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

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

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

41 South High Street, Columbus, Ohio 43287

Registrant s telephone number **(614) 480-8300**

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

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

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

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

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

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

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PART 1. FINANCIAL INFORMATION

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

INTRODUCTION

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

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

Our discussion is divided into key segments:

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

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

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

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

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

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

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EXECUTIVE OVERVIEW

Summary of 2010 Second Quarter Results

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

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

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

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

Business Overview

General

Our 2010 objectives remain the same: (a) grow revenue and profitability, (b) improve cross sell and share-of-wallet profitability across all business segments, (c) grow key fee businesses (existing and new), (d) lower NCOs and NPAs, (e) reduce commercial real estate noncore exposure, and (f) continue to explore opportunities to further reduce our overall risk profile.

Our main challenge to accomplishing our primary objectives results from an economy that continues to remain weak and uncertain. This impairs our ability to grow