HUNTINGTON BANCSHARES INC/MD
Form 10-Q
October 29, 2010

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

Maryland	**31-0724920**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

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

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months and (2) has been subject to such filing requirements for the past 90 days. þ Yes o No

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

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

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

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

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

HUNTINGTON BANCSHARES INCORPORATED
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PART 1. FINANCIAL INFORMATION

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

INTRODUCTION

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

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

Our discussion is divided into key segments:

- **Executive Overview** Provides a summary of our current financial performance, financial condition, and/or business condition. This section also provides our outlook regarding our performance for the remainder of the year.
- **Discussion of Results of Operations** - Reviews financial performance from a consolidated company perspective. It also includes a Significant Items section that summarizes key issues helpful for understanding performance trends. Key consolidated average balance sheet and income statement trends are also discussed in this section.
- **Risk Management and Capital** - Discusses credit, market, liquidity, and operational risks, including how these are managed, as well as performance trends. It also includes a discussion of liquidity policies, how we obtain funding, and related performance. In addition, there is a discussion of guarantees and/or commitments made for items such as standby letters of credit and commitments to sell loans, and a discussion that reviews the adequacy of capital, including regulatory capital requirements.
- **Business Segment Discussion** - Provides an overview of financial performance for each of our major business segments and provides additional discussion of trends underlying consolidated financial performance.
- **Additional Disclosures** - Provides comments on important matters including risk factors, critical accounting policies and use of significant estimates, acquisitions, and other items.

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

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EXECUTIVE OVERVIEW

Summary of 2010 Third Quarter Results

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

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

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

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

Business Overview

General

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

Our main challenge to accomplishing our primary objectives results from an economy that remains weak and uncertain. This impairs our ability to grow loans as customers continue to reduce their debt and/or remain cautious about increasing debt until they have a higher degree of confidence in sustainable economic recovery. However, growth in our automobile loan portfolio continued with 2010 third quarter originations of over $1.0 billion. Additionally, we were able to generate modest growth in commercial and industrial (C&I) loans during the quarter.

We face strong competition from other banks and financial service firms in our markets. As such, we have placed strong strategic emphasis on, and continue to develop and expand resources devoted to improving cross-sell performance to take advantage of our loyal core customer base. One example of this emphasis is our recent agreement with Giant Eagle supermarkets to be its exclusive in-store bank in Ohio. When fully implemented, the partnership will give us nearly 500 branches in Ohio, providing us with the largest branch presence among Ohio banks, based on current data. In-store branches have a strong record for checking account acquisition that are expected to increase the number of our households and subsequently drive revenue. Additionally, it will give customers the convenience of seven days per week, and extended hours banking.

Legislative and Regulatory

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

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

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

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

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

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

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

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

Near-term expectations

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

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

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DISCUSSION OF RESULTS OF OPERATIONS

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

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

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Table 1 Selected Quarterly Income Statement Data (1)

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

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

N.M., not a meaningful value.

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

(2) The 2009 fourth quarter gain related to the purchase of certain subordinated bank notes.

(3) For all the quarterly periods presented above, the impact of the convertible preferred stock issued in 2008 was excluded from the diluted share calculation. It was excluded because the result would have been higher than basic earnings per common share (anti-dilutive) for the periods.

(4) Net income (loss) excluding expense for amortization of

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

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

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

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

(in thousands, except per share amounts)	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009	Change Amount	Change Percent
Interest income	**$ 1,617,101**	$ 1,686,807	$ (69,706)	(4)%
Interest expense	**413,590**	636,584	(222,994)	(35)
Net interest income	**1,203,511**	1,050,223	153,288	15
Provision for credit losses	**547,574**	1,180,680	(633,106)	(54)
Net interest income (loss) after provision for credit losses	**655,937**	(130,457)	786,394	N.M.
Service charges on deposit accounts	**211,205**	226,042	(14,837)	(7)
Brokerage and insurance income	**108,636**	105,996	2,640	2
Mortgage banking income	**122,613**	87,680	34,933	40
Trust services	**83,161**	76,364	6,797	9
Electronic banking	**81,334**	74,978	6,356	8
Bank owned life insurance income	**44,953**	40,817	4,136	10
Automobile operating lease expense	**35,501**	39,139	(3,638)	(9)
Securities gains (losses)	**(171)**	(7,647)	7,476	(98)
Other income	**90,406**	117,730	(27,324)	(23)
Total noninterest income	**777,638**	761,099	16,539	2
Personnel costs	**586,789**	519,819	66,970	13
Outside data processing and other services	**118,305**	111,283	7,022	6
Deposit and other insurance expense	**74,228**	89,410	(15,182)	(17)
Net occupancy	**81,192**	79,000	2,192	3
OREO and foreclosure expense	**28,547**	75,379	(46,832)	(62)
Equipment	**63,860**	62,663	1,197	2
Professional services	**67,757**	51,220	16,537	32
Amortization of intangibles	**45,432**	51,247	(5,815)	(11)
Automobile operating lease expense	**28,892**	32,920	(4,028)	(12)
Marketing	**49,756**	23,975	25,781	N.M.
Telecommunications	**18,071**	17,880	191	1
Printing and supplies	**11,628**	11,673	(45)	
Goodwill impairment		2,606,944	(2,606,944)	N.M.
Gain on early extinguishment of debt[2]		(73,827)	73,827	N.M.
Other expense	**64,756**	51,262	13,494	26
Total noninterest expense	**1,239,213**	3,710,848	(2,471,635)	(67)
Income (loss) before income taxes	**194,362**	(3,080,206)	3,274,568	N.M.
Provision (benefit) for income taxes	**4,915**	(355,714)	360,629	N.M.
Net income (loss)	**$ 189,447**	$ (2,724,492)	$ 2,913,939	N.M.%

Dividends declared on preferred shares	**88,278**	145,467	(57,189)	(39)
Net income (loss) applicable to common shares	**$ 101,169**	$ (2,869,959)	$ 2,971,128	N.M.%
Average common shares basic	**716,604**	471,958	244,646	52%
Average common shares diluted[3]	**719,182**	471,958	247,224	52
Per common share				
Net income per common share basic	**$ 0.14**	$ (6.08)	$ 6.22	N.M.%
Net income (loss) per common share diluted	**0.14**	(6.08)	6.22	N.M.
Cash dividends declared	**0.03**	0.03		
Return on average total assets	**0.49%**	(6.95)%	7.44	N.M.%
Return on average total shareholders equity	**4.7**	(62.7)	67.4	N.M.
Return on average tangible shareholders equity[4]	**6.1**	(2.6)	8.7	N.M.
Net interest margin[5]	**3.46**	3.09	0.37	12
Efficiency ratio[6]	**60.0**	57.6	2.4	4
Effective tax rate (benefit)	**2.5**	(11.5)	14.0	N.M.
Revenue fully taxable equivalent (FTE)				
Net interest income	**$ 1,203,511**	$ 1,050,223	$ 153,288	15%
FTE adjustment	**7,369**	8,975	(1,606)	(18)
Net interest income	**1,210,880**	1,059,198	151,682	14
Noninterest income	**777,638**	761,099	16,539	2
Total revenue	**$ 1,988,518**	$ 1,820,297	$ 168,221	9%

N.M., not a meaningful value.

