $59.9 million, $60.1 million, and $63.0 million at June 30, 2013, March 31, 2013, December 31, 2012, and September 30, 2012, respectively.
(2) Other nonperforming assets includes certain impaired investment securities.
(3) This ratio is calculated as nonperforming assets divided by the sum of loans and leases, other nonperforming assets, and net other real estate owned.
(4) This ratio is calculated as the sum of nonperforming assets and total accruing loans and leases past due 90 days or more divided by the sum of loans and leases and net other real estate owned.

The $18.8 million, or 5%, decline in NPAs compared with March 31, 2013, primarily reflected:

$17.2 million, or 15%, decline in CRE NALs, reflecting both NCO activity and problem credit resolutions, including borrower payments and payoffs partially resulting from successful workout strategies implemented by our SAD. Although we anticipate some degree of quarter-to-quarter volatility in our NAL levels, we expect that the overall trend will continue to be lower.

$4.1 million, or 16%, decline in net OREO properties, primarily reflecting strong sale activity.

$3.3 million, or 5%, decrease in home equity NALs, despite significantly lower NCOs. We continue to work with troubled borrowers to take advantage of the current low interest-rate environment and the recent stabilization of home prices. The NAL balances have been written down to collateral value, less anticipated selling costs. This substantially limits any significant future risk of additional loss on these loans and makes a modification more likely for borrowers with consistent cash flow.

Partially offset by:

- $3.6 million, or 3%, increase in residential mortgage NALs, primarily associated with a small number of larger problem loans. The NAL balances have been written down to collateral value, less anticipated selling costs. This substantially limits any significant future risk of additional loss on these loans.

Compared with December 31, 2012, NPAs decreased $49.1 million, or 11%, primarily reflecting:

- $33.5 million, or 26%, decline in CRE NALs, reflecting both NCO activity and problem credit resolutions, including borrower payments and payoffs partially resulting from successful workout strategies implemented by our SAD. Although we anticipate some degree of quarter-to-quarter volatility in our NAL levels, we expect that the overall trend will continue to be lower.

- $10.7 million, or 12%, decline in C&I NALs, reflecting problem credit resolutions, including payoffs partially resulting from successful workout strategies implemented by our SAD. The decline was associated with loans throughout our footprint, with no specific industry concentration.

- $7.0 million, or 25%, decrease in OREO, primarily reflecting strong sale activity.

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TDR Loans

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

TDRs are modified loans in which a concession is provided to a borrower experiencing financial difficulties. TDRs can be classified as either accrual or nonaccrual loans. Nonaccrual TDRs are included in NALs whereas accruing TDRs are excluded from NALs, as it is probable that all contractual principal and interest due under the restructured terms will be collected. TDRs primarily reflect our loss mitigation efforts to proactively work with borrowers having difficulty making their payments.

The table below presents our accruing and nonaccruing TDRs at period-end for each of the past five quarters:

**Table 19 Accruing and Nonaccruing Troubled Debt Restructured Loans**

| | **2013** | | | 2012 | |
|---|---|---|---|---|---|
| *(dollar amounts in thousands)* | **June 30,** | March 31, | December 31, | September 30, | June 30, |
| Troubled debt restructured loans accruing: | | | | | |
| Commercial and industrial | **$ 94,583** | $ 90,642 | $ 76,586 | $ 55,809 | $ 57,008 |
| Commercial real estate | **184,372** | 192,167 | 208,901 | 222,155 | 202,190 |
| Automobile | **32,768** | 34,379 | 35,784 | 33,719 | 34,460 |
| Home equity | **135,759** | 162,087(1) | 110,581 | 92,763 | 66,997 |
| Residential mortgage | **293,933** | 288,041 | 290,011 | 280,890 | 298,967 |
| Other consumer | **3,383** | 2,514 | 2,544 | 2,644 | 3,038 |
| Total troubled debt restructured loans accruing | **744,798** | 769,830 | 724,407 | 687,980 | 662,660 |
| Troubled debt restructured loans nonaccruing: | | | | | |
| Commercial and industrial | **14,541** | 14,970 | 19,268 | 28,859 | 35,535 |
| Commercial real estate | **26,118** | 26,588 | 32,548 | 20,284 | 55,022 |
| Automobile | **7,743** | 6,770 | 7,823 | 11,814 | |
| Home equity | **10,227** | 11,235 | 6,951 | 7,756 | 374 |
| Residential mortgage | **80,563** | 84,317 | 84,515 | 83,163 | 28,332 |
| Other consumer | | | 113 | 113 | 113 |
| Total troubled debt restructured loans nonaccruing | **139,192** | 143,880 | 151,218 | 151,989 | 119,376 |
| Total troubled debt restructured loans | **$ 883,990** | $ 913,710 | $ 875,625 | $ 839,969 | $ 782,036 |

(1) Included $43,068 thousand incorrectly reflected as TDRs in the 2013 first quarter.

The increase in the accruing TDR home equity portfolio from the 2012 second quarter is primarily related to the refinancing of certain maturing lines-of-credit structured as a 10-year draw period with a balloon payment to a new loan with a 20-year amortization period. Based on the borrower s financial condition, we believe the new 20-year amortizing loan would not have been available to the borrower through normal channels or other sources. As such, we view this as a concession and have designated the new loan as a TDR.

Our strategy is to structure commercial TDRs in a manner that avoids new concessions subsequent to the initial TDR terms. However, there are times when subsequent modifications are required, such as when the modified loan matures. Often the loans are performing in accordance with the TDR terms, and a new note is originated with similar modified terms. These loans are subjected to the normal underwriting standards and processes for other similar credit extensions, both new and existing. If the loan is not performing in accordance with the existing TDR terms, typically a more aggressive strategy is put in place. In accordance with ASC 310-20-35, the refinanced note is evaluated to determine if it is considered a new loan or a continuation of the prior loan. A new loan is considered for removal of the TDR designation. A continuation of the prior note requires the continuation of the TDR designation, and because the refinanced note constitutes a new legal agreement, it is included in our TDR activity table (below) as a new TDR and a restructured TDR removal during the period.

The types of concessions granted are consistent with those granted on new TDRs and include interest rate reductions, amortization or maturity date changes beyond what the collateral supports, and principal forgiveness based on the borrower s specific needs at a point in time. Our policy does not limit the number of times a loan may be modified. A loan may be modified multiple times if it is considered to be in the best interest of both the borrower and us.

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Loans are not automatically considered to be accruing TDRs upon the granting of a new concession. If the loan is in accruing status and no loss is expected based on the modified terms, the modified TDR remains in accruing status. For loans that are on nonaccrual status before the modification, collection of both principal and interest must not be in doubt, and the borrower must be able to exhibit sufficient cash flows for a six-month period of time to service the debt in order to return to accruing status. This six-month period could extend before or after the restructure date.

The following table reflects TDR activity for each of the past five quarters:

**Table 20 Troubled Debt Restructured Loan Activity**

| | **2013** | | | 2012 | |
|---|---|---|---|---|---|
| *(dollar amounts in thousands)* | **Second** | First | Fourth | Third | Second |
| TDRs, beginning of period | **$ 913,710** | $ 875,625 | $ 839,968 | $ 782,035 | $ 776,065 |
| New TDRs | **115,955** | 164,407[2] | 169,850 | 196,707 | 94,631 |
| Payments | **(39,818)** | (44,183) | (61,491) | (51,125) | (38,299) |
| Charge-offs | **(8,083)** | (5,395) | (16,985) | (22,537) | (16,551) |
| Sales | **(2,738)** | (4,814) | (2,933) | (3,978) | (1,840) |
| Transfer to OREO | **(2,453)** | (1,124) | (3,403) | (15,974) | (860) |
| Restructured TDRs accruing[1] | **(46,987)** | (53,936) | (40,682) | (30,439) | (20,135) |
| Restructured TDRs nonaccruing[1] | **(2,520)** | (10,674) | (7,138) | (14,721) | (10,833) |
| Other | **(43,076)[2]** | (6,196) | (1,561) | | (143) |
| TDRs, end of period | **$ 883,990** | $ 913,710 | $ 875,625 | $ 839,968 | $ 782,035 |

(1) Represents existing TDRs that were re-underwritten with new terms providing a concession. A corresponding amount is included in the New TDRs amount above.

(2) Included a $43,068 thousand reduction of home equity TDRs incorrectly reflected as new TDRs in the 2013 first quarter.

ACL

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

We maintain two reserves, both of which in our judgment are appropriate to absorb credit losses inherent in our loan and lease portfolio: the ALLL and the AULC. Combined, these reserves comprise the total ACL. Our Credit Administration group is responsible for developing the methodology assumptions and estimates used in the calculation, as well as determining the appropriateness of the ACL. The ALLL represents the estimate of losses inherent in the loan portfolio at the reported 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.

A provision for credit losses is recorded to adjust the ACL to the level we have determined to be appropriate to absorb credit losses inherent in our loan and lease portfolio. The provision for credit losses in the 2013 second quarter was $24.7 million, compared with $29.6 million in the prior quarter and $36.5 million in the year-ago quarter. The provision for credit losses during the six-month period ended June 30, 2013 was $54.3 million, compared with $70.9 million in the comparable year-ago period. *(See Provision for Credit Losses discussion).*

We regularly evaluate the appropriateness of the ACL by performing on-going evaluations of the loan and lease portfolio, including such factors as the differing economic risks associated with each loan category, the financial condition of specific borrowers, the level of delinquent loans, the value of any collateral and, where applicable, the existence of any guarantees or other documented support. We evaluate the impact of changes in interest rates and overall economic conditions on the ability of borrowers to meet their financial obligations when quantifying our exposure to credit losses and assessing the appropriateness of our ACL at each reporting date. In addition to general economic conditions and the other factors described above, we also consider the impact of collateral value trends and portfolio diversification.

Our ACL evaluation process includes the on-going assessment of credit quality metrics, and a comparison of certain ACL benchmarks to current performance. While the total ACL balance has declined in recent quarters, all of the relevant benchmarks remain strong.

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

**Table 21 Allocation of Allowance for Credit Losses (1)**

| | **2013** | | | | | | 2012 | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| *(dollar amounts in thousands)* | **June 30,** | | March 31, | | December 31, | | September 30, | | June 30, | |
| Commercial | | | | | | | | | | |
| Commercial and industrial | **$ 233,679** | **41%** | $ 238,098 | 42% | $ 241,051 | 42% | $ 257,081 | 41% | $ 280,548 | 41% |
| Commercial real estate | **255,849** | **11** | 267,436 | 12 | 285,369 | 14 | 280,376 | 13 | 305,391 | 14 |
| Total commercial | **489,528** | **52** | 505,534 | 54 | 526,420 | 56 | 537,457 | 54 | 585,939 | 55 |
| Consumer | | | | | | | | | | |
| Automobile | **39,990** | **14** | 35,973 | 12 | 34,979 | 11 | 33,281 | 11 | 30,217 | 10 |
| Home equity | **115,626** | **20** | 115,858 | 21 | 118,764 | 20 | 122,605 | 21 | 135,562 | 21 |
| Residential mortgage | **63,802** | **12** | 63,062 | 12 | 61,658 | 12 | 67,220 | 13 | 78,015 | 13 |
| Other consumer | **24,130** | **2** | 26,342 | 1 | 27,254 | 1 | 28,579 | 1 | 29,913 | 1 |
| Total consumer | **243,548** | **48** | 241,235 | 46 | 242,655 | 44 | 251,685 | 46 | 273,707 | 45 |
| Total allowance for loan and lease losses | **733,076** | **100%** | 746,769 | 100% | 769,075 | 100% | 789,142 | 100% | 859,646 | 100% |
| Allowance for unfunded loan commitments | **44,223** | | 40,855 | | 40,651 | | 53,563 | | 50,978 | |
| Total allowance for credit losses | **$ 777,299** | | $ 787,624 | | $ 809,726 | | $ 842,705 | | $ 910,624 | |
| Total allowance for loan and leases losses as % of: | | | | | | | | | | |
| Total loans and leases | | **1.76%** | | 1.81% | | 1.89% | | 1.96% | | 2.15% |
| Nonaccrual loans and leases | | **202** | | 196 | | 189 | | 177 | | 181 |
| Nonperforming assets | | **185** | | 180 | | 173 | | 155 | | 164 |
| Total allowance for credit losses as % of: | | | | | | | | | | |
| Total loans and leases | | **1.86%** | | 1.91% | | 1.99% | | 2.09% | | 2.28% |
| Nonaccrual loans and leases | | **214** | | 207 | | 199 | | 189 | | 192 |
| Nonperforming assets | | **196** | | 190 | | 182 | | 165 | | 174 |

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

The reduction in the ALLL compared with both March 31, 2013 and December 31, 2012, primarily reflected a decline in the CRE portfolio. This decline reflected improvements in the level of Criticized and Classified loans. The consumer portfolio ALLL increased slightly reflecting an increase in the automobile portfolio due entirely to increased ending balances. The underlying asset quality in the automobile portfolio remained strong. This increase was mostly offset by declines in the home equity and other consumer portfolios reflecting improving credit quality.

The ACL to total loans declined to 1.86% at June 30, 2013, compared to 1.99% at December 31, 2012. We believe the decline in the ratio is appropriate given the continued improvement in the risk profile of our loan portfolio. Further, we believe that early identification of loans with changes in credit metrics and aggressive action plans for these loans, combined with originating high quality new loans will contribute to continued improvement in our key credit quality metrics.

We have significant exposure to loans secured by residential real estate and continue to be an active lender in our communities. Recently, real estate values have begun to slowly rise from their 2011 levels. Industry indices, as well as our own view of our primary markets, indicate home prices continued to slowly increase across our primary markets. In aggregate, the housing markets in our footprint states have continued to mirror the national recovery trend.

Given the combination of these noted positive and negative factors, we believe that our ACL is appropriate and its coverage level is reflective of the quality of our portfolio and the current operating environment.

NCOs

Any loan in any portfolio may be charged-off prior to the policies described below if a loss confirming event has occurred. Loss confirming events include, but are not limited to, bankruptcy (unsecured), continued delinquency, foreclosure, or receipt of an asset valuation indicating a collateral deficiency and that asset is the sole source of repayment. Additionally, discharged, collateral dependent non-reaffirmed debt in Chapter 7 bankruptcy filings will result in a charge-off to estimated collateral value, less anticipated selling costs at the time of the modification.

C&I and CRE loans are either charged-off or written down to net realizable value at 90-days past due. Automobile loans and other consumer loans are charged-off at 120-days past due. First-lien and junior-lien home equity loans are charged-off to the estimated fair value of the collateral, less anticipated selling costs, at 150-days past due and 120-days past due, respectively. Residential mortgages are charged-off to the estimated fair value of the collateral, less anticipated selling costs, at 150-days past due.

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The following table reflects NCO detail for each of the last five quarters:

**Table 22 Quarterly Net Charge-off Analysis**

| | 2013 | | 2012 | | |
|---|---|---|---|---|---|
| *(dollar amounts in thousands)* | **Second** | First | Fourth | Third | Second |
| Net charge-offs by loan and lease type: | | | | | |
| Commercial: | | | | | |
| Commercial and industrial | **$ 1,586** | $ 3,317 | $ 7,052 | $ 13,023 | $ 15,678 |
| Commercial real estate: | | | | | |
| Construction | **1,079** | (798) | 11,038 | (280) | (1,531) |
| Commercial | **1,305** | 13,575 | 10,333 | 17,654 | 30,709 |
| Commercial real estate | **2,384** | 12,777 | 21,371 | 17,374 | 29,178 |
| Total commercial | **3,970** | 16,094 | 28,423 | 30,397 | 44,856 |
| Consumer: | | | | | |
| Automobile | **1,463** | 2,594 | 1,896 | 4,019 | 449 |
| Home equity | **14,654** | 19,983 | 25,013 | 46,592 | 21,045 |
| Residential mortgage | **8,620** | 6,148 | 9,687 | 16,880 | 10,786 |
| Other consumer | **6,083** | 6,868 | 5,111 | 7,207 | 7,109 |
| Total consumer | **30,820** | 35,593 | 41,707 | 74,698 | 39,389 |
| Total net charge-offs | **$ 34,790** | $ 51,687 | $ 70,130 | $ 105,095 | $ 84,245 |
| Net charge-offs annualized percentages: | | | | | |
| Commercial: | | | | | |
| Commercial and industrial | **0.04%** | 0.08% | 0.17% | 0.32% | 0.39% |
| Commercial real estate: | | | | | |
| Construction | **0.74** | (0.53) | 7.67 | (0.20) | (1.05) |
| Commercial | **0.12** | 1.16 | 0.84 | 1.37 | 2.24 |
| Commercial real estate | **0.19** | 0.97 | 1.56 | 1.21 | 1.92 |
| Total commercial | **0.07** | 0.29 | 0.52 | 0.55 | 0.81 |
| Consumer: | | | | | |
| Automobile | **0.11** | 0.21 | 0.17 | 0.40 | 0.04 |
| Home equity | **0.71** | 0.95 | 1.20 | 2.23 | 1.01 |
| Residential mortgage | **0.66** | 0.49 | 0.75 | 1.30 | 0.82 |
| Other consumer | **5.29** | 6.67 | 4.74 | 6.49 | 6.15 |
| Total consumer | **0.64** | 0.76 | 0.91 | 1.65 | 0.83 |
| Net charge-offs as a % of average loans | **0.34%** | 0.51% | 0.69% | 1.05% | 0.82% |

In assessing NCO trends, it is helpful to understand the process of how commercial loans are treated as they deteriorate over time. The ALLL established is consistent with the level of risk associated with the original underwriting. As a part of our normal portfolio management process for commercial loans, the loan is periodically reviewed and the ALLL is increased or decreased based on the revised risk rating. In certain cases, the standard ALLL is determined to not be appropriate, and a specific reserve is established based on the projected cash flow or collateral value of the specific loan. Charge-offs, if necessary, are generally recognized in a period after the specific ALLL was established. If the previously

established ALLL exceeds that necessary to satisfactorily resolve the problem loan, a reduction in the overall level of the ALLL could be recognized. Consumer loans are treated in much the same manner as commercial loans, with increasing reserve factors applied based on the risk characteristics of the loan, although specific reserves are not identified for consumer loans. In summary, if loan quality deteriorates, the typical credit sequence would be periods of reserve building, followed by periods of higher NCOs as the previously established ALLL is utilized. Additionally, an increase in the ALLL either precedes or is in conjunction with increases in NALs. When a loan is classified as NAL, it is evaluated for specific ALLL or charge-off. As a result, an increase in NALs does not necessarily result in an increase in the ALLL or an expectation of higher future NCOs.

Our overall NCOs are returning to pre-recession levels, however, we anticipate NCO levels for both the residential mortgage and home equity portfolios will remain at elevated levels in the near future. The home equity portfolio will continue to be impacted by borrowers that are seeking to refinance, but are in a negative equity position because of the junior-lien loan. Right-sizing and debt forgiveness associated with these situations are becoming more frequent as borrowers realize the impact to their credit is minor, and that a default on a junior-lien loan is not likely to cause borrowers to lose their home.

All residential mortgage loans greater than 150-days past due are charged-down to the estimated value of the collateral, less anticipated selling costs. The remaining balance is in delinquent status until a modification can be completed, or the loan goes through the foreclosure process. For the home equity portfolio, virtually all of the defaults represent full charge-offs, as there is no remaining equity, creating a lower delinquency rate but a higher NCO impact.

2013 Second Quarter versus 2013 First Quarter

C&I NCOs decreased $1.7 million, or 52%, primarily reflecting higher recoveries from prior charge-offs. Current quarter NCOs did not represent any specific concentration in either geography or project type. Given the relatively low absolute level of NCOs in this portfolio, some degree of volatility on a quarter-to-quarter basis is expected.

CRE NCOs decreased $10.4 million, or 81%, reflecting significant recoveries in the current quarter, as well as lower charge-off activity. As with the C&I portfolio, given the low absolute level of NCOs in the portfolio, some degree of volatility on a quarter-to-quarter basis is expected.

Automobile NCOs decreased $1.1 million, or 44%, consistent with our expectations for the portfolio. The relatively low levels of NCOs reflected the continued high credit quality of originations and a strong resale market for used automobiles. We anticipate continued strength in the used automobile market for the remainder of 2013.

Residential mortgage NCOs increased $2.5 million, or 40%, reflecting large dollar NCO activity on a small number of loans. We do not believe the increase to be a reversal of the positive trends experienced in the portfolio over the past year. As the absolute level of NCOs continues to decline, the portfolio will be subject to some degree of volatility on a quarter-to-quarter basis.

Home equity NCOs decreased $5.3 million, or 27%, primarily reflecting improved delinquencies and the continued migration toward higher quality borrowers and improved loan structures. Additionally, the continued improvement in the underlying mortgage market and rising home prices had a positive impact.

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The table below reflects NCO activity for the first six-month periods ended June 30, 2013 and 2012:

**Table 23 Year to Date Net Charge-off Analysis**

| | Six Months Ended June 30, | |
|---|---|---|
| *(dollar amounts in thousands)* | **2013** | 2012 |
| Net charge-offs by loan and lease type: | | |
| Commercial: | | |
| Commercial and industrial | **$ 4,903** | $ 44,173 |
| Commercial real estate: | | |
| Construction | **281** | (2,717) |
| Commercial | **14,880** | 42,401 |
| Commercial real estate | **15,161** | 39,684 |
| Total commercial | **20,064** | 83,857 |
| Consumer: | | |
| Automobile | **4,057** | 3,527 |
| Home equity | **34,637** | 44,774 |
| Residential mortgage | **14,768** | 21,356 |
| Other consumer | **12,951** | 13,723 |
| Total consumer | **66,413** | 83,380 |
| Total net charge-offs | **$ 86,477** | $ 167,237 |
| Net charge-offs annualized percentages: | | |
| Commercial: | | |
| Commercial and industrial | **0.06%** | 0.57% |
| Commercial real estate: | | |
| Construction | **0.09** | (0.92) |
| Commercial | **0.65** | 1.58 |
| Commercial real estate | **0.59** | 1.33 |
| Total commercial | **0.18** | 0.78 |
| Consumer: | | |
| Automobile | **0.16** | 0.15 |
| Home equity | **0.84** | 1.08 |
| Residential mortgage | **0.58** | 0.82 |
| Other consumer | **5.31** | 5.80 |
| Total consumer | **0.70** | 0.89 |
| Net charge-offs as a % of average loans | **0.42%** | 0.83% |

2013 First Six Months versus 2012 First Six Months

C&I NCOs decreased $39.3 million, or 89%, primarily reflecting credit quality improvement in the underlying portfolio, as well as our on-going proactive credit management practices. Also, the first six-month period of 2013 reflected higher recoveries from prior charge-offs.

CRE NCOs decreased $24.5 million, or 62%, reflecting significant recoveries during the first six-month period of 2013. This performance is consistent with our expectations for the portfolio, as some degree of quarterly volatility is expected given the low absolute levels of NCOs in the portfolio. There was no concentration in either geography or project type, and the NCOs were generally associated with small relationships.

Automobile NCOs increased $0.5 million, or 15%. The relatively low levels of NCOs reflected the continued high credit quality of originations and a strong resale market for used vehicles.

Home equity NCOs decreased $10.1 million, or 23%, primarily reflecting improved delinquency rates and fewer significant dollar size losses compared to the year-ago period. The performance of the portfolio is consistent with our expectations.

Residential mortgage NCOs declined $6.6 million, or 31%, and reflected improvement in the overall economy compared to the year-ago period.

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**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, and credit spreads. We have identified two primary sources of market risk: interest rate risk and price risk.

***Interest Rate Risk***

OVERVIEW

Huntington actively manages interest rate risk, as changes in market interest rates can have a significant impact on reported earnings. The interest rate risk process is designed to compare income simulations in market scenarios designed to alter the direction, magnitude, and speed of interest rate changes, as well as the slope of the yield curve. These scenarios are designed to illustrate the embedded optionality in the balance sheet from, among other things, faster or slower mortgage prepayments and changes in deposit mix.

INCOME SIMULATION AND ECONOMIC VALUE ANALYSIS

Interest rate risk measurement is calculated and reported to the ALCO monthly and ROC at least quarterly. The information reported includes period-end results and identifies any policy limits exceeded, along with an assessment of the policy limit breach and the action plan and timeline for resolution, mitigation, or assumption of the risk.

Huntington uses two approaches to model interest rate risk: Interest Sensitive Earnings at Risk (ISE analysis) and Economic Value of Equity (EVE analysis). Under ISE analysis, net interest income is modeled utilizing various assumptions for assets, liabilities, and derivative positions under various interest rate scenarios over a one year time horizon. Market implied forward rates and various likely and extreme interest rate scenarios are used for ISE analysis. These likely and extreme scenarios include rapid and gradual interest rate ramps, rate shocks and yield curve twists.

The ISE analysis used in the following table reflects the analysis used monthly by management. It models gradual -25, +100 and +200 basis point parallel shifts in market interest rates over the next one-year period, beyond the interest rate change implied by the forward yield curve. Due to the current low level of short-term interest rates, the analysis reflects a declining interest rate scenario of 25 basis points, the point at which many assets and liabilities reach zero percent.

Huntington is within Board policy limits for the +100 and +200 basis point scenarios. There is no policy limit for the -25 basis point scenario. The table below shows the results of the scenario as of June 30, 2013:

**Table 24 Interest Sensitive Earnings at Risk**

| | Interest Sensitive Earnings at Risk (%) | | |
|---|---|---|---|
| Basis point change scenario | -25 | +100 | +200 |
| Board policy limits | | -2.0% | -4.0% |
| **June 30, 2013** | **-0.5** | **1.7** | **3.1** |

The ISE at risk reported at June 30, 2013, shows that Huntington is asset sensitive, meaning that earnings increase (decrease) when rates rise (fall). The primary reason for these results is that more assets (primarily LIBOR-indexed loans to customers) than liabilities (primarily non-maturity deposits) will reprice over the modeled one-year period. Compared to recent periods, the ISE results for June 30, 2013 reflect higher market rates. The primary impact of higher rates is to slow prepayments on mortgage-related assets, which extends their lives. The impact to ISE from recent higher rate movement has been minimal due to short term rates remaining relatively unchanged. This impact notwithstanding, these results are very similar to those at year-end 2012.

The following table shows the income sensitivity of selected assets and liabilities to changes in market interest rates. The table compares the ISE analysis for selected Huntington portfolios to a portfolio that assumes 100% sensitivity to changes in interest rates. We calculate the percent change in interest income/expense as the change in the base Huntington portfolio divided by the change in the 100% sensitive portfolio.

The results for the +100 and +200 basis point ramps also confirm the asset sensitive nature of the portfolio. In both the +100 and +200 basis point ramps, interest income for total loans (37.0% and 37.9%, respectively) increases faster than interest expense for interest bearing deposits (33.6% and 35.5%, respectively). Additionally, while this analysis reflects that total interest-sensitive income reprices slower than total interest-sensitive expense for both +100 and +200 basis point ramps, it does not include the impact of non-interest-sensitive items, like demand deposits and equity, that will enhance asset sensitivity. The -25 basis point parallel ramp also confirms the asset sensitive position as the interest income for total loans (-9.6%), decreases faster than the interest expense of deposits (-7.5%).

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**Table 25 Interest Income/Expense Sensitivity**

| | Percent of Total Earning Assets (1) | Percent Change in Interest Income/Expense For a Given Change in Interest Rates Over / (Under) Base Case Parallel Ramp | | |
|---|---|---|---|---|
| Basis point change scenario | | -25 | +100 | +200 |
| Total loans | 81% | -9.6% | 37.0% | 37.9% |
| Total investments and other earning assets | 19 | -3.8 | 26.1 | 18.6 |
| Total interest-sensitive income | | -8.4 | 34.5 | 34.0 |
| Total interest-bearing deposits | 64 | -7.5 | 33.6 | 35.5 |
| Total borrowings | 5 | -9.1 | 54.3 | 54.7 |
| Total interest-sensitive expense | | -7.6 | 35.3 | 36.1 |

(1) At June 30, 2013

The EVE analysis measures the market value of assets minus the market value of liabilities, and the change in this equity value as rates change. Management focuses on the -25, +100, and +200 basis point shock scenarios.

The EVE analysis used in the following table reflects the analysis used monthly by management. It models immediate -25, +100 and +200 basis point parallel shifts in market interest rates. Due to the current low level of short-term interest rates, the analysis reflects a declining interest rate scenario of 25 basis points, the point at which many assets and liabilities reach zero percent.

Huntington is within Board policy limits for the +100 and +200 basis point scenarios. There is no policy limit for the -25 basis point scenario. The table below shows the results of the scenario as of June 30, 2013:

**Table 26 Economic Value of Equity at Risk**

| | Economic Value of Equity at Risk (%) | | |
|---|---|---|---|
| Basis point change scenario | -25 | +100 | +200 |
| Board policy limits | | -5.0% | -12.0% |
| **June 30, 2013** | **0.9** | **-4.9** | **-10.6** |

The EVE at risk reported at June 30, 2013 shows that as interest rates increase (decrease) immediately, the economic value of equity position will decrease (increase) since the amount and duration of the assets are longer than the amount and duration of liabilities. When interest rates rise, fixed rate assets generally lose economic value; the longer the duration, the greater the value lost. The opposite is true when interest rates fall.

Compared to recent periods, the EVE results for June 30, 2013 reflect higher market rates. The primary impact of higher rates is to slow prepayments on mortgage-related assets, which extends their lives. As a result of this extension, and the decline in the value of fixed income securities as rates rise, these EVE results show more liability sensitivity than those at December 31, 2012.

The following table details the economic value sensitivity to changes in market interest rates at June 30, 2013 for loans, investments, deposits, and borrowings. The change in economic value for each portfolio is measured as the percent change from the base economic value for that portfolio. The analysis reflects that, in a sharply higher rate scenario, total tangible assets are more sensitive than total tangible liabilities. Investments and other earning assets contribute to this sensitivity, largely due to fixed rate securities investments.

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**Table 27 Economic Value Sensitivity**

| | Percent of Total Net Tangible Assets (1) | Percent Change in Economic Value For a Given Change in Interest Rates Over / (Under) Base Case Parallel Shocks | | |
|---|---|---|---|---|
| Basis point change scenario | | -25 | +100 | +200 |
| Total loans | 75% | 0.4% | -1.7% | -3.4% |
| Total investments and other earning assets | 17 | 0.9 | -4.0 | -8.0 |
| Total net tangible assets (2) | | 0.5 | -2.1 | -4.1 |
| Total deposits | 83 | -0.4 | 1.7 | 3.2 |
| Total borrowings | 5 | -0.1 | 0.4 | 0.8 |
| Total net tangible liabilities (3) | | -0.4 | 1.6 | 3.0 |

(1) At June 30, 2013.
(2) Tangible assets excluding ALLL.
(3) Tangible liabilities excluding AULC.

MSRs

*(This section should be read in conjunction with Note 6 of Notes to Unaudited Condensed Consolidated Financial Statements.)*

At June 30, 2013 we had a total of $155.5 million of capitalized MSRs representing the right to service $15.2 billion in mortgage loans. Of this $155.5 million, $37.5 million was recorded using the fair value method and $118.0 million was recorded using the amortization method.

MSR fair values are very 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 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 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 a decrease in mortgage banking income.

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 accrued income and other assets in the Unaudited Condensed Consolidated Financial Statements.

***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 risk is the risk of loss due to the possibility that funds may not be available to satisfy current or future commitments resulting from external macro market issues, investor and customer perception of financial strength, and events unrelated to us, such as war, terrorism, or

financial institution market specific issues. In addition, the mix and maturity structure of Huntington s balance sheet, the amount of on-hand cash and unencumbered securities, and the availability of contingent sources of funding can have an impact on Huntington s ability to satisfy current or future funding commitments. We manage liquidity risk at both the Bank and the parent company.

The overall objective of liquidity risk management is to ensure that we can obtain cost-effective funding to meet current and future obligations, and can maintain sufficient levels of on-hand liquidity, under both normal business-as-usual and unanticipated stressed circumstances. The ALCO was appointed by the ROC to oversee liquidity risk management and the establishment of liquidity risk policies and limits. Contingency funding plans are in place, which measure forecasted sources and uses of funds under various scenarios in order to prepare for unexpected liquidity shortages. Liquidity risk is reviewed monthly for the Bank and the parent company, as well as its subsidiaries. In addition, liquidity working groups meet regularly to identify and monitor liquidity positions, provide policy guidance, review funding strategies, and oversee the adherence to, and maintenance of, the contingency funding plans.