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

(2) The 2009 gain included $67.4 million related to the purchase of certain trust preferred securities.

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

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

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

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

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

Significant Items

Definition of Significant Items

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

merger/restructuring charges, recapitalization actions, goodwill impairment, etc.
Even though certain revenue and expense items are naturally subject to more volatility than others due to changes in market and economic environment conditions, as a general rule volatility alone does not define a Significant Item . For example, changes in the provision for credit losses, gains/losses from investment activities, asset valuation writedowns, etc., reflect ordinary banking activities and are, therefore, typically excluded from consideration as a Significant Item .
We believe the disclosure of Significant Items in current and prior period results aids in better understanding our performance and trends to ascertain which of such items, if any, to include or exclude from an analysis of our performance; i.e., within the context of determining how that performance differed from expectations, as well as how, if at all, to adjust estimates of future performance accordingly. To this end, we adopted a practice of listing Significant Items in our external disclosure documents (e.g., earnings press releases, investor presentations, Forms 10-Q and 10-K).
Significant Items for any particular period are not intended to be a complete list of items that may materially impact current or future period performance. A number of items could materially impact these periods, including those described in our 2009 Annual Report on Form 10-K and other factors described from time-to-time in our other filings with the Securities and Exchange Commission.

Significant Items Influencing Financial Performance Comparisons

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

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

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

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

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

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

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

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

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

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

2009 Fourth Quarter

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

2009 Second Quarter

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

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

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

Table 3 Significant Items Influencing Earnings Performance Comparison

	Three Months Ended					
	September 30, 2010		June 30, 2010		September 30, 2009	
(dollar amounts in thousands, except per share amounts)	**After-tax**	**EPS**	After-tax	EPS	After-tax	EPS
Net income (loss) GAAP	**$ 100,946**		$ 48,764		$ (166,190)	
Earnings per share, after-tax		**$ 0.10**		$ 0.03		$ (0.33)
Change from prior quarter $		**0.07**		0.02		0.07
Change from prior quarter %		**N.M.%**		N.M.%		18.0%
Change from year-ago $		**$ 0.43**		$ 0.43		$ (0.50)
Change from year-ago %		**N.M.%**		N.M.%		N.M.%
Significant items - favorable (unfavorable) impact:	**Earnings (1)**	**EPS**	Earnings (1)	EPS	Earnings (1)	EPS
Franklin-related loans transferred to held for sale	$	$	$ (75,500)	$ 0.07	$	$

	Nine Months Ended			
	September 30, 2010		September 30, 2009	
(in thousands)	**After-tax**	**EPS**	After-tax	EPS
Net income (loss) reported earnings	**$ 189,447**		$ (2,724,492)	
Earnings per share, after-tax		**$ 0.14**		$ (6.08)
Change from a year-ago $		**6.22**		(6.84)
Change from a year-ago %		**N.M. %**		N.M.%
Significant items - favorable (unfavorable) impact:	**Earnings (1)**	**EPS**	Earnings (1)	EPS
Franklin-related loans transferred to held for sale	**$ (75,500)**	**$ (0.07)**	$	$
Net tax benefit recognized (2)	**38,222**	**0.05**		
Franklin relationship restructuring (2)			159,895	0.34
Gain on redemption of junior subordinated debt			73,827	0.10
Gain related to Visa® stock			31,362	0.04
Deferred tax valuation allowance benefit (2)			1,505	0.01
Goodwill impairment			(2,606,944)	(5.52)
FDIC special assessment			(23,555)	(0.03)
Preferred stock conversion deemed dividend				(0.12)

N.M., not a meaningful value.

(1) Pretax unless otherwise noted.

(2) After-tax.

Pretax, Pre-provision Income Trends

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

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

Table 4 Pretax, Pre-provision Income (1)

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

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

measure differently.

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

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

Net Interest Income / Average Balance Sheet

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

2010 Third Quarter versus 2009 Third Quarter

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

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

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

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

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

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

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

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

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

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2010 Third Quarter versus 2010 Second Quarter

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

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

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

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

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

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

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

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

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Partially offset by:

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

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

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

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

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Table 7 Consolidated Quarterly Average Balance Sheets

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

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

N.M., not a meaningful value.

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

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Table 8 Consolidated Quarterly Net Interest Margin Analysis

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

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

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

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

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

reflected in the
average
balances of
loans.

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2010 First Nine Months versus 2009 First Nine Months

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

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

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

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

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

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

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

Partially offset by:

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

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

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

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

Partially offset by:

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

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

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

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

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

(2)

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

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

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Provision for Credit Losses

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

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

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

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

Table 11 Provision for Credit Losses Franklin-Related Impact

	2010			2009	
(in millions)	**Third**	Second	First	Fourth	Third
Provision for (reduction to) credit losses					
Franklin	$	$ 80.0	$ 11.5	$ 1.2	$ (3.5)
Non-Franklin	**119.2**	113.4	223.5	892.8	478.6
Total	$ **119.2**	$ 193.4	$ 235.0	$ 894.0	$ 475.1
Total net charge-offs (recoveries)					
Franklin related to transfer to loans held for sale	$	$ 75.5	$	$	$
Franklin unrelated to transfer to loans held for sale		4.5	11.5	1.2	(3.5)
Non-Franklin	**184.5**	199.2	227.0	443.5	359.4
Total	$ **184.5**	$ 279.2	$ 238.5	$ 444.7	$ 355.9
Provision for (reduction to) credit losses in excess of net charge-offs					
Franklin	$	$	$	$	$
Non-Franklin	**(65.3)**	(85.8)	(3.5)	449.3	119.2
Total	$ **(65.3)**	$ (85.8)	$ (3.5)	$ 449.3	$ 119.2

Noninterest Income

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

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

Table 12 Noninterest Income

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

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

Table 13 Mortgage Banking Income

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

(1)

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

(2) At period end.

2010 Third Quarter versus 2009 Third Quarter

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

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

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

N.M., not a meaningful value.

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

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

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

Partially offset by:

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

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

2010 Third Quarter versus 2010 Second Quarter

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

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

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

N.M., not a meaningful value.

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

- $10.0 million, or 13%, decrease in service charges on deposit accounts. This decline represented a decrease in personal NSF/OD service charges and was consistent with expectations related to the implementation of changes to Regulation E, as well as the voluntary reduction in certain overdraft fee practices as part of our Fair Play banking philosophy.
- $1.4 million, or 5%, decline in trust services income, primarily reflecting the seasonal reduction in tax preparation fees.

Partially offset by:

- $6.5 million, or 14%, increase in mortgage banking income. This increase reflected a $16.1 million increase in origination and secondary marketing income, as mortgage originations increased 39% with borrowers continuing to take advantage of low interest rates. This increase was partially offset by a $7.9 million decline in MSR hedging-related activities.
- $3.8 million, or 13%, increase in other income, primarily reflecting a gain on sale of SBA loans.

2010 First Nine Months versus 2009 First Nine Months

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

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

	Nine Months Ended September 30,		Change	
(dollar amounts in thousands)	**2010**	2009	Amount	Percent
Service charges on deposit accounts	**$ 211,205**	$ 226,042	$ (14,837)	(7)%
Brokerage and insurance income	**108,636**	105,996	2,640	2
Mortgage banking income	**122,613**	87,680	34,933	40
Trust services	**83,161**	76,364	6,797	9
Electronic banking	**81,334**	74,978	6,356	8
Bank owned life insurance income	**44,953**	40,817	4,136	10
Automobile operating lease income	**35,501**	39,139	(3,638)	(9)
Securities losses	**(171)**	(7,647)	7,476	(98)
Other income	**90,406**	117,730	(27,324)	(23)
Total noninterest income	**$ 777,638**	$ 761,099	$ 16,539	2%

N.M., not a meaningful value.

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

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

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

N.M., not a meaningful value.

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

(2) At period end.

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

- $34.9 million, or 40%, increase in mortgage banking income. This reflected a $44.4 million increase from net MSR hedging-related activities. This benefit was partially offset by a $9.0 million decline on origination and secondary marketing income, as mortgage originations declined 12% from the prior year-ago period.
- $7.5 million, or 98%, improvement in securities losses.
- $6.8 million, or 9%, increase in trust services income, primarily reflecting a combination of higher asset market values, asset growth, and fee increases.
- $6.4 million, or 8%, increase in electronic banking reflecting increased debit card transaction volumes and a $3.3 million Visa® rebate for check card volume growth.

Partially offset by:

- $27.3 million, or 23%, decline in other income. This decline primarily reflected a $20.3 million benefit in the year-ago period representing the change in fair value of derivatives that did not qualify for hedge accounting. This was partially offset by a $7.5 million loss on commercial loans held for sale and other equity investment losses also in that same period. The change from the year-ago period also reflected the current quarter gain on the sale of SBA loans.

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

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

Noninterest Expense

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

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

Table 18 Noninterest Expense

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

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2010 Third Quarter versus 2009 Third Quarter

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

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

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

N.M., not a meaningful value.

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

- $36.1 million, or 21%, increase in personnel costs, primarily reflecting an 11% increase in full-time equivalent staff in support of strategic initiatives, as well as higher commissions and other incentive expenses, and the reinstatement of our 401(k) plan matching contribution.
- $12.7 million increase in marketing expense, reflecting increases in branding, direct mail, and product advertising activities in support of strategic initiatives.
- $3.3 million, or 18%, increase in other expense, reflecting increased travel and miscellaneous fees.
- $2.6 million, or 14%, increase in professional services, reflecting higher consulting and legal expenses.

Partially offset by:

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

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2010 Third Quarter versus 2010 Second Quarter

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

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

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

N.M., not a meaningful value.

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

- $13.4 million, or 7%, increase in personnel costs, reflecting a combination of factors including higher salaries due to a 1% increase in full-time equivalent staff in support of strategic initiatives, higher sales commissions, and retirement fund and 401(k) plan expenses.
- $7.1 million increase in OREO and foreclosure expense, as the prior quarter included a $3.7 million OREO gain and the current quarter included a $2.0 million Franklin-related OREO loss.
- $3.2 million, or 18%, increase in marketing expense, reflecting increases in branding and product advertising activities in support of strategic initiatives.

Partially offset by:

- $3.7 million, or 15%, decrease in professional services, reflecting lower legal and consulting fees.
- $2.7 million, or 10%, decline in deposit and other insurance expense, primarily reflecting our decision to exit the FDIC s TAGP program.
- $2.3 million, or 10%, decrease in other expense, as the expense associated with increases in repurchase reserves related to representations and warranties made on mortgage loans sold declined $4.2 million.
- $2.1 million, or 5%, decline in outside data processing and other services, reflecting the reduction of Franklin servicing costs given the sale of the related loans, partially offset by higher outside programming costs.

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2010 First Nine Months versus 2009 First Nine Months

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

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

	Nine Months Ended September 30,		Change	
(dollar amounts in thousands)	**2010**	2009	Amount	Percent
Personnel costs	**$ 586,789**	$ 519,819	$ 66,970	13%
Outside data processing and other services	**118,305**	111,283	7,022	6
Deposit and other insurance expense	**74,228**	89,410	(15,182)	(17)
Net occupancy	**81,192**	79,000	2,192	3
OREO and foreclosure expense	**28,547**	75,379	(46,832)	(62)
Equipment	**63,860**	62,663	1,197	2
Professional services	**67,757**	51,220	16,537	32
Amortization of intangibles	**45,432**	51,247	(5,815)	(11)
Automobile operating lease expense	**28,892**	32,920	(4,028)	(12)
Marketing	**49,756**	23,975	25,781	N.M.
Telecommunications	**18,071**	17,880	191	1
Printing and supplies	**11,628**	11,673	(45)	
Goodwill impairment		2,606,944	(2,606,944)	N.M.
Gain on early extinguishment of debt		(73,827)	73,827	N.M.
Other expense	**64,756**	51,262	13,494	26
Total noninterest expense	**$ 1,239,213**	$ 3,710,848	$ (2,471,635)	(67)%
Number of employees (full-time equivalent), at period-end	11,279	10,194	1,085	11%

N.M., not a meaningful value.

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

- $2,606.9 million of goodwill impairment in the year-ago period.
- $46.8 million, or 62%, decrease in OREO and foreclosure expense reflecting lower OREO losses.
- $15.2 million, or 17%, decline in deposit and other insurance expense, primarily due to a $23.6 million FDIC insurance special assessment in the year-ago period, partially offset by higher FDIC insurance costs in the current period as premium rates increased and the level of deposits grew.

Partially offset by:

- $73.8 million benefit in the year-ago period from a gain on the early extinguishment of debt.
- $67 million, or 13%, increase in personnel costs, reflecting a combination of factors including higher salaries due to a 11% increase in full-time equivalent staff in support of strategic initiatives, higher sales commissions, and retirement fund and 401(k) plan expenses.
- $25.8 million increase in marketing expense, reflecting increases in branding and product advertising activities in support of strategic initiatives.
- $16.5 million, or 32%, increase in professional services, reflecting higher legal and consulting fees.
- $13.5 million, or 26%, increase in other expense, reflecting a combination of factors including an increase in repurchase reserves related to representations and warranties made on mortgage loans sold and an increase in other miscellaneous expenses in support of implementing strategic initiatives, partially offset by a decrease in franchise and other taxes.