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*Investment securities portfolio*

The expected weighted average maturities of our AFS and HTM portfolios are significantly shorter than their contractual maturities as reflected in Note 4 and Note 5 of the Unaudited Notes to Condensed Consolidated Financial Statements. Particularly regarding the MBS and ABS, prepayments of principal and interest that historically occur in advance of scheduled maturities will shorten the expected life of these portfolios. The expected weighted average maturities, which take into account expected prepayments of principal and interest under existing interest rate conditions, are shown in the following table:

**Table 28 Expected life of investment securities**

| | June 30, 2013 | | | |
|---|---|---|---|---|
| | Available-for-Sale & Other Securities | | Held-to-Maturity Securities | |
| *(dollar amounts in thousands)* | Amortized Cost | Fair Value | Amortized Cost | Fair Value |
| Under 1 year | **$ 383,136** | **$ 385,591** | **$** | **$** |
| 1 - 5 years | **3,986,629** | **4,050,384** | **407,561** | **408,431** |
| 6 - 10 years | **1,791,179** | **1,758,362** | **1,548,533** | **1,540,435** |
| Over 10 years | **375,618** | **286,303** | **216,135** | **217,883** |
| Other securities | **334,568** | **335,018** | | |
| **Total** | **$ 6,871,130** | **$ 6,815,658** | **$ 2,172,229** | **$ 2,166,749** |

*Bank Liquidity and Sources of Liquidity*

Our primary sources of funding for the Bank are retail and commercial core deposits. At June 30, 2013, these core deposits funded 78% of total assets (105% of total loans). At June 30, 2013 and December 31, 2012, total core deposits represented 95% of total deposits.

Core deposits are comprised of interest-bearing and noninterest-bearing demand deposits, money market deposits, savings and other domestic deposits, consumer certificates of deposit both over and under $250,000, and nonconsumer certificates of deposit less than $250,000. Noncore deposits consist of brokered money market deposits and certificates of deposit, foreign time deposits, and other domestic deposits of $250,000 or more comprised primarily of public fund certificates of deposit greater than $250,000.

Core deposits may increase our need for liquidity as certificates of deposit mature or are withdrawn before maturity and as nonmaturity deposits, such as checking and savings account balances, are withdrawn. Noninterest-bearing demand deposits increased $0.9 billion from December 31, 2012, but include certain large commercial deposits that may be more short-term in nature.

Demand deposit overdrafts that have been reclassified as loan balances were $17.7 million and $17.2 million at June 30, 2013 and December 31, 2012, respectively. Other domestic time deposits of $250,000 or more and brokered deposits and negotiable CDs totaled $2.0 billion and $1.9 billion at June 30, 2013 and December 31, 2012, respectively.

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The following tables reflect deposit composition and short-term borrowings detail for each of the last five quarters:

**Table 29 Deposit Composition**

| | 2013 | | | | 2012 | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| *(dollar amounts in millions)* | **June 30,** | | March 31, | | December 31, | | September 30, | | June 30, | |
| By Type | | | | | | | | | | |
| Demand deposits noninterest-bearing | **$ 13,491** | **29%** | $ 12,757 | 27% | $ 12,600 | 27% | $ 12,680 | 27% | $ 12,324 | 27% |
| Demand deposits interest-bearing | **5,977** | **13** | 6,135 | 13 | 6,218 | 13 | 5,909 | 13 | 6,060 | 13 |
| Money market deposits | **15,131** | **33** | 15,165 | 32 | 14,691 | 32 | 14,926 | 32 | 13,756 | 30 |
| Savings and other domestic deposits | **5,054** | **11** | 5,174 | 11 | 5,002 | 11 | 4,949 | 11 | 4,961 | 11 |
| Core certificates of deposit | **4,353** | **9** | 5,170 | 11 | 5,516 | 12 | 5,817 | 12 | 6,508 | 14 |
| Total core deposits | **44,006** | **95** | 44,401 | 94 | 44,027 | 95 | 44,281 | 95 | 43,609 | 95 |
| Other domestic deposits of $250,000 or more | **283** | **1** | 355 | 1 | 354 | 1 | 352 | 1 | 260 | 1 |
| Brokered deposits and negotiable CDs | **1,695** | **4** | 1,807 | 4 | 1,594 | 3 | 1,795 | 4 | 1,888 | 4 |
| Deposits in foreign offices | **347** | | 304 | 1 | 278 | 1 | 313 | | 319 | |
| Total deposits | **$ 46,331** | **100%** | $ 46,867 | 100% | $ 46,253 | 100% | $ 46,741 | 100% | $ 46,076 | 100% |
| Total core deposits: | | | | | | | | | | |
| Commercial | **$ 18,922** | **43%** | $ 18,502 | 42% | $ 18,358 | 42% | $ 19,207 | 43% | $ 18,324 | 42% |
| Consumer | **25,084** | **57** | 25,899 | 58 | 25,669 | 58 | 25,074 | 57 | 25,285 | 58 |
| Total core deposits | **$ 44,006** | **100%** | $ 44,401 | 100% | $ 44,027 | 100% | $ 44,281 | 100% | $ 43,609 | 100% |

**Table 30 Federal Funds Purchased and Repurchase Agreements**

| | 2013 | | 2012 | | |
|---|---|---|---|---|---|
| *(dollar amounts in millions)* | **June 30,** | **March 31,** | December 31, | September 30, | June 30, |
| Balance at period-end | | | | | |
| Federal Funds purchased and securities sold under agreements to repurchase | **$ 627** | $ 725 | $ 576 | $ 1,249 | $ 1,191 |
| Other short-term borrowings | **3** | 8 | 14 | 11 | 15 |
| Weighted average interest rate at period-end | | | | | |
| Federal Funds purchased and securities sold under agreements to repurchase | **0.09%** | 0.09% | 0.15% | 0.14% | 0.19% |
| Other short-term borrowings | **3.63** | 2.50 | 1.98 | 1.99 | 1.57 |
| Maximum amount outstanding at month-end during the period | | | | | |
| Federal Funds purchased and securities sold under agreements to repurchase | **$ 757** | $ 781 | $ 1,166 | $ 1,464 | $ 1,286 |
| Other short-term borrowings | **10** | 9 | 26 | 16 | 26 |
| Average amount outstanding during the period | | | | | |
| Federal Funds purchased and securities sold under agreements to repurchase | **$ 693** | $ 752 | $ 996 | $ 1,315 | $ 1,365 |
| Other short-term borrowings | **9** | 10 | 16 | 15 | 26 |
| Weighted average interest rate during the period | | | | | |
| Federal Funds purchased and securities sold under agreements to repurchase | **0.08%** | 0.10% | 0.12% | 0.15% | 0.15% |
| Other short-term borrowings | **1.91** | 2.13 | 1.52 | 1.67 | 0.92 |

To the extent we are unable to obtain sufficient liquidity through core deposits, we may meet our liquidity needs through sources of wholesale funding or asset securitization or sale. Sources of wholesale funding include other domestic time deposits of $250,000 or more, brokered deposits and negotiable CDs, deposits in foreign offices, short-term borrowings, FHLB advances, other long-term debt, and subordinated notes. At June 30, 2013, total wholesale funding was $5.2 billion, unchanged from $5.2 billion at December 31, 2012.

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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, 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 the unused borrowing capacity at both the Federal Reserve Bank and the FHLB, is outlined in the following table:

**Table 31 Federal Reserve and FHLB Borrowing Capacity**

| *(dollar amounts in billions)* | **June 30, 2013** | December 31, 2012 |
|---|---|---|
| Loans and securities pledged: | | |
| Federal Reserve Bank | **$ 10.5** | $ 10.2 |
| FHLB | **8.3** | 8.2 |
| Total loans and securities pledged | **$ 18.8** | $ 18.4 |
| Total unused borrowing capacity at Federal Reserve Bank and FHLB | **$ 10.7** | $ 10.3 |

At June 30, 2013, we believe the Bank had 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 nonbank subsidiaries, repurchases of our stock, and acquisitions. The parent company obtains funding to meet obligations from interest received from the Bank, interest and 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, 2013 and December 31, 2012, the parent company had $0.9 billion, respectively, in cash and cash equivalents.

On July 18, 2013, we announced that the board of directors had declared a quarterly common stock cash dividend of $0.05 per common share. The dividend is payable on October 1, 2013, to shareholders of record on September 17, 2013. Based on the current quarterly dividend of $0.05 per common share, cash demands required for common stock dividends are estimated to be approximately $41.5 million per quarter. Based on the current dividend, cash demands required for Series A Preferred Stock are estimated to be approximately $7.7 million per quarter. Cash demands required for Series B Preferred Stock are expected to be approximately $0.3 million per quarter.

Based on a regulatory dividend limitation, the Bank could not have declared and paid a dividend to the parent company at June 30, 2013, without regulatory approval due to the deficit position of its undivided profits. We do not anticipate that the Bank will need to pay dividends in the near future as we continue to build Bank regulatory capital above its 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 items discussed above, the parent company does not have any significant cash demands. It is our policy to keep operating cash on hand at the parent company to satisfy cash demands for the next 18 months.

Basel III includes short-term liquidity (Liquidity Coverage Ratio) and long-term funding (Net Stable Funding Ratio) standards. The Liquidity Coverage Ratio, or LCR, is designed to ensure that banking organizations maintain an adequate level of cash, or assets that can readily be converted to cash, to meet potential short-term liquidity needs. The Net Stable Funding Ratio is designed to promote a stable maturity structure of assets and liabilities of banking organizations over a one-year time horizon. These requirements are subject to change by our banking regulators.

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, a loss is recognized in the provision for credit losses. At June 30, 2013, we had $457.7 million of standby letters-of-credit outstanding, of which 81% were collateralized. Included in this $457.7 million are letters-of-credit issued by the Bank that support securities that were issued by our customers and remarketed by The Huntington Investment Company, our broker-dealer subsidiary.

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 mortgage loans held for sale. At June 30, 2013 and December 31, 2012, we had commitments to sell residential real estate loans of $745.4 million and $849.8 million, respectively. These contracts mature in less than one year.

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. For example, we actively and continuously monitor cyber-attacks such as attempts related to eFraud and loss of sensitive customer data. We evaluate internal systems, processes and controls to mitigate loss from cyber-attacks and, to date, have not experienced any material losses.

To mitigate operational risks, we have established a senior management Operational Risk Committee and a senior management Legal, Regulatory, and Compliance Committee. The responsibilities of these committees, among other duties, 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 ensuring that recommendations are developed 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 our ROC, as appropriate.

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

***Representation and Warranty Reserve***

We primarily conduct our mortgage loan sale and securitization activity with FNMA and FHLMC. 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 individual loans and / or indemnify these organizations against losses due to a loan not meeting the established criteria. We have a reserve for such losses, which is included in accrued expenses and other liabilities. The reserves are estimated based on historical and expected repurchase activity, average loss rates, and current economic trends. The level of mortgage loan repurchase losses depends upon economic factors, investor demand strategies and other external conditions containing a level of uncertainty and risk that may change over the life of the underlying loans. We currently do not have sufficient information to estimate the range of reasonably possible loss related to representation and warranty exposure.

The table below reflects activity in the representations and warranties reserve:

**Table 32 Summary of Reserve for Representations and Warranties on Mortgage Loans Serviced for Others**

| | **2013** | | 2012 | | |
|---|---|---|---|---|---|
| *(dollar amounts in thousands)* | **Second** | First | Fourth | Third | Second |
| Reserve for representations and warranties, beginning of period | **$ 28,932** | $ 28,588 | $ 27,468 | $ 26,298 | $ 24,802 |
| Reserve charges | **(1,531)** | (2,470) | (3,062) | (2,833) | (2,677) |
| Provision for representations and warranties | **638** | 2,814 | 4,182 | 4,003 | 4,173 |
| Reserve for representations and warranties, end of period | **$ 28,039** | $ 28,932 | $ 28,588 | $ 27,468 | $ 26,298 |

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**Table 33 Mortgage Loan Repurchase Statistics**

| | 2013 | | 2012 | | |
|---|---|---|---|---|---|
| *(dollar amounts in thousands)* | **Second** | First | Fourth | Third | Second |
| Number of loans sold | **5,747** | 5,798 | 7,696 | 6,093 | 5,935 |
| Amount of loans sold (UPB) | **$ 921,458** | $ 846,419 | $ 1,124,286 | $ 992,310 | $ 890,592 |
| Number of loans repurchased (1) | **32** | 46 | 79 | 44 | 55 |
| Amount of loans repurchased (UPB) (1) | **$ 2,969** | $ 5,874 | $ 9,563 | $ 5,721 | $ 8,998 |
| Number of claims received | **71** | 146 | 166 | 139 | 227 |
| Successful dispute rate (2) | **45%** | 62% | 45% | 44% | 48% |
| Number of make whole payments (3) | **19** | 29 | 48 | 39 | 47 |
| Amount of make whole payments (3) | **$ 1,304** | $ 2,274 | $ 2,876 | $ 2,815 | $ 2,130 |

(1) Loans repurchased are loans that fail to meet the purchaser s terms.
(2) Successful disputes are a percent of close out requests.
(3) Make whole payments are payments to reimburse for losses on foreclosed properties.

***Foreclosure Documentation***

Compared to the high volume servicers, we service a relatively low volume of residential mortgage foreclosures. We have reviewed our residential foreclosure process. We have not found evidence of financial injury to any borrowers from any foreclosure by the Bank that should not have proceeded. We continuously review our processes and controls to ensure that our foreclosure processes are appropriate.

**Compliance Risk**

Financial institutions are subject to several laws, rules, and regulations at both the federal and state levels. These broad-based mandates include, but are not limited to, expectations relating to anti-money laundering, lending limits, client privacy, fair lending, and community reinvestment. Additionally, the volume and complexity of recent regulatory changes have increased our overall compliance risk. As such, we utilize various resources to help ensure expectations are met, including a team of compliance experts dedicated to ensuring our conformance with all applicable laws, rules, and regulations. Our colleagues receive training for several broad-based laws and regulations including, but not limited to, anti-money laundering and customer privacy. Additionally, colleagues engaged in lending activities receive training for laws and regulations related to flood disaster protection, equal credit opportunity, fair lending, and / or other courses related to the extension of credit. We set a high standard of expectation for adherence to compliance management and seek to continuously enhance our performance.

**Capital**

Both regulatory capital and shareholders equity are managed at the Bank and on a consolidated basis. We have an active program for managing capital and maintain a comprehensive process for assessing the Company s overall capital adequacy. We believe our current levels of both regulatory capital and shareholders equity are adequate.

***Regulatory Capital***

*Basel III and the Dodd-Frank Act*

On July 2, 2013, the FRB voted to adopt final Basel III Capital rules for U.S. banking organizations. The final rules establish an integrated regulatory capital framework and will implement in the United States the Basel III regulatory capital reforms from the Basel Committee on Banking Supervision and certain changes required by the Dodd-Frank Act. Under the final rule, minimum requirements will increase for both the quantity and quality of capital held by banking organizations. Consistent with the international Basel framework, the final rule includes a new minimum ratio of common equity tier 1 capital (Tier I Common) to risk-weighted assets and a common equity tier 1 capital conservation buffer of 2.5 percent of risk-weighted assets that will apply to all supervised financial institutions. The rule also raises the minimum ratio of tier 1 capital to risk-weighted assets and includes a minimum leverage ratio of 4 percent for all banking organizations. These new minimum capital ratios will become effective for us on January 1, 2015 and will be fully phased-in on January 1, 2019.

The final rule emphasizes common equity tier 1 capital, the most loss-absorbing form of capital, and implements strict eligibility criteria for regulatory capital instruments. The final rule also improves the methodology for calculating risk-weighted assets to enhance risk sensitivity. Banks and regulators use risk weighting to assign different levels of risk to different classes of assets.

We have evaluated the impact of the Basel III final rule on our regulatory capital ratios and estimate a reduction of approximately 60 basis points to our Basel I Tier I Common risk-based capital ratio based on our June 30, 2013 balance sheet composition. This estimate is based on management s current understanding, expectation, and understanding of the final U.S. Basel III rules. We anticipate that our capital ratios, on a Basel III basis, will continue to exceed the well-capitalized minimum requirements. We are evaluating options to mitigate the capital impact of the final rule prior to its effective implementation date.

*Capital Planning*

In 2012, we participated in the FRB s CapPR process and made our capital plan submission in January 2013. On March 14, 2013, we announced that the FRB had completed its review of our capital plan submission and did not object to our proposed capital actions. The planned actions included the potential repurchase of up to $227.0 million of common stock and an increase of our common per share dividend from $0.04 to $0.05 through the 2014 first quarter.

Beginning with our Capital Plan submission in January 2014, we will be subject to the FRB s CCAR process. One of the primary additional elements of CCAR will be supervisory stress tests conducted by the FRB under different hypothetical macro-economic scenarios in addition to the stress tests routinely conducted by management. After completing its review, the FRB may object or not object to our proposed capital actions, such as plans to pay or increase common stock dividends or increase common stock repurchase programs. Beginning with our January 2014 submission, we will also be subject to the OCC s Annual Stress Test at the bank-level. The OCC stipulated that it will consult closely with the FRB to provide common stress scenarios which can be used at both the depository institution and bank holding company levels.

*Capital Adequacy*

The FRB establishes capital adequacy requirements, including well-capitalized standards for the Company. The OCC establishes similar capital adequacy requirements and standards for the Bank. Regulatory capital primarily consists of Tier 1 risk-based capital and Tier 2 risk-based capital. The sum of Tier 1 risk-based capital and Tier 2 risk-based capital equals our total risk-based capital.

Risk-based capital guidelines require a minimum level of capital as a percentage of risk-weighted assets . Risk-weighted assets consist of total assets plus certain off-balance sheet and market items, subject to adjustment for predefined credit risk factors. At June 30, 2013, both the Company and the Bank were well-capitalized under applicable regulatory capital adequacy guidelines.

Tier 1 common equity, a non-GAAP financial measure, is used by banking regulators, investors and analysts to assess and compare the quality and composition of our capital with the capital of other financial services companies. We use Tier 1 common equity, along with the other capital measures, to assess and monitor our capital position. Tier 1 common equity is defined as Tier 1 capital less elements of Tier 1 capital not in the form of common equity (e.g. perpetual preferred stock, noncontrolling interests in subsidiaries, and trust preferred capital debt securities).

The following table presents risk-weighted assets and other financial data necessary to calculate certain financial ratios, including the Tier 1 common equity ratio, which we use to measure capital adequacy:

**Table 34 Capital Adequacy**

| | **2013** | | 2012 | | |
|---|---|---|---|---|---|
| *(dollar amounts in millions)* | **June 30,** | March 31, | December 31, | September 30, | June 30, |
| Consolidated capital calculations: | | | | | |
| Common shareholders equity | **$ 5,398** | $ 5,481 | $ 5,404 | $ 5,422 | $ 5,263 |
| Preferred shareholders equity | **386** | 386 | 386 | 386 | 386 |
| Total shareholders equity | **5,784** | 5,867 | 5,790 | 5,808 | 5,649 |
| Goodwill | **(444)** | (444) | (444) | (444) | (444) |
| Other intangible assets | **(114)** | (124) | (132) | (144) | (159) |
| Other intangible assets deferred tax liability (1) | **40** | 43 | 46 | 50 | 56 |
| Total tangible equity (2) | **5,266** | 5,342 | 5,260 | 5,270 | 5,102 |
| Preferred shareholders equity | **(386)** | (386) | (386) | (386) | (386) |
| Total tangible common equity (2) | **$ 4,880** | $ 4,956 | $ 4,874 | $ 4,884 | $ 4,716 |
| Total assets | **$ 56,114** | $ 56,055 | $ 56,153 | $ 56,443 | $ 56,623 |
| Goodwill | **(444)** | (444) | (444) | (444) | (444) |
| Other intangible assets | **(114)** | (124) | (132) | (144) | (159) |
| Other intangible assets deferred tax liability (1) | **40** | 43 | 46 | 50 | 56 |
| Total tangible assets (2) | **$ 55,596** | $ 55,530 | $ 55,623 | $ 55,905 | $ 56,076 |
| Tier 1 capital | **$ 5,885** | $ 5,829 | $ 5,741 | $ 5,720 | $ 5,714 |
| Preferred shareholders equity | **(386)** | (386) | (386) | (386) | (386) |
| Trust preferred securities | **(299)** | (299) | (299) | (335) | (449) |
| REIT preferred stock | **(50)** | (50) | (50) | (50) | (50) |
| Tier 1 common equity (2) | **$ 5,150** | $ 5,094 | $ 5,006 | $ 4,949 | $ 4,829 |
| Risk-weighted assets (RWA) | **$ 48,080** | $ 47,937 | $ 47,773 | $ 48,147 | $ 47,890 |
| Tier 1 common equity / RWA ratio (2) | **10.71%** | 10.62% | 10.48% | 10.28% | 10.08% |
| Tangible equity / tangible asset ratio (2) | **9.47** | 9.62 | 9.46 | 9.43 | 9.10 |
| Tangible common equity / tangible asset ratio (2) | **8.78** | 8.92 | 8.76 | 8.74 | 8.41 |
| Tangible common equity / RWA ratio (2) | **10.15** | 10.34 | 10.20 | 10.14 | 9.85 |

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

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

Our Tier 1 common equity risk-based ratio improved 23 basis points to 10.71% at June 30, 2013, compared with 10.48% at December 31, 2012. This increase primarily reflected the increase in retained earnings, partially offset by the repurchase of 14.7 million common shares and the impacts related to the payments of dividends.

The following table presents certain regulatory capital data at both the consolidated and Bank levels for each of the past five quarters:

**Table 35 Regulatory Capital Data**

| | | **2013** | | | 2012 | |
|---|---|---|---|---|---|---|
| *(dollar amounts in millions)* | | **June 30,** | March 31, | December 31, | September 30, | June 30, |
| Total risk-weighted assets | Consolidated | **$ 48,080** | $ 47,937 | $ 47,773 | $ 48,147 | $ 47,890 |
| | Bank | **48,026** | 47,842 | 47,676 | 48,033 | 47,786 |
| Tier 1 risk-based capital | Consolidated | **5,885** | 5,829 | 5,741 | 5,720 | 5,714 |
| | Bank | **5,343** | 5,162 | 5,003 | 4,818 | 4,636 |
| Tier 2 risk-based capital | Consolidated | **1,120** | 1,144 | 1,187 | 1,192 | 1,190 |
| | Bank | **819** | 947 | 1,091 | 1,196 | 1,294 |
| Total risk-based capital | Consolidated | **7,005** | 6,973 | 6,928 | 6,912 | 6,904 |
| | Bank | **6,162** | 6,109 | 6,094 | 6,014 | 5,930 |
| Tier 1 leverage ratio | Consolidated | **10.64%** | 10.57% | 10.36% | 10.29% | 10.34% |
| | Bank | **9.68** | 9.38 | 9.05 | 8.68 | 8.42 |
| Tier 1 risk-based capital ratio | Consolidated | **12.24** | 12.16 | 12.02 | 11.88 | 11.93 |
| | Bank | **11.13** | 10.79 | 10.49 | 10.03 | 9.70 |
| Total risk-based capital ratio | Consolidated | **14.57** | 14.55 | 14.50 | 14.36 | 14.42 |
| | Bank | **12.83** | 12.77 | 12.78 | 12.52 | 12.41 |

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The increase in our consolidated Tier 1 risk-based capital ratios compared with December 31, 2012, primarily reflected an increase in retained earnings, partially offset by the repurchase of 14.7 million common shares and the impacts related to the payments of dividends.

***Shareholders Equity***

We generate shareholders equity primarily through the retention of earnings, net of dividends. Other potential sources of shareholders equity include issuances of common and preferred stock. Our objective is to maintain capital at an amount commensurate with our risk profile and risk tolerance objectives, to meet both regulatory and market expectations, and to provide the flexibility needed for future growth and business opportunities. Shareholders equity totaled $5.8 billion at June 30, 2013, and was essentially unchanged when compared with December 31, 2012.

*Dividends*

We consider disciplined capital management as a key objective, with dividends representing one component. Our strong capital ratios and expectations for continued earnings growth positions us to continue to actively explore additional capital management opportunities.

On July 18, 2013, our board of directors declared a quarterly cash dividend of $0.05 per common share, payable on October 1, 2013. Also, cash dividends of $0.05 and $0.04 per common share were declared on April 17, 2013 and January 17, 2013, respectively. Our 2013 capital plan to the FRB *(see Capital Planning section above)* included quarterly common dividends of $0.05 per common share through the 2014 first quarter.

On July 18, 2013, our board of directors declared a quarterly cash dividend on our 8.50% Series A Non-Cumulative Perpetual Convertible Preferred Stock of $21.25 per share. The dividend is payable on October 15, 2013. Also, cash dividends of $21.25 per share were declared on April 17, 2013 and January 17, 2013.

On July 18, 2013, our board of directors also declared a quarterly cash dividend on our Floating Rate Series B Non-Cumulative Perpetual Preferred Stock of $7.42 per share. The dividend is payable on October 15, 2013. Also, cash dividends of $7.44 and $7.51 per share were declared on April 17, 2013 and January 17, 2013, respectively.

*Share Repurchases*

From time to time the board of directors authorizes the Company to repurchase shares of our common stock. Although we announce when the board of directors authorizes share repurchases, we typically do not give any public notice before we repurchase our shares. Future stock repurchases may be private or open-market repurchases, including block transactions, accelerated or delayed block transactions, forward transactions, and similar transactions. Various factors determine the amount and timing of our share repurchases, including our capital requirements, the number of shares we expect to issue for employee benefit plans and acquisitions, market conditions (including the trading price of our stock), and regulatory and legal considerations, including the FRB s response to our capital plan.

Our board of directors has authorized a share repurchase program consistent with our capital plan of the potential repurchase of up to $227.0 million of common stock. During the three-month period ended June 30, 2013, we repurchased 10.0 million common shares at a weighted average share price of $7.50. During the six-month period ended June 30, 2013, we repurchased 14.7 million common shares at a weighted average share price of $7.36.

**Fair Value**

***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.

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

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

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

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

At the end of each quarter, we assess the valuation hierarchy for each asset or liability measured. As necessary, 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, additional discussion regarding fair value measurements, and a brief description of how fair value is determined for categories that have unobservable inputs, can be found in Note 13 of the Notes to Unaudited Condensed Consolidated Financial Statements.

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**BUSINESS SEGMENT DISCUSSION**

**Overview**

We have four major business segments: Retail and Business Banking; Regional and Commercial Banking; Automobile Finance and Commercial Real Estate; and Wealth Advisors, Government Finance, and Home Lending. A Treasury / Other function also includes our insurance business and other unallocated assets, liabilities, revenue, and expenses. While this section reviews financial performance from a business segment perspective, it 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.

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.

***Optimal Customer Relationship (OCR)***

Our OCR initiative is a cross-business segment strategy designed to increase overall customer profitability and retention by deepening product and service penetration to consumer and commercial customers. We believe this can be accomplished by taking our broad array of services and products and delivering them through a rigorous and disciplined sales management process that is consistent across all business segments and regions. It is also supported by robust sales and referral technology.

OCR was introduced in late 2009. Through 2010, much of the effort was spent on defining processes, sales training, and systems development to fully capture and measure OCR performance metrics. In 2011, we introduced OCR-related metrics for commercial relationships, which complements the previously disclosed consumer OCR-related metrics. In 2013, we continue to experience strong consumer household and commercial relationship growth.

CONSUMER OCR PERFORMANCE

For consumer OCR performance, there are three key performance metrics: (1) the number of checking account households, (2) the number of services penetration per consumer checking account household, and (3) the revenue generated. Consumer households from all business segments are included.

The growth in consumer checking account number of households is a result of both new sales of checking accounts and improved retention of existing checking account households. The overall objective is to grow the number of households, along with an increase in product penetration.

We use the checking account since it typically represents the primary banking relationship product. We count additional products by type, not number of products. For example, a household that has one checking account and one mortgage, we count as having two services. A household with four checking accounts, we count as having one service. The household relationship utilizing four or more services is viewed to be more profitable and loyal. The overall objective, therefore, is to decrease the percentage of 1-3 services per consumer checking account household, while increasing the percentage of those with 4 or more services. Since we have made significant strides toward having the vast majority of our customer with 4+ products, this quarter we have changed our measurement to 6+ products. We are holding ourselves to a higher performance standard.

The following table presents consumer checking account household OCR metrics:

**Table 36 Consumer Checking Household OCR Cross-sell Report**

| | **2013** | | 2012 | | |
|---|---|---|---|---|---|
| | **Second** | First | Fourth | Third | Second |
| Number of households | **1,291,177** | 1,265,086 | 1,228,812 | 1,203,508 | 1,167,413 |
| Product Penetration by Number of Services (1) | | | | | |
| 1 Service | **3.3%** | 2.7% | 3.1% | 4.3% | 3.6% |

| | | | | | |
|---|---|---|---|---|---|
| 2-3 Services | **19.9** | 17.3 | 18.6 | 19.8 | 20.4 |
| 4-5 Services | **30.1** | 29.3 | 31.1 | 31.3 | 32.3 |
| 6+ Services | **46.7** | 50.7 | 47.2 | 44.6 | 43.7 |
| Total revenue *(in millions)* | **$ 239.1** | $ 239.4 | $ 251.2 | $ 246.0 | $ 249.7 |

(1) The definitions and measurements used in our OCR process are periodically reviewed and updated prospectively.

Our emphasis on cross-sell, coupled with customers increasingly being attracted by our Fair Play banking philosophy with benefits such as 24-Hour Grace® on overdrafts and Asterisk-Free Checking , are having a positive effect as the number of households increased by 5% from the end of last year. The percent of consumer households with 4-5 products at the end of the 2013 second quarter was 30.1%, down slightly from the end of last year resulting from our periodic review of consumer products and services definitions. The percent of consumer households with 6 or more products at the end of the 2013 second quarter was 46.7%, down from 50.7% at March 31, 2013 and down slightly from the end of last year. This decline was due to the updated products and services definitions. Total consumer checking account household revenue in the 2013 second quarter was $239.1 million, down less than 1%, from the 2013 first quarter, primarily related to typical seasonality and the February 2013 implementation of a new posting order for consumer transaction accounts. Total consumer checking account household revenue was down $10.6 million, or 4%, from the year-ago quarter, primarily due to the new posting order for consumer transaction accounts.

COMMERCIAL OCR PERFORMANCE

For commercial OCR performance, there are three key performance metrics: (1) the number of commercial relationships, (2) the number of services penetration per commercial relationship, and (3) the revenue generated. Commercial relationships include relationships from all business segments.

The growth in the number of commercial relationships is a result of both new sales of checking accounts and improved retention of existing commercial accounts. The overall objective is to grow the number of relationships, along with an increase in product service distribution.

The commercial relationship is defined as a business banking or commercial banking customer with a checking account relationship. We use this metric because we believe that the checking account anchors a business relationship and creates the opportunity to increase our cross-sell. Multiple sales of the same type of product are counted as one product, the same as consumer.

The following table presents commercial relationship OCR metrics:

**Table 37 Commercial Relationship OCR Cross-sell Report**

| | **2013** | | 2012 | | |
|---|---|---|---|---|---|
| | **Second** | First | Fourth | Third | Second |
| Commercial Relationships (1) | **158,010** | 155,584 | 151,083 | 149,333 | 147,190 |
| Product Penetration by Number of Services (2) | | | | | |
| 1 Service | **22.8%** | 23.7% | 24.6% | 25.9% | 26.5% |
| 2-3 Services | **40.9** | 40.2 | 40.4 | 40.6 | 40.9 |
| 4+ Services | **36.3** | 36.1 | 35.0 | 33.5 | 32.6 |
| Total revenue *(in millions)* | **$ 178.6** | $ 175.1 | $ 189.8 | $ 175.7 | $ 189.2 |

(1) Checking account required.
(2) The definitions and measurements used in our OCR process are periodically reviewed and updated prospectively.

By focusing on targeted relationships we are able to achieve higher product service distribution among our commercial relationships, but leverage these relationships to generate a deeper share of wallet. The percent of commercial relationships utilizing 4 or more products at the end of 2013 second quarter was 36.3%, up from 35.0% from the end of last year. For the first six-month period of 2013, commercial relationships grew 5%. Total commercial relationship revenue in the 2013 second quarter was $178.6 million, up $3.5 million, 2%, from the 2013 first quarter, and down $10.6 million, 6% from the year-ago quarter. This was due to lower commercial customer transaction volumes.

***Revenue Sharing***

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. Results of operations for the business segments reflect these fee sharing allocations.

***Expense Allocation***

The management accounting process that develops 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 related to product origination and servicing. These activity-based costs are then extended, based on volumes, with the resulting amount allocated to business segments that own the related products. The second phase consists of the allocation of overhead costs to all four business segments from Treasury / Other. We utilize a full-allocation methodology, where all Treasury / Other expenses, except those related to our insurance business, reported Significant Items (except for the goodwill impairment), and a small amount of other residual unallocated expenses, are allocated to the four business segments.

***Funds Transfer Pricing (FTP)***

We use an active and centralized FTP methodology to attribute appropriate net interest income to the business segments. 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 Treasury / Other function 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 denominator in the net interest margin calculation has been modified to add the amount of net funds provided by each business segment for all periods presented.