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Provision for Income Taxes

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

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

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

Credit Risk

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

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

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

Loan and Lease Credit Exposure Mix

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

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

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

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

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

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

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

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

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

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

Table 22 Loan and Lease Portfolio Composition

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

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

(1) There were no commercial loans outstanding that would be considered a concentration of lending to a particular industry or group of industries.

(2) The 2009 fourth quarter reflected net reclassifications from commercial real estate loans to commercial and industrial loans of $589.0 million.

(3) The 2010 first quarter included an increase of $730.5 million resulting from the adoption of a new accounting standard to consolidate a previously off-balance sheet automobile loan securitization transaction.

Commercial Credit

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

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

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

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

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

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

COMMERCIAL REAL ESTATE (CRE) PORTFOLIO

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

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

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

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

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

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

Health care	**0.1**	**0.15**			**0.5**	**0.69**	0.7	0.58
Other	**0.7**	**2.39**	0.7	1.62	**5.3**	**14.43**	6.0	15.79
Total	**$ 230.7**	**4.17%**	$ 424.6	6.03%	**$ 478.8**	**6.93%**	$ 935.8	12.17%

(1) Represents percentage of related outstanding loans.

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

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

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

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

Retail Properties

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

Single Family Home Builders

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

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Core and Noncore portfolios

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

A CRE loan is generally considered core when the borrower is an experienced, well-capitalized developer in our Midwest footprint, and has either an established meaningful relationship that generates an acceptable return on capital or the prospect of establishing one. The core CRE portfolio was $4.0 billion at September 30, 2010, representing 58% of total CRE loans. The performance of the core portfolio in the current quarter met our expectations based on the consistency of the asset quality metrics within the portfolio. Based on our extensive project level assessment process, including forward-looking collateral valuations, we continue to believe the credit quality of the core portfolio is stable.

A CRE loan is generally considered noncore based on the lack of a substantive relationship outside of the credit product, with no immediate prospects for improvement. The noncore CRE portfolio declined from $3.7 billion at December 31, 2009, to $2.9 billion at September 30, 2010, and represented 42% of total CRE loans. Of the loans in the noncore portfolio at September 30, 2010, 51% were classified as pass or better, 95% had guarantors, 99% were secured, and 90% were located within our geographic footprint. However, it is within the noncore portfolio where most of the credit quality challenges exist. For example, $0.4 billion, or 15%, of related outstanding balances, are classified as NALs. SAD administered $1.4 billion, or 48%, of total noncore CRE loans at September 30, 2010. We expect to exit the majority of noncore CRE relationships over time through normal repayments, possible sales should economically attractive opportunities arise, or the reclassification to a core CRE relationship if it expands to meet the core requirements.

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

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

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

Total commercial real estate

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

Table 26 Commercial Real Estate Core vs. Noncore Portfolios

	September 30, 2010					
(dollar amounts in millions)	Ending Balance	Prior NCOs	ACL $	ACL %	Credit Mark (1)	Nonaccrual Loans
Total core	$ 3,989	$ 2	$ 165	4.14%	4.18%	$ 51.3
Noncore Special Assets Division (2)	1,394	469	360	25.82	44.50	352.8
Noncore Other	1,529	33	138	9.03	10.95	74.7
Total noncore	2,923	502	498	17.04	29.20	427.5
Total commercial real estate	**$ 6,912**	**$ 504**	**$ 663**	**9.59%**	**15.74%**	**$ 478.8**

	December 31, 2009					
Total core	$ 4,038	$	$ 168	4.16%	4.16%	$ 3.8
Noncore Special Assets Division (2)	1,809	511	410	22.66	39.70	861.0
Noncore Other	1,842	26	186	10.10	11.35	71.0
Total noncore	3,651	537	596	16.32	27.05	932.0
Total commercial real estate	**$ 7,689**	**$ 537**	**$ 764**	**9.94%**	**15.82%**	**$ 935.8**

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

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

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

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

COMMERCIAL AND INDUSTRIAL (C&I) PORTFOLIO

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

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

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

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

Table 27 Commercial and Industrial Loans and Leases by Industry Classification

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

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

Table 28 Commercial and Industrial Credit Quality Data by Industry Classification

	Net Charge-offs				Nonaccrual Loans			
	Nine Months Ended September 30,				**September 30,**		At December 31,	
	2010		2009		**2010**		2009	
		Annualized		Annualized		**Percent**		Percent
(dollar amounts in millions)	**Amount**	**%**	Amount	%	Amount	(1)	Amount	(1)
Industry Classification:								
Manufacturing	$ **54.7**	**3.51%**	**$** 76.0	4.40%	$ **102.9**	**4.90%**	$ 136.8	6.21%
Services	**81.6**	**2.97**	48.8	1.65	**113.2**	**3.06**	163.9	4.20
Contractors and construction	**13.0**	**3.56**	11.4	3.02	**23.3**	**4.32**	41.6	8.98
Finance, insurance, and real estate (2)	**19.1**	**1.37**	163.7	9.86	**51.3**	**3.73**	98.0	4.17
Transportation, communications, and utilities	**7.1**	**1.37**	15.4	2.82	**25.2**	**3.50**	30.6	4.09
Retail trade other than auto dealers	**14.8**	**1.85**	37.7	5.28	**43.4**	**3.57**	58.5	6.38
Energy	**1.3**	**0.43**	3.5	1.13	**9.3**	**2.26**	10.7	2.62
Retail trade auto dealers	**1.5**	**0.21**	0.2	0.03	**2.6**	**0.24**	3.0	0.33
Public administration	**0.2**	**0.25**	0.3	0.31		**0.06**	0.1	0.12
Agriculture and forestry	**0.5**	**0.33**	0.2	0.14	**6.6**	**2.70**	5.1	2.65
Wholesale trade	**0.7**	**0.12**	19.5	3.02	**20.5**	**2.24**	29.5	4.28

Other	**1.3**	**16.37**	1.1	5.43	**0.1**	**0.84**	0.6	2.14
Total (2)	**$ 195.8**	**2.12%**	**$** 377.8	3.78%	$ **398.4**	**3.21%**	$ 578.4	4.49%

(1) Represents percentage of total related outstanding loans.

(2) The nine-month period of 2009 included charge-offs totaling $114.4 million associated with the 2009 Franklin restructuring (see Significant Item 2).

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FRANKLIN RELATIONSHIP

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

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

Consumer Credit

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

In the first nine-month period of 2010, we took advantage of market opportunities that allowed us to grow our automobile loan portfolio. The significant growth in the portfolio was accomplished while maintaining high credit quality metrics. As we take advantage of these opportunities, we are developing alternative plans to address any growth in excess of our established portfolio concentration limits, including both securitizations and loan sales.

The residential mortgage and home equity portfolios are primarily located throughout our geographic footprint. The continued slowdown in the housing market has negatively impacted the performance of our residential mortgage and home equity portfolios. While the degree of price depreciation varies across our markets, all regions throughout our footprint have been affected. Given the continued economic weaknesses in our markets, the home equity and residential mortgage portfolios are particularly noteworthy, and are discussed in greater detail below:

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

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

	Nine Months Ended September 30, 2010		
	Home Equity Loans	Home Equity Lines of Credit	Residential Mortgages (4)
Originations	$ 369.9	$ 1,075.0	$ 1,179.4
Origination Weighted Average LTV ratio(2)	61%	74%	81%

Origination Weighted Average FICO(3)	765	766	760

(1) Excludes Franklin-related loans.

(2) The LTV ratios for home equity loans and home equity lines-of-credit are cumulative and reflect the balance of any senior loans. LTV ratios reflect collateral values at origination.

(3) Portfolio Weighted Average FICO reflects currently updated customer credit scores whereas Origination Weighted Average FICO reflects the customer credit scores at the time of loan origination.

(4) Represents only owned-portfolio originations.

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HOME EQUITY PORTFOLIO

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

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

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

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

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

RESIDENTIAL MORTGAGES

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

All residential mortgage loans are originated based on a complete appraisal during the credit underwriting process. Additionally, we supplement our underwriting with a third-party fraud detection system as used in the home equity portfolio to limit our exposure to flipping and outright fraudulent transactions. We update values in compliance with applicable regulations to facilitate our portfolio management, as well as our workout and loss mitigation functions.

A majority of our residential mortgage loans have adjustable rates. Our adjustable-rate mortgages (ARMs) are primarily residential mortgages that have a fixed-rate for the first 3 to 5 years and then adjust annually. These loans comprised approximately 58% of our total residential mortgage loan portfolio at September 30, 2010. At September 30, 2010, ARM loans expected to have rates reset totaled $173.2 million for the remainder of 2010 and $958.6 million for 2011. Given the quality of our borrowers and the relatively low current interest rates, we believe we have relatively limited exposure to ARM reset risk. Nonetheless, we have taken actions to mitigate our risk exposure. We initiate borrower contact at least six months prior to the interest rate reset date, and have been successful in converting many ARMs to fixed-rate loans through this process. Additionally, where borrowers are experiencing payment difficulties, loans may be reunderwritten based on the borrower s ability to repay the loan.

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

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

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

Credit Quality

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

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

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

NONPERFORMING ASSETS, NONACCRUAL LOANS, and TROUBLED DEBT RESTRUCTURED LOANS

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

Nonperforming Assets (NPAs) and Nonaccrual Loans (NALs)

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

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

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

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

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

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

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

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

The $219.6 million decline in NALs primarily reflected:

- $184.3 million decline in CRE NALs, reflecting both charge-off activity and problem credit resolutions including borrower payments and pay-offs. This category was substantial and was a direct result of our commitment to the on-going proactive management of these credits by our SAD. Also key to this improvement was the significantly lower level of inflows. The level of inflow, or migration, is an important indicator of the future trend for the portfolio.
- $31.2 million decline in C&I NALs, reflecting both charge-off activity and problem credit resolutions, including pay-offs, and was associated with loans throughout our footprint, with no specific geographic

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

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

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

$219.6 million decrease to NALs, discussed above.

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

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

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

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

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

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

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

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

$935.2 million decrease to NALs, discussed above.

$17.1 million decrease in OREO properties.

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

Table 31 Nonperforming Asset Activity

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

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Troubled Debt Restructured Loans

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

Table 32 Accruing and Nonaccruing Troubled Debt Restructured Loans

September 30, 2010
(dollar amounts in thousands)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(1) Percent of related loans and leases.

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

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

Table 34 Criticized Commercial Loan Activity

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

ALLOWANCE FOR CREDIT LOSSES (ACL)

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

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

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

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

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

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

Table 35 Quarterly Allowance for Credit Losses Analysis

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

NALs	**140**	120	87	80	50
NPAs	**125**	91	80	74	46

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

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

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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 36 Allocation of Allowance for Credit Losses (1)

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

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

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

Table 37 Year to Date Allowance for Credit Losses Analysis

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

Allowance for loan and lease losses, end of period	**$**	**1,336,352**	$	1,031,971
Allowance for unfunded loan commitments and letters of credit, beginning of period	**$**	**48,879**	$	44,139
Provision for (reduction in) unfunded loan commitments and letters of credit losses		**(8,818)**		6,004
Allowance for unfunded loan commitments and letters of credit, end of period	**$**	**40,061**	$	50,143
Total allowance for credit losses	**$**	**1,376,413**	$	1,082,114
Allowance for loan and lease losses (ALLL) as % of:				
Total loans and leases		**3.56%**		2.77%
Nonaccrual loans and leases (NALs)		**136**		47
Nonperforming assets (NPAs)		**121**		44
Total allowance for credit losses (ACL) as % of:				
Total loans and leases		**3.67%**		2.90%
NALs		**140**		50
Nonperforming assets		**125**		46

NET CHARGE-OFFS (NCOs)

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

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

Table 38 Quarterly Net Charge-off Analysis

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

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

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

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

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

net charge-offs.

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

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Table 39 Quarterly NCOs Franklin-Related Impact

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

Total residential mortgage loan net charge-offs annualized percentages					
Total	**1.73%**	7.19%	2.17%	1.61%	6.15%
Non-Franklin	**1.42**	1.74	1.57	1.66	6.71
Total consumer loan charge-offs (recoveries)					
Franklin	**$ 4.5**	$ 80.2	$ 11.9	$ 1.1	$ 0.6
Non-Franklin	**54.1**	59.2	65.8	75.7	117.3
Total	**$ 58.6**	$ 139.4	$ 77.7	$ 76.8	$ 117.9
Total consumer loan net charge-offs annualized percentages					
Total	**1.32%**	3.19%	1.83%	1.91%	2.94%
Non-Franklin	**1.22**	1.39	1.59	1.94	3.01
Total net charge-offs (recoveries)					
Franklin	**$**	$ 80.0	$ 11.5	$ 1.2	$ (3.5)
Non-Franklin	**184.5**	199.2	227.0	443.5	359.4
Total	**$ 184.5**	$ 279.2	$ 238.5	$ 444.7	$ 355.9
Total net charge-offs annualized percentages					
Total	**1.98%**	3.01%	2.58%	4.80%	3.76%
Non-Franklin	**1.98**	2.17	2.48	4.84	3.85

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

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

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

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

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

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

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

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

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

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

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

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Table 40 Year to Date Net Charge-off Analysis

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

Automobile loans and leases	**0.56**	1.60
Home equity[2]	**1.95**	1.24
Residential mortgage[3]	**3.74**	2.69
Other loans	**3.84**	4.36
Total consumer	**2.11**	1.85
Net charge-offs as a % of average loans	**2.52%**	3.51%

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

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

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

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

Table 41 Year to Date NCOs Franklin-Related Impact

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

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

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

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

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

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

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

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

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

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

INVESTMENT SECURITIES PORTFOLIO

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

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

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

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

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

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

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

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

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

The following table presents the credit ratings for our Alt-A, pooled-trust-preferred, and private label CMO securities as of September 30, 2010:

Table 42 Credit Ratings of Selected Investment Securities (1)

(in millions)

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

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

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

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

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Table 43 Trust Preferred Securities Data
September 30, 2010
(dollar amounts in thousands)

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

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

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

recognized credit rating agency.