***Treasury / Other***

The Treasury / Other function includes revenue and expense related to our insurance business, and assets, liabilities, and equity not directly assigned or allocated to one of the four business segments. Other assets include investment securities and bank owned life insurance. 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 insurance income, miscellaneous fee income not allocated to other business segments, such as bank owned life insurance income and any investment security and trading asset gains or losses. Noninterest expense includes any insurance-related expenses, as well as certain corporate administrative, merger, and other miscellaneous expenses not allocated to other 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.

The $37.6 million, or 93.7%, year over year increase in net income for Treasury/Other was primarily the result of the FTP process described above; partially offset by an increase in personnel costs.

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***Net Income by Business Segment***

We reported net income of $302.4 million during the first six-month period of 2013. This compared with net income of $306.0 million during the first six-month period of 2012. The segregation of net income by business segment for the first six-month period of 2013 and 2012 is presented in the following table:

**Table 38 Net Income by Business Segment**

| *(dollar amounts in thousands)* | Six Months Ended June 30, 2013 | 2012 |
|---|---|---|
| Retail and Business Banking | **$ 38,562** | $ 58,376 |
| Regional and Commercial Banking | **66,331** | 41,832 |
| AFCRE | **84,865** | 124,753 |
| WGH | **35,051** | 40,947 |
| Treasury/Other | **77,622** | 40,068 |
| Total net income | **$ 302,431** | $ 305,976 |

***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 2013 and 2012 is presented in the following table:

**Table 39 Average Loans/Leases and Deposits by Business Segment**

| | Six Months Ended June 30, 2013 | | | | | |
|---|---|---|---|---|---|---|
| *(dollar amounts in millions)* | Retail and Business Banking | Regional and Commercial Banking | AFCRE | WGH | Treasury / Other | TOTAL |
| Average Loans/Leases | | | | | | |
| Commercial and industrial | **$ 3,414** | **$ 10,638** | **$ 2,291** | **$ 596** | **$ 55** | **$ 16,994** |
| Commercial real estate | **419** | **366** | **4,159** | **209** | | **5,153** |
| Total commercial | **3,833** | **11,004** | **6,450** | **805** | **55** | **22,147** |
| Automobile | | | **5,061** | | **(3)** | **5,058** |
| Home equity | **7,498** | **7** | **1** | **854** | **(83)** | **8,277** |
| Residential mortgage | **1,073** | **7** | | **4,091** | **(69)** | **5,102** |
| Other consumer | **286** | **4** | **58** | **24** | **116** | **488** |
| Total consumer | **8,857** | **18** | **5,120** | **4,969** | **(39)** | **18,925** |
| Total loans and leases | **$ 12,690** | **$ 11,022** | **$ 11,570** | **$ 5,774** | **$ 16** | **$ 41,072** |
| Average Deposits | | | | | | |
| Demand deposits noninterest-bearing | **$ 5,230** | **$ 3,219** | **$ 554** | **$ 3,230** | **$ 291** | **$ 12,524** |
| Demand deposits interest-bearing | **4,761** | **92** | **50** | **1,042** | **7** | **5,952** |
| Money market deposits | **8,332** | **2,022** | **252** | **4,442** | **9** | **15,057** |
| Savings and other domestic deposits | **4,923** | **15** | **12** | **150** | **(1)** | **5,099** |
| Core certificates of deposit | **4,956** | **22** | **2** | **75** | **5** | **5,060** |
| Total core deposits | **28,202** | **5,370** | **870** | **8,939** | **311** | **43,692** |

| | | | | | | |
|---|---|---|---|---|---|---|
| Other deposits | **135** | **216** | **68** | **832** | **1,157** | **2,408** |
| Total deposits | **$ 28,337** | **$ 5,586** | **$ 938** | **$ 9,771** | **$ 1,468** | **$ 46,100** |

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| *(dollar amounts in millions)* | Six months ended June 30, 2012 | | | | | |
|---|---|---|---|---|---|---|
| | Retail and Business Banking | Regional and Commercial Banking | AFCRE | WGH | Treasury / Other | TOTAL |
| Average Loans/Leases | | | | | | |
| Commercial and industrial | $ 3,272 | $ 9,315 | $ 2,005 | $ 781 | $ 85 | $ 15,458 |
| Commercial real estate | 613 | 388 | 4,800 | 168 | (5) | 5,964 |
| Total commercial | 3,885 | 9,703 | 6,805 | 949 | 80 | 21,422 |
| Automobile | | | 4,780 | | 1 | 4,781 |
| Home equity | 7,420 | 25 | 1 | 814 | 12 | 8,272 |
| Residential mortgage | 1,039 | 8 | | 4,162 | 5 | 5,214 |
| Other consumer | 362 | 5 | 94 | 40 | (28) | 473 |
| Total consumer | 8,821 | 38 | 4,875 | 5,016 | (10) | 18,740 |
| Total loans and leases | $ 12,706 | $ 9,741 | $ 11,680 | $ 5,965 | $ 70 | $ 40,162 |
| Average Deposits | | | | | | |
| Demand deposits noninterest-bearing | $ 4,538 | $ 2,735 | $ 474 | $ 3,698 | $ 223 | $ 11,668 |
| Demand deposits interest-bearing | 4,616 | 99 | 49 | 1,023 | 5 | 5,792 |
| Money market deposits | 7,405 | 1,613 | 236 | 3,907 | 1 | 13,162 |
| Savings and other domestic deposits | 4,716 | 14 | 16 | 154 | (2) | 4,898 |
| Core certificates of deposit | 6,419 | 25 | 2 | 111 | 7 | 6,564 |
| Total core deposits | 27,694 | 4,486 | 777 | 8,893 | 234 | 42,084 |
| Other deposits | 172 | 237 | 57 | 726 | 885 | 2,077 |
| Total deposits | $ 27,866 | $ 4,723 | $ 834 | $ 9,619 | $ 1,119 | $ 44,161 |

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**Retail and Business Banking**

**Table 40 Key Performance Indicators for Retail and Business Banking**

| *(dollar amounts in thousands unless otherwise noted)* | Six Months Ended June 30, **2013** | 2012 | Change Amount | Percent |
|---|---|---|---|---|
| Net interest income | **$ 409,809** | $ 442,946 | $ (33,137) | (7)% |
| Provision for credit losses | **58,017** | 64,886 | (6,869) | (11) |
| Noninterest income | **184,578** | 186,995 | (2,417) | (1) |
| Noninterest expense | **477,044** | 475,246 | 1,798 | |
| Provision for income taxes | **20,764** | 31,433 | (10,669) | (34) |
| Net income | **$ 38,562** | $ 58,376 | $ (19,814) | (34)% |
| Number of employees (full-time equivalent) | **5,311** | 5,572 | (261) | (5)% |
| Total average assets *(in millions)* | **$ 14,411** | $ 14,259 | $ 152 | 1 |
| Total average loans/leases *(in millions)* | **12,690** | 12,706 | (16) | |
| Total average deposits *(in millions)* | **28,337** | 27,866 | 471 | 2 |
| Net interest margin | **2.94%** | 3.20% | (0.26)% | (8) |
| NCOs | **$ 61,583** | $ 76,139 | $ (14,556) | (19) |
| NCOs as a % of average loans and leases | **0.97%** | 1.20% | (0.23)% | (19) |
| Return on average common equity | **5.5** | 8.3 | (2.8) | (34) |

***2013 First Six Months vs. 2012 First Six Months***

Retail and Business Banking reported net income of $38.6 million in the first six-month period of 2013. This was a decrease of $19.8 million, or 34%, when compared to the year-ago period. The decrease in net income reflected a combination of factors described below.

**The decrease in net interest income from the year-ago period reflected:**

- 26 basis points decrease in the net interest margin. This decrease was mainly due to a 29 basis point decrease in deposit spreads that resulted from a reduction in the funds transfer prices rates assigned to those deposits.

Partially offset by:

- $0.5 billion, or 2%, increase in total average deposits.
- 7 basis points increase in loan spreads, driven by a reduction in funds transfer price assigned to loans.

**The decrease in total average loans and leases from the year-ago period reflected:**

- $52 million, or 1.3%, decrease in the commercial portfolio, which was primarily driven by increased payoff activity from the acquired Fidelity portfolio.

Partially offset by:

$36 million, or 0.4%, increase in consumer loans which reflected growth in residential mortgages and consumer first-lien refinance loans.

**The increase in total average deposits from the year-ago period reflected:**

$0.9 billion, or 13%, increase in money market deposits.

$0.8 billion, or 9%, increase in demand deposits.

Partially offset by:

- $1.5 billion, or 23%, decrease in core certificate of deposits, which reflected continued focus on product mix in reducing the overall cost of deposits.

**The decrease in the provision for credit losses from the year-ago period reflected:**

- A continued improvement in the credit quality of the portfolio, as evidenced by a 23 basis point reduction in NCOs and a $5 million decline in NALs.

**The decrease in noninterest income from the year-ago period reflected:**

- $7.7 million decline related to miscellaneous other fee income items, primarily due to the change in posting order.
- $2.1 million, or 26%, decrease in gain on sale of loans.
- $1.6 million, or 33%, decrease in SBA servicing fees.

Partially offset by:

- $4.9 million, or 13%, increase in electronic banking income, due to strong consumer household growth combined with a 16% increase in consumer debit card spending.
- $4.7 million, or 5%, increase in deposit service charge income due to strong household and account growth.

**The increase in noninterest expense from the year-ago period reflected:**

- $12.6 million increase in expenses related to expansion of our Giant Eagle and Meijer in-stores branch network.

Partially offset by:

- $10.5 million, or 6%, decrease in expenses related to our traditional branches.

**Regional and Commercial Banking**

**Table 41 Key Performance Indicators for Regional and Commercial Banking**

| | Six Months Ended June 30, | | Change | |
|---|---|---|---|---|
| *(dollar amounts in thousands unless otherwise noted)* | **2013** | 2012 | Amount | Percent |
| Net interest income | **$ 137,344** | $ 132,121 | $ 5,223 | 4% |
| Provision (reduction in allowance) for credit losses | **(7,627)** | 37,609 | (45,236) | (120) |
| Noninterest income | **64,231** | 67,403 | (3,172) | (5) |
| Noninterest expense | **107,154** | 97,558 | 9,596 | 10 |
| Provision for income taxes | **35,717** | 22,525 | 13,192 | 59 |
| Net income | **$ 66,331** | $ 41,832 | $ 24,499 | 59% |
| Number of employees (full-time equivalent) | **746** | 687 | 59 | 9% |
| Total average assets *(in millions)* | **$ 11,837** | $ 10,630 | $ 1,207 | 11 |
| Total average loans/leases *(in millions)* | **11,022** | 9,741 | 1,281 | 13 |
| Total average deposits *(in millions)* | **5,586** | 4,723 | 863 | 18 |
| Net interest margin | **2.62%** | 2.81% | (0.19)% | (7) |
| NCOs | **$ (3,144)** | $ 19,086 | $ (22,230) | (116) |
| NCOs as a % of average loans and leases | **(0.06)%** | 0.39 % | (0.45)% | (115) |
| Return on average common equity | **13.3** | 9.9 | 3.4 | 34 |

***2013 First Six Months vs. 2012 First Six Months***

Regional and Commercial Banking reported net income of $66.3 million in the first six-month period of 2013. This was an increase of $24.5 million, or 59%, compared to the year-ago period. The increase in net income reflected a combination of factors described below.

**The increase in net interest income from the year-ago period reflected:**

- $1.3 billion, or 13%, increase in total average loans and leases.
- $0.9 billion, or 18%, increase in average total deposits.

Partially offset by:

- 19 basis point decrease in the net interest margin due to compressed deposit margins resulting from declining rates and reduced FTP rates, partially offset by a small increase on the commercial loan spread.

**The increase in total average loans and leases from the year-ago period reflected:**

- $0.5 billion, or 27%, increase in the equipment finance portfolio average balance, which reflected our focus on developing vertical strategies in business aircraft, rail industry, lender finance, and syndications.
- $0.4 billion, or 37%, increase in the healthcare portfolio average balance due to strategic focus on the banking needs of the healthcare industry, specifically targeting alternate site real estate, seniors real estate, medical technology, community hospitals, metro hospitals, and health care services.

$0.3 billion, or 6%, increase in the general middle market portfolio average balance primarily in our major metro markets overcoming a $0.3 billion or 8% reduction in the funded balances of lines of credit due to a reduction in the average utilization rate.

$0.2 billion, or 10%, increase in the large corporate portfolio average balance due to establishing relationships with targeted prospects within our footprint.

Partially offset by:

- $0.2 billion, or 42%, decrease in commercial loans managed by SAD, which reflected improved credit quality in the portfolio.

**The increase in total average deposits from the year-ago period reflected:**

- $0.9 billion, or 20%, increase in core deposits, which primarily reflected a $0.5 billion increase in noninterest-bearing demand deposits. Regional and Commercial Banking initiated a strategic focus to gain a deeper share of wallet with certain key relationships. This focus was specifically targeted to liquidity solutions for these customers and resulted in significant deposit growth. Middle market accounts, such as not-for-profit universities and healthcare, contributed $0.7 billion of the balance growth, while large corporate accounts contributed $0.2 billion.

**The decrease in the provision for credit losses from the year-ago period reflected:**

- A continued improvement in the credit quality of the portfolio, as evidenced by a 45 basis point reduction in NCOs and a $42 million decline in NALs.

**The decrease in noninterest income from the year-ago period reflected:**

- $2.2 million, or 10%, decrease in capital markets related income attributed to a $3.4 million, or 30%, decrease in sales of customer interest rate protection products, partially offset by a $0.8 million or 17% increase in foreign exchange revenue and a $0.2 million or 3% increase in institutional brokerage income.
- $2.4 million, or 12%, decrease in deposit service charge income and other Treasury Management related revenue reflecting the impact of earnings credits by our customers.
- $1.4 million, or 48%, decrease in syndications revenue attributed to a lengthening of the sales cycle.

Partially offset by:

- $2.8 million increase related to miscellaneous other fee income items.

**The increase in noninterest expense from the year-ago period reflected:**

- $8.0 million, or 16%, increase in personnel costs, primarily reflecting a 9% increase in FTE. This increase in personnel is attributable to our strategic investments in our core footprint markets, vertical strategies, and product capabilities.
- $2.9 million, or 26%, increase in allocated overhead.
- $1.6 million, or 40%, increase in outside data processing and other services, primarily attributed to Treasury Management products and services, such as the new Commercial Card product implemented in 2013.

Partially offset by:

$1.9 million, or 31%, decrease in credit quality related expenses reflecting the continued improvement in the commercial loan portfolio as evidenced by a 42% reduction in the average balance of the SAD portfolio compared to the year ago period.

$1.0 million decrease related to miscellaneous other expense items, stemming from improved credit quality in the commercial loan portfolio.

**Automobile Finance and Commercial Real Estate**

**Table 42 Key Performance Indicators for Automobile Finance and Commercial Real Estate**

| *(dollar amounts in thousands unless otherwise noted)* | Six Months Ended June 30, **2013** | 2012 | Change Amount | Percent |
|---|---|---|---|---|
| Net interest income | **$ 175,731** | $ 177,192 | $ (1,461) | (1)% |
| Provision (reduction in allowance) for credit losses | **(12,802)** | (47,082) | (34,280) | (73) |
| Noninterest income | **16,246** | 45,018 | (28,772) | (64) |
| Noninterest expense | **74,217** | 77,365 | (3,148) | (4) |
| Provision for income taxes | **45,697** | 67,174 | (21,477) | (32) |
| Net income | **$ 84,865** | $ 124,753 | $ (39,888) | (32)% |
| Number of employees (full-time equivalent) | **271** | 271 | | % |
| Total average assets *(in millions)* | **$ 12,269** | $ 12,482 | $ (213) | (2) |
| Total average loans/leases *(in millions)* | **11,570** | 11,680 | (110) | (1) |
| Total average deposits *(in millions)* | **939** | 834 | 105 | 13 |
| Net interest margin | **2.87%** | 2.82% | 0.05% | 2 |
| NCOs | **$ 16,261** | $ 52,637 | $ (36,376) | (69) |
| NCOs as a % of average loans and leases | **0.28%** | 0.90% | (0.62)% | (69) |
| Return on average common equity | **31.6** | 41.6 | (10.0) | (24) |

***2013 First Six Months vs. 2012 First Six Months***

AFCRE reported net income of $84.9 million in the first six-month period of 2013. This was a decrease of $39.9 million, or 32%, compared to the year-ago period. The decrease in net income reflected a combination of factors described below.

**The decrease in net interest income from the year ago period reflected:**

$0.1 billion, or 1%, decrease in average loans reflecting a $0.6 billion, or 13%, decrease in commercial real estate loans offset by a $0.3 billion, or 6%, increase in indirect automobile loans and a $0.3 billion, or 21%, increase in automobile floor plan loans.

$0.2 billion, or 40%, decrease in average loans held for sale related to automobile loan securitization activities.

Partially offset by:

5 basis point increase in the net interest margin. This increase primarily reflected purchase accounting adjustments related to certain acquired commercial and commercial real estate loan portfolios, as well as the continuation of our risk-based pricing strategies in the CRE portfolio and maintaining our pricing discipline on indirect auto loan originations.

**The reduction in allowance for credit losses from the year-ago period reflected:**

A reduction in the levels of reserve releases associated with declines in non-performing loans. During the first six month period of 2013, NALs declined by $127 million.

**The decrease in noninterest income from the year-ago period reflected:**

$23.0 million, or 100%, decrease in gain on sale of loans resulting from the $23.0 million gain on securitization and sale of $1.3 billion of indirect auto loans in the 2012 first quarter.

$5.0 million, or 75%, decrease in operating lease income resulting from the continued runoff of that portfolio, as we exited that business at the end of 2008.

**The decrease in noninterest expense from the year-ago period reflected:**

$3.8 million, or 76%, decrease in operating lease expense resulting from the continued runoff of that portfolio.

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**Wealth Advisors, Government Finance, and Home Lending**

**Table 43 Key Performance Indicators for Wealth Advisors, Government Finance, and Home Lending**

| | Six Months Ended June 30, | | Change | |
|---|---|---|---|---|
| *(dollar amounts in thousands unless otherwise noted)* | **2013** | 2012 | Amount | Percent |
| Net interest income | **$ 86,299** | $ 95,215 | $ (8,916) | (9)% |
| Provision for credit losses | **16,726** | 15,512 | 1,214 | 8 |
| Noninterest income | **170,705** | 168,231 | 2,474 | 1 |
| Noninterest expense | **186,353** | 184,939 | 1,414 | 1 |
| Provision for income taxes | **18,874** | 22,048 | (3,174) | (14) |
| Net income | **$ 35,051** | $ 40,947 | $ (5,896) | (14)% |
| Number of employees (full-time equivalent) | **2,164** | 2,042 | 122 | 6% |
| Total average assets *(in millions)* | **$ 7,434** | $ 7,547 | $ (113) | (1) |
| Total average loans/leases *(in millions)* | **5,774** | 5,965 | (191) | (3) |
| Total average deposits *(in millions)* | **9,771** | 9,619 | 152 | 2 |
| Net interest margin | **1.75%** | 1.88% | (0.13)% | (7) |
| NCOs | **$ 14,618** | $ 23,335 | $ (8,717) | (37) |
| NCOs as a % of average loans and leases | **0.51%** | 0.78% | (0.27)% | (35) |
| Return on average common equity | **9.8** | 11.0 | (1.2) | (11) |
| Mortgage banking origination volume (in millions) | **$ 2,401** | $ 2,448 | $ (47) | (2) |
| Noninterest income shared with other business segments[(1)] | **20,669** | 24,400 | (3,731) | (15) |
| Total assets under management *(in billions) eop* | **16.8** | 15.0 | 1.8 | 12 |
| Total trust assets *(in billions) eop* | **78.4** | 63.5 | 14.9 | 23 |

(1) Amount is not included in noninterest income reported above.
eop End of Period.

***2013 First Six Months vs. 2012 First Six Months***

WGH reported net income of $35.1 million in the first six-month period of 2013. This was an decrease of $5.9 million, or 14%, when compared to the year-ago period. The decrease in net income reflected a combination of factors described below.

**The decrease in net interest income from the year-ago period reflected:**

13 basis point decrease in the net interest margin, primarily due to compressed deposit margins resulting from declining rates and reduced FTP rates.

$0.2 billion, or 3%, decrease in average total loans and leases.

Partially offset by:

$0.2 billion, or 2%, increase in average total deposits.

**The increase in provision for credit losses reflected:**

- $7.7 million, or 108% increase in total delinquencies.

- $4.9 million, or 122% increase in classified assets, which includes a small number of large balance loans.

Partially offset by:

- $8.7 million, or 37% decline in NCOs.

**The increase in noninterest income from the year-ago period reflected:**

- $4.7 million, or 71%, increase in other income, primarily due to a gain on sale of certain Low Income Housing Tax Credit investments.

- $1.6 million, or 7%, increase in brokerage income.

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Partially offset by:

- $5.1 million, or 7%, decrease in mortgage banking income due to a higher percentage of mortgages retained on the balance sheet and the narrower spread on production.

**The increase in noninterest expense from the year-ago period reflected:**

- $3.3 million, or 3%, increase in personnel costs, which reflected higher sales commissions.
- $0.8 million, or 2%, increase in other expenses, primarily due to loan system conversion costs and an increase in allocated overhead expense.

Partially offset by:

- $1.3 million, or 8%, decrease in outside data processing and other services expense.

## 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. Forward-looking statements may be identified by words such as expect, anticipate, believe, intend, estimate, plan, target, goal, or similar expressions, or future or conditional verbs such as will, may, might, should, would, could, or similar variations. The forward-looking statements are intended to be subject to the safe harbor provided by Section 27A of the Securities Act of 1933, Section 21E of the Securities Exchange Act of 1934, and the Private Securities Litigation Reform Act of 1995.

While there is no assurance that any list of risks and uncertainties or risk factors is complete, below are certain factors which could cause actual results to differ materially from those contained or implied in the forward-looking statements: (1) worsening of credit quality performance due to a number of factors such as the underlying value of collateral that could prove less valuable than otherwise assumed and assumed cash flows may be worse than expected; (2) changes in economic conditions, including impacts from the implementation of the Budget Control Act of 2011, the American Taxpayer Relief Act of 2012, the Consolidated and Further Continuing Appropriations Act of 2013, as well as the continuing economic uncertainty in the US, the European Union, and other areas; (3) movements in interest rates; (4) competitive pressures on product pricing and services; (5) success, impact, and timing of our business strategies, including market acceptance of any new products or services implementing our Fair Play banking philosophy; (6) changes in accounting policies and principles and the accuracy of our assumptions and estimates used to prepare our financial statements; (7) extended disruption of vital infrastructure; (8) the final outcome of significant litigation; (9) the nature, extent, timing, and results of governmental actions, examinations, reviews, reforms, regulations, and interpretations, including those related to the Dodd-Frank Wall Street Reform and Consumer Protection Act and the Basel III regulatory capital reforms, as well as those involving the OCC, Federal Reserve, and CFPB; and (10) the outcome of judicial and regulatory decisions regarding practices in the residential mortgage industry, including among other things the processes followed for foreclosing residential mortgages. Additional factors that could cause results to differ materially from those described above can be found in our 2012 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.

### Non-Regulatory Capital Ratios

In addition to capital ratios defined by banking regulators, the Company considers various other measures when evaluating capital utilization and adequacy, including:

- Tangible common equity to tangible assets,
- Tier 1 common equity to risk-weighted assets using Basel I and proposed Basel III definitions, and
- Tangible common equity to risk-weighted assets using Basel I definition.

These non-regulatory capital ratios are viewed by management as useful additional methods of reflecting the level of capital available to withstand unexpected market conditions. Additionally, presentation of these ratios allows readers to compare the Company s capitalization to other financial services companies. These ratios differ from capital ratios defined by banking regulators principally in that the numerator excludes preferred securities, the nature and extent of which varies among different financial services companies. These ratios are not defined in Generally Accepted Accounting Principles ( GAAP ) or federal banking regulations. As a result, these non-regulatory capital ratios disclosed by the Company may be considered non-GAAP financial measures.

Because there are no standardized definitions for these non-regulatory capital ratios, the Company s calculation methods may differ from those used by other financial services companies. Also, there may be limits in the usefulness of these measures to investors. As a result, the Company encourages readers to consider the consolidated financial statements and other financial information contained in this Form 10-Q in their entirety, and not to rely on any single financial measure. Basel III Tier 1 common capital ratio estimates are based on management s current interpretation, expectations, and understanding of the final U.S. Basel III rules adopted by the Federal Reserve Board and released on July 2, 2013.

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**Risk Factors**

Information on risk is discussed in the Risk Factors section included in Item 1A of our 2012 Form 10-K. Additional information regarding risk factors can also be found in the Risk Management and Capital discussion of this report.

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

Our financial statements are prepared in accordance with 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 Notes to Consolidated Financial Statements included in our 2012 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, income taxes and deferred tax assets, and fair value measurements of investment securities, goodwill, pension, and other real estate owned. These significant accounting estimates and their related application are discussed in our 2012 Form 10-K.

**Recent Accounting Pronouncements and Developments**

Note 2 to the Unaudited Condensed Consolidated Financial Statements discusses new accounting pronouncements adopted during 2013 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 Unaudited Condensed Consolidated Financial Statements.

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**Item 1: Financial Statements**

**Huntington Bancshares Incorporated**

**Condensed Consolidated Balance Sheets**

***(Unaudited)***

| *(dollar amounts in thousands, except number of shares)* | **2013 June 30,** | 2012 December 31, |
|---|---|---|
| **Assets** | | |
| Cash and due from banks | **$ 993,906** | $ 1,262,806 |
| Interest-bearing deposits in banks | **76,715** | 70,921 |
| Trading account securities | **80,927** | 91,205 |
| Loans held for sale (includes $418,386 and $452,949 respectively, measured at fair value) (1) | **458,275** | 764,309 |
| Available-for-sale and other securities | **6,815,658** | 7,566,175 |
| Held-to-maturity securities | **2,172,229** | 1,743,876 |
| Loans and leases (includes $91,140 and $142,762 respectively, measured at fair value) (2) | **41,739,847** | 40,728,425 |
| Allowance for loan and lease losses | **(733,076)** | (769,075) |
| Net loans and leases | **41,006,771** | 39,959,350 |
| Bank owned life insurance | **1,620,604** | 1,596,056 |
| Premises and equipment | **626,745** | 617,257 |
| Goodwill | **444,268** | 444,268 |
| Other intangible assets | **113,874** | 132,157 |
| Accrued income and other assets | **1,703,715** | 1,904,805 |
| **Total assets** | **$ 56,113,687** | $ 56,153,185 |
| **Liabilities and shareholders equity** | | |
| **Liabilities** | | |
| Deposits | **$ 46,331,434** | $ 46,252,683 |
| Short-term borrowings | **630,405** | 589,814 |
| Federal Home Loan Bank advances | **983,420** | 1,008,959 |
| Other long-term debt | **155,126** | 158,784 |
| Subordinated notes | **1,114,368** | 1,197,091 |
| Accrued expenses and other liabilities | **1,115,419** | 1,155,643 |
| **Total liabilities** | **50,330,172** | 50,362,974 |
| **Shareholders equity** | | |
| Preferred stock authorized 6,617,808 shares: | | |
| Series A, 8.50% fixed rate, non-cumulative perpetual convertible preferred stock, par value of $0.01, and liquidation value per share of $1,000 | **362,507** | 362,507 |
| Series B, floating rate, non-voting, non-cumulative perpetual preferred stock, par value of $0.01, and liquidation value per share of $1,000 | **23,785** | 23,785 |
| Common stock | **8,310** | 8,441 |
| Capital surplus | **7,390,041** | 7,475,149 |
| Less treasury shares, at cost | **(10,719)** | (10,921) |
| Accumulated other comprehensive loss | **(283,736)** | (150,817) |
| Retained (deficit) earnings | **(1,706,673)** | (1,917,933) |
| **Total shareholders equity** | **5,783,515** | 5,790,211 |

| | | |
|---|---|---|
| **Total liabilities and shareholders equity** | **$ 56,113,687** | $ 56,153,185 |
| | | |
| Common shares authorized (par value of $0.01) | **1,500,000,000** | 1,500,000,000 |
| Common shares issued | **831,030,258** | 844,105,349 |
| Common shares outstanding | **829,674,914** | 842,812,709 |
| Treasury shares outstanding | **1,355,344** | 1,292,640 |
| Preferred shares issued | **1,967,071** | 1,967,071 |
| Preferred shares outstanding | **398,007** | 398,007 |

*(1) Amounts represent loans for which Huntington has elected the fair value option.*
*(2) Amounts represent certain assets of a consolidated VIE for which Huntington has elected the fair value option.*
*See Notes to Unaudited Condensed Consolidated Financial Statements*

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**Huntington Bancshares Incorporated**

**Condensed Consolidated Statements of Income**

***(Unaudited)***

| *(dollar amounts in thousands, except per share amounts)* | **Three Months Ended June 30,** | | **Six Months Ended June 30,** | |
|---|---|---|---|---|
| | **2013** | 2012 | **2013** | 2012 |
| Interest and fee income: | | | | |
| Loans and leases | **$ 405,445** | $ 428,859 | **$ 812,324** | $ 840,907 |
| Available-for-sale and other securities | | | | |
| Taxable | **38,539** | 48,244 | **78,724** | 97,068 |
| Tax-exempt | **2,760** | 2,124 | **5,375** | 4,323 |
| Held-to-maturity securities taxable | **9,778** | 4,538 | **19,616** | 9,252 |
| Other | **6,060** | 3,779 | **11,862** | 15,931 |
| Total interest income | **462,582** | 487,544 | **927,901** | 967,481 |
| Interest expense: | | | | |
| Deposits | **29,591** | 41,790 | **61,626** | 85,570 |
| Short-term borrowings | **179** | 558 | **413** | 1,141 |
| Federal Home Loan Bank advances | **273** | 333 | **574** | 555 |
| Subordinated notes and other long-term debt | **7,602** | 15,901 | **16,181** | 34,044 |
| Total interest expense | **37,645** | 58,582 | **78,794** | 121,310 |
| Net interest income | **424,937** | 428,962 | **849,107** | 846,171 |
| Provision for credit losses | **24,722** | 36,520 | **54,314** | 70,926 |
| Net interest income after provision for credit losses | **400,215** | 392,442 | **794,793** | 775,245 |
| Service charges on deposit accounts | **68,009** | 65,998 | **128,892** | 126,290 |
| Mortgage banking | **33,659** | 38,349 | **78,907** | 84,767 |
| Trust services | **30,666** | 29,914 | **61,826** | 60,820 |
| Electronic banking | **23,345** | 20,514 | **44,058** | 39,144 |
| Brokerage | **19,546** | 19,025 | **37,541** | 38,285 |
| Insurance | **17,187** | 17,384 | **36,439** | 36,259 |
| Gain on sale of loans | **3,348** | 4,131 | **5,964** | 30,901 |
| Bank owned life insurance income | **15,421** | 13,967 | **28,863** | 27,904 |
| Capital markets fees | **12,229** | 13,260 | **20,063** | 23,056 |
| Net gains on sales of securities | **610** | 603 | **797** | 1,227 |
| Impairment losses recognized in earnings on available-for-sale securities | **(1,020)** | (253) | **(1,716)** | (1,490) |
| Other noninterest income | **25,655** | 30,927 | **59,230** | 71,976 |
| Total noninterest income | **248,655** | 253,819 | **500,864** | 539,139 |
| Personnel costs | **263,862** | 243,034 | **522,757** | 486,532 |
| Outside data processing and other services | **49,898** | 48,568 | **99,163** | 91,160 |
| Net occupancy | **27,656** | 25,474 | **57,770** | 54,553 |
| Equipment | **24,947** | 24,872 | **49,827** | 50,417 |
| Deposit and other insurance expense | **13,460** | 15,731 | **28,950** | 36,469 |
| Professional services | **9,341** | 15,037 | **16,533** | 25,734 |
| Marketing | **14,239** | 17,396 | **25,210** | 30,965 |

| | | | | |
|---|---|---|---|---|
| Amortization of intangibles | **10,362** | 11,940 | **20,682** | 23,471 |
| OREO and foreclosure expense | **(271)** | 4,106 | **2,395** | 9,056 |
| Loss (Gain) on extinguishment of debt | | (2,580) | | (2,580) |
| Other noninterest expense | **32,371** | 40,691 | **65,371** | 101,168 |
| Total noninterest expense | **445,865** | 444,269 | **888,658** | 906,945 |
| Income before income taxes | **203,005** | 201,992 | **406,999** | 407,439 |
| Provision for income taxes | **52,354** | 49,286 | **104,568** | 101,463 |
| Net income | **150,651** | 152,706 | **302,431** | 305,976 |
| Dividends on preferred shares | **7,967** | 7,984 | **15,937** | 16,033 |
| Net income applicable to common shares | **$ 142,684** | $ 144,722 | **$ 286,494** | $ 289,943 |
| Average common shares basic | **834,730** | 862,261 | **837,917** | 863,380 |
| Average common shares diluted | **843,840** | 867,551 | **846,274** | 868,357 |
| Per common share: | | | | |
| Net income basic | **$ 0.17** | $ 0.17 | **$ 0.34** | $ 0.34 |
| Net income diluted | **0.17** | 0.17 | **0.34** | 0.33 |
| Cash dividends declared | **0.05** | 0.04 | **0.09** | 0.08 |
| OTTI losses for the periods presented: | | | | |
| Total OTTI losses | **$ (1,020)** | $ (2,245) | **$ (1,716)** | $ (1,721) |
| Noncredit-related portion of loss recognized in OCI | | 1,992 | | 231 |
| Impairment losses recognized in earnings on available-for-sale securities | **$ (1,020)** | $ (253) | **$ (1,716)** | $ (1,490) |

*See Notes to Unaudited Condensed Consolidated Financial Statements*

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**Huntington Bancshares Incorporated**

**Condensed Consolidated Statements of Comprehensive Income**

***(Unaudited)***

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| *(dollar amounts in thousands)* | **2013** | 2012 | **2013** | 2012 |
| Net income | **$ 150,651** | $ 152,706 | **$ 302,431** | $ 305,976 |
| Other comprehensive income, net of tax: | | | | |
| Unrealized gains on available-for-sale and other securities: | | | | |
| Non-credit-related impairment recoveries (losses) on debt securities not expected to be sold | **3,945** | (463) | **7,754** | 4,064 |
| Unrealized net gains (losses) on available-for-sale and other securities arising during the period, net of reclassification for net realized gains | **(76,664)** | 2,716 | **(81,989)** | 20,562 |
| Total unrealized gains (losses) on available-for-sale and other securities | **(72,719)** | 2,253 | **(74,235)** | 24,626 |
| Unrealized gains (losses) on cash flow hedging derivatives | **(56,410)** | 16,343 | **(69,380)** | 6,674 |
| Change in accumulated unrealized losses for pension and other post-retirement obligations | **5,348** | 3,243 | **10,696** | 6,486 |
| Other comprehensive income (loss) | **(123,781)** | 21,839 | **(132,919)** | 37,786 |
| Comprehensive income | **$ 26,870** | $ 174,545 | **$ 169,512** | $ 343,762 |

*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 | | | | | | | Other | Retained | |
| *(All amounts in thousands,* | Series A | | Floating Rate | | Common Stock | | Capital | Treasury Stock | | Comprehensive | Earnings | |
| *except for per share amounts)* | Shares | Amount | Shares | Amount | Shares | Amount | Surplus | Shares | Amount | Loss | (Deficit) | Total |
| Six Months Ended June 30, 2012 | | | | | | | | | | | | |
| Balance, beginning of period | 363 | $ 362,507 | 35 | $ 23,785 | 865,585 | $ 8,656 | $ 7,596,809 | (1,178) | $ (10,255) | $ (173,763) | $ (2,389,639) | $ 5,418,100 |
| Net income | | | | | | | | | | | 305,976 | 305,976 |
| Other comprehensive income (loss) | | | | | | | | | | 37,786 | | 37,786 |
| Repurchase of common stock | | | | | (6,426) | (64) | (40,166) | | | | | (40,230) |
| Cash dividends declared: | | | | | | | | | | | | |
| Common ($0.08 per share) | | | | | | | | | | | (68,923) | (68,923) |
| Preferred Series A ($42.50 per share) | | | | | | | | | | | (15,407) | (15,407) |
| Preferred Series B ($17.64 per share) | | | | | | | | | | | (626) | (626) |
| Recognition of the fair value of share-based compensation | | | | | | | 12,820 | | | | | 12,820 |
| Other share-based compensation activity | | | | | 438 | 4 | 13 | | | | (41) | (24) |
| Other | | | | | | | 5 | (18) | (138) | | (108) | (241) |
| Balance, end of period | 363 | $ 362,507 | 35 | $ 23,785 | 859,597 | $ 8,596 | $ 7,569,481 | (1,196) | $ (10,393) | $ (135,977) | $ (2,168,768) | $ 5,649,231 |
| Six Months Ended June 30, 2013 | | | | | | | | | | | | |
| Balance, beginning of period | **363** | **$ 362,507** | **35** | **$ 23,785** | **844,105** | **$ 8,441** | **$ 7,475,149** | **(1,292)** | **$ (10,921)** | **$ (150,817)** | **$ (1,917,933)** | **$ 5,790,211** |
| Net income | | | | | | | | | | | **302,431** | **302,431** |
| Other comprehensive income (loss) | | | | | | | | | | **(132,919)** | | **(132,919)** |
| Repurchases of common stock | | | | | **(14,734)** | **(147)** | **(108,651)** | | | | | **(108,798)** |
| Cash dividends declared: | | | | | | | | | | | | |
| Common ($0.09 per share) | | | | | | | | | | | **(75,094)** | **(75,094)** |
| Preferred Series A ($42.50 per share) | | | | | | | | | | | **(15,406)** | **(15,406)** |
| Preferred Series B ($14.95 per share) | | | | | | | | | | | **(531)** | **(531)** |
| Recognition of the fair value of share-based compensation | | | | | | | **17,896** | | | | | **17,896** |
| Other share-based compensation activity | | | | | **1,659** | **16** | **6,280** | | | | **(137)** | **6,159** |
| Other | | | | | | | **(633)** | **(63)** | **202** | | **(3)** | **(434)** |
| Balance, end of period | **363** | **$ 362,507** | **35** | **$ 23,785** | **831,030** | **$ 8,310** | **$ 7,390,041** | **(1,355)** | **$ (10,719)** | **$ (283,736)** | **$ (1,706,673)** | **$ 5,783,515** |

*See Notes to Unaudited Condensed Consolidated Financial Statements*

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**Huntington Bancshares Incorporated**

**Condensed Consolidated Statements of Cash Flows**

***(Unaudited)***

| *(dollar amounts in thousands)* | Six Months Ended June 30, **2013** | 2012 |
|---|---|---|
| Operating activities | | |
| Net income | $ **302,431** | $ 305,976 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Provision for credit losses | **54,314** | 70,926 |
| Depreciation and amortization | **135,364** | 138,876 |
| Share-based compensation expense | **17,896** | 12,820 |
| Change in deferred income taxes | **72,943** | 121,029 |
| Originations of loans held for sale | **(1,583,569)** | (1,915,289) |
| Principal payments on and proceeds from loans held for sale | **1,624,214** | 1,836,963 |
| Gain on sale of loans held for sale | **(34,687)** | (19,012) |
| Gain on early extinguishment of debt | | (2,580) |
| Bargain purchase gain | | (11,409) |
| Net gain on sales of securities | **(797)** | (1,227) |
| Impairment losses recognized in earnings on available-for-sale securities | **1,716** | 1,490 |
| Net change in: | | |
| Trading account securities | **10,278** | (7,938) |
| Accrued income and other assets | **(9,016)** | 160,496 |
| Accrued expense and other liabilities | **(181,999)** | (130,346) |
| Net cash provided by (used for) operating activities | **409,088** | **560,775** |
| Investing activities | | |
| Increase (decrease) in interest bearing deposits in banks | **86,480** | 67,714 |
| Net cash received from acquisition | | 40,310 |
| Proceeds from: | | |
| Maturities and calls of available-for-sale and other securities | **772,700** | 949,026 |
| Maturities of held-to-maturity securities | **111,280** | 40,852 |
| Sales of available-for-sale and other securities | **328,031** | 307,160 |
| Purchases of available-for-sale and other securities | **(777,389)** | (1,779,203) |
| Purchases of held-to-maturity securities | **(248,741)** | |
| Net proceeds from sales of loans | **236,373** | 1,527,739 |
| Net loan and lease activity, excluding sales | **(1,077,734)** | (2,248,763) |
| Proceeds from sale of operating lease assets | **7,499** | 16,784 |
| Purchases of premises and equipment | **(49,127)** | (55,477) |
| Proceeds from sales of other real estate | **20,800** | 20,684 |
| Purchases of loans and leases | **(18,110)** | (393,191) |
| Other, net | **2,015** | 2,205 |
| Net cash provided by (used for) investing activities | **(605,923)** | (1,504,160) |
| Financing activities | | |
| Increase (decrease) in deposits | **82,055** | 2,084,321 |
| Increase (decrease) in short-term borrowings | **109,480** | (331,381) |
| Maturity/redemption of subordinated notes | **(50,000)** | (88,600) |
| Proceeds from Federal Home Loan Bank advances | **2,275,000** | 815,000 |
| Maturity/redemption of Federal Home Loan Bank advances | **(2,300,566)** | (387,548) |

| | | |
|---|---|---|
| Maturity/redemption of long-term debt | **(2,086)** | (919,814) |
| Dividends paid on preferred stock | **(15,943)** | (15,752) |
| Dividends paid on common stock | **(67,569)** | (69,117) |
| Repurchases of common stock | **(108,798)** | (40,230) |
| Other, net | **6,362** | (874) |
| Net cash provided by (used for) financing activities | **(72,065)** | 1,046,005 |
| Increase (decrease) in cash and cash equivalents | **(268,900)** | 102,620 |
| Cash and cash equivalents at beginning of period | **1,262,806** | 1,115,968 |
| Cash and cash equivalents at end of period | **$ 993,906** | $ 1,218,588 |
| Supplemental disclosures: | | |
| Income taxes paid (refunded) | **$ 49,699** | $ 4,703 |
| Interest paid | **75,957** | 128,425 |
| Non-cash activities | | |
| Loans transferred to loans held for sale | **50,788** | 1,656,486 |
| Loan transfer to portfolio from held-for-sale | **307,303** | |
| Dividends accrued, paid in subsequent quarter | **47,832** | 47,859 |

*See Notes to Unaudited Condensed Consolidated Financial Statements.*

**Huntington Bancshares Incorporated**

**Notes to Unaudited Condensed Consolidated Financial Statements**

**1. BASIS OF PRESENTATION**

The accompanying Unaudited Condensed Consolidated Financial Statements of Huntington 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 SEC and, therefore, certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been omitted. The Notes to Consolidated Financial Statements appearing in Huntington s 2012 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 Unaudited Condensed Consolidated Financial Statements or disclosed in the Notes to Unaudited Condensed Consolidated Financial Statements.

**2. ACCOUNTING STANDARDS UPDATE**

**ASU 2011-11 Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities.** The ASU amends Topic 210 by requiring additional improved information to be disclosed regarding financial instruments and derivative instruments that are offset in accordance with the conditions under ASC 210-20-45 or ASC 810-10-45 or subject to an enforceable master netting arrangement or similar agreement. The amendments are effective for annual and interim reporting periods beginning on or after January 1, 2013. The disclosures required by the amendments were applied retrospectively for all comparative periods presented (See Note 14). The amendments did not have a material impact on Huntington s Condensed Consolidated Financial Statements.

**ASU 2013-01 Balance Sheet (Topic 210): Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities**. The ASU amends Update 2011-11 to clarify that the scope applies to derivatives, repurchase and reverse repurchase agreements, and securities borrowing and lending transactions that are either offset in accordance with Section 210-20-45 or Section 815-10-45 or subject to master netting or similar arrangements. Other types of financial assets and liabilities subject to master netting or similar arrangements are not subject to the disclosure requirements in Update 2011-11. The amendments are effective for fiscal years beginning on or after January 1, 2013, and interim periods within those annual periods (See Note 14). The amendments did not have a material impact on Huntington s Condensed Consolidated Financial Statements.

**ASU 2013-02 Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income.** The ASU requires an entity to provide information about the amounts reclassified out of accumulated other comprehensive income by component. In addition, an entity is required to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income but only if the amount reclassified is required under U.S. GAAP to be reclassified to net income in its entirety in the same reporting period. The amendments are effective prospectively for reporting periods beginning after December 15, 2012 (See Note 8). The amendments did not have a material impact on Huntington s Condensed Consolidated Financial Statements

**ASU 2013-11 Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists.** The ASU requires that an unrecognized tax benefit, or a portion of an unrecognized tax benefit, be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward. However, if a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position or the tax law of the applicable jurisdiction does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. The amendments are effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. The amendments will not have a material impact on Huntington s Condensed Consolidated Financial Statements.

**3. LOANS / LEASES AND ALLOWANCE FOR CREDIT LOSSES**

Loans and leases for which Huntington has the intent and ability to hold for the foreseeable future, or until maturity or payoff, are classified in the Unaudited Condensed Consolidated Balance Sheets as loans and leases. Except for loans which are accounted for at fair value, loans and leases are carried at the principal amount outstanding, net of unamortized deferred loan origination fees and costs and net of unearned income. At June 30, 2013, and December 31, 2012, the aggregate amount of these net unamortized deferred loan origination fees and costs and net unearned income was $174.8 million and $174.5 million, respectively.

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**Loan and Lease Portfolio Composition**

The following table provides a detailed listing of Huntington s loan and lease portfolio at June 30, 2013 and December 31, 2012:

| *(dollar amounts in thousands)* | **June 30, 2013** | December 31, 2012 |
|---|---|---|
| Loans and leases: | | |
| Commercial and industrial | **$ 17,112,784** | $ 16,970,689 |
| Commercial real estate | **4,892,443** | 5,399,240 |
| Automobile | **5,810,103** | 4,633,820 |
| Home equity | **8,369,226** | 8,335,342 |
| Residential mortgage | **5,167,843** | 4,969,672 |
| Other consumer | **387,448** | 419,662 |
| Loans and leases | **41,739,847** | 40,728,425 |
| Allowance for loan and lease losses | **(733,076)** | (769,075) |
| Net loans and leases | **$ 41,006,771** | $ 39,959,350 |

As shown in the table above, the primary loan and lease portfolios are: C&I, CRE, automobile, home equity, residential mortgage, and other consumer. For ACL purposes, these portfolios are further disaggregated into classes. The classes within each portfolio are as follows:

| Portfolio | Class |
|---|---|
| Commercial and industrial | Owner occupied<br>Purchased credit-impaired<br>Other commercial and industrial |
| Commercial real estate | Retail properties<br>Multi family<br>Office<br>Industrial and warehouse<br>Purchased credit-impaired<br>Other commercial real estate |
| Automobile | NA (1) |
| Home equity | Secured by first-lien<br>Secured by junior-lien |
| Residential mortgage | Residential mortgage<br>Purchased credit-impaired |
| Other consumer | Other consumer<br>Purchased credit-impaired |

(1) Not applicable. The automobile loan portfolio is not further segregated into classes.

**Fidelity Bank acquisition**

*(See Note 19 for additional information regarding the Fidelity Bank acquisition).*

On March 30, 2012, Huntington acquired the loans of Fidelity Bank located in Dearborn, Michigan from the FDIC. Under the agreement, loans with a fair value of $523.9 million were transferred to Huntington. These loans were recorded at fair value in accordance with applicable

accounting guidance, ASC 805. The fair values for the loans were estimated using discounted cash flow analyses using interest rates currently being offered for loans with similar terms (Level 3), and reflected an estimate of probable losses and the credit risk associated with the loans.

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Purchased Credit-Impaired Loans

Purchased loans with evidence of deterioration in credit quality since origination for which it is probable at acquisition that we will be unable to collect all contractually required payments are considered to be credit impaired. Purchased credit-impaired loans are initially recorded at fair value, which is estimated by discounting the cash flows expected to be collected at the acquisition date. Because the estimate of expected cash flows reflects an estimate of future credit losses expected to be incurred over the life of the loans, an allowance for credit losses is not recorded at the acquisition date. The excess of cash flows expected at acquisition over the estimated fair value, referred to as the accretable yield, is recognized in interest income over the remaining life of the loan, or pool of loans, on a level-yield basis. The difference between the contractually required payments at acquisition and the cash flows expected to be collected at acquisition is referred to as the nonaccretable difference. A subsequent decrease in the estimate of cash flows expected to be received on purchased credit-impaired loans generally results in the recognition of an allowance for credit losses. Subsequent increases in cash flows result in reversal of any nonaccretable difference (or allowance for loan and lease losses to the extent any has been recorded) with a positive impact on interest income subsequently recognized. The measurement of cash flows involves assumptions and judgments for interest rates, prepayments, default rates, loss severity, and collateral values. All of these factors are inherently subjective and significant changes in the cash flow estimates over the life of the loan can result.

The following table presents a rollforward of the accretable yield for three-month and six-month periods ended June 30, 2013 and 2012:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| *(dollar amounts in thousands)* | **2013** | 2012 | **2013** | 2012 |
| Balance, beginning of period | **$ 35,160** | $ 27,586 | **$ 23,251** | $ |
| Impact of acquisition/purchase on March 30, 2012 | | | | 27,586 |
| Additions | | | | |
| Accretion | **(3,781)** | (2,825) | **(7,100)** | (2,825) |
| Reclassification from nonaccretable difference | **1,326** | | **16,554** | |
| Balance, end of period | **$ 32,705** | $ 24,761 | **$ 32,705** | $ 24,761 |

In the 2013 second quarter, $2.3 million of provision for credit losses expense was recorded on the purchased impaired loan portfolio. At June 30, 2013, there was $2.3 million of allowance for loan losses recorded on the purchased impaired loan portfolio. The following table reflects the outstanding balance of all contractually required payments and carrying amounts of the acquired loans at June 30, 2013 and December 31, 2012:

| | **June 30, 2013** | | December 31, 2012 | |
|---|---|---|---|---|
| *(dollar amounts in thousands)* | **Ending Balance** | **Unpaid Balance** | Ending Balance | Unpaid Balance |
| Commercial and industrial | **$ 50,246** | **$ 72,766** | $ 54,472 | $ 80,294 |
| Commercial real estate | **106,193** | **191,632** | 126,923 | 226,093 |
| Residential mortgage | **2,051** | **3,531** | 2,243 | 4,104 |
| Other consumer | **131** | **232** | 140 | 245 |
| Total | **$ 158,621** | **$ 268,161** | $ 183,778 | $ 310,736 |

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**Loan and Lease Purchases and Sales**

The following table summarizes significant portfolio loan and lease purchase and sale activity for the three-month and six-month periods ended June 30, 2013 and 2012:

| *(dollar amounts in thousands)* | Commercial and Industrial | Commercial Real Estate | Automobile | Home Equity | Residential Mortgage | Other Consumer | Total |
|---|---|---|---|---|---|---|---|
| Portfolio loans and leases purchased during the: | | | | | | | |
| Three-month period ended June 30, 2013 | **$ 34,196** | **$** | **$** | **$** | **$** | **$** | **$ 34,196** |
| Six-month period ended June 30, 2013 | **$ 55,737** | **$** | **$** | **$** | **$** | **$** | **$ 55,737** |
| Three-month period ended June 30, 2012 | $ | $ | $ | $ | $ | $ | $ |
| Six-month period ended June 30, 2012 | $ 477,501 | $ 378,122 | $ | $ 13,025 | $ 62,324 | $ 85 | $ 931,057 |
| Portfolio loans and leases sold or transferred to loans held for sale during the: | | | | | | | |
| Three-month period ended June 30, 2013 | **$ 55,464** | **$ 87** | **$** | **$** | **$ 151,013** | **$** | **$ 206,564** |
| Six-month period ended June 30, 2013 | **$ 83,066** | **$ 3,991** | **$** | **$** | **$ 155,403** | | **$ 242,460** |
| Three-month period ended June 30, 2012 | $ 71,718 | $ 26,273 | $ 1,483,748 | $ | $ 179,621 | $ | $ 1,761,360 |
| Six-month period ended June 30, 2012 | $ 125,165 | $ 47,742 | $ 2,783,748 | $ | $ 179,621 | $ | $ 3,136,276 |

**NALs and Past Due Loans**

Loans are considered past due when the contractual amounts due with respect to principal and interest are not received within 30 days of the contractual due date.

Any loan in any portfolio may be placed on nonaccrual status prior to the policies described below when collection of principal or interest is in doubt. When a borrower with debt is discharged in a Chapter 7 bankruptcy and not reaffirmed by the borrower, the loan is determined to be collateral dependent and placed on nonaccrual status.

All classes within the C&I and CRE portfolios (except for purchased credit-impaired loans) are placed on nonaccrual status at 90-days past due. Residential mortgage loans are placed on nonaccrual status at 150-days past due, with the exception of residential mortgages guaranteed by government organizations which continue to accrue interest at the rate guaranteed by the government agency. First-lien home equity loans are placed on nonaccrual status at 150-days past due. Junior-lien home equity loans are placed on nonaccrual status at the earlier of 120-days past due or when the related first-lien loan has been identified as nonaccrual. Automobile and other consumer loans are generally charged-off when the loan is 120-days past due.

For all classes within all loan portfolios, when a loan is placed on nonaccrual status, any accrued interest income is reversed with current year accruals charged to interest income, and prior year amounts charged-off as a credit loss.

For all classes within all loan portfolios, cash receipts received on NALs are applied entirely against principal until the loan or lease has been collected in full, after which time any additional cash receipts are recognized as interest income. However, for secured non-reaffirmed debt in a Chapter 7 bankruptcy, payments are applied to principal and interest when the borrower has demonstrated a capacity to continue payment of the debt and collection of the debt is reasonably assured. For unsecured non-reaffirmed debt in a Chapter 7 bankruptcy where the carrying value has been fully charged-off, payments are recorded as loan recoveries.

Regarding all classes within the C&I and CRE portfolios, the determination of a borrower s ability to make the required principal and interest payments is based on an examination of the borrower s current financial statements, industry, management capabilities, and other qualitative measures. For all classes within the consumer loan portfolio, the determination of a borrower s ability to make the required principal and interest payments is based on multiple factors, including number of days past due and, in some instances, an evaluation of the borrower s financial condition. When, in Management s judgment, the borrower s ability to make required principal and interest payments resumes and collectability is no longer in doubt, the loan or lease is returned to accrual status. For these loans that have been returned to accrual status, cash receipts are applied according to the contractual terms of the loan.

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The following table presents NALs by loan class at June 30, 2013 and December 31, 2012:

| (dollar amounts in thousands) | **2013 June 30,** | 2012 December 31, |
|---|---|---|
| Commercial and industrial: | | |
| Owner occupied | **$ 48,021** | $ 53,009 |
| Other commercial and industrial | **32,016** | 37,696 |
| Total commercial and industrial | **$ 80,037** | $ 90,705 |
| Commercial real estate: | | |
| Retail properties | **$ 31,353** | $ 31,791 |
| Multi family | **13,231** | 19,765 |
| Office | **27,486** | 30,341 |
| Industrial and warehouse | **3,211** | 6,841 |
| Other commercial real estate | **18,362** | 38,390 |
| Total commercial real estate | **$ 93,643** | $ 127,128 |
| Automobile | **$ 7,743** | $ 7,823 |
| Home equity: | | |
| Secured by first-lien | **$ 28,409** | $ 27,091 |
| Secured by junior-lien | **31,674** | 32,434 |
| Total home equity | **$ 60,083** | $ 59,525 |
| Residential mortgage | **$ 122,040** | $ 122,452 |
| Other consumer | **$** | $ |
| Total nonaccrual loans | **$ 363,546** | $ 407,633 |

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The following table presents an aging analysis of loans and leases, including past due loans, by loan class at June 30, 2013 and December 31, 2012: (1)

| | June 30, 2013 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Past Due | | | | | Total Loans | 90 or more days past due and |
| *(dollar amounts in thousands)* | 30-59 Days | 60-89 Days | 90 or more days | Total | Current | and Leases | accruing |
| Commercial and industrial: | | | | | | | |
| Owner occupied | $ 10,243 | $ 4,479 | $ 32,793 | $ 47,515 | $ 4,323,352 | $ 4,370,867 | $ |
| Purchased credit-impaired | 1,392 | 1,420 | 24,851 | 27,663 | 22,583 | 50,246 | 24,851 |
| Other commercial and industrial | 12,508 | 6,562 | 13,493 | 32,563 | 12,659,108 | 12,691,671 | |
| Total commercial and industrial | $ 24,143 | $ 12,461 | $ 71,137 | $ 107,741 | $ 17,005,043 | $ 17,112,784 | $ 24,851 (2) |
| Commercial real estate: | | | | | | | |
| Retail properties | $ 3,620 | $ 286 | $ 6,847 | $ 10,753 | $ 1,249,009 | $ 1,259,762 | $ |
| Multi family | 10,636 | 866 | 9,394 | 20,896 | 932,519 | 953,415 | |
| Office | 6,428 | 2,194 | 21,374 | 29,996 | 901,880 | 931,876 | |
| Industrial and warehouse | 1,022 | 2,102 | 1,499 | 4,623 | 536,273 | 540,896 | |
| Purchased credit-impaired | 4,824 | 1,257 | 45,051 | 51,132 | 55,061 | 106,193 | 45,051 |
| Other commercial real estate | 5,250 | 404 | 9,374 | 15,028 | 1,085,273 | 1,100,301 | |
| Total commercial real estate | $ 31,780 | $ 7,109 | $ 93,539 | $ 132,428 | $ 4,760,015 | $ 4,892,443 | $ 45,051 (2) |
| Automobile | $ 30,814 | 5,584 | $ 3,442 | $ 39,840 | $ 5,770,263 | $ 5,810,103 | $ 3,392 |
| Home equity: | | | | | | | |
| Secured by first-lien | $ 17,666 | $ 6,676 | $ 28,088 | $ 52,430 | $ 4,588,234 | $ 4,640,664 | $ 4,806 |
| Secured by junior-lien | 31,764 | 10,735 | 31,141 | 73,640 | 3,654,922 | 3,728,562 | 9,439 |
| Total home equity | $ 49,430 | $ 17,411 | $ 59,229 | $ 126,070 | $ 8,243,156 | $ 8,369,226 | $ 14,245 |
| Residential mortgage: | | | | | | | |
| Residential mortgage | $ 135,161 | $ 48,260 | $ 164,750 | $ 348,171 | $ 4,817,622 | $ 5,165,793 | $ 92,245 (3) |
| Purchased credit-impaired | 106 | | 234 | 340 | 1,710 | 2,050 | 107 |
| Total residential mortgage | $ 135,267 | $ 48,260 | $ 164,984 | $ 348,511 | $ 4,819,332 | $ 5,167,843 | $ 92,352 |
| Other consumer: | | | | | | | |
| Other consumer | $ 5,075 | $ 959 | $ 1,367 | $ 7,401 | $ 379,916 | $ 387,317 | $ 1,367 |
| Purchased credit-impaired | 69 | | | 69 | 62 | 131 | |
| Total other consumer | $ 5,144 | $ 959 | $ 1,367 | $ 7,470 | $ 379,978 | $ 387,448 | $ 1,367 |
| Total loans and leases | $ 276,580 | $ 91,784 | $ 393,697 | $ 762,062 | $ 40,977,785 | $ 41,739,847 | $ 181,258 |

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December 31, 2012

| (dollar amounts in thousands) | Past Due 30-59 Days | 60-89 Days | 90 or more days | Total | Current | Total Loans and Leases | 90 or more days past due and accruing |
|---|---|---|---|---|---|---|---|
| Commercial and industrial: | | | | | | | |
| Owner occupied | $ 11,409 | $ 6,302 | $ 31,997 | $ 49,708 | $ 4,236,211 | $ 4,285,919 | $ |
| Purchased credit-impaired | 986 | 3,533 | 26,648 | 31,167 | 23,305 | 54,472 | 26,648 |
| Other commercial and industrial | 20,273 | 4,211 | 14,786 | 39,270 | 12,591,028 | 12,630,298 | |
| Total commercial and industrial | $ 32,668 | $ 14,046 | $ 73,431 | $ 120,145 | $ 16,850,544 | $ 16,970,689 | $ 26,648 |
| Commercial real estate: | | | | | | | |
| Retail properties | $ 3,459 | $ 4,203 | $ 9,677 | $ 17,339 | $ 1,413,520 | $ 1,430,859 | $ |
| Multi family | 7,961 | 1,314 | 12,062 | 21,337 | 963,063 | 984,400 | |
| Office | 1,054 | 2,415 | 23,335 | 26,804 | 909,310 | 936,114 | |
| Industrial and warehouse | 6,597 | 118 | 5,433 | 12,148 | 584,754 | 596,902 | |
| Purchased credit-impaired | 556 | 1,751 | 56,660 | 58,967 | 67,956 | 126,923 | 56,660 |
| Other commercial real estate | 2,725 | 2,192 | 25,463 | 30,380 | 1,293,662 | 1,324,042 | |
| Total commercial real estate | $ 22,352 | $ 11,993 | $ 132,630 | $ 166,975 | $ 5,232,265 | $ 5,399,240 | $ 56,660 |
| Automobile | $ 36,267 | $ 7,803 | $ 4,438 | $ 48,508 | $ 4,585,312 | $ 4,633,820 | $ 4,418 |
| Home equity | | | | | | | |
| Secured by first-lien | $ 26,288 | $ 9,992 | $ 28,322 | $ 64,602 | $ 4,315,985 | $ 4,380,587 | $ 5,202 |
| Secured by junior-lien | 34,365 | 16,553 | 35,150 | 86,068 | 3,868,687 | 3,954,755 | 12,998 |
| Total home equity | $ 60,653 | $ 26,545 | $ 63,472 | $ 150,670 | $ 8,184,672 | $ 8,335,342 | $ 18,200 |
| Residential mortgage | | | | | | | |
| Residential mortgage | $ 118,582 | $ 44,747 | $ 164,035 | $ 327,364 | $ 4,640,065 | $ 4,967,429 | $ 92,925 (4) |
| Purchased credit-impaired | 58 | | 609 | 667 | 1,576 | 2,243 | 609 |
| Total residential mortgage | $ 118,640 | $ 44,747 | $ 164,644 | $ 328,031 | $ 4,641,641 | $ 4,969,672 | $ 93,534 |
| Other consumer | | | | | | | |
| Other consumer | $ 7,431 | $ 2,117 | $ 1,672 | $ 11,220 | $ 408,302 | $ 419,522 | $ 1,672 |
| Purchased credit-impaired | | 76 | | 76 | 64 | 140 | |
| Total other consumer | $ 7,431 | $ 2,193 | $ 1,672 | $ 11,296 | $ 408,366 | $ 419,662 | $ 1,672 |
| Total loans and leases | $ 278,011 | $ 107,327 | $ 440,287 | $ 825,625 | $ 39,902,800 | $ 40,728,425 | $ 201,132 |

(1) NALs are included in this aging analysis based on the loan s past due status.

(2) All amounts represent accruing purchased impaired loans related to the FDIC-assisted Fidelity Bank acquisition. Under the applicable accounting guidance (ASC 310-30), the loans were recorded at fair value upon acquisition and remain in accruing status.

(3) Includes $87,135 thousand guaranteed by the U.S. government.

(4) Includes $90,816 thousand guaranteed by the U.S. government.

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**Allowance for Credit Losses**

Huntington maintains two reserves, both of which reflect Management s judgment regarding the appropriate level necessary to absorb credit losses inherent in our loan and lease portfolio: the ALLL and the AULC. Combined, these reserves comprise the total ACL. The determination of the ACL requires significant estimates, including the timing and amounts of expected future cash flows on impaired loans and leases, consideration of current economic conditions, and historical loss experience pertaining to pools of homogeneous loans and leases, all of which may be susceptible to change.

The appropriateness of the ACL is based on Management s current judgments about the credit quality of the loan portfolio. These judgments consider on-going evaluations of the loan and lease portfolio, including such factors as the differing economic risks associated with each loan category, the financial condition of specific borrowers, the level of delinquent loans, the value of any collateral and, where applicable, the existence of any guarantees or other documented support. Further, Management evaluates the impact of changes in interest rates and overall economic conditions on the ability of borrowers to meet their financial obligations when quantifying our exposure to credit losses and assessing the appropriateness of our ACL at each reporting date. In addition to general economic conditions and the other factors described above, additional factors also considered include: the impact of declining residential real estate values; the diversification of CRE loans; the development of new or expanded Commercial business segments such as healthcare, ABL, and energy, and the overall condition of the manufacturing industry. Also, the ACL assessment includes the on-going assessment of credit quality metrics, and a comparison of certain ACL benchmarks to current performance. Management s determinations regarding the appropriateness of the ACL are reviewed and approved by the Company s board of directors.

The ALLL consists of two components: (1) the transaction reserve, which includes a loan level allocation per ASC 310-10, specific reserves related to loans considered to be impaired, and loans involved in troubled debt restructurings allocated per ASC 310-40, and (2) the general reserve. The transaction reserve component includes both (1) an estimate of loss based on pools of commercial and consumer loans and leases with similar characteristics and (2) an estimate of loss based on an impairment review of each impaired C&I and CRE loan greater than $1.0 million. For the C&I and CRE portfolios, the estimate of loss based on pools of loans and leases with similar characteristics is made by applying a PD factor and a LGD factor to each individual loan based on a continuously updated loan grade, using a standardized loan grading system. The PD factor and an LGD factor are determined for each loan grade using statistical models based on historical performance data. The PD factor considers on-going reviews of the financial performance of the specific borrower, including cash flow, debt-service coverage ratio, earnings power, debt level, and equity position, in conjunction with an assessment of the borrower s industry and future prospects. The LGD factor considers analysis of the type of collateral and the relative LTV ratio. These reserve factors are developed based on credit migration models that track historical movements of loans between loan ratings over time and a combination of long-term average loss experience of our own portfolio and external industry data using a 24-month emergence period.

In the case of more homogeneous portfolios, such as automobile loans, home equity loans, and residential mortgage loans, the determination of the transaction reserve also incorporates PD and LGD factors. The estimate of loss is based on pools of loans and leases with similar characteristics. The PD factor considers current credit scores unless the account is delinquent, in which case a higher PD factor is used. The credit score provides a basis for understanding the borrowers past and current payment performance, and this information is used to estimate expected losses over the 12-month emergence period. The performance of first-lien loans ahead of our junior-lien loans is available to use as part of our updated score process. The LGD factor considers analysis of the type of collateral and the relative LTV ratio. Credit scores, models, analyses, and other factors used to determine both the PD and LGD factors are updated frequently to capture the recent behavioral characteristics of the subject portfolios, as well as any changes in loss mitigation or credit origination strategies, and adjustments to the reserve factors are made as required. Models utilized in the ALLL estimation process are subject to the Company s model validation policies.

The general reserve consists of the economic reserve and risk-profile reserve components. The economic reserve component considers the potential impact of changing market and economic conditions on portfolio performance. The risk-profile component considers items unique to our structure, policies, processes, and portfolio composition, as well as qualitative measurements and assessments of the loan portfolios including, but not limited to, management quality, concentrations, portfolio composition, industry comparisons, and internal review functions.

The estimate for the AULC is determined using the same procedures and methodologies as used for the ALLL. The loss factors used in the AULC are the same as the loss factors used in the ALLL while also considering a historical utilization of unused commitments. The AULC is reflected in accrued expenses and other liabilities in the Unaudited Condensed Consolidated Balance Sheet.

The ACL is increased through a provision for credit losses that is charged to earnings, based on Management s quarterly evaluation of the factors previously mentioned, and is reduced by charge-offs, net of recoveries, and the ACL associated with securitized or sold loans. There were no material changes in assumptions or estimation techniques compared with prior periods that impacted the determination of the current period s ALLL and AULC.

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The following table presents ALLL and AULC activity by portfolio segment for the three-month and six-month periods ended June 30, 2013 and 2012:

| *(dollar amounts in thousands)* | Commercial and Industrial | Commercial Real Estate | Automobile | Home Equity | Residential Mortgage | Other Consumer | Total |
|---|---|---|---|---|---|---|---|
| Three-month period ended June 30, 2013: | | | | | | | |
| ALLL balance, beginning of period | $ 238,098 | $ 267,436 | $ 35,973 | $ 115,858 | $ 63,062 | $ 26,342 | $ 746,769 |
| Loan charge-offs | (8,981) | (14,194) | (5,219) | (17,766) | (9,692) | (7,386) | (63,238) |
| Recoveries of loans previously charged-off | 7,395 | 11,810 | 3,756 | 3,112 | 1,072 | 1,303 | 28,448 |
| Provision for loan and lease losses | (2,833) | (9,203) | 5,480 | 14,422 | 9,617 | 3,871 | 21,354 |
| Allowance for loans sold or transferred to loans held for sale | | | | | (257) | | (257) |
| ALLL balance, end of period | $ 233,679 | $ 255,849 | $ 39,990 | $ 115,626 | $ 63,802 | $ 24,130 | $ 733,076 |
| AULC balance, beginning of period | $ 33,835 | $ 4,404 | $ | $ 1,912 | $ 6 | $ 698 | $ 40,855 |
| Provision for unfunded loan commitments and letters of credit | 3,636 | 4 | | (224) | | (48) | 3,368 |
| AULC balance, end of period | $ 37,471 | $ 4,408 | $ | $ 1,688 | $ 6 | $ 650 | $ 44,223 |
| ACL balance, end of period | $ 271,150 | $ 260,257 | $ 39,990 | $ 117,314 | $ 63,808 | $ 24,780 | $ 777,299 |
| Six-month period ended June 30, 2013: | | | | | | | |
| ALLL balance, beginning of period | $ 241,051 | $ 285,369 | $ 34,979 | $ 118,764 | $ 61,658 | $ 27,254 | $ 769,075 |
| Loan charge-offs | (21,994) | (36,561) | (10,907) | (44,298) | (17,593) | (16,027) | (147,380) |
| Recoveries of loans previously charged-off | 17,091 | 21,400 | 6,850 | 9,661 | 2,825 | 3,076 | 60,903 |
| Provision for loan and lease losses | (2,469) | (14,359) | 9,068 | 31,499 | 17,176 | 9,827 | 50,742 |
| Allowance for loans sold or transferred to loans held for sale | | | | | (264) | | (264) |
| ALLL balance, end of period | $ 233,679 | $ 255,849 | $ 39,990 | $ 115,626 | $ 63,802 | $ 24,130 | $ 733,076 |
| AULC balance, beginning of period | $ 33,868 | $ 4,740 | $ | $ 1,356 | $ 3 | $ 684 | $ 40,651 |
| Provision for unfunded loan commitments and letters of credit | 3,603 | (332) | | 332 | 3 | (34) | 3,572 |
| AULC balance, end of period | $ 37,471 | $ 4,408 | $ | $ 1,688 | $ 6 | $ 650 | $ 44,223 |
| ACL balance, end of period | $ 271,150 | $ 260,257 | $ 39,990 | $ 117,314 | $ 63,808 | $ 24,780 | $ 777,299 |

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| *(dollar amounts in thousands)* | Commercial and Industrial | Commercial Real Estate | Automobile | Home Equity | Residential Mortgage | Other Consumer | Total |
|---|---|---|---|---|---|---|---|
| Three-month period ended June 30, 2012: | | | | | | | |
| ALLL balance, beginning of period | $ 246,026 | $ 339,494 | $ 36,552 | $ 168,898 | $ 89,129 | $ 32,970 | $ 913,069 |
| Loan charge-offs | (23,718) | (35,747) | (4,999) | (23,083) | (11,903) | (8,642) | (108,092) |
| Recoveries of loans previously charged-off | 8,040 | 6,569 | 4,550 | 2,038 | 1,117 | 1,533 | 23,847 |
| Provision for loan and lease losses | 50,200 | (4,925) | (1,446) | (12,291) | 886 | 4,052 | 36,476 |
| Allowance for loans sold or transferred to loans held for sale | | | (4,440) | | (1,214) | | (5,654) |
| ALLL balance, end of period | $ 280,548 | $ 305,391 | $ 30,217 | $ 135,562 | $ 78,015 | $ 29,913 | $ 859,646 |
| AULC balance, beginning of period | $ 42,276 | $ 5,780 | $ | $ 2,108 | $ 1 | $ 769 | $ 50,934 |
| Provision for unfunded loan commitments and letters of credit | 568 | (555) | | 82 | 3 | (54) | 44 |
| AULC balance, end of period | $ 42,844 | $ 5,225 | $ | $ 2,190 | $ 4 | $ 715 | $ 50,978 |
| ACL balance, end of period | $ 323,392 | $ 310,616 | $ 30,217 | $ 137,752 | $ 78,019 | $ 30,628 | $ 910,624 |
| Six-month period ended June 30, 2012: | | | | | | | |
| ALLL balance, beginning of period | $ 275,367 | $ 388,706 | $ 38,282 | $ 143,873 | $ 87,194 | $ 31,406 | $ 964,828 |
| Loan charge-offs | (57,224) | (57,149) | (12,609) | (48,348) | (23,648) | (17,074) | (216,052) |
| Recoveries of loans previously charged-off | 13,051 | 17,465 | 9,082 | 3,574 | 2,292 | 3,351 | 48,815 |
| Provision for loan and lease losses | 49,354 | (43,631) | 597 | 36,463 | 13,391 | 12,230 | 68,404 |
| Allowance for loans sold or transferred to loans held for sale | | | (5,135) | | (1,214) | | (6,349) |
| ALLL balance, end of period | $ 280,548 | $ 305,391 | $ 30,217 | $ 135,562 | $ 78,015 | $ 29,913 | $ 859,646 |
| AULC balance, beginning of period | $ 39,658 | $ 5,852 | $ | $ 2,134 | $ 1 | $ 811 | $ 48,456 |
| Provision for unfunded loan commitments and letters of credit | 3,186 | (627) | | 56 | 3 | (96) | 2,522 |
| AULC balance, end of period | $ 42,844 | $ 5,225 | $ | $ 2,190 | $ 4 | $ 715 | $ 50,978 |
| ACL balance, end of period | $ 323,392 | $ 310,616 | $ 30,217 | $ 137,752 | $ 78,019 | $ 30,628 | $ 910,624 |

Any loan in any portfolio may be charged-off prior to the policies described below if a loss confirming event has occurred. Loss confirming events include, but are not limited to, bankruptcy (unsecured), continued delinquency, foreclosure, or receipt of an asset valuation indicating a collateral deficiency and that asset is the sole source of repayment. Additionally, discharged, collateral dependent non-reaffirmed debt in Chapter 7 bankruptcy filings will result in a charge-off to estimated collateral value, less anticipated selling costs.

C&I and CRE loans are either charged-off or written down to net realizable value at 90-days past due. Automobile loans and other consumer loans are charged-off at 120-days past due. First-lien and junior-lien home equity loans are charged-off to the estimated fair value of the collateral, less anticipated selling costs, at 150-days past due and 120-days past due, respectively. Residential mortgages are charged-off to the estimated fair value of the collateral, less anticipated selling costs, at 150-days past due.

**Credit Quality Indicators**

To facilitate the monitoring of credit quality for C&I and CRE loans, and for purposes of determining an appropriate ACL level for these loans, Huntington utilizes the following categories of credit grades:

Pass = Higher quality loans that do not fit any of the other categories described below.

OLEM = The credit risk may be relatively minor yet represent a risk given certain specific circumstances. If the potential weaknesses are not monitored or mitigated, the loan may weaken or inadequately protect Huntington s position in the future. For these reasons, Huntington considers the loans to be potential problem loans.

Substandard = Inadequately protected loans by the borrower s ability to repay, equity, and/or the collateral pledged to secure the loan. These loans have identified weaknesses that could hinder normal repayment or collection of the debt. It is likely Huntington will sustain some loss if any identified weaknesses are not mitigated.

Doubtful = Loans that have all of the weaknesses inherent in those loans classified as Substandard, with the added elements of the full collection of the loan is improbable and that the possibility of loss is high.

The categories above, which are derived from standard regulatory rating definitions, are assigned upon initial approval of the loan or lease and subsequently updated as appropriate.

Commercial loans categorized as OLEM, Substandard, or Doubtful are considered Criticized loans. Commercial loans categorized as Substandard or Doubtful are also considered Classified loans.

For all classes within all consumer loan portfolios, each loan is assigned a specific PD factor that is partially based on the borrower s most recent credit bureau score (FICO), which we update quarterly. A FICO credit bureau score is a credit score developed by Fair Isaac Corporation based on data provided by the credit bureaus. The FICO credit bureau score is widely accepted as the standard measure of consumer credit risk used by lenders, regulators, rating agencies, and consumers. The higher the FICO credit bureau score, the higher likelihood of repayment and therefore, an indicator of higher credit quality.

Huntington assesses the risk in the loan portfolio by utilizing numerous risk characteristics. The classifications described above, and also presented in the table below, represent one of those characteristics that are closely monitored in the overall credit risk management processes. The table below shows an increase in FICO scores less than 650 for the automobile portfolio, and to a lesser degree, the home equity and residential mortgage portfolios. These increases are proportional to growth in the portfolio and do not reflect a deterioration in asset quality for the portfolios, as other risk characteristics mitigate any increased level of risk associated with the FICO score distribution.

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The following table presents each loan and lease class by credit quality indicator at June 30, 2013 and December 31, 2012:

| | June 30, 2013 | | | | |
|---|---|---|---|---|---|
| | Credit Risk Profile by UCS classification | | | | |
| *(dollar amounts in thousands)* | Pass | OLEM | Substandard | Doubtful | Total |
| Commercial and industrial: | | | | | |
| Owner occupied | **$ 4,019,839** | **$ 156,690** | **$ 193,794** | **$ 544** | **$ 4,370,867** |
| Purchased credit-impaired | **5,447** | **2,499** | **42,300** | | **50,246** |
| Other commercial and industrial | **12,208,553** | **130,952** | **351,468** | **698** | **12,691,671** |
| Total commercial and industrial | **$ 16,233,839** | **$ 290,141** | **$ 587,562** | **$ 1,242** | **$ 17,112,784** |
| Commercial real estate: | | | | | |
| Retail properties | **$ 1,096,592** | **$ 22,079** | **$ 141,091** | **$** | **$ 1,259,762** |
| Multi family | **896,219** | **15,029** | **42,052** | **115** | **953,415** |
| Office | **827,692** | **15,667** | **88,483** | **34** | **931,876** |
| Industrial and warehouse | **491,788** | **11,688** | **37,420** | | **540,896** |
| Purchased credit-impaired | **15,637** | **8,457** | **81,368** | **731** | **106,193** |
| Other commercial real estate | **995,884** | **15,287** | **88,882** | **248** | **1,100,301** |
| Total commercial real estate | **$ 4,323,812** | **$ 88,207** | **$ 479,296** | **$ 1,128** | **$ 4,892,443** |

| | Credit Risk Profile by FICO score (1) | | | | |
|---|---|---|---|---|---|
| | 750+ | 650-749 | <650 | Other (2) | Total |
| Automobile | **$ 2,598,464** | **$ 2,231,028** | **$ 819,828** | **$ 160,783** | **$ 5,810,103** |
| Home equity: | | | | | |
| Secured by first-lien | **$ 2,915,640** | **$ 1,384,432** | **$ 294,703** | **$ 45,889** | **$ 4,640,664** |
| Secured by junior-lien | **1,899,341** | **1,305,376** | **456,991** | **66,854** | **3,728,562** |
| Total home equity | **$ 4,814,981** | **$ 2,689,808** | **$ 751,694** | **$ 112,743** | **$ 8,369,226** |
| Residential mortgage: | | | | | |
| Residential mortgage | **$ 2,702,524** | **$ 1,664,577** | **$ 720,024** | **$ 78,667** | **$ 5,165,792** |
| Purchased credit-impaired | **429** | **1,126** | **341** | **155** | **2,051** |
| Total residential mortgage | **$ 2,702,953** | **$ 1,665,703** | **$ 720,365** | **$ 78,822** | **$ 5,167,843** |
| Other consumer: | | | | | |
| Other consumer | **$ 154,863** | **$ 151,411** | **$ 48,614** | **$ 32,429** | **$ 387,317** |
| Purchased credit-impaired | | **90** | **41** | | **131** |
| Total other consumer | **$ 154,863** | **$ 151,501** | **$ 48,655** | **$ 32,429** | **$ 387,448** |

| | December 31, 2012 | | | | |
|---|---|---|---|---|---|
| | Credit Risk Profile by UCS classification | | | | |
| *(dollar amounts in thousands)* | Pass | OLEM | Substandard | Doubtful | Total |
| Commercial and industrial: | | | | | |
| Owner occupied | $ 3,970,597 | $ 108,731 | $ 205,822 | $ 769 | $ 4,285,919 |
| Purchased credit-impaired | 1,663 | 6,555 | 46,254 | | 54,472 |
| Other commercial and industrial | 12,146,017 | 145,111 | 337,805 | 1,365 | 12,630,298 |
| Total commercial and industrial | $ 16,118,277 | $ 260,397 | $ 589,881 | $ 2,134 | $ 16,970,689 |
| Commercial real estate: | | | | | |
| Retail properties | $ 1,184,987 | $ 63,976 | $ 181,896 | $ | $ 1,430,859 |
| Multi family | 902,616 | 24,098 | 57,548 | 138 | 984,400 |

| | | | | | |
|---|---|---|---|---|---|
| Office | 826,533 | 26,488 | 83,093 | | 936,114 |
| Industrial and warehouse | 540,484 | 15,132 | 41,286 | | 596,902 |
| Purchased credit-impaired | 10,052 | 18,085 | 98,786 | | 126,923 |
| Other commercial real estate | 1,177,213 | 43,454 | 103,262 | 113 | 1,324,042 |
| Total commercial real estate | $ 4,641,885 | $ 191,233 | $ 565,871 | $ 251 | $ 5,399,240 |

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| | Credit Risk Profile by FICO score (1) | | | | |
|---|---|---|---|---|---|
| | 750+ | 650-749 | <650 | Other (2) | Total |
| Automobile | $ 2,233,439 | $ 1,900,824 | $ 682,518 | $ 117,039 | $ 4,933,820 (3) |
| Home equity: | | | | | |
| Secured by first-lien | $ 2,618,888 | $ 1,345,621 | $ 357,019 | $ 59,059 | $ 4,380,587 |
| Secured by junior-lien | 2,046,143 | 1,375,636 | 491,226 | 41,750 | 3,954,755 |
| Total home equity | $ 4,665,031 | $ 2,721,257 | $ 848,245 | $ 100,809 | $ 8,335,342 |
| Residential mortgage | | | | | |
| Residential mortgage | $ 2,561,210 | $ 1,673,485 | $ 711,750 | $ 20,984 | $ 4,967,429 |
| Purchased credit-impaired | 373 | 1,303 | 567 | | 2,243 |
| Total residential mortgage | $ 2,561,583 | $ 1,674,788 | $ 712,317 | $ 20,984 | $ 4,969,672 |
| Other consumer | | | | | |
| Other consumer | $ 169,792 | $ 167,389 | $ 59,815 | $ 22,526 | $ 419,522 |
| Purchased credit-impaired | | 93 | 47 | | 140 |
| Total other consumer | $ 169,792 | $ 167,482 | $ 59,862 | $ 22,526 | $ 419,662 |

(1) Reflects currently updated customer credit scores.
(2) Reflects deferred fees and costs, loans in process, loans to legal entities, etc.
(3) Included $0.3 billion of loans reflected as loans held for sale related to an automobile securitization expected to be completed in 2013. During the 2013 second quarter, this amount was transferred from loans held for sale to the automobile portfolio based on Management s intent and ability to hold these loans for the foreseeable future.

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**Impaired Loans**

For all classes within the C&I and CRE portfolios, all loans with an outstanding balance of $1.0 million or greater are evaluated on a quarterly basis for impairment. Generally, consumer loans within any class are not individually evaluated on a regular basis for impairment. All TDRs, regardless of the outstanding balance amount, are also considered to be impaired. Loans acquired with evidence of deterioration of credit quality since origination for which it is probable at acquisition that all contractually required payments will not be collected are also considered to be impaired.

Once a loan has been identified for an assessment of impairment, the loan is considered impaired when, based on current information and events, it is probable that all amounts due according to the contractual terms of the loan agreement will not be collected. This determination requires significant judgment and use of estimates, and the eventual outcome may differ significantly from those estimates.

When a loan in any class has been determined to be impaired, the amount of the impairment is measured using the present value of expected future cash flows discounted at the loan s effective interest rate or, as a practical expedient, the observable market price of the loan, or the fair value of the collateral, less anticipated selling costs, if the loan is collateral dependent. When the present value of expected future cash flows is used, the effective interest rate is the original contractual interest rate of the loan adjusted for any premium or discount. When the contractual interest rate is variable, the effective interest rate of the loan changes over time. A specific reserve is established as a component of the ALLL when a loan has been determined to be impaired. Subsequent to the initial measurement of impairment, if there is a significant change to the impaired loan s expected future cash flows, or if actual cash flows are significantly different from the cash flows previously estimated, Huntington recalculates the impairment and appropriately adjusts the specific reserve. Similarly, if Huntington measures impairment based on the observable market price of an impaired loan or the fair value of the collateral of an impaired collateral dependent loan, Huntington will adjust the specific reserve.

When a loan within any class is impaired, the accrual of interest income is discontinued unless the receipt of principal and interest is no longer in doubt. Interest income on TDRs is accrued when all principal and interest is expected to be collected under the post-modification terms. Cash receipts received on nonaccruing impaired loans within any class are generally applied entirely against principal until the loan has been collected in full, after which time any additional cash receipts are recognized as interest income. Cash receipts received on accruing impaired loans within any class are applied in the same manner as accruing loans that are not considered impaired.

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The following tables present the balance of the ALLL attributable to loans by portfolio segment individually and collectively evaluated for impairment and the related loan and lease balance at June 30, 2013 and December 31, 2012:

| *(dollar amounts in thousands)* | Commercial and Industrial | Commercial Real Estate | Automobile | Home Equity | Residential Mortgage | Other Consumer | Total |
|---|---|---|---|---|---|---|---|
| ALLL at June 30, 2013: | | | | | | | |
| Portion of ALLL balance: | | | | | | | |
| Attributable to purchased credit-impaired loans | $ 917 | $ 1,411 | $ | $ | $ | $ | $ 2,328 |
| Attributable to loans individually evaluated for impairment | 13,723 | 28,831 | 890 | 4,474 | 12,565 | 177 | 60,660 |
| Attributable to loans collectively evaluated for impairment | 219,039 | 225,607 | 39,100 | 111,152 | 51,237 | 23,953 | 670,088 |
| Total ALLL balance | $ 233,679 | $ 255,849 | $ 39,990 | $ 115,626 | $ 63,802 | $ 24,130 | $ 733,076 |
| Loan and Lease Ending Balances at June 30, 2013: | | | | | | | |
| Portion of loan and lease ending balance: | | | | | | | |
| Attributable to purchased credit-impaired loans | $ 50,246 | $ 106,193 | $ | $ | $ 2,051 | $ 131 | $ 158,621 |
| Individually evaluated for impairment | 132,197 | 244,870 | 40,511 | 145,987 | 374,496 | 3,383 | 941,444 |
| Collectively evaluated for impairment | 16,930,341 | 4,541,380 | 5,769,592 | 8,223,239 | 4,791,296 | 383,934 | 40,639,782 |
| Total loans and leases evaluated for impairment | $ 17,112,784 | $ 4,892,443 | $ 5,810,103 | $ 8,369,226 | $ 5,167,843 | $ 387,448 | $ 41,739,847 |

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| *(dollar amounts in thousands)* | Commercial and Industrial | Commercial Real Estate | Automobile | Home Equity | Residential Mortgage | Other Consumer | Total |
|---|---|---|---|---|---|---|---|
| ALLL at December 31, 2012 | | | | | | | |
| Portion of ALLL balance: | | | | | | | |
| Attributable to purchased credit-impaired loans | $ | $ | $ | $ | $ | $ | $ |
| Attributable to loans individually evaluated for impairment | 11,694 | 31,133 | 1,446 | 4,783 | 14,176 | 213 | 63,445 |
| Attributable to loans collectively evaluated for impairment | 229,357 | 254,236 | 33,533 | 113,981 | 47,482 | 27,041 | 705,630 |
| Total ALLL balance: | $ 241,051 | $ 285,369 | $ 34,979 | $ 118,764 | $ 61,658 | $ 27,254 | $ 769,075 |
| Loan and Lease Ending Balances at December 31, 2012 | | | | | | | |
| Portion of loan and lease ending balances: | | | | | | | |
| Attributable to purchased credit-impaired loans | $ 54,472 | $ 126,923 | $ | $ | $ 2,243 | $ 140 | $ 183,778 |
| Individually evaluated for impairment | 119,535 | 298,891 | 43,607 | 117,532 | 374,526 | 2,657 | 956,748 |
| Collectively evaluated for impairment | 16,796,682 | 4,973,426 | 4,590,213 | 8,217,810 | 4,592,903 | 416,865 | 39,587,899 |
| Total loans and leases evaluated for impairment | $ 16,970,689 | $ 5,399,240 | $ 4,633,820 | $ 8,335,342 | $ 4,969,672 | $ 419,662 | $ 40,728,425 |

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The following tables present by class the ending, unpaid principal balance, and the related ALLL, along with the average balance and interest income recognized only for loans and leases individually evaluated for impairment and purchased credit-impaired loans: (1), (2)

| | | June 30, 2013 | | Three Months Ended June 30, 2013 | | Six Months Ended June 30, 2013 | |
|---|---|---|---|---|---|---|---|
| *(dollar amounts in thousands)* | Ending Balance | Unpaid Principal Balance (5) | Related Allowance | Average Balance | Interest Income Recognized | Average Balance | Interest Income Recognized |
| *With no related allowance recorded:* | | | | | | | |
| Commercial and industrial: | | | | | | | |
| Owner occupied | $ 5,556 | $ 5,995 | $ | $ 4,668 | $ 42 | $ 4,204 | $ 84 |
| Purchased credit-impaired | | | | | | | |
| Other commercial and industrial | 17,177 | 29,088 | | 6,603 | 71 | 11,456 | 306 |
| Total commercial and industrial | $ 22,733 | $ 35,083 | $ | $ 11,271 | $ 113 | $ 15,660 | $ 390 |
| Commercial real estate: | | | | | | | |
| Retail properties | $ 37,593 | $ 39,009 | $ | $ 48,806 | $ 606 | $ 51,522 | $ 1,310 |
| Multi family | 4,206 | 4,324 | | 4,662 | 70 | 5,152 | 158 |
| Office | 9,240 | 13,916 | | 12,473 | 311 | 15,161 | 531 |
| Industrial and warehouse | 10,470 | 11,592 | | 10,625 | 152 | 12,560 | 349 |
| Purchased credit-impaired | | | | | | | |
| Other commercial real estate | 7,223 | 8,928 | | 9,250 | 127 | 9,764 | 224 |
| Total commercial real estate | $ 68,732 | $ 77,769 | $ | $ 85,816 | $ 1,266 | $ 94,159 | $ 2,572 |
| Automobile | $ | $ | $ | $ | $ | $ | $ |
| Home equity: | | | | | | | |
| Secured by first-lien | $ | $ | $ | $ | $ | $ | $ |
| Secured by junior-lien | | | | | | | |
| Total home equity | $ | $ | $ | $ | $ | $ | $ |
| Residential mortgage: | | | | | | | |
| Residential mortgage | $ | $ | $ | $ | $ | $ | $ |
| Purchased credit-impaired | 2,051 | 3,531 | | 2,200 | 49 | 2,214 | 92 |
| Total residential mortgage | $ 2,051 | $ 3,531 | $ | $ 2,200 | $ 49 | $ 2,214 | $ 92 |
| Other consumer | | | | | | | |
| Other consumer | $ | $ | $ | $ | $ | $ | $ |
| Purchased credit-impaired | 131 | 232 | | 144 | 3 | 143 | 6 |
| Total other consumer | $ 131 | $ 232 | $ | $ 144 | $ 3 | $ 143 | $ 6 |
| *With an allowance recorded:* | | | | | | | |
| Commercial and industrial: (3) | | | | | | | |
| Owner occupied | $ 39,375 | $ 45,050 | $ 4,416 | $ 42,193 | $ 340 | $ 43,158 | $ 691 |
| Purchased credit-impaired | 50,246 | 72,766 | 917 | 51,784 | 1,198 | 52,682 | 2,249 |
| Other commercial and industrial | 70,089 | 84,618 | 10,435 | 73,533 | 966 | 62,427 | 1,624 |
| Total commercial and industrial | $ 159,710 | $ 202,434 | $ 15,768 | $ 167,510 | $ 2,504 | $ 158,267 | $ 4,564 |
| Commercial real estate: (4) | | | | | | | |
| Retail properties | $ 57,306 | $ 84,816 | $ 6,805 | $ 53,584 | $ 399 | $ 54,780 | $ 855 |
| Multi family | 13,690 | 15,293 | 2,264 | 15,058 | 154 | 15,961 | 331 |
| Office | 54,634 | 61,935 | 12,679 | 48,321 | 417 | 45,158 | 801 |
| Industrial and warehouse | 17,343 | 18,654 | 1,013 | 19,138 | 183 | 19,624 | 368 |
| Purchased credit-impaired | 106,193 | 191,632 | 1,411 | 112,163 | 2,531 | 117,083 | 4,753 |
| Other commercial real estate | 33,165 | 38,442 | 6,316 | 34,941 | 439 | 39,967 | 818 |
| Total commercial real estate | $ 282,331 | $ 410,772 | $ 30,488 | $ 283,205 | $ 4,123 | $ 292,573 | $ 7,926 |
| Automobile | $ 40,511 | $ 42,055 | $ 890 | $ 40,830 | $ 866 | $ 41,756 | $ 1,303 |
| Home equity: | | | | | | | |
| Secured by first-lien | $ 86,637 | $ 89,320 | $ 1,449 | $ 99,684 | $ 950 | $ 91,875 | $ 1,892 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Secured by junior-lien | **59,350** | **72,064** | **3,025** | **59,971** | **721** | **53,739** | **1,313** |
| Total home equity | **$ 145,987** | **$ 161,384** | **$ 4,474** | **$ 159,655** | **$ 1,671** | **$ 145,614** | **$ 3,205** |
| Residential mortgage (6): | | | | | | | |
| Residential mortgage | **$ 374,496** | **$ 414,987** | **$ 12,565** | **$ 373,426** | **$ 2,870** | **$ 373,793** | **$ 5,742** |
| Purchased credit-impaired | | | | | | | |
| Total residential mortgage | **$ 374,496** | **$ 414,987** | **$ 12,565** | **$ 373,426** | **$ 2,870** | **$ 373,793** | **$ 5,742** |
| Other consumer: | | | | | | | |
| Other consumer | **$ 3,383** | **$ 3,383** | **$ 177** | **$ 2,948** | **$ 32** | **$ 2,851** | **$ 55** |
| Purchased credit-impaired | | | | | | | |
| Total other consumer | **$ 3,383** | **$ 3,383** | **$ 177** | **$ 2,948** | **$ 32** | **$ 2,851** | **$ 55** |

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| (dollar amounts in thousands) | December 31, 2012 Ending Balance | December 31, 2012 Unpaid Principal Balance (5) | December 31, 2012 Related Allowance | Three Months Ended June 30, 2012 Average Balance | Three Months Ended June 30, 2012 Interest Income Recognized | Six Months Ended June 30, 2012 Average Balance | Six Months Ended June 30, 2012 Interest Income Recognized |
|---|---|---|---|---|---|---|---|
| *With no related allowance recorded:* | | | | | | | |
| Commercial and industrial: | | | | | | | |
| Owner occupied | $ 1,050 | $ 1,091 | $ | $ 8,038 | $ 36 | $ 5,614 | $ 60 |
| Purchased credit-impaired | 54,472 | 80,294 | | 70,641 | 832 | 70,641 | 832 |
| Other commercial and industrial | 31,841 | 54,520 | | 11,114 | 162 | 8,196 | 255 |
| Total commercial and industrial | $ 87,363 | $ 135,905 | $ | $ 89,793 | $ 1,030 | $ 84,451 | $ 1,147 |
| Commercial real estate: | | | | | | | |
| Retail properties | $ 54,216 | $ 56,569 | $ | $ 54,861 | $ 722 | $ 51,532 | $ 1,476 |
| Multi family | 5,719 | 5,862 | | 6,033 | 96 | 6,112 | 193 |
| Office | 20,051 | 24,843 | | 4,010 | 27 | 2,598 | 52 |
| Industrial and warehouse | 15,013 | 17,476 | | 6,799 | 100 | 7,178 | 206 |
| Purchased credit-impaired | 126,923 | 226,093 | | 174,299 | 1,950 | 174,299 | 1,950 |
| Other commercial real estate | 10,479 | 10,728 | | 16,113 | 125 | 18,067 | 273 |
| Total commercial real estate | $ 232,401 | $ 341,571 | $ | $ 262,115 | $ 3,020 | $ 259,786 | $ 4,150 |
| Home equity: | | | | | | | |
| Secured by first-lien | $ | $ | $ | $ | $ | $ | $ |
| Secured by junior-lien | | | | | | | |
| Total home equity | $ | $ | $ | $ | $ | $ | $ |
| Residential mortgage: | | | | | | | |
| Residential mortgage | $ | $ | $ | $ | $ | $ | $ |
| Purchased credit-impaired | 2,243 | 4,104 | | 4,805 | 34 | 4,805 | 34 |
| Total residential mortgage | $ 2,243 | $ 4,104 | $ | $ 4,805 | $ 34 | $ 4,805 | $ 34 |
| Other consumer | | | | | | | |
| Other consumer | $ | $ | $ | $ | $ | $ | $ |
| Purchased credit-impaired | 140 | 245 | | 864 | 9 | 864 | 9 |
| Total other consumer | $ 140 | $ 245 | $ | $ 864 | $ 9 | $ 864 | $ 9 |
| *With an allowance recorded:* | | | | | | | |
| Commercial and industrial: (3) | | | | | | | |
| Owner occupied | $ 46,266 | $ 56,925 | $ 5,730 | $ 33,400 | $ 293 | $ 38,411 | $ 695 |
| Purchased credit-impaired | | | | | | | |
| Other commercial and industrial | 40,378 | 52,996 | 5,964 | 86,688 | 627 | 87,909 | 1,482 |
| Total commercial and industrial | $ 86,644 | $ 109,921 | $ 11,694 | $ 120,088 | $ 920 | $ 126,320 | $ 2,177 |
| Commercial real estate: (4) | | | | | | | |
| Retail properties | $ 65,004 | $ 73,000 | $ 8,144 | $ 118,628 | $ 906 | $ 121,163 | $ 3,185 |
| Multi family | 17,410 | 18,531 | 2,662 | 25,288 | 206 | 31,312 | 828 |
| Office | 40,375 | 45,164 | 9,214 | 17,218 | 51 | 20,167 | 158 |
| Industrial and warehouse | 22,450 | 25,374 | 1,092 | 22,596 | 74 | 24,547 | 353 |
| Purchased credit-impaired | | | | | | | |
| Other commercial real estate | 48,174 | 63,148 | 10,021 | 75,986 | 456 | 77,907 | 1,618 |
| Total commercial real estate | $ 193,413 | $ 225,217 | $ 31,133 | $ 259,716 | $ 1,693 | $ 275,096 | $ 6,142 |
| Automobile | $ 43,607 | $ 44,790 | $ 1,446 | $ 34,991 | $ 794 | $ 35,518 | $ 1,616 |
| Home equity: | | | | | | | |
| Secured by first-lien | $ 76,258 | $ 80,831 | $ 1,329 | $ 47,568 | $ 561 | $ 43,659 | $ 1,040 |
| Secured by junior-lien | 41,274 | 63,390 | 3,454 | 15,919 | 222 | 16,196 | 437 |
| Total home equity | $ 117,532 | $ 144,221 | $ 4,783 | $ 63,487 | $ 783 | $ 59,855 | $ 1,477 |
| Residential mortgage (6): | | | | | | | |
| Residential mortgage | $ 374,526 | $ 413,583 | $ 14,176 | $ 325,842 | $ 2,866 | $ 329,151 | $ 5,803 |
| Purchased credit-impaired | | | | | | | |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Total residential mortgage | $ 374,526 | $ 413,583 | $ 14,176 | $ 325,842 | $ 2,866 | $ 329,151 | $ 5,803 |
| Other consumer: | | | | | | | |
| Other consumer | $ 2,657 | $ 2,657 | $ 213 | $ 3,748 | $ 26 | $ 4,572 | $ 59 |
| Purchased credit-impaired | | | | | | | |
| Total other consumer | $ 2,657 | $ 2,657 | $ 213 | $ 3,748 | $ 26 | $ 4,572 | $ 59 |

(1) These tables do not include loans fully charged-off.
(2) All automobile, home equity, residential mortgage, and other consumer impaired loans included in these tables are considered impaired due to their status as a TDR.
(3) At June 30, 2013, $41,644 thousand of the $109,464 thousand commercial and industrial loans with an allowance recorded were considered impaired due to their status as a TDR. At December 31, 2012, $44,265 thousand of the $86,644 thousand commercial and industrial loans with an allowance recorded were considered impaired due to their status as a TDR.
(4) At June 30, 2013, $30,865 thousand of the $176,138 thousand commercial real estate loans with an allowance recorded were considered impaired due to their status as a TDR. At December 31, 2012, $31,605 thousand of the $193,413 thousand commercial real estate loans with an allowance recorded were considered impaired due to their status as a TDR.
(5) The differences between the ending balance and unpaid principal balance amounts represent partial charge-offs.
(6) At June 30, 2013, $32,435 thousand of the $374,496 thousand residential mortgages loans with an allowance recorded were guaranteed by the U.S. government. At December 31, 2012, $28,695 thousand of the $374,526 thousand residential mortgage loans with an allowance recorded were guaranteed by the U.S. government.