(3) Includes both banks and/or insurance companies.

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

Market Risk

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

Interest Rate Risk

OVERVIEW

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

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

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INCOME SIMULATION AND ECONOMIC VALUE ANALYSIS

Interest rate risk measurement is performed monthly. Two broad approaches to modeling interest rate risk are employed: income simulation and economic value analysis. An income simulation analysis is used to measure the sensitivity of forecasted net interest income to changes in market rates over a one-year time period. Although bank owned life insurance, automobile operating lease assets, and excess cash balances held at the Federal Reserve Bank are classified as noninterest earning assets, and the net revenue from these assets is in noninterest income and noninterest expense, these portfolios are included in the interest sensitivity analysis because they have attributes similar to interest earning assets. Economic value of equity (EVE) analysis is used to measure the sensitivity of the values of period-end assets and liabilities to changes in market interest rates. EVE serves as a complement to income simulation modeling as it provides risk exposure estimates for time periods beyond the one-year simulation period.

The simulations for evaluating short-term interest rate risk exposure are scenarios that model gradual +/-100 and +/-200 basis point parallel shifts in market interest rates over the next 12-month period beyond the interest rate change implied by the current yield curve. We assumed market interest rates would not fall below 0% over the next 12-month period for the scenarios that used the -100 and -200 basis point parallel shift in market interest rates. The table below shows the results of the scenarios as of September 30, 2010, and December 31, 2009. All of the positions were within the board of directors policy limits.

Table 44 Net Interest Income at Risk

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

The net interest income at risk reported as of September 30, 2010 for the +200 basis points scenario shows a change to a slightly asset-sensitive near-term interest rate risk position compared with December 31, 2009. The primary factors contributing to the change to slight asset-sensitivity is lower market interest rates which result in the expectation for faster prepayments on mortgage-related assets, offset slightly by updates to prepayment models and default models.

The primary simulations for EVE at risk assume immediate +/-100 and +/-200 basis point parallel shifts in market interest rates beyond the interest rate change implied by the current yield curve. The table below outlines the September 30, 2010, results compared with December 31, 2009. All of the positions were within the board of directors policy limits.

Table 45 Economic Value of Equity at Risk

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

December 31, 2009	+0.8%	+2.7%	-3.7%	-9.1%

The EVE at risk reported as of September 30, 2010 for the +200 basis points scenario shows a change to a lower long-term liability sensitive position compared with December 31, 2009. The primary factors contributing to the change are lower market interest rates which result in the expectation for faster prepayments on mortgage-related assets and an increase in the volume of deposits and net free funds, offset by a $1.6 billion increase in interest rate swaps used for asset-liability management purposes and updates to prepayment models and default models.

MORTGAGE SERVICING RIGHTS (MSRs)

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

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

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

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

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

Price Risk

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

Liquidity Risk

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

Bank Liquidity and Sources of Liquidity

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

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

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

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

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

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

Table 46 Deposit Composition

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

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

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

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

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

Table 47 Federal Reserve and FHLB-Cincinnati Borrowing Capacity

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

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

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

Parent Company Liquidity

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

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

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

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

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

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

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

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

Off-Balance Sheet Arrangements

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

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

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

Through our credit process, we monitor the credit risks of outstanding standby letters of credit. When it is probable a standby letter of credit will be drawn and not repaid in full, losses are recognized in the provision for credit losses. At September 30, 2010, we had $0.5 billion of standby letters of credit outstanding, of which 72% were collateralized.

We enter into forward contracts relating to the mortgage banking business to hedge the exposures we have from commitments to extend new residential mortgage loans to our customers and from our held-for-sale mortgage loans. At September 30, 2010, December 31, 2009, and September 30, 2009, we had commitments to sell residential real estate loans of $1,254.3 million, $662.9 million, and $729.5 million, respectively. These contracts mature in less than one year.

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

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

Operational Risk

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

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

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

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

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

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Capital / Capital Adequacy

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

Capital is managed both at the Bank and on a consolidated basis. Capital levels are maintained based on regulatory capital requirements and the economic capital required to support credit, market, liquidity, and operational risks inherent in our business, and to provide the flexibility needed for future growth and new business opportunities.

Shareholders equity totaled $5.6 billion at September 30, 2010, an increase of $0.2 billion, or 4%, compared with $5.3 billion at December 31, 2009. This increase primarily reflected improvements in the components of accumulated OCI, as well as an increase in retained earnings.

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

Table 48 Capital Adequacy

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

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

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

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

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

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

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

Regulatory Capital

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

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

Table 49 Consolidated Regulatory Capital Activity

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

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

Change in qualifying subordinated debt					
Change in qualifying ACL	(11.4)		**(11.4)**		**(11.4)**
Changes to Tier 1 Capital (see above)				**279.1**	**279.1**
Balance at September 30, 2010	$ 544.9	$ 423.4	**$ 968.3**	**$ 5,480.3**	**$ 6,448.6**

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

(2) Includes minority interest.

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

Table 50 Regulatory Capital Ratios

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

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

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

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

TARP

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

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

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

Other Capital Matters

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

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BUSINESS SEGMENT DISCUSSION

Overview

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

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

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

Funds Transfer Pricing

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

Revenue Sharing

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

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

1. Achieve greater   share of wallet   by increasing product and services sold to each relationship.

2. Target profitable customers, aligned with our strategic mid to low risk profile.

3. Take a consultative sales approach to become a total solutions provider.

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

Expense Allocation

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

published by other financial institutions.