**TDR Loans**

TDRs are modified loans where a concession was provided to a borrower experiencing financial difficulties. Loan modifications are considered TDRs when the concessions provided are not available to the borrower through either normal channels or other sources. However, not all loan modifications are TDRs.

TDR Concession Types

The Company s standards relating to loan modifications consider, among other factors, minimum verified income requirements, cash flow analysis, and collateral valuations. Each potential loan modification is reviewed individually and the terms of the loan are modified to meet a borrower s specific circumstances at a point in time. All commercial TDRs are reviewed and approved by our SAD. The types of concessions provided to borrowers include:

Interest rate reduction: A reduction of the stated interest rate to a nonmarket rate for the remaining original life of the debt.

Amortization or maturity date change beyond what the collateral supports, including any of the following:

(1) Lengthens the amortization period of the amortized principal beyond market terms. This concession reduces the minimum monthly payment and increases the amount of the balloon payment at the end of the term of the loan. Principal is generally not forgiven.
(2) Reduces the amount of loan principal to be amortized. This concession also reduces the minimum monthly payment and increases the amount of the balloon payment at the end of the term of the loan. Principal is generally not forgiven.
(3) Extends the maturity date or dates of the debt beyond what the collateral supports. This concession generally applies to loans without a balloon payment at the end of the term of the loan.

Chapter 7 bankruptcy: A bankruptcy court s discharge of a borrower s debt is considered a concession when the borrower does not reaffirm the discharged debt.

Other: A concession that is not categorized as one of the concessions described above. These concessions include, but are not limited to: principal forgiveness, collateral concessions, covenant concessions, and reduction of accrued interest.

Principal forgiveness may result from any TDR modification of any concession type. However, the aggregate amount of principal forgiven as a result of loans modified as TDRs during the three-month and six-month periods ended June 30, 2013 and 2012, was not significant.

TDRs by Loan Type

Following is a description of TDRs by the different loan types:

*Commercial loan TDRs* Commercial accruing TDRs often result from loans receiving a concession with terms that are not considered a market transaction to Huntington. The TDR remains in accruing status as long as the customer is less than 90-days past due on payments per the restructured loan terms and no loss is expected.

Commercial nonaccrual TDRs result from either: (1) an accruing commercial TDR being placed on nonaccrual status, or (2) a workout where an existing commercial NAL is restructured and a concession was given. At times, these workouts restructure the NAL so that two or more new notes are created. The primary note is underwritten based upon our normal underwriting standards and is sized so projected cash flows are sufficient to repay contractual principal and interest. The terms on the secondary note(s) vary by situation, and may include notes that defer principal and interest payments until after the primary note is repaid. Creating two or more notes often allows the borrower to continue a project or weather a temporary economic downturn and allows Huntington to right-size a loan based upon the current expectations for a borrower s or project s performance.

Our strategy involving TDR borrowers includes working with these borrowers to allow them to refinance elsewhere, as well as allow them time to improve their financial position and remain our customer through refinancing their notes according to market terms and conditions in the future. A subsequent refinancing or modification of a loan may occur when either the loan matures according to the terms of the TDR-modified agreement or the borrower requests a change to the loan agreements. At that time, the loan is evaluated to determine if it is creditworthy. It is subjected to the normal underwriting standards and processes for other similar credit extensions, both new and existing. The refinanced note is evaluated to determine if it is considered a new loan or a continuation of the prior loan. A new loan is considered for removal of the TDR designation, whereas a continuation of the prior note requires a continuation of the TDR designation. In order for a TDR designation to be removed, the borrower must no longer be experiencing financial difficulties and the terms of the refinanced loan must not represent a concession.

*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. The primary concessions given to residential mortgage borrowers are amortization or maturity date changes and interest rate reductions. Residential mortgages identified as TDRs involve borrowers unable to refinance their mortgages through the Company s normal mortgage origination channels or through other independent sources. Some, but not all, of the loans may be delinquent.

*Automobile, Home Equity, and Other Consumer loan TDRs* The Company may make similar interest rate, term, and principal concessions as with residential mortgage loan TDRs.

TDR Impact on Credit Quality

Huntington s ALLL is largely determined by updated risk ratings assigned to commercial loans, updated borrower credit scores on consumer loans, and borrower delinquency history in both the commercial and consumer portfolios. These updated risk ratings and credit scores consider the default history of the borrower, including payment redefaults. As such, the provision for credit losses is impacted primarily by changes in borrower payment performance rather than the TDR classification. TDRs can be classified as either accrual or nonaccrual loans. Nonaccrual TDRs are included in NALs whereas accruing TDRs are excluded from NALs as it is probable that all contractual principal and interest due under the restructured terms will be collected.

Our TDRs may include multiple concessions and the disclosure classifications are presented based on the primary concession provided to the borrower. The majority of our concessions for the C&I and CRE portfolios are the extension of the maturity date coupled with an increase in the interest rate. In these instances, the primary concession is the maturity date extension.

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TDR concessions may also result in the reduction of the ALLL within the C&I and CRE portfolios. This reduction is derived from payments and the resulting application of the reserve calculation within the ALLL. The transaction reserve for non-TDR C&I and CRE loans is calculated based upon several estimated probability factors, such as PD and LGD, both of which were previously discussed. Upon the occurrence of a TDR in our C&I and CRE portfolios, the reserve is measured based on discounted expected cash flows or collateral value, less anticipated selling costs, of the modified loan in accordance with ASC 310-10. The resulting TDR ALLL calculation often results in a lower ALLL amount because (1) the discounted expected cash flows or collateral value, less anticipated selling costs, indicate a lower estimated loss, (2) if the modification includes a rate increase, the discounting of the cash flows on the modified loan, using the pre-modification interest rate, exceeds the carrying value of the loan, or (3) payments may occur as part of the modification. The ALLL for C&I and CRE loans may increase as a result of the modification, as the discounted cash flow analysis may indicate additional reserves are required.

TDR concessions on consumer loans may increase the ALLL. The concessions made to these borrowers often include interest rate reductions, and therefore, the TDR ALLL calculation results in a greater ALLL compared with the non-TDR calculation as the reserve is measured based on the estimation of the discounted expected cash flows or collateral value, less anticipated selling costs, on the modified loan in accordance with ASC 310-10. The resulting TDR ALLL calculation often results in a higher ALLL amount because (1) the discounted expected cash flows or collateral value, less anticipated selling costs, indicate a higher estimated loss or, (2) due to the rate decrease, the discounting of the cash flows on the modified loan, using the pre-modification interest rate, indicates a reduction in the expected cash flows or collateral value, less anticipated selling costs. In certain instances, the ALLL may decrease as a result of payments made in connection with the modification.

*Commercial loan TDRs* In instances where the bank substantiates that it will collect its outstanding balance in full, the note is considered for return to accrual status upon the borrower sustaining sufficient cash flows for a six-month period of time. This six-month period could extend before or after the restructure date. If a charge-off was taken as part of the restructuring, any interest or principal payments received on that note are applied to first reduce the bank s outstanding book balance and then to recoveries of charged-off principal, unpaid interest, and/or fee expenses while the TDR is in nonaccrual status.

*Residential Mortgage, Automobile, Home Equity, and Other Consumer loan TDRs* 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-loan level. Once the loans are aggregated into the pool, they continue to be classified as TDRs until contractually repaid or charged-off.

Residential mortgage loans not guaranteed by a U.S. government agency such as the FHA, VA, and the USDA, including TDR loans, are reported as accrual or nonaccrual based upon delinquency status. Nonaccrual TDRs are those that are greater than 150-days contractually past due. Loans guaranteed by U.S. government organizations continue to accrue interest upon delinquency.

The following tables present by class and by the reason for the modification, the number of contracts, post-modification outstanding balance, and the financial effects of the modification for the three-month and six-month periods ended June 30, 2013 and 2012:

| *(dollar amounts in thousands)* | **New Troubled Debt Restructurings During The Three-Month Period Ended[1]** | | | | | |
|---|---|---|---|---|---|---|
| | **June 30, 2013** | | | June 30, 2012 | | |
| | Number of Contracts | Post-modification Outstanding Ending Balance | Financial effects of modification[2] | Number of Contracts | Post-modification Outstanding Ending Balance | Financial effects of modification[2] |
| C&I - Owner occupied: | | | | | | |
| Interest rate reduction | **5** | **$ 607** | **$ (7)** | 4 | $ 1,187 | $ (2) |
| Amortization or maturity date change | **22** | **4,161** | **13** | 30 | 8,312 | 618 |
| Other | **3** | **751** | **90** | 4 | 1,260 | (121) |
| Total C&I Owner occupied | **30** | **$ 5,519** | **$ 96** | 38 | $ 10,759 | $ 495 |
| C&I Other commercial and industrial: | | | | | | |
| Interest rate reduction | **7** | **$ 25,187** | **$ 446** | 11 | $ 3,750 | $ 217 |
| Amortization or maturity date change | **31** | **15,573** | **690** | 43 | 19,554 | (830) |
| Other | **7** | **1,961** | | 3 | 1,500 | (184) |
| Total C&I Other commercial and industrial | **45** | **$ 42,721** | **$ 1,136** | 57 | $ 24,804 | $ (797) |
| CRE Retail properties: | | | | | | |
| Interest rate reduction | **2** | **$ 738** | **$ (3)** | 4 | $ 3,232 | $ 959 |
| Amortization or maturity date change | **2** | **404** | **(1)** | 5 | 1,292 | (3) |
| Other | **3** | **5,894** | **1,201** | | | |
| Total CRE Retail properties | **7** | **$ 7,036** | **$ 1,197** | 9 | $ 4,524 | $ 956 |
| CRE Multi family: | | | | | | |
| Interest rate reduction | **3** | **$ 487** | **$ (1)** | | $ | $ |
| Amortization or maturity date change | **6** | **493** | **8** | 3 | 196 | 2 |
| Other | **1** | **3,927** | **26** | 2 | 5,586 | 797 |
| Total CRE Multi family | **10** | **$ 4,907** | **$ 33** | 5 | $ 5,782 | $ 799 |
| CRE Office: | | | | | | |
| Interest rate reduction | **4** | **$ 6,080** | **$ 1,656** | | $ | $ |
| Amortization or maturity date change | **2** | **479** | **11** | 2 | 1,576 | 363 |
| Other | **2** | **282** | | | | |
| Total CRE Office | **8** | **$ 6,841** | **$ 1,667** | 2 | $ 1,576 | $ 363 |
| CRE Industrial and warehouse: | | | | | | |
| Amortization or maturity date change | **2** | **452** | **(4)** | 3 | 1,335 | (185) |
| Other | | | | | | |
| Total CRE Industrial and Warehouse | **2** | **$ 452** | **$ (4)** | 3 | $ 1,335 | $ (185) |

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|---|---|---|---|---|---|---|
| CRE Other commercial real estate: | | | | | | |
| Interest rate reduction | **2** | **$ 847** | **$ 53** | 7 | $ 2,037 | $ (216) |
| Amortization or maturity date change | **4** | **700** | **2** | 14 | 5,877 | 2 |
| Other | **1** | **352** | **(1)** | | | |
| Total CRE Other commercial real estate | **7** | **$ 1,899** | **$ 54** | 21 | $ 7,914 | $ (214) |
| Automobile: | | | | | | |
| Interest rate reduction | **4** | **$ 31** | **$** | 8 | $ 91 | $ 2 |
| Amortization or maturity date change | **360** | **1,986** | **(14)** | 428 | 2,904 | (18) |
| Chapter 7 bankruptcy | **464** | **2,649** | **241** | | | |
| Total Automobile | **828** | **$ 4,666** | **$ 227** | 436 | $ 2,995 | $ (16) |
| Residential mortgage: | | | | | | |
| Interest rate reduction | **26** | **$ 2,056** | **$ 7** | 3 | $ 6,133 | $ (49) |
| Amortization or maturity date change | **123** | **15,347** | **44** | 143 | 19,039 | 688 |
| Chapter 7 bankruptcy | **21** | **1,751** | **310** | | | |
| Other | **6** | **577** | **14** | | | |
| Total Residential mortgage | **176** | **$ 19,731** | **$ 375** | 146 | $ 25,172 | $ 639 |
| First-lien home equity: | | | | | | |
| Interest rate reduction | **43** | **$ 3,652** | **$ 279** | 63 | $ 7,389 | $ 1,182 |
| Amortization or maturity date change | **48** | **3,550** | **(193)** | 11 | 1,263 | (1) |
| Chapter 7 bankruptcy | **16** | **987** | **37** | | | |
| Total First-lien home equity | **107** | **$ 8,189** | **$ 123** | 74 | $ 8,652 | $ 1,181 |
| Junior-lien home equity: | | | | | | |
| Interest rate reduction | **11** | **$ 599** | **$ 105** | 15 | $ 544 | $ 85 |
| Amortization or maturity date change | **313** | **12,488** | **(1,175)** | 5 | 264 | (1) |
| Chapter 7 bankruptcy | **55** | **568** | **1,349** | | | |
| Total Junior-lien home equity | **379** | **$ 13,655** | **$ 279** | 20 | $ 808 | $ 84 |
| Other consumer: | | | | | | |
| Interest rate reduction | **2** | **$ 195** | **$ 41** | 1 | $ 44 | $ 4 |
| Amortization or maturity date change | **1** | **1** | | 6 | 268 | 26 |
| Chapter 7 bankruptcy | **3** | **143** | **40** | | | |
| Total Other consumer | **6** | **$ 339** | **$ 81** | 7 | $ 312 | $ 30 |
| Total new troubled debt restructurings | **1,605** | **$ 115,955** | **$ 5,264** | 818 | $ 94,633 | $ 3,335 |

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| | New Troubled Debt Restructurings During The Six-Month Period Ended[1] | | | | | |
|---|---|---|---|---|---|---|
| | **June 30, 2013** | | | June 30, 2012 | | |
| *(dollar amounts in thousands)* | Number of Contracts | Post-modification Outstanding Ending Balance | Financial effects of modification[2] | Number of Contracts | Post-modification Outstanding Ending Balance | Financial effects of modification[2] |
| C&I Owner occupied: | | | | | | |
| Interest rate reduction | **14** | **$ 5,275** | **$ (472)** | 14 | $ 4,968 | $ 132 |
| Amortization or maturity date change | **33** | **9,014** | **(12)** | 47 | 11,034 | 571 |
| Other | **8** | **2,424** | **89** | 8 | 2,771 | 1,258 |
| Total C&I Owner occupied | **55** | **$ 16,713** | **$ (395)** | 69 | $ 18,773 | $ 1,961 |
| C&I Other commercial and industrial: | | | | | | |
| Interest rate reduction | **12** | **$ 42,756** | **$ 447** | 17 | $ 5,066 | $ 262 |
| Amortization or maturity date change | **66** | **37,633** | **3,395** | 71 | 24,010 | (838) |
| Other | **14** | **7,000** | **211** | 18 | 31,002 | 65 |
| Total C&I Other commercial and industrial | **92** | **$ 87,389** | **$ 4,053** | 106 | $ 60,078 | $ (511) |
| CRE Retail properties: | | | | | | |
| Interest rate reduction | **2** | **$ 738** | **$ (3)** | 8 | $ 6,027 | $ 957 |
| Amortization or maturity date change | **6** | **903** | **(2)** | 10 | 3,050 | (21) |
| Other | **5** | **9,723** | **1,182** | | | |
| Total CRE Retail properties | **13** | **$ 11,364** | **$ 1,177** | 18 | $ 9,077 | $ 936 |
| CRE Multi family: | | | | | | |
| Interest rate reduction | **6** | **$ 2,651** | **$ 10** | 2 | $ 334 | $ (5) |
| Amortization or maturity date change | **8** | **1,235** | **7** | 13 | 1,697 | (71) |
| Other | **2** | **7,883** | **(7)** | 6 | 7,618 | 676 |
| Total CRE Multi family | **16** | **$ 11,769** | **$ 10** | 21 | $ 9,649 | $ 600 |
| CRE Office: | | | | | | |
| Interest rate reduction | **4** | **$ 6,080** | **$ 1,656** | 3 | $ 2,116 | $ 363 |
| Amortization or maturity date change | **7** | **4,343** | **23** | 2 | 1,576 | 363 |
| Other | **2** | **282** | | 3 | 306 | |
| Total CRE Office | **13** | **$ 10,705** | **$ 1,679** | 8 | $ 3,998 | $ 726 |
| CRE Industrial and warehouse: | | | | | | |
| Interest rate reduction | | **$** | **$** | 1 | $ 3,000 | $ 4 |
| Amortization or maturity date change | **5** | **1,093** | **(3)** | 6 | 2,773 | (121) |
| Other | **1** | **5,867** | | | | |
| Total CRE Industrial and Warehouse | **6** | **$ 6,960** | **$ (3)** | 7 | $ 5,773 | $ (117) |
| CRE Other commercial real estate: | | | | | | |
| Interest rate reduction | **9** | **$ 1,490** | **$ 52** | 7 | $ 2,037 | $ (216) |
| Amortization or maturity date change | **4** | **700** | **2** | 28 | 52,553 | 3,762 |
| Other | **1** | **352** | **(1)** | 2 | 9,435 | (2,004) |
| Total CRE Other commercial real estate | **14** | **$ 2,542** | **$ 53** | 37 | $ 64,025 | $ 1,542 |

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|---|---|---|---|---|---|---|
| Automobile: | | | | | | |
| Interest rate reduction | **8** | **$ 73** | **$** | 21 | $ 220 | $ 4 |
| Amortization or maturity date change | **688** | **3,911** | **(34)** | 900 | 6,280 | (43) |
| Chapter 7 bankruptcy | **713** | **4,288** | **377** | | | |
| Other | | | | | | |
| Total Automobile | **1,409** | **$ 8,272** | **$ 343** | 921 | $ 6,500 | $ (39) |
| Residential mortgage: | | | | | | |
| Interest rate reduction | **32** | **$ 8,473** | **$ (36)** | 4 | $ 6,166 | $ (49) |
| Amortization or maturity date change | **177** | **23,011** | **69** | 205 | 26,092 | 934 |
| Chapter 7 bankruptcy | **65** | **6,590** | **443** | | | |
| Other | **12** | **1,285** | **30** | | | |
| Total Residential mortgage | **286** | **$ 39,359** | **$ 506** | 209 | $ 32,258 | $ 885 |
| First-lien home equity: | | | | | | |
| Interest rate reduction | **59** | **$ 5,314** | **$ 421** | 130 | $ 15,003 | $ 2,480 |
| Amortization or maturity date change | **77** | **5,550** | **(569)** | 26 | 2,897 | (5) |
| Chapter 7 bankruptcy | **58** | **3,454** | **614** | | | |
| Other | | | | | | |
| Total First-lien home equity | **194** | **$ 14,318** | **$ 466** | 156 | $ 17,900 | $ 2,475 |
| Junior-lien home equity: | | | | | | |
| Interest rate reduction | **16** | **$ 749** | **$ 125** | 37 | $ 1,476 | $ 217 |
| Amortization or maturity date change | **540** | **21,371** | **(2,367)** | 19 | 872 | (17) |
| Chapter 7 bankruptcy | **180** | **2,257** | **3,119** | | | |
| Other | | | | | | |
| Total Junior-lien home equity | **736** | **$ 24,377** | **$ 877** | 56 | $ 2,348 | $ 200 |
| Other consumer: | | | | | | |
| Interest rate reduction | **3** | **$ 219** | **$ 42** | 5 | $ 163 | $ 13 |
| Amortization or maturity date change | **5** | **64** | **2** | 11 | 328 | 29 |
| Chapter 7 bankruptcy | **17** | **280** | **56** | | | |
| Other | | | | | | |
| Total Other consumer | **25** | **$ 563** | **$ 100** | 16 | $ 491 | $ 42 |
| Total new troubled debt restructurings | **2,859** | **$ 234,331** | **$ 8,866** | 1,624 | $ 230,870 | $ 8,700 |

(1) TDRs may include multiple concessions and the disclosure classifications are based on the primary concession provided to the borrower.
(2) Amount represents the financial impact via provision for loan and lease losses as a result of the modification.
Any loan within any portfolio or class is considered as payment redefaulted at 90-days past due.

The following tables present TDRs that have defaulted within one year of modification during the three-month and six-month periods ended June 30, 2013 and 2012:

| | **Troubled Debt Restructurings That Have Redefaulted[1] Within One Year Of Modification During The Three Months Ended June 30, 2013** | | Three Months Ended June 30, 2012 | |
|---|---|---|---|---|
| *(dollar amounts in thousands)* | Number of Contracts | Ending Balance | Number of Contracts | Ending Balance |
| C&I Owner occupied: | | | | |
| Interest rate reduction | | **$** | | $ |
| Amortization or maturity date change | **1** | | 5 | 472 |
| Other | **4** | **736** | | |
| Total C&I Owner occupied | **5** | **$ 736** | 5 | $ 472 |
| C&I Other commercial and industrial: | | | | |
| Interest rate reduction | | **$** | 3 | $ 529 |
| Amortization or maturity date change | **3** | **116** | 7 | 494 |
| Other | | | 1 | 97 |
| Total C&I Other commercial and industrial | **3** | **$ 116** | 11 | $ 1,120 |
| CRE Retail Properties: | | | | |
| Interest rate reduction | | **$** | | $ |
| Amortization or maturity date change | | | 1 | 151 |
| Other | | | | |
| Total CRE Retail properties | | **$** | 1 | $ 151 |
| CRE Multi family: | | | | |
| Interest rate reduction | | **$** | | $ |
| Amortization or maturity date change | | | 1 | 119 |
| Other | | | | |
| Total CRE Multi family | | **$** | 1 | $ 119 |
| CRE Office: | | | | |
| Interest rate reduction | | **$** | | $ |
| Amortization or maturity date change | **2** | **1,131** | | |
| Other | | | | |
| Total CRE Office | **2** | **$ 1,131** | | $ |
| CRE Industrial and Warehouse: | | | | |
| Interest rate reduction | | **$** | | $ |
| Amortization or maturity date change | | | | |
| Other | | | | |
| Total CRE Industrial and Warehouse | | **$** | | $ |
| CRE Other commercial real estate: | | | | |
| Interest rate reduction | | **$** | 1 | $ 917 |
| Amortization or maturity date change | **1** | **49** | 1 | 118 |
| Other | **1** | **5** | | |
| Total CRE Other commercial real estate | **2** | **$ 54** | 2 | $ 1,035 |
| Automobile: | | | | |

| | | | | |
|---|---|---|---|---|
| Interest rate reduction | **1** | **$ 19** | 1 | $ |
| Amortization or maturity date change | **7** | **90** | 43 | |
| Chapter 7 bankruptcy | **31** | **146** | | |
| Other | | | | |
| Total Automobile | **39** | **$ 255** | 44 | $ |

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| | | | | |
|---|---|---|---|---|
| Residential mortgage: | | | | |
| Interest rate reduction | | **$** | 1 | $ 29 |
| Amortization or maturity date change | **15** | **2,629** | 38 | 5,742 |
| Chapter 7 bankruptcy | **19** | **1,304** | | |
| Other | **1** | **317** | 4 | 417 |
| Total Residential mortgage | **35** | **$ 4,250** | 43 | $ 6,188 |
| First-lien home equity: | | | | |
| Interest rate reduction | | **$** | 1 | $ 54 |
| Amortization or maturity date change | | | | |
| Chapter 7 bankruptcy | **2** | **18** | | |
| Other | | | | |
| Total First-lien home equity | **2** | **$ 18** | 1 | $ 54 |
| Junior-lien home equity: | | | | |
| Interest rate reduction | | **$** | 1 | $ 98 |
| Amortization or maturity date change | **1** | **57** | 1 | 65 |
| Chapter 7 bankruptcy | **6** | **160** | | |
| Other | | | | |
| Total Junior-lien home equity | **7** | **$ 217** | 2 | $ 163 |
| Other consumer: | | | | |
| Interest rate reduction | | **$** | | $ |
| Amortization or maturity date change | | | 3 | |
| Chapter 7 bankruptcy | | | | |
| Other | | | | |
| Total Other consumer | | **$** | 3 | $ |
| Total troubled debt restructurings with subsequent redefault | **95** | **$ 6,777** | 113 | $ 9,302 |

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| | Troubled Debt Restructurings That Have Redefaulted[1] Within One Year of Modification During The Six Months Ended | | | |
|---|---|---|---|---|
| | **June 30, 2013** | | June 30, 2012 | |
| *(dollar amounts in thousands)* | Number of Contracts | Ending Balance | Number of Contracts | Ending Balance |
| C&I Owner occupied: | | | | |
| Interest rate reduction | | $ | 1 | $ 1,011 |
| Amortization or maturity date change | **4** | **471** | 6 | 653 |
| Other | **7** | **1,203** | | |
| Total C&I Owner occupied | **11** | **$ 1,674** | 7 | $ 1,664 |
| C&I Other commercial and industrial: | | | | |
| Interest rate reduction | | $ | 3 | $ 529 |
| Amortization or maturity date change | **9** | **116** | 9 | 638 |
| Other | | | 3 | 459 |
| Total C&I Other commercial and industrial | **9** | **$ 116** | 15 | $ 1,626 |
| CRE Retail Properties: | | | | |
| Interest rate reduction | | $ | | $ |
| Amortization or maturity date change | **3** | **835** | 2 | 375 |
| Other | | | | |
| Total CRE Retail properties | **3** | **$ 835** | 2 | $ 375 |
| CRE Multi family: | | | | |
| Interest rate reduction | | $ | 2 | $ 1,399 |
| Amortization or maturity date change | | | 1 | 119 |
| Other | | | | |
| Total CRE Multi family | | $ | 3 | $ 1,518 |
| CRE Office: | | | | |
| Interest rate reduction | | $ | | $ |
| Amortization or maturity date change | **2** | **1,131** | | |
| Other | | | | |
| Total CRE Office | **2** | **$ 1,131** | | $ |
| CRE Industrial and Warehouse: | | | | |
| Interest rate reduction | | $ | | $ |
| Amortization or maturity date change | | | | |
| Other | | | | |
| Total CRE Industrial and Warehouse | | $ | | $ |
| CRE Other commercial real estate: | | | | |
| Interest rate reduction | | $ | 1 | $ 917 |
| Amortization or maturity date change | **1** | **49** | 4 | 670 |
| Other | **1** | **5** | | |
| Total CRE Other commercial real estate | **2** | **$ 54** | 5 | $ 1,587 |
| Automobile: | | | | |
| Interest rate reduction | **1** | **$ 19** | 3 | $ |
| Amortization or maturity date change | **20** | **187** | 103 | |
| Chapter 7 bankruptcy | **98** | **461** | | |
| Other | | | | |
| Total Automobile | **119** | **$ 667** | 106 | $ |
| Residential mortgage: | | | | |
| Interest rate reduction | | $ | 1 | $ 29 |

| | | | | |
|---|---|---|---|---|
| Amortization or maturity date change | **37** | **5,387** | 58 | 8,444 |
| Chapter 7 bankruptcy | **36** | **3,168** | | |
| Other | **2** | **418** | 4 | 417 |
| Total Residential mortgage | **75** | **$ 8,973** | 63 | $ 8,890 |

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| | | | | | | |
|---|---|---|---|---|---|---|
| First-lien home equity: | | | | | | |
| Interest rate reduction | | **$** | | 9 | $ | 821 |
| Amortization or maturity date change | | | | 1 | | 14 |
| Chapter 7 bankruptcy | **6** | | **749** | | | |
| Other | | | | | | |
| Total First-lien home equity | **6** | **$** | **749** | 10 | $ | 835 |
| Junior-lien home equity: | | | | | | |
| Interest rate reduction | | **$** | | 2 | $ | 112 |
| Amortization or maturity date change | **1** | | **57** | 2 | | 80 |
| Chapter 7 bankruptcy | **20** | | **569** | | | |
| Other | | | | | | |
| Total Junior-lien home equity | **21** | **$** | **626** | 4 | $ | 192 |
| Other consumer: | | | | | | |
| Interest rate reduction | | **$** | | 1 | $ | |
| Amortization or maturity date change | | | | 3 | | |
| Chapter 7 bankruptcy | **1** | | **2** | | | |
| Other | | | | | | |
| Total Other consumer | **1** | **$** | **2** | 4 | $ | |
| Total troubled debt restructurings with subsequent redefault | **249** | **$** | **14,827** | 219 | $ | 16,687 |

(1) Subsequent redefault is defined as a payment redefault within 12 months of the restructuring date. Payment redefault is defined as 90-days past due for any loan in any portfolio or class. Any loan in any portfolio or class may be considered to be in payment redefault prior to the guidelines noted above when collection of principal or interest is in doubt.

**Pledged Loans and Leases**

At June 30, 2013, the Bank has access to the Federal Reserve s discount window and advances from the FHLB Cincinnati. As of June 30, 2013, these borrowings and advances are secured by $18.9 billion of loans and securities.

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**4. AVAILABLE-FOR-SALE AND OTHER SECURITIES**

Listed below are the contractual maturities (under 1 year, 1-5 years, 6-10 years, and over 10 years) of available-for-sale and other securities at June 30, 2013 and December 31, 2012:

| | **June 30, 2013** | | December 31, 2012 | |
|---|---|---|---|---|
| *(dollar amounts in thousands)* | **Amortized Cost** | **Fair Value** | Amortized Cost | Fair Value |
| U.S. Treasury: | | | | |
| Under 1 year | **$** | **$** | $ | $ |
| 1-5 years | **50,782** | **51,254** | 51,111 | 51,770 |
| 6-10 years | **507** | **521** | 508 | 539 |
| Over 10 years | **1** | **3** | 1 | 2 |
| Total U.S. Treasury | **51,290** | **51,778** | 51,620 | 52,311 |
| Federal agencies: mortgage-backed securities: | | | | |
| Under 1 year | | | 1 | 1 |
| 1-5 years | **162,968** | **164,652** | 182,722 | 185,792 |
| 6-10 years | **486,260** | **490,116** | 503,045 | 521,068 |
| Over 10 years | **2,819,868** | **2,847,309** | 3,464,196 | 3,557,809 |
| Total Federal agencies: mortgage-backed securities | **3,469,096** | **3,502,077** | 4,149,964 | 4,264,670 |
| Other agencies: | | | | |
| Under 1 year | **5,030** | **5,086** | 4,934 | 5,017 |
| 1-5 years | **305,021** | **311,716** | 304,769 | 314,149 |
| 6-10 years | **27,899** | **28,312** | 39,143 | 40,460 |
| Over 10 years | | | | |
| Total other agencies | **337,950** | **345,114** | 348,846 | 359,626 |
| Total U.S. Government backed agencies | **3,858,336** | **3,898,969** | 4,550,430 | 4,676,607 |
| Municipal securities: | | | | |
| Under 1 year | **6,197** | **6,239** | 466 | 466 |
| 1-5 years | **179,502** | **183,855** | 173,300 | 177,593 |
| 6-10 years | **337,621** | **330,280** | 257,314 | 265,490 |
| Over 10 years | **51,612** | **51,289** | 58,000 | 57,451 |
| Total municipal securities | **574,932** | **571,663** | 489,080 | 501,000 |
| Private-label CMO: | | | | |
| Under 1 year | | | | |
| 1-5 years | | | | |
| 6-10 years | **2,713** | **2,767** | 7,394 | 7,567 |
| Over 10 years | **54,032** | **50,067** | 68,163 | 64,001 |
| Total private-label CMO | **56,745** | **52,834** | 75,557 | 71,568 |
| Asset-backed securities: | | | | |
| Under 1 year | **26,000** | **26,087** | 26,000 | 26,258 |
| 1-5 years | **540,312** | **545,047** | 506,319 | 514,616 |

| | | | | |
|---|---|---|---|---|
| 6-10 years | **239,975** | **239,319** | 204,525 | 210,477 |
| Over 10 years | **469,582** | **370,477** | 389,471 | 277,732 |
| Total asset-backed securities | **1,275,869** | **1,180,930** | 1,126,315 | 1,029,083 |
| Covered bonds: | | | | |
| Under 1 year | | | | |
| 1-5 years | **281,341** | **286,911** | 282,080 | 290,625 |
| 6-10 years | | | | |
| Over 10 years | | | | |
| Total covered bonds | **281,341** | **286,911** | 282,080 | 290,625 |
| Corporate debt: | | | | |
| Under 1 year | **26,585** | **26,650** | 27,153 | 27,411 |
| 1-5 years | **258,262** | **265,391** | 458,516 | 468,077 |
| 6-10 years | **190,462** | **183,078** | 158,878 | 162,453 |
| Over 10 years | **10,130** | **10,444** | 10,146 | 10,201 |
| Total corporate debt | **485,439** | **485,563** | 654,693 | 668,142 |
| Other: | | | | |
| Under 1 year | | | 1,500 | 1,498 |
| 1-5 years | **3,900** | **3,770** | 2,400 | 2,400 |
| 6-10 years | | | | |
| Over 10 years | | | | |
| Non-marketable equity securities | **316,172** | **316,172** | 308,075 | 308,075 |
| Marketable equity securities | **18,396** | **18,846** | 16,877 | 17,177 |
| Total other | **338,468** | **338,788** | 328,852 | 329,150 |
| Total available-for-sale and other securities | **$ 6,871,130** | **$ 6,815,658** | $ 7,507,007 | $ 7,566,175 |

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Other securities at June 30, 2013 and December 31, 2012 include $165.6 million of stock issued by the FHLB of Cincinnati, $3.5 million of stock issued by the FHLB of Indianapolis, and $147.1 million and $139.0 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, 2013 and December 31, 2012, Huntington did not have any material equity positions in FNMA or FHLMC.

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, 2013 and December 31, 2012:

| | | Unrealized | | |
|---|---|---|---|---|
| *(dollar amounts in thousands)* | **Amortized Cost** | **Gross Gains** | **Gross Losses** | **Fair Value** |
| June 30, 2013 | | | | |
| U.S. Treasury | **$ 51,290** | **$ 488** | **$** | **$ 51,778** |
| Federal agencies: | | | | |
| Mortgage-backed securities | **3,469,096** | **50,969** | **(17,988)** | **3,502,077** |
| Other agencies | **337,950** | **7,325** | **(161)** | **345,114** |
| Total U.S. Government backed securities | **3,858,336** | **58,782** | **(18,149)** | **3,898,969** |
| Municipal securities | **574,932** | **7,534** | **(10,803)** | **571,663** |
| Private-label CMO | **56,745** | **781** | **(4,692)** | **52,834** |
| Asset-backed securities | **1,275,869** | **7,875** | **(102,814)** | **1,180,930** |
| Covered bonds | **281,341** | **5,570** | | **286,911** |
| Corporate debt | **485,439** | **9,641** | **(9,517)** | **485,563** |
| Other securities | **338,468** | **523** | **(203)** | **338,788** |
| Total available-for-sale and other securities | **$ 6,871,130** | **$ 90,706** | **$ (146,178)** | **$ 6,815,658** |

| | | Unrealized | | |
|---|---|---|---|---|
| *(dollar amounts in thousands)* | **Amortized Cost** | **Gross Gains** | **Gross Losses** | **Fair Value** |
| December 31, 2012 | | | | |
| U.S. Treasury | $ 51,620 | $ 691 | $ | $ 52,311 |
| Federal agencies: | | | | |
| Mortgage-backed securities | 4,149,964 | 114,984 | (278) | 4,264,670 |
| Other agencies | 348,846 | 10,781 | (1) | 359,626 |
| Total U.S. Government backed securities | 4,550,430 | 126,456 | (279) | 4,676,607 |
| Municipal securities | 489,080 | 13,927 | (2,007) | 501,000 |
| Private-label CMO | 75,557 | 1,087 | (5,076) | 71,568 |
| Asset-backed securities | 1,126,315 | 16,287 | (113,519) | 1,029,083 |
| Covered bonds | 282,080 | 8,545 | | 290,625 |
| Corporate debt | 654,693 | 15,301 | (1,852) | 668,142 |
| Other securities | 328,852 | 333 | (35) | 329,150 |
| Total available-for-sale and other securities | $ 7,507,007 | $ 181,936 | $ (122,768) | $ 7,566,175 |

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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, 2013 and December 31, 2012:

| | Less than 12 Months | | Over 12 Months | | Total | |
|---|---|---|---|---|---|---|
| *(dollar amounts in thousands)* | **Fair Value** | **Unrealized Losses** | **Fair Value** | **Unrealized Losses** | **Fair Value** | **Unrealized Losses** |
| June 30, 2013 | | | | | | |
| U.S. Treasury | **$** | **$** | **$** | **$** | **$** | **$** |
| Federal agencies: | | | | | | |
| Mortgage-backed securities | **1,067,989** | **(17,988)** | | | **1,067,989** | **(17,988)** |
| Other agencies | **7,587** | **(161)** | | | **7,587** | **(161)** |
| Total U.S. Government backed securities | **1,075,576** | **(18,149)** | | | **1,075,576** | **(18,149)** |
| Municipal securities | **244,896** | **(10,803)** | | | **244,896** | **(10,803)** |
| Private-label CMO | **26,089** | **(123)** | **21,748** | **(4,569)** | **47,837** | **(4,692)** |
| Asset-backed securities | **347,595** | **(10,065)** | **119,861** | **(92,749)** | **467,456** | **(102,814)** |
| Covered bonds | | | | | | |
| Corporate debt | **237,719** | **(9,517)** | | | **237,719** | **(9,517)** |
| Other securities | **3,020** | **(131)** | **2,749** | **(72)** | **5,769** | **(203)** |
| Total temporarily impaired securities | **$ 1,934,895** | **$ (48,788)** | **$ 144,358** | **$ (97,390)** | **$ 2,079,253** | **$ (146,178)** |

| | Less than 12 Months | | Over 12 Months | | Total | |
|---|---|---|---|---|---|---|
| *(dollar amounts in thousands)* | **Fair Value** | **Unrealized Losses** | **Fair Value** | **Unrealized Losses** | **Fair Value** | **Unrealized Losses** |
| December 31, 2012 | | | | | | |
| U.S. Treasury | $ | $ | $ | $ | $ | $ |
| Federal agencies: | | | | | | |
| Mortgage-backed securities | 44,836 | (278) | | | 44,836 | (278) |
| Other agencies | 801 | (1) | | | 801 | (1) |
| Total U.S. Government backed securities | 45,637 | (279) | | | 45,637 | (279) |
| Municipal securities | 51,316 | (2,007) | | | 51,316 | (2,007) |
| Private-label CMO | 22,793 | | 34,617 | (5,076) | 57,410 | (5,076) |
| Asset-backed securities | 28,089 | (73) | 108,660 | (113,446) | 136,749 | (113,519) |
| Covered bonds | | | | | | |
| Corporate debt | 138,792 | (1,472) | 119,620 | (380) | 258,412 | (1,852) |
| Other securities | | | 1,630 | (35) | 1,630 | (35) |
| Total temporarily impaired securities | $ 286,627 | $ (3,831) | $ 264,527 | $ (118,937) | $ 551,154 | $ (122,768) |

The following table is a summary of realized securities gains and losses for the three-month and six-month periods ended June 30, 2013 and 2012:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| *(dollar amounts in thousands)* | **2013** | 2012 | **2013** | 2012 |
| Gross gains on sales of securities | **$ 988** | $ 704 | **$ 1,187** | $ 1,483 |
| Gross (losses) on sales of securities | **(378)** | (101) | **(390)** | (256) |
| Net gain on sales of securities | **$ 610** | $ 603 | **$ 797** | $ 1,227 |

Pooled-Trust-Preferred, and Private-Label CMO Securities

The highest risk category of our investment portfolio are the private-label CMO and the pooled-trust-preferred portfolios. Of the $52.8 million of the private-label CMO securities reported at fair value at June 30, 2013, approximately $19.6 million are rated below investment grade. The pooled-trust-preferred securities are in the asset-backed securities portfolio. The performance of the underlying securities in each of these categories continued to reflect the economic environment. Each of these securities in these two categories is subjected to a rigorous review of its projected cash flows. These reviews are supported with analysis from independent third parties.

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The following table summarizes the relevant characteristics of our pooled-trust-preferred securities portfolio, which are included in asset-backed securities, at June 30, 2013. Each security is part of a pool of issuers and supports a more senior tranche of securities except for the I-Pre TSL II, and MM Comm III securities which are the most senior class.

**Trust Preferred Securities Data**

June 30, 2013

*(dollar amounts in thousands)*

| Deal Name | Par Value | Amortized Cost | Fair Value | Unrealized Loss (2) | Lowest Credit Rating (3) | # of Issuers Currently Performing/ Remaining (4) | Actual Deferrals and Defaults as a % of Original Collateral | Expected Defaults as a % of Remaining Performing Collateral | Excess Subordination (5) |
|---|---|---|---|---|---|---|---|---|---|
| Alesco II (1) | $ 41,647 | $ 30,035 | $ 11,686 | $ (18,349) | C | 30/35 | 11% | 11% | % |
| Alesco IV (1) | 21,735 | 8,246 | 4,621 | (3,625) | C | 31/37 | 9 | 13 | |
| ICONS | 20,000 | 20,000 | 14,520 | (5,480) | BB | 22/23 | 3 | 13 | 50 |
| I-Pre TSL II | 25,783 | 25,718 | 22,210 | (3,508) | A | 22/24 | 5 | 10 | 74 |
| MM Comm III | 7,162 | 6,843 | 5,086 | (1,757) | B | 6/10 | 5 | 8 | 26 |
| Pre TSL IX (1) | 5,000 | 3,955 | 1,734 | (2,221) | C | 30/44 | 20 | 13 | 4 |
| Pre TSL X (1) | 17,313 | 8,801 | 5,421 | (3,380) | C | 34/48 | 25 | 12 | |
| Pre TSL XI (1) | 25,000 | 21,336 | 8,367 | (12,969) | C | 41/60 | 26 | 14 | 1 |
| Pre TSL XIII (1) | 28,546 | 22,041 | 10,867 | (11,174) | C | 43/61 | 27 | 21 | 5 |
| Reg Diversified (1) | 25,500 | 6,908 | 518 | (6,390) | D | 23/42 | 40 | 13 | |
| Soloso (1) | 12,500 | 2,526 | 118 | (2,408) | C | 37/64 | 32 | 22 | |
| Tropic III | 31,000 | 31,000 | 11,442 | (19,558) | CC | 24/41 | 30 | 17 | 34 |
| **Total at June 30, 2013** | **$ 261,186** | **$ 187,409** | **$ 96,590** | **$ (90,819)** | | | | | |
| Total at December 31, 2012 | $ 266,863 | $ 195,760 | $ 84,296 | $ (111,464) | | | | | |

(1) Security was determined to have OTTI. As such, the book value is net of recorded credit impairment.
(2) The majority of securities have been in a continuous loss position for 12 months or longer.
(3) For purposes of comparability, the lowest credit rating expressed is equivalent to Fitch ratings even where the lowest rating is based on another nationally recognized credit rating agency.
(4) Includes both banks and/or insurance companies.
(5) Excess subordination percentage represents the additional defaults in excess of both current and projected defaults that the CDO can absorb before the bond experiences credit impairment. Excess subordinated percentage is calculated by (a) determining what percentage of defaults a deal can experience before the bond has credit impairment, and (b) subtracting from this default breakage percentage both total current and expected future default percentages.

**Security Impairment**

Huntington evaluates its available-for-sale securities portfolio on a quarterly basis for indicators of OTTI. Huntington assesses whether OTTI has occurred when the fair value of a debt security is less than the amortized cost basis at period-end. Management reviews the amount of unrealized loss, the length of time the security has been in an unrealized loss position, the credit rating history, market trends of similar security classes, time remaining to maturity, and the source of both interest and principal payments to identify securities which could potentially be impaired. 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 all contractually required principal and interest payments.

For securities that Huntington does not expect to sell and it is not more likely than not to be required to sell, the OTTI is separated into credit and noncredit components. A discounted cash flow analysis, which includes evaluating the timing of the expected cash flows, is completed for all debt securities subject to credit impairment. The measurement of the credit loss component is equal to the difference between the debt security s cost basis and the present value of its expected future cash flows discounted at the security s original effective yield. The credit-related OTTI, represented by the expected loss in principal, is recognized in noninterest income. The remaining difference between the security s fair value and the present value of future expected cash flows is due to factors that are not credit-related and, therefore, are recognized in OCI. Huntington believes that it will fully collect the carrying value of securities on which noncredit-related OTTI has been recognized in OCI. Noncredit-related OTTI results from other factors, including increased liquidity spreads and extension of the security. For securities which Huntington does expect to sell, or if it is more likely than not Huntington will be required to sell the security before recovery of its amortized cost basis, all OTTI is recognized in earnings. Presentation of OTTI is made in the Condensed Consolidated Statements of Income on a gross basis with a reduction for the amount of OTTI recognized in OCI. Once an OTTI is recorded, when future cash flows can be reasonably estimated, future cash flows are re-allocated between interest and principal cash flows to provide for a level-yield on the security.

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

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

Pooled-trust-preferred securities are CDOs backed by a pool of debt securities issued by financial institutions. The collateral generally consists of trust-preferred securities and subordinated debt securities issued by banks, bank holding companies, and insurance companies. A full cash flow analysis is used to estimate fair values and assess impairment for each security within this portfolio. A third party pricing specialist with direct industry experience in pooled-trust-preferred security evaluations is engaged to provide assistance estimating the fair value and expected cash flows on this portfolio. The full cash flow analysis is 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 the security and terms of the security s structure. The credit review includes an analysis of profitability, credit quality, operating efficiency, leverage, and liquidity using available financial and regulatory information for each underlying collateral issuer. The analysis also includes a review of historical industry default data, current/near term operating conditions, and the impact of macroeconomic and regulatory changes. Using the results of our analysis, we estimate appropriate default and recovery probabilities for each piece of collateral then estimate the expected cash flows for each security. The cumulative probability of default ranges from a low of 1% to 100%.

Many collateral issuers have the option of deferring interest payments on their debt for up to five years. For issuers who are deferring interest, assumptions are made regarding the issuers ability to resume interest payments and make the required principal payment at maturity; the cumulative probability of default for these issuers currently ranges from 1% to 100%, and a 10% recovery assumption. The fair value of each security is obtained by discounting the expected cash flows at a market discount rate, ranging from LIBOR plus 4.0% to LIBOR plus 15.8% as of June 30, 2013. The market discount rate is determined by reference to yields observed in the market for similarly rated collateralized debt obligations, specifically high-yield collateralized loan obligations. The relatively high market discount rate is reflective of the uncertainty of the cash flows and illiquid nature of these securities. The large differential between the fair value and amortized cost of some of the securities reflects the high market discount rate and the expectation that the majority of the cash flows will not be received until near the final maturity of the security (the final maturities range from 2032 to 2035).

For the three-month and six-month periods ended June 30, 2013 and 2012, the following table summarizes by security type the total OTTI losses recognized in the Unaudited Condensed Consolidated Statements of Income for securities evaluated for impairment as described above.

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| *(dollar amounts in thousands)* | **2013** | 2012 | **2013** | 2012 |
| Available-for-sale and other securities: | | | | |
| Alt-A Mortgage-backed | **$** | $ | **$** | $ |
| Pooled-trust-preferred | **(1,020)** | | **(1,380)** | |
| Private label CMO | | (248) | **(336)** | (1,485) |
| Total debt securities | **(1,020)** | (248) | **(1,716)** | (1,485) |
| Equity securities | | (5) | | (5) |
| Total available-for-sale and other securities | **$ (1,020)** | $ (253) | **$ (1,716)** | $ (1,490) |

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The following table rolls forward the OTTI amounts recognized in earnings on debt securities held by Huntington for the three-month and six-month periods ended June 30, 2013 and 2012 as follows:

| *(dollar amounts in thousands)* | Three Months Ended June 30, **2013** | 2012 | Six Months Ended June 30, **2013** | 2012 |
|---|---|---|---|---|
| Balance, beginning of period | **$ 50,129** | $ 56,904 | **$ 49,433** | $ 56,764 |
| Reductions from sales/maturities | **(1,298)** | | **(1,298)** | (1,097) |
| Credit losses not previously recognized | | | | |
| Additional credit losses | **1,020** | 248 | **1,716** | 1,485 |
| Balance, end of period | **$ 49,851** | $ 57,152 | **$ 49,851** | $ 57,152 |

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 increased market volatility on non-agency mortgage and asset-backed securities that are collateralized 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, 2013.

As of June 30, 2013, Management has evaluated all other investment securities with unrealized losses and all non-marketable securities for impairment and concluded no additional OTTI is required.

**5. HELD-TO-MATURITY SECURITIES**

These are debt securities that Huntington has the intent and ability to hold until maturity. The debt securities are carried at amortized cost and adjusted for amortization of premiums and accretion of discounts using the interest method.

Listed below are the contractual maturities (under 1 year, 1-5 years, 6-10 years, and over 10 years) of held-to-maturity securities at June 30, 2013 and December 31, 2012:

| | **June 30, 2013** | | December 31, 2012 | |
|---|---|---|---|---|
| *(dollar amounts in thousands)* | **Amortized Cost** | **Fair Value** | Amortized Cost | Fair Value |
| Federal agencies: mortgage-backed securities: | | | | |
| Under 1 year | **$** | **$** | $ | $ |
| 1-5 years | | | | |
| 6-10 years | **24,901** | **22,995** | 24,901 | 24,739 |
| Over 10 years | **2,055,440** | **2,054,902** | 1,624,483 | 1,672,702 |
| Total Federal agencies: mortgage-backed securities | **2,080,341** | **2,077,897** | 1,649,384 | 1,697,441 |
| Other agencies: | | | | |
| Under 1 year | | | | |
| 1-5 years | | | | |
| 6-10 years | **14,348** | **14,166** | 15,108 | 15,338 |
| Over 10 years | **67,898** | **65,457** | 69,399 | 71,341 |
| Total other agencies | **82,246** | **79,623** | 84,507 | 86,679 |

| | | | | |
|---|---|---|---|---|
| Total U.S. Government backed agencies | **2,162,587** | **2,157,520** | 1,733,891 | 1,784,120 |
| Municipal securities: | | | | |
| Under 1 year | | | | |
| 1-5 years | | | | |
| 6-10 years | | | | |
| Over 10 years | **9,642** | **9,229** | 9,985 | 9,985 |
| Total municipal securities | **9,642** | **9,229** | 9,985 | 9,985 |
| Total held-to-maturity securities | **$ 2,172,229** | **$ 2,166,749** | $ 1,743,876 | $ 1,794,105 |

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The following table provides amortized cost, gross unrealized gains and losses, and fair value by investment category at June 30, 2013 and December 31, 2012:

| | | Unrealized | | |
|---|---|---|---|---|
| *(dollar amounts in thousands)* | **Amortized Cost** | **Gross Gains** | **Gross Losses** | **Fair Value** |
| June 30, 2013 | | | | |
| Federal Agencies: | | | | |
| Mortgage-backed securities | **$ 2,080,341** | **$ 16,107** | **$ (18,551)** | **$ 2,077,897** |
| Other agencies | **82,246** | | **(2,623)** | **79,623** |
| Total U.S. Government backed securities | **2,162,587** | **16,107** | **(21,174)** | **2,157,520** |
| Municipal securities | **9,642** | | **(413)** | **9,229** |
| Total held-to-maturity securities | **$ 2,172,229** | **$ 16,107** | **$ (21,587)** | **$ 2,166,749** |

| | | Unrealized | | |
|---|---|---|---|---|
| *(dollar amounts in thousands)* | **Amortized Cost** | **Gross Gains** | **Gross Losses** | **Fair Value** |
| December 31, 2012 | | | | |
| Federal Agencies: | | | | |
| Mortgage-backed securities | $ 1,649,384 | $ 48,219 | $ (162) | $ 1,697,441 |
| Other agencies | 84,507 | 2,172 | | 86,679 |
| Total U.S. Government backed securities | 1,733,891 | 50,391 | (162) | 1,784,120 |
| Municipal securities | 9,985 | | | 9,985 |
| Total held-to-maturity securities | $ 1,743,876 | $ 50,391 | $ (162) | $ 1,794,105 |

**Security Impairment**

Huntington evaluates the held-to-maturity securities portfolio on a quarterly basis for impairment. Impairment would exist when the present value of the expected cash flows is not sufficient to recover the entire amortized cost basis at the balance sheet date. Under these circumstances, any impairment would be recognized in earnings. As of June 30, 2013, Management has evaluated held-to-maturity securities with unrealized losses for impairment and concluded no OTTI is required.

**6. LOAN SALES AND SECURITIZATIONS**

**Residential Mortgage Loans**

The following table summarizes activity relating to residential mortgage loans sold with servicing retained for the three-month and six-month periods ended June 30, 2013 and 2012:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| *(dollar amounts in thousands)* | **2013** | 2012 | **2013** | 2012 |
| Residential mortgage loans sold with servicing retained | **$ 913,994** | $ 850,215 | **$ 1,750,127** | $ 1,856,300 |
| Pretax gains resulting from above loan sales (1) | **32,727** | 24,713 | **68,295** | 53,654 |

(1) Recorded in mortgage banking income.

A 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 consistent with assumptions used to estimate the fair value of existing MSRs. At the time of initial capitalization, MSRs may be recorded using either the fair value method or the amortization method. The election of the fair value method or amortization method is made at the time each servicing class is established. Subsequently, servicing rights are accounted for based on the methodology chosen for each respective servicing class. Any increase or decrease in the fair value of MSRs carried under the fair value method, as well as amortization or impairment of MSRs recorded using the amortization method, during the period is recorded as an increase or decrease in mortgage banking income, which is reflected in noninterest income in the Unaudited Condensed 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-month and six-month periods ended June 30, 2013 and 2012:

| Fair Value Method: | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| *(dollar amounts in thousands)* | **2013** | 2012 | **2013** | 2012 |
| Fair value, beginning of period | **$ 35,582** | $ 62,454 | **$ 35,202** | $ 65,001 |
| Change in fair value during the period due to: | | | | |
| Time decay (1) | **(625)** | (793) | **(1,234)** | (1,649) |
| Payoffs (2) | **(3,601)** | (4,253) | **(6,759)** | (8,292) |
| Changes in valuation inputs or assumptions (3) | **6,188** | (12,347) | **10,335** | (9,999) |
| Fair value, end of period: | **$ 37,544** | $ 45,061 | **$ 37,544** | $ 45,061 |
| Weighted-average life (years) | **4.2** | 3.2 | **4.2** | 3.2 |

(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 and prepayment spreads.

| Amortization Method: | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| *(dollar amounts in thousands)* | **2013** | 2012 | **2013** | 2012 |
| Carrying value, beginning of period | **$ 104,345** | $ 85,895 | **$ 85,545** | $ 72,434 |
| New servicing assets created | **9,465** | 8,069 | **18,750** | 18,356 |
| Impairment (charge) / recovery | **7,940** | (6,665) | **21,591** | 893 |
| Amortization and other | **(3,772)** | (4,063) | **(7,908)** | (8,447) |
| Carrying value, end of period | **$ 117,978** | $ 83,236 | **$ 117,978** | $ 83,236 |
| Fair value, end of period | **$ 129,050** | $ 83,320 | **$ 129,050** | $ 83,320 |
| Weighted-average life (years) | **6.4** | 3.6 | **6.4** | 3.6 |

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.

MSR values are very 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. Huntington hedges the value of certain MSRs against changes in value attributable to changes in interest rates using a combination of derivative instruments and trading securities.

For MSRs under the fair value method, a summary of key assumptions and the sensitivity of the MSR value at June 30, 2013 and December 31, 2012, to changes in these assumptions follows:

| | June 30, 2013 | | | December 31, 2012 | | |
|---|---|---|---|---|---|---|
| | | Decline in fair value due to | | | Decline in fair value due to | |
| *(dollar amounts in thousands)* | Actual | 10% adverse change | 20% adverse change | Actual | 10% adverse change | 20% adverse change |
| Constant prepayment rate *(annualized)* | **11.80%** | **$ (2,280)** | **$ (4,436)** | 19.52% | $ (2,608) | $ (5,051) |
| Spread over forward interest rate swap rates | **1,233 bps** | **(1,560)** | **(3,120)** | 1,288 bps | (1,290) | (2,580) |

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For MSRs under the amortization method, a summary of key assumptions and the sensitivity of the MSR value at June 30, 2013 and December 31, 2012, to changes in these assumptions follows:

| | June 30, 2013 | | | December 31, 2012 | | |
|---|---|---|---|---|---|---|
| | | Decline in fair value due to | | | Decline in fair value due to | |
| *(dollar amounts in thousands)* | Actual | 10% adverse change | 20% adverse change | Actual | 10% adverse change | 20% adverse change |
| Constant prepayment rate *(annualized)* | **7.40%** | **$ (6,892)** | **$ (13,474)** | 15.45% | $ (4,936) | $ (9,451) |
| Spread over forward interest rate swap rates | **915 bps** | **(5,175)** | **(10,350)** | 940 bps | (3,060) | (6,119) |

Total servicing fees included in mortgage banking income amounted to $10.9 million and $11.6 million for the three-month periods ended June 30, 2013 and 2012, respectively. For the six-month periods ended June 30, 2013 and 2012, servicing fees totaled $22.1 million and $23.4 million, respectively. The unpaid principal balance of residential mortgage loans serviced for third parties was $15.2 billion and $15.6 billion at June 30, 2013 and December 31, 2012, respectively.

**Automobile Loans and Leases**

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

Changes in the carrying value of automobile loan servicing rights for the three-month and six-month periods ended June 30, 2013 and 2012, and the fair value at the end of each period were as follows:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| *(dollar amounts in thousands)* | **2013** | 2012 | **2013** | 2012 |
| Carrying value, beginning of period | **$ 30,436** | $ 30,780 | **$ 35,606** | $ 13,377 |
| New servicing assets created | | | | 19,883 |
| Amortization and other | **(4,748)** | (4,043) | **(9,918)** | (6,523) |
| Carrying value, end of period | **$ 25,688** | $ 26,737 | **$ 25,688** | $ 26,737 |
| Fair value, end of period | **$ 25,742** | $ 27,596 | **$ 25,742** | $ 27,596 |
| Weighted-average life (years) | **3.8** | 4.5 | **3.8** | 4.5 |

A summary of key assumptions and the sensitivity of the automobile loan servicing rights value to changes in these assumptions at June 30, 2013 and December 31, 2012 follows:

| | June 30, 2013 | | | December 31, 2012 | | |
|---|---|---|---|---|---|---|
| | | Decline in fair value due to | | | Decline in fair value due to | |
| *(dollar amounts in thousands)* | Actual | 10% adverse change | 20% adverse change | Actual | 10% adverse change | 20% adverse change |
| Constant prepayment rate *(annualized)* | **15.10%** | **$ (795)** | **$ (1,602)** | 13.80% | $ (880) | $ (1,771) |
| Spread over forward interest rate swap rates | **500 bps** | **(13)** | **(27)** | 500 bps | (18) | (36) |

Servicing income, net of amortization of capitalized servicing assets and impairment, amounted to $2.6 million and $2.1 million for the three-month periods ending June 30, 2013, and 2012, respectively. For the six-month periods ended June 30, 2013 and 2012, servicing income, net of amortization of capitalized servicing assets, amounted to $5.4 million and $3.3 million, respectively. The unpaid principal balance of automobile loans serviced for third parties was $2.0 billion and $2.5 billion at June 30, 2013 and December 31, 2012, respectively.

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**7. GOODWILL AND OTHER INTANGIBLE ASSETS**

Business segments are based on segment leadership structure, which reflects how segment performance is monitored and assessed. A rollforward of goodwill by business segment for the first six-month period of 2013 is presented in the table below:

| *(dollar amounts in thousands)* | Retail & Business Banking | Regional & Commercial Banking | AFCRE | WGH | Treasury/ Other | Huntington Consolidated |
|---|---|---|---|---|---|---|
| Balance, beginning of period | **$ 286,824** | **$ 16,169** | **$** | **$ 98,951** | **$ 42,324** | **$ 444,268** |
| Adjustments | | | | | | |
| Balance, end of period | **$ 286,824** | **$ 16,169** | **$** | **$ 98,951** | **$ 42,324** | **$ 444,268** |

Goodwill is not amortized but is evaluated for impairment on an annual basis at October 1 of each year or whenever events or changes in circumstances indicate the carrying value may not be recoverable. No events or changes in circumstances since the October 1, 2012, annual impairment test were noted that would indicate it was more likely than not a goodwill impairment existed.

At June 30, 2013 and December 31, 2012, Huntington s other intangible assets consisted of the following:

| *(dollar amounts in thousands)* | Gross Carrying Amount | Accumulated Amortization | Net Carrying Value |
|---|---|---|---|
| June 30, 2013 | | | |
| Core deposit intangible | **$ 380,249** | **$ (318,794)** | **$ 61,455** |
| Customer relationship | **106,974** | **(54,782)** | **52,192** |
| Other | **25,164** | **(24,937)** | **227** |
| Total other intangible assets | **$ 512,387** | **$ (398,513)** | **$ 113,874** |
| December 31, 2012 | | | |
| Core deposit intangible | $ 380,249 | $ (302,003) | $ 78,246 |
| Customer relationship | 104,574 | (50,925) | 53,649 |
| Other | 25,164 | (24,902) | 262 |
| Total other intangible assets | $ 509,987 | $ (377,830) | $ 132,157 |

The estimated amortization expense of other intangible assets for the remainder of 2013 and the next five years is as follows:

| *(dollar amounts in thousands)* | Amortization Expense |
|---|---|
| 2013 | $ 20,773 |
| 2014 | 36,711 |
| 2015 | 20,549 |
| 2016 | 7,336 |
| 2017 | 6,854 |
| 2018 | 5,983 |

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**8. OTHER COMPREHENSIVE INCOME**

The components of other comprehensive income for the three-month and six-month periods ended June 30, 2013 and 2012, were as follows:

| | Three Months Ended June 30, 2013 | | |
|---|---|---|---|
| *(dollar amounts in thousands)* | Pretax | Tax (Expense) Benefit | After-tax |
| Noncredit-related impairment recoveries (losses) on debt securities not expected to be sold | **$ 6,102** | **$ (2,157)** | **$ 3,945** |
| Unrealized holding gains (losses) on available-for-sale debt securities arising during the period | **(119,321)** | **42,105** | **(77,216)** |
| Less: Reclassification adjustment for net losses (gains) included in net income | **926** | **(327)** | **599** |
| Net change in unrealized holding gains (losses) on available-for-sale debt securities | **(112,293)** | **39,621** | **(72,672)** |
| Net change in unrealized holding gains (losses) on available-for-sale equity securities | **(68)** | **21** | **(47)** |
| Unrealized gains (losses) on derivatives used in cash flow hedging relationships arising during the period | **(82,327)** | **28,815** | **(53,512)** |
| Less: Reclassification adjustment for net (gains) losses included in net income | **(4,459)** | **1,561** | **(2,898)** |
| Net change in unrealized gains (losses) on derivatives used in cash flow hedging relationships | **(86,786)** | **30,376** | **(56,410)** |
| Amortization of net actuarial loss and prior service cost included in net income | **8,227** | **(2,879)** | **5,348** |
| Total other comprehensive income (loss) | **$ (190,920)** | **$ 67,139** | **$ (123,781)** |

| | Three Months Ended June 30, 2012 | | |
|---|---|---|---|
| *(dollar amounts in thousands)* | Pretax | Tax (Expense) Benefit | After-tax |
| Noncredit-related impairment recoveries (losses) on debt securities not expected to be sold | $ (713) | 250 | (463) |
| Unrealized holding gains (losses) on available-for-sale debt securities arising during the period | 4,575 | (1,661) | 2,914 |
| Less: Reclassification adjustment for net losses (gains) included in net income | (350) | 123 | (227) |
| Net change in unrealized holding gains (losses) on available-for-sale debt securities | 3,512 | (1,288) | 2,224 |
| Net change in unrealized holding gains (losses) on available-for-sale equity securities | 44 | (15) | 29 |
| Unrealized gains (losses) on derivatives used in cash flow hedging relationships arising during the period | 23,211 | (8,117) | 15,094 |
| Less: Reclassification adjustment for net (gains) losses included in net income | 1,932 | (683) | 1,249 |
| Net change in unrealized gains (losses) on derivatives used in cash flow hedging relationships | 25,143 | (8,800) | 16,343 |
| Amortization of net actuarial loss and prior service cost included in net income | 4,990 | (1,747) | 3,243 |
| Total other comprehensive income | $ 33,689 | $ (11,850) | $ 21,839 |

| | Six Months Ended June 30, 2013 | | |
|---|---|---|---|
| *(dollar amounts in thousands)* | Pretax | Tax (expense) Benefit | After-tax |
| Noncredit-related impairment recoveries (losses) on debt securities not expected to be sold | **$ 11,996** | **$ (4,242)** | **$ 7,754** |

| | | | |
|---|---|---|---|
| Unrealized holding gains (losses) on available-for-sale debt securities arising during the period | (128,019) | 45,138 | (82,881) |
| Less: Reclassification adjustment for net losses (gains) included in net income | 1,231 | (435) | 796 |
| Net change in unrealized holding gains (losses) on available-for-sale debt securities | (114,792) | 40,461 | (74,331) |
| Net change in unrealized holding gains (losses) on available-for-sale equity securities | 152 | (56) | 96 |
| Unrealized gains (losses) on derivatives used in cash flow hedging relationships arising during the period | (98,254) | 34,389 | (63,865) |
| Less: Reclassification adjustment for net (gains) losses included in net income | (8,485) | 2,970 | (5,515) |
| Net change in unrealized gains (losses) on derivatives used in cash flow hedging relationships | (106,739) | 37,359 | (69,380) |
| Amortization of net actuarial loss and prior service cost included in net income | 16,455 | (5,759) | 10,696 |
| Total other comprehensive income | $ (204,924) | $ 72,005 | $ (132,919) |

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| *(dollar amounts in thousands)* | Six Months Ended June 30, 2012 Pretax | Tax (expense) Benefit | After-tax |
|---|---|---|---|
| Noncredit-related impairment recoveries (losses) on debt securities not expected to be sold | 6,252 | (2,188) | 4,064 |
| Unrealized holding gains (losses) on available-for-sale debt securities arising during the period | 31,362 | (11,223) | 20,139 |
| Less: Reclassification adjustment for net losses (gains) included in net income | 263 | (92) | 171 |
| Net change in unrealized holding gains (losses) on available-for-sale debt securities | 37,877 | (13,503) | 24,374 |
| Net change in unrealized holding gains (losses) on available-for-sale equity securities | 387 | (135) | 252 |
| Unrealized gains (losses) on derivatives used in cash flow hedging relationships arising during the period | (16,457) | 5,759 | (10,698) |
| Less: Reclassification adjustment for net (gains) losses included in net income | 26,725 | (9,353) | 17,372 |
| Net change in unrealized gains (losses) on derivatives used in cash flow hedging relationships | 10,268 | (3,594) | 6,674 |
| Amortization of net actuarial loss and prior service cost included in net income | 9,979 | (3,493) | 6,486 |
| Total other comprehensive income | $ 58,511 | $ (20,725) | $ 37,786 |

The following table presents activity in accumulated other comprehensive income (loss), net of tax, for the six-month period ended June 30, 2013:

| *(dollar amounts in thousands)* | **Unrealized gains and (losses) on debt securities (1)** | **Unrealized gains and (losses) on equity securities** | **Unrealized gains and (losses) on cash flow hedging derivatives** | **Unrealized gains (losses) for pension and other post-retirement obligations** | **Total** |
|---|---|---|---|---|---|
| Balance, December 31, 2012 | $ 38,304 | $ 194 | $ 47,084 | $ (236,399) | $ (150,817) |
| Other comprehensive income before reclassifications | (75,127) | 96 | (63,865) | | (138,896) |
| Amounts reclassified from accumulated OCI | 796 | | (5,515) | 10,696 | 5,977 |
| Period change | (74,331) | 96 | (69,380) | 10,696 | (132,919) |
| Balance, June 30, 2013 | **$ (36,027)** | **$ 290** | **$ (22,296)** | **$ (225,703)** | **$ (283,736)** |

(1) Amount at June 30, 2013 and December 31, 2012 includes $0.1 million and $0.2 million, respectively, of net unrealized gains on securities transferred from the available-for-sale securities portfolio to the held-to-maturity securities portfolio. The net unrealized gains will be recognized in earnings over the remaining life of the security using the effective interest method.

The following table presents the reclassification adjustments out of accumulated OCI included in net income and the impacted line items as listed on the Unaudited Condensed Consolidated Statements of Income for the three-month and six-month periods ended June 30, 2013:

| Reclassifications out of accumulated OCI | | | |
|---|---|---|---|
| Accumulated OCI components | Amounts reclassified from accumulated OCI | | Location of net gain (loss) reclassified from accumulated OCI into earnings |
| *(dollar amounts in thousands)* | **Three Months Ended June 30, 2013** | **Six Months Ended June 30, 2013** | |
| Gains (losses) on debt securities: | | | |
| Amortization of unrealized gains (losses) | **$ 60** | $ 115 | Interest income - held-to-maturity securities - taxable |
| Realized gain (loss) on sale of securities | **34** | 370 | Noninterest income - net gains (losses) on sale of securities |
| OTTI recorded | **(1,020)** | (1,716) | Noninterest income - net gains (losses) on sale of securities |
| | **(926)** | (1,231) | Total before tax |
| | **327** | 435 | Tax (expense) benefit |
| | **$ (599)** | $ (796) | Net of tax |
| Gains (losses) on cash flow hedging relationships: | | | |
| Interest rate contracts | **$ 4,374** | $ 8,290 | Interest income - loans and leases |
| Interest rate contracts | **85** | 195 | Noninterest income - other income |
| | **4,459** | 8,485 | Total before tax |
| | **(1,561)** | (2,970) | Tax (expense) benefit |
| | **$ 2,898** | $ 5,515 | Net of tax |
| Amortization of defined benefit pension and post-retirement items: | | | |
| Actuarial gains (losses) | **$ (9,954)** | $ (19,909) | Noninterest expense - personnel costs |
| Prior service costs | **1,727** | 3,454 | Noninterest expense - personnel costs |
| | **(8,227)** | (16,455) | Total before tax |
| | **2,879** | 5,759 | Tax (expense) benefit |
| | **$ (5,348)** | $ (10,696) | Net of tax |

**9. SHAREHOLDERS EQUITY**

**Share Repurchase Program**

On March 14, 2013, Huntington announced that the Federal Reserve did not object to Huntington s proposed capital actions included in Huntington s capital plan submitted to the Federal Reserve in January of this year. These actions included an increase in the quarterly dividend per common share to $0.05, starting in the second quarter of 2013 and potential repurchase of up to $227 million of common stock through the first quarter of 2014. Huntington s board of directors authorized a share repurchase program consistent with Huntington s capital plan. This program replaced the previously authorized share repurchase program authorized by Huntington s board of directors in 2012.

During the three-month period ended June 30, 2013, Huntington repurchased a total of 10.0 million shares of common stock, at a weighted average share price of $7.50. Under both share repurchase programs, Huntington repurchased a total of 14.7 million shares of common stock during the six-month period ended June 30, 2013, at a weighted average share price of $7.36.

**10. Earnings Per Share**

Basic earnings per share is the amount of earnings (adjusted for dividends declared on preferred stock) available to each share of common stock outstanding during the reporting period. Diluted earnings per share is the amount of earnings available to each share of common stock outstanding during the reporting period adjusted to include the effect of potentially dilutive common shares. Potentially dilutive common shares include incremental shares issued for stock options, restricted stock units and awards, distributions from deferred compensation plans, and the conversion of Huntington s convertible preferred stock. Potentially dilutive common shares are excluded from the computation of diluted earnings per share in periods in which the effect would be antidilutive. For diluted earnings per share, net income available to common shares can be affected by the conversion of Huntington s convertible preferred stock. Where the effect of this conversion would be dilutive, net income available to common shareholders is adjusted by the associated preferred dividends and deemed dividend. The calculation of basic and diluted earnings per share for each of the three-month and six-month periods ended June 30, 2013 and 2012, was as follows:

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| *(dollar amounts in thousands, except per share amounts)* | Three Months Ended June 30, **2013** | 2012 | Six Months Ended June 30, **2013** | 2012 |
|---|---|---|---|---|
| Basic earnings per common share: | | | | |
| Net income | **$ 150,651** | $ 152,706 | **$ 302,431** | $ 305,976 |
| Preferred stock dividends | **(7,967)** | (7,984) | **(15,937)** | (16,033) |
| Net income available to common shareholders | **$ 142,684** | $ 144,722 | **$ 286,494** | $ 289,943 |
| Average common shares issued and outstanding | **834,730** | 862,261 | **837,917** | 863,380 |
| Basic earnings per common share | **$ 0.17** | $ 0.17 | **$ 0.34** | $ 0.34 |
| Diluted earnings per common share | | | | |
| Net income available to common shareholders | **$ 142,684** | $ 144,722 | **$ 286,494** | $ 289,943 |
| Effect of assumed preferred stock conversion | | | | |
| Net income applicable to diluted earnings per share | **$ 142,684** | $ 144,722 | **$ 286,494** | $ 289,943 |
| Average common shares issued and outstanding | **834,730** | 862,261 | **837,917** | 863,380 |
| Dilutive potential common shares: | | | | |
| Stock options and restricted stock units and awards | **7,758** | 4,075 | **7,019** | 3,769 |
| Shares held in deferred compensation plans | **1,352** | 1,215 | **1,338** | 1,208 |
| Conversion of preferred stock | | | | |
| Dilutive potential common shares: | **9,110** | 5,290 | **8,357** | 4,977 |
| Total diluted average common shares issued and outstanding | **843,840** | 867,551 | **846,274** | 868,357 |
| Diluted earnings per common share | **$ 0.17** | $ 0.17 | **$ 0.34** | $ 0.33 |

For the three-month periods ended June 30, 2013 and 2012, approximately 11.2 million and 17.7 million, respectively, of options to purchase shares of common stock were not included in the computation of diluted earnings per share because the effect would be antidilutive. For the six-month periods ended June 30, 2013 and 2012, amounts not included in the computation of diluted earnings per share were 11.1 million and 17.7 million shares, respectively.

**11. SHARE-BASED COMPENSATION**

Huntington sponsors nonqualified and incentive share based compensation plans. These plans provide for the granting of stock options and other awards to officers, directors, and other employees. Compensation costs are included in personnel costs on the Condensed Consolidated Statements of Income. Stock options are granted at the closing market price on the date of the grant. Options granted typically vest ratably over three years or when other conditions are met. Stock options, which represented a significant portion of our grant values, have no intrinsic value until the stock price increases. Options granted prior to May 2004 have a term of ten years. All options granted after May 2004 have a term of seven years.

In 2012, shareholders approved the Huntington Bancshares Incorporated 2012 Long-Term Incentive Plan (the Plan) which authorized 51.0 million shares for future grants. The Plan is the only active plan under which Huntington is currently granting share based options and awards. At June 30, 2013, 24.2 million shares from the Plan were available for future grants. Huntington issues shares to fulfill stock option exercises and restricted stock unit and award vesting from available authorized common shares. At June 30, 2013, the Company believes there are adequate authorized common shares to satisfy anticipated stock option exercises and restricted stock unit and award vesting in 2013.

Huntington uses the Black-Scholes option pricing model to value share-based compensation expense. Forfeitures are estimated at the date of grant based on historical rates and reduce the compensation expense recognized. The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the date of grant. Expected volatility is based on the estimated volatility of Huntington s stock over the expected term of the option. The expected dividend yield is based on the dividend rate and stock price at the date of the grant.

The following table illustrates the weighted-average assumptions used in the option-pricing model for options granted for the three-month and six-month periods ended June 30, 2013 and 2012:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | **2013** | 2012 | **2013** | 2012 |
| Assumptions | | | | |
| Risk-free interest rate | **0.78%** | 1.10% | **0.78%** | 1.10% |
| Expected dividend yield | **2.83** | 2.36 | **2.83** | 2.37 |
| Expected volatility of Huntington s common stock | **35.0** | 35.0 | **35.0** | 34.9 |
| Expected option term (years) | **5.5** | 6.0 | **5.5** | 6.0 |
| Weighted-average grant date fair value per share | **$ 1.71** | $ 1.80 | **$ 1.71** | $ 1.79 |

The following table illustrates total share-based compensation expense and related tax benefit for the six-month periods ended June 30, 2013 and 2012:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| *(dollar amounts in thousands)* | **2013** | 2012 | **2013** | 2012 |
| Share-based compensation expense | **$ 9,875** | $ 7,517 | **$ 17,896** | $ 12,820 |
| Tax benefit | **3,349** | 2,501 | **6,033** | 4,261 |

Huntington s stock option activity and related information for the six-month period ended June 30, 2013, was as follows:

| *(amounts in thousands, except years and per share amounts)* | Options | Weighted-Average Exercise Price | Weighted-Average Remaining Contractual Life (Years) | Aggregate Intrinsic Value |
|---|---|---|---|---|
| Outstanding at January 1, 2013 | 26,768 | $ 8.87 | | |
| Granted | 3,273 | 7.06 | | |
| Exercised | (1,238) | 5.72 | | |
| Forfeited/expired | (1,740) | 9.92 | | |
| Outstanding at June 30, 2013 | **27,063** | **$ 8.73** | **4.3** | **$ 36,984** |
| Vested and expected to vest at June 30, 2013 (1) | **12,249** | **$ 6.39** | **5.6** | **$ 18,112** |
| Exercisable at June 30, 2013 | **13,491** | **$ 11.05** | **3.0** | **$ 17,271** |

(1) The number of options expected to vest includes an estimate of expected forfeitures.

The aggregate intrinsic value represents the amount by which the fair value of underlying stock exceeds the in-the-money option exercise price. For the six-month periods ended June 30, 2013 and 2012, cash received for the exercises of stock options was $7.1 million and $0.8 million, respectively. The tax benefit realized from stock option exercises was $0.7 million and less than $0.1 million for each respective period.

Huntington also grants restricted stock, restricted stock units, performance share awards and other stock-based awards. Restricted stock units and awards are issued at no cost to the recipient, and can be settled only in shares at the end of the vesting period. Restricted stock awards provide the holder with full voting rights and cash dividends during the vesting period. Restricted stock units do not provide the holder with voting rights or cash dividends during the vesting period, but do accrue a dividend equivalent that is paid upon vesting, and are subject to certain service

restrictions. Performance share awards are payable contingent upon Huntington achieving certain predefined performance objectives over the three-year measurement period. The fair value of these awards is the closing market price of Huntington s common stock on the date of award.

The following table summarizes the status of Huntington s restricted stock units and performance share awards as of June 30, 2013, and activity for the six-month period ended June 30, 2013:

| *(amounts in thousands, except per share amounts)* | Restricted Stock Units | Weighted-Average Grant Date Fair Value Per Share | Performance Share Awards | Weighted-Average Grant Date Fair Value Per Share |
|---|---|---|---|---|
| Nonvested at January 1, 2013 | 8,484 | $ 6.40 | 694 | $ 6.77 |
| Granted | 6,733 | 7.10 | 1,125 | 7.06 |
| Vested | (477) | 6.50 | | |
| Forfeited | (569) | 6.67 | (170) | 6.90 |
| Nonvested at June 30, 2013 | **14,171** | **$ 6.72** | **1,649** | **$ 6.95** |

The weighted-average grant date fair value of nonvested shares granted for the six-month periods ended June 30, 2013 and 2012, were $7.10 and $6.71, respectively. The total fair value of awards vested was $3.1 million and $1.7 million during the six-month periods ended June 30, 2013, and 2012, respectively. As of June 30, 2013, the total unrecognized compensation cost related to nonvested awards was $70.6 million with a weighted-average expense recognition period of 2.7 years.

**12. BENEFIT PLANS**

Huntington sponsors the Plan, a non-contributory defined benefit pension plan covering substantially all employees hired or rehired prior to January 1, 2010. The Plan provides benefits based upon length of service and compensation levels. The funding policy of Huntington is to contribute an annual amount that is at least equal to the minimum funding requirements but not more than the amount deductible under the Internal Revenue Code. There is no required minimum contribution for 2013.

Subsequent to the end of the 2013 second quarter, the board of directors approved, and management communicated, a curtailment of the Company s pension plan effective December 31, 2013. As a result of the accounting treatment for the unamortized prior service pension cost and the change in the projected benefit obligation, an estimated one-time, non-cash, pre-tax gain of approximately $35 million, $0.03 per share, is expected to be recognized in the 2013 third quarter.

In addition, Huntington has an unfunded defined benefit post-retirement plan that provides certain healthcare and life insurance benefits to retired employees who have attained the age of 55 and have at least 10 years of vesting service under this plan. For any employee retiring on or after January 1, 1993, post-retirement healthcare benefits are based upon the employee s number of months of service and are limited to the actual cost of coverage. Life insurance benefits are a percentage of the employee s base salary at the time of retirement, with a maximum of $50,000 of coverage. The employer paid portion of the post-retirement health and life insurance plan was eliminated for employees retiring on and after March 1, 2010. Eligible employees retiring on and after March 1, 2010, who elect retiree medical coverage, will pay the full cost of this coverage. Huntington will not provide any employer paid life insurance to employees retiring on and after March 1, 2010. Eligible employees will be able to convert or port their existing life insurance at their own expense under the same terms that are available to all terminated employees.

The following table shows the components of net periodic benefit expense of the Plan and the Post-Retirement Benefit Plan:

| | Pension Benefits Three Months Ended June 30, | | Post Retirement Benefits Three Months Ended June 30, | |
|---|---|---|---|---|
| *(dollar amounts in thousands)* | **2013** | 2012 | **2013** | 2012 |
| Service cost | **$ 7,134** | $ 6,217 | **$** | $ |
| Interest cost | **7,307** | 7,304 | **215** | 337 |
| Expected return on plan assets | **(12,091)** | (11,433) | | |

| | | | | |
|---|---|---|---|---|
| Amortization of transition asset | | (1) | | |
| Amortization of prior service cost | **(1,442)** | (1,442) | **(338)** | (338) |
| Amortization of gains (losses) | **9,784** | 6,740 | **(150)** | (83) |
| Settlements | **1,500** | 1,750 | | |
| Benefit expense | **$ 12,192** | $ 9,135 | **$ (273)** | $ (84) |

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| | Pension Benefits Six Months Ended June 30, | | Post Retirement Benefits Six Months Ended June 30, | |
|---|---|---|---|---|
| *(dollar amounts in thousands)* | **2013** | 2012 | **2013** | 2012 |
| Service cost | **$ 14,268** | $ 12,434 | **$** | $ |
| Interest cost | **14,614** | 14,608 | **431** | 675 |
| Expected return on plan assets | **(24,182)** | (22,865) | | |
| Amortization of transition asset | | (2) | | |
| Amortization of prior service cost | **(2,884)** | (2,884) | **(676)** | (676) |
| Amortization of gains (losses) | **19,568** | 13,479 | **(300)** | (166) |
| Settlements | **3,000** | 3,500 | | |
| Benefit expense | **$ 24,384** | $ 18,270 | **$ (545)** | $ (167) |

The Bank, as trustee, held all Plan assets at June 30, 2013 and December 31, 2012. The Plan assets consisted of investments in a variety of Huntington mutual funds and Huntington common stock as follows:

| | Fair Value | | | |
|---|---|---|---|---|
| *(dollar amounts in thousands)* | **June 30, 2013** | | December 31, 2012 | |
| Cash | **$ 16,374** | **3%** | $ 22 | % |
| Cash equivalents: | | | | |
| Huntington funds - money market | | | 6,012 | 1 |
| Fixed income: | | | | |
| Huntington funds - fixed income funds | **78,110** | **12** | 84,688 | 13 |
| Corporate obligations | **164,539** | **26** | 149,241 | 24 |
| U.S. Government Obligations | **47,204** | **8** | 36,595 | 6 |
| U.S. Government Agencies | **6,539** | **1** | 7,511 | 1 |
| Equities: | | | | |
| Huntington funds | **265,904** | **43** | 312,479 | 49 |
| Exchange Traded Funds | **2,678** | | | |
| Huntington common stock | **45,659** | **7** | 37,069 | 6 |
| Other common stock | **470** | | | |
| Fair value of plan assets | **$ 627,477** | **100%** | $ 633,617 | 100% |

Investments of the Plan are accounted for at cost on the trade date and are reported at fair value. All of the Plan s investments at June 30, 2013, are classified as Level 1 within the fair value hierarchy, except for corporate obligations, U.S. government obligations, and U.S. government agencies, which are classified as level 2. In general, investments of the Plan are exposed to various risks, such as interest rate risk, credit risk, and overall market volatility. Due to the level of risk associated with certain investments, it is reasonably possible changes in the values of investments will occur in the near term and such changes could materially affect the amounts reported in the Plan assets.

The investment objective of the Plan is to maximize the return on Plan assets over a long time period, while meeting the Plan obligations. At June 30, 2013, Plan assets were invested 3% in cash and cash equivalents, 50% in equity investments, and 47% in bonds, with an average duration of 12 years on bond investments. Although it may fluctuate with market conditions, Management has targeted a long-term allocation of Plan assets of 20% to 50% in equity investments and 80% to 50% in bond investments. The allocation of Plan assets between equity investments and fixed income investments will change from time to time with the allocation to fixed income investments increasing as the funding level increases.

Huntington also sponsors other nonqualified retirement plans, the most significant being the SERP and the SRIP. The SERP provides certain former officers and directors, and the SRIP provides certain current and former officers and directors of Huntington and its subsidiaries with defined pension benefits in excess of limits imposed by federal tax law. Subsequent to the end of the 2013 second quarter, the board of directors approved, and management communicated, a curtailment of the Company s SRIP plan effective December 31, 2013.

Huntington has a defined contribution plan that is available to eligible employees. Huntington matches participant contributions, up to the first 4% of base pay contributed to the Plan.

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The following table shows the costs of providing the SERP, SRIP, and defined contribution plans:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| *(dollar amounts in thousands)* | **2013** | 2012 | **2013** | 2012 |
| SERP & SRIP | **$ 1,187** | $ 833 | **$ 2,379** | $ 1,666 |
| Defined contribution plan | **4,569** | 4,128 | **8,944** | 8,586 |
| Benefit cost | **$ 5,756** | $ 4,961 | **$ 11,323** | $ 10,252 |

**13. FAIR VALUES OF ASSETS AND LIABILITIES**

Huntington follows the fair value accounting guidance under ASC 820 and ASC 825.

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. A three-level valuation hierarchy was established for disclosure of fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

*Level 1* inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

*Level 2* inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

*Level 3* inputs to the valuation methodology are unobservable and significant to the fair value measurement.

A financial instrument s categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. Transfers in and out of Level 1, 2, or 3 are recorded at fair value at the beginning of the reporting period.

Following is a description of the valuation methodologies used for instruments measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy.

***Mortgage loans held for sale***

Huntington elected to apply the fair value option for mortgage loans originated with the intent to sell which are included in loans held for sale. Mortgage loans held for sale are classified as Level 2 and are estimated using security prices for similar product types.

***Available-for-sale securities and trading account securities***

Securities accounted for at fair value include both the available-for-sale and trading portfolios. Huntington uses prices obtained from third party pricing services and recent trades to determine the fair value of securities. AFS and trading securities are classified as Level 1 using quoted market prices (unadjusted) in active markets for identical securities that Huntington has the ability to access at the measurement date. 1% of the positions in these portfolios are Level 1, and consist of U.S. Treasury securities and money market mutual funds. When quoted market prices are not available, fair values are classified as Level 2 using quoted prices for similar assets in active markets, quoted prices of identical or similar assets in markets that are not active, and inputs that are observable for the asset, either directly or indirectly, for substantially the full term of the financial instrument. 96% of the positions in these portfolios are Level 2, and consist of U.S. Government and agency debt securities, agency mortgage backed securities, asset-backed securities, municipal securities and other securities. For both Level 1 and Level 2 securities, management uses various methods and techniques to corroborate prices obtained from the pricing service, including reference to dealer or other market quotes, and by reviewing valuations of comparable instruments. If relevant market prices are limited or unavailable, valuations may require significant management judgment or estimation to determine fair value, in which case the fair values are classified as Level 3. 3% of our positions are Level 3, and consist of non-agency ALT-A asset-backed securities, private-label CMO securities, pooled-trust-preferred CDO securities and municipal securities. A significant change in the unobservable inputs for these securities may result in a significant change in the ending fair value measurement of these securities.

The Alt-A, private label CMO and pooled-trust-preferred securities portfolios are classified as Level 3 and as such use significant estimates to determine the fair value of these securities which results in greater subjectivity. The Alt-A and private label CMO securities portfolios are subjected to a monthly review of the projected cash flows, while the cash flows of the 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.

Alt-A mortgage-backed and private-label CMO securities are collateralized by first-lien residential mortgage loans. The securities valuation methodology incorporates values obtained from a third party pricing specialist using a discounted cash flow approach and a proprietary pricing model and includes assumptions management believes market participants would use to value the securities under current market conditions. The model uses inputs such as estimated prepayment speeds, losses, recoveries, default rates that are implied by the underlying performance of collateral in the structure or similar structures, house price depreciation / appreciation rates that are based upon macroeconomic forecasts and discount rates that are implied by market prices for similar securities with similar collateral structures.

Pooled-trust-preferred securities are CDOs backed by a pool of debt securities issued by financial institutions. The collateral generally consists of trust-preferred securities and subordinated debt securities issued by banks, bank holding companies, and insurance companies. A full cash flow analysis is used to estimate fair values and assess impairment for each security within this portfolio. We engage a third party pricing 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. The PD of each issuer and the market discount rate are the most significant inputs in determining fair value. Management evaluates the PD assumptions provided by the third party pricing specialist by comparing the current PD to the assumptions used the previous quarter, actual defaults and deferrals in the current period, and trend data on certain financial ratios of the issuers. Huntington also evaluates the assumptions related to discount rates. Relying on cash flows is necessary because there was a lack of observable transactions in the market and many of the original sponsors or dealers for these securities are no longer able to provide a fair value that is compliant with ASC 820.

Huntington utilizes the same processes to determine the fair value of investment securities classified as held-to-maturity for impairment evaluation purposes.

***Automobile loans***

Effective January 1, 2010, Huntington consolidated an automobile loan securitization that previously had been accounted for as an off-balance sheet transaction. As a result, Huntington elected to account for the automobile loan receivables and the associated notes payable at fair value per guidance supplied in ASC 825. The automobile loan receivables are classified as Level 3. The key assumptions used to determine the fair value of the automobile loan receivables included projections 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.

***MSRs***

MSRs do not trade in an active market with readily observable prices. Accordingly, the fair value of these assets is classified as Level 3. Huntington determines the fair value of MSRs using an income approach model based upon our month-end interest rate curve and prepayment assumptions. The model, which is operated and maintained by a third party, utilizes assumptions to estimate future net servicing income cash flows, including estimates of time decay, payoffs, and changes in valuation inputs and assumptions. Servicing brokers and other sources of information (e.g. discussion with other mortgage servicers and industry surveys) are used to obtain information on market practice and assumptions. On at least a quarterly basis, third party marks are obtained from at least one service broker. Huntington reviews the valuation assumptions against this market data for reasonableness and adjusts the assumptions if deemed appropriate. Any recommended change in assumptions and / or inputs are presented for review to the Mortgage Price Risk Subcommittee for final approval.

***Derivatives***

Derivatives classified as Level 1 consist of exchange traded options and forward commitments to deliver mortgage-backed securities which are valued using quoted prices. Asset and liability conversion swaps and options, and interest rate caps are classified as Level 2. These derivative positions are valued using a discounted cash flow method that incorporates current market interest rates. Derivatives classified as Level 3 consist primarily of interest rate lock agreements related to mortgage loan commitments. The determination of fair value includes assumptions related to the likelihood that a commitment will ultimately result in a closed loan, which is a significant unobservable assumption. A significant increase or decrease in the external market price would result in a significantly higher or lower fair value measurement.

***Securitization trust notes payable***

Consists of certain securitization trust notes payable related to the automobile loan receivables measured at fair value. The notes payable are classified as Level 2 and are valued based on interest rates for similar financial instruments.

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**Assets and Liabilities measured at fair value on a recurring basis**

Assets and liabilities measured at fair value on a recurring basis at June 30, 2013 and December 31, 2012 are summarized below:

| | Fair Value Measurements at Reporting Date Using | | | Netting | **Balance at** |
|---|---|---|---|---|---|
| *(dollar amounts in thousands)* | Level 1 | Level 2 | Level 3 | Adjustments (1) | **June 30, 2013** |
| Assets | | | | | |
| Loans held for sale | **$** | **$ 418,386** | **$** | **$** | **$ 418,386** |
| Trading account securities: | | | | | |
| U.S. Treasury securities | | | | | |
| Federal agencies: Mortgage-backed | | | | | |
| Federal agencies: Other agencies | | | | | |
| Municipal securities | | **5,668** | | | **5,668** |
| Other securities | **75,145** | **114** | | | **75,259** |
| | **75,145** | **5,782** | | | **80,927** |
| Available-for-sale and other securities: | | | | | |
| U.S. Treasury securities | **51,778** | | | | **51,778** |
| Federal agencies: Mortgage-backed | | **3,502,077** | | | **3,502,077** |
| Federal agencies: Other agencies | | **345,114** | | | **345,114** |
| Municipal securities | | **513,563** | **58,100** | | **571,663** |
| Private-label CMO | | **19,908** | **32,926** | | **52,834** |
| Asset-backed securities | | **1,061,069** | **119,861** | | **1,180,930** |
| Covered bonds | | **286,911** | | | **286,911** |
| Corporate debt | | **485,563** | | | **485,563** |
| Other securities | **18,846** | **3,770** | | | **22,616** |
| | **70,624** | **6,217,975** | **210,887** | | **6,499,486** |
| Automobile loans | | | **91,140** | | **91,140** |
| MSRs | | | **37,544** | | **37,544** |
| Derivative assets | **47,821** | **259,971** | **1,581** | **(60,591)** | **248,782** |
| Liabilities | | | | | |
| Derivative liabilities | **18,083** | **162,163** | **5,807** | **(46,556)** | **139,497** |
| Other liabilities | | | | | |

| | Fair Value Measurements at Reporting Date Using | | | Netting | Balance at |
|---|---|---|---|---|---|
| *(dollar amounts in thousands)* | Level 1 | Level 2 | Level 3 | Adjustments (1) | December 31, 2012 |
| Assets | | | | | |
| Mortgage loans held for sale | $ | $ 452,949 | $ | $ | $ 452,949 |
| Trading account securities: | | | | | |
| U.S. Treasury securities | | | | | |
| Federal agencies: Mortgage-backed | | | | | |
| Federal agencies: Other agencies | | | | | |
| Municipal securities | | 15,218 | | | 15,218 |
| Other securities | 75,729 | 258 | | | 75,987 |
| | 75,729 | 15,476 | | | 91,205 |
| Available-for-sale and other securities: | | | | | |
| U.S. Treasury securities | 52,311 | | | | 52,311 |
| Federal agencies: Mortgage-backed | | 4,264,670 | | | 4,264,670 |
| Federal agencies: Other agencies | | 359,626 | | | |