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

Treasury/Other

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

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

Net Income by Business Segment

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

Table 51 Net Income (Loss) by Business Segment

	Nine Months Ended September 30,	
(dollar amounts in thousands)	**2010**	2009
Retail and Business Banking	$ **94,124**	**$** 43,706
Commercial Banking	**44,857**	(56,151)
Commercial Real Estate	**(73,771)**	(325,748)
AFDS	**66,932**	(3,261)
PFG	**29,699**	5,010
Treasury/Other	**27,606**	185,770
Unallocated goodwill impairment (1)		(2,573,818)
Total net income (loss)	$ **189,447**	**$** (2,724,492)

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

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

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Average Loans/Leases and Deposits by Business Segment

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

Table 52 Average Loans/Leases and Deposits by Business Segment

Nine Months Ended September 30, 2010

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

Retail and Business Banking

Objectives, Strategies, and Priorities

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

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

Table 53 Key Performance Indicators for Retail and Business Banking

	Nine Months Ended September 30,		Change	
(dollar amounts in thousands unless otherwise noted)	**2010**	2009	Amount	Percent
Net interest income	**$ 683,200**	$ 666,806	$ 16,394	2%
Provision for credit losses	**(190,508)**	(310,807)	(120,299)	(39)
Noninterest income	**409,993**	385,628	24,365	6
Noninterest expense	**(757,879)**	(674,386)	83,493	12
Provision for income taxes	**(50,682)**	(23,535)	27,147	N.M.
Net income	**$ 94,124**	$ 43,706	$ 50,418	N.M.%
Number of employees (full-time equivalent)	**6,562**	5,881	681	12%
Total average assets (in millions)	**$ 16,644**	$ 17,036	$ (392)	(2)
Total average loans/leases (in millions)	**14,381**	14,893	(512)	(3)
Total average deposits (in millions)	**28,913**	27,664	1,249	5
Net interest margin	**3.14%**	3.22%	(0.08)%	(2)
Net charge-offs (NCOs)	**$ 195,947**	$ 298,089	$ (102,142)	(34)
NCOs as a % of average loans and leases	**1.82%**	2.67%	(0.85)%	(32)
Return on average equity	**7.3**	4.5	2.8	62
Retail banking # demand deposit account (DDA) households (eop)	**970,255**	921,059	49,196	5
Retail banking New-to-Bank DDA relationships 90-day cross-sell (eop)	**3.50**	3.13	0.37	12
Business banking # business DDA relationships (eop)	**117,776**	112,427	5,349	5
Business banking New-to-Bank DDA relationships 90-day cross-sell (eop)	**2.48**	1.88	0.60	32
Mortgage banking closed loan volume (in millions)	**$ 3,649**	$ 4,131	$ (482)	(12)%

eop End of Period.

N.M., not a meaningful value.

2010 First Nine Months vs. 2009 First Nine Months

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

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

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

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

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

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

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

Commercial Banking

Objectives, Strategies, and Priorities

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

The Commercial Banking business model includes 11 regional markets driven by local execution. These markets are supported by expertise in large corporate and middle market segments, by capabilities in treasury management and equipment finance, and by vertical strategies within government banking and not-for-profit industries.

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

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

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

Table 54 Key Performance Indicators for Commercial Banking

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

N.M., not a meaningful value.

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2010 First Nine Months vs. 2009 First Nine Months

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

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

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

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

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

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

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

Commercial Real Estate

Objectives, Strategies, and Priorities

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

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

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

Table 55 Key Performance Indicators for Commercial Real Estate

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

N.M., not a meaningful value.

2010 First Nine Months vs. 2009 First Nine Months

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

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

Average total loans declined $1.3 billion. The decline is primarily due to aggressive portfolio management and reflects an on-going commitment to reducing our commercial real estate exposure while maintaining a moderate to low risk profile. In addition, certain CRE loans, primarily representing owner-occupied properties, were reclassified to C&I loans in 2009.
Average total deposits increased $0.1 billion, or 21% primarily in commercial demand deposits and commercial money-market deposits reflecting the results of our commitment to strengthen relationships with core customers.
Noninterest income increased $7.8 million, reflecting $4.3 million improvement in derivative trading activities as well as $2.3 million increase in loan-related fees.
Noninterest expense increased $8.6 million, or 34% reflecting $4.6 million increase in credit-related expenses (i.e, appraisals, loan collection, taxes, OREO expenses) and $2.5 million increase in personnel expense reflecting the commitment to deepening our relationships with core customers and reducing real estate exposure.

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Auto Finance and Dealer Services (AFDS)

Objectives, Strategies, and Priorities

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

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

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

	Nine Months Ended September 30,		Change	
(dollar amounts in thousands unless otherwise noted)	**2010**	2009	Amount	Percent
Net interest income	**$ 126,607**	$ 105,116	$ 21,491	20%
Reduction (provision) for credit losses	**9,004**	(68,553)	(77,557)	N.M.
Noninterest income	**49,929**	44,327	5,602	13
Noninterest expense	**(82,568)**	(85,907)	(3,339)	(4)
(Provision) benefit for income taxes	**(36,040)**	1,756	37,796	N.M.
Net income (loss)	**$ 66,932**	$ (3,261)	$ 70,193	N.M.%
Number of employees (full-time equivalent)	**412**	436	(24)	(6)%
Total average assets (in millions)	**$ 6,345**	$ 5,270	$ 1,075	20
Total average loans/leases (in millions)	**5,896**	4,972	924	19
Net interest margin	**2.74%**	2.64%	0.10%	4
Net charge-offs (NCOs)	**$ 21,766**	$ 45,430	$ (23,664)	(52)
NCOs as a % of average loans and leases	**0.49%**	1.22%	(0.73)%	(60)
Return on average equity	**35.9**	(1.7)	37.6	N.M.
Noninterest income	**$ 49,929**	$ 44,327	$ 5,602	13
Operating lease income	**35,500**	39,139	(3,639)	(9)
Noninterest income, excluding operating lease income	**$ 14,429**	$ 5,188	$ 9,241	2
Noninterest expense	**$ (82,568)**	$ (85,907)	$ 3,339	(4)
Operating lease expense	**(28,892)**	(32,920)	4,028	(12)
Noninterest expense, excluding operating lease expense	**$ (53,676)**	$ (52,987)	$ (689)	1

Automobile loans production (in millions)	**$ 2,631**	$ 1,073	$ 1,558	N.M.

N.M., not a meaningful value.

2010 First Nine Months vs. 2009 First Nine Months

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

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

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

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

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

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

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Private Financial Group (PFG)

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

Objectives, Strategies, and Priorities

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

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

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

	Nine Months Ended September 30,		Change	
(dollar amounts in thousands unless otherwise noted)	**2010**	2009	Amount	Percent
Net interest income	**$ 70,420**	$ 57,274	$ 13,146	23%
Reduction (provision) for credit losses	**(4,476)**	(27,019)	(22,543)	(83)
Noninterest income	**191,858**	183,657	8,201	4
Noninterest expense excluding goodwill impairment	**(212,111)**	(177,310)	34,801	20
Goodwill impairment		(28,895)	(28,895)	N.M.
Provision for income taxes	**(15,992)**	(2,697)	13,295	N.M.
Net income	**$ 29,699**	$ 5,010	$ 24,689	N.M.%
Number of employees (full-time equivalent)	**1,519**	1,371	148	11%
Total average assets (in millions)	**$ 3,292**	$ 3,339	$ (47)	(1)
Total average loans/leases (in millions)	**2,086**	2,444	(358)	(15)
Total average deposits (in millions)	**3,151**	2,354	797	34
Net interest margin	**3.00%**	3.09%	(0.09)%	(3)
Net charge-offs (NCOs)	**$ 20,512**	$ 25,537	$ (5,025)	(20)
NCOs as a % of average loans and leases	**1.31%**	1.39%	(0.08)%	(6)
Return on average equity	**11.2**	2.8	8.4	N.M.
Total trust assets (in billions)- eop	**$ 60.3**	$ 47.7	$ 12.6	26
Total assets under management (in billions)- eop	**13.6**	13.0	0.6	5
Total Huntington Funds (in billions) -eop	**3.3**	3.2	0.1	3

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

eop End of Period.

N.M., not a meaningful value.

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2010 First Nine Months vs. 2009 First Nine Months

PFG reported net income of $29.7 million in the first nine-month period of 2010, compared with net income of $5.0 million in the first nine-month period of 2009. The $24.7 million improvement reflected a $28.9 million goodwill impairment charge recorded during the year-ago period, as well as a $22.5 million decline in the provision for credit losses. Partially offsetting this amount was an increase in the provision for income taxes expense of $13.3 million.

Net interest income increased $13.1 million, or 23%, and the net interest margin declined by 9 basis points. The growth in net interest income was driven mostly by a $0.8 billion increase in lower-cost deposits *(see below)*.

Average total loans decreased $0.4 billion, or 15%. This decrease was primarily due to the reclassification of certain variable rate demand notes to municipal securities.

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

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

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

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

ADDITIONAL DISCLOSURES

Forward-Looking Statements

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

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

Risk Factors

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

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

Critical Accounting Policies and Use of Significant Estimates

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

An accounting estimate requires assumptions about uncertain matters that could have a material effect on the financial statements if a different amount within a range of estimates were used or if estimates changed from period to period. Estimates are made under facts and circumstances at a point in time, and changes in those facts and circumstances

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

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

Total Allowance for Credit Losses

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

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

Fair Value Measurements

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

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

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

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

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

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

AUTOMOBILE LOAN SECURITIZATION

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

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

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

INVESTMENT SECURITIES

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

Level 3 Analysis on Certain Securities Portfolios

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

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

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

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

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

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

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

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

GOODWILL

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

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

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

OTHER REAL ESTATE OWNED (OREO)

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

Income Taxes and Deferred Tax Assets

DEFERRED TAX ASSETS

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

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

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

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Recent Accounting Pronouncements and Developments

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

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

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

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

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

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

See Notes to Unaudited Condensed Consolidated Financial Statements

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Huntington Bancshares Incorporated
Condensed Consolidated Statements of Income
(Unaudited)

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

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

See Notes to Unaudited Condensed Consolidated Financial Statements

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

	Preferred Stock									Accumulated		
	Series B		Series A		Common Stock		Capital	Treasury Stock		Other Comprehensive	Retained Earnings	
nds)	Shares	Amount	Shares	Amount	Shares	Amount	Surplus	Shares	Amount	Loss	(Deficit)	T
nths **er 30,**												
g of	1,398	$ 1,308,667	569	$ 569,000	366,972	$ 3,670	$ 5,322,428	(915)	$ (15,530)	$ (326,693)	$ 365,599	$ 7.
ve effect e in g for olling											1,765	
g of as	1,398	$ 1,308,667	569	$ 569,000	366,972	$ 3,670	$ 5,322,428	(915)	$ (15,530)	(326,693)	$ 367,364	$ 7.
ensive												
											(2,724,492)	(2.
ve effect e in g for n- ly debt										(3,541)	3,541	
it-related nt losses ecurities ted to be										(67,114)		
d net										175,401		
nt arising e period,												

cation alized d gains ow es										5,673		
n ted d losses on and t- t ns										4,432		
ensive												(2,
of stock					307,008	3,069	1,137,657					1,
on of Series A			(206)	(206,493)	41,072	411	262,117				(56,035)	
tion of		11,931									(11,931)	
dends												
($0.03 **)**											(14,859)	
Series B er share)											(52,428)	
Series A er share)											(25,073)	
on of alue of ed ation							5,128					
re-based ation					358	4	652				(813)	
		300					(4,059)	(25)	3,703		(981)	
end of	1,398	$ 1,320,898	363	$ 362,507	715,410	$ 7,154	$ 6,723,923	(940)	$ (11,827)	$ (211,842)	$ (2,515,707)	$ 5,
nths												
er 30,												
	1,398	$ 1,325,008	363	$ 362,507	716,741	$ 7,167	$ 6,731,796	(980)	$ (11,465)	$ (156,985)	$ (2,922,026)	$ 5,
g of												

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

dends												
($0.03)											(21,505)	
Series B er share)											(52,427)	
Series A er share)											(23,110)	
on of alue of ed ation						3	11,410					
re-based ation												
					737	5	457				(525)	
							(2,203)	97	2,496		(43)	
end of	1,398	$ 1,337,749	363	$ 362,507	718,015	$ 7,180	$ 6,743,724	(883)	$ (8,969)	$ (28,396)	$ (2,846,392)	$ 5

See Notes to Unaudited Condensed Consolidated Financial Statements

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

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

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

See Notes to Unaudited Condensed Consolidated Financial Statements.

Notes to Unaudited Condensed Consolidated Financial Statements

1. BASIS OF PRESENTATION

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

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

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

2. ACCOUNTING STANDARDS UPDATE

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

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

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

3. LOANS AND LEASES

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

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

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

Franklin Credit Management relationship

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

Franklin 2009 Trust is a variable interest entity and, as a result of Huntington s 83% participation certificates, Franklin 2009 Trust was consolidated into Huntington s financial results. The consolidation was recorded as a business combination with the fair value of the equity interests issued to Franklin representing the acquisition price.

ASC 310 (formerly SOP 03-3) provides guidance for accounting for acquired loans, such as these, that have experienced a deterioration of credit quality at the time of acquisition for which it is probable the investor will be unable to collect all contractually required payments.

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

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

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

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

(1) Result of moving loans to nonaccrual status.

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

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

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

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4. AVAILABLE-FOR-SALE AND OTHER SECURITIES

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

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

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

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

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

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

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

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

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

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

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

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

Federal Agencies						
Mortgage-backed securities	1,324,960	(9,163)			1,324,960	(9,163)
TLGP securities	49,675	(321)			49,675	(321)
Other agencies	1,443,309	(4,081)	6,475	(77)	1,449,784	(4,158)
Total U.S. Government backed securities	2,917,098	(14,146)	6,475	(77)	2,923,573	(14,223)
Municipal securities	3,993	(7)	3,741	(79)	7,734	(86)
Private label CMO	15,280	(3,831)	452,439	&nb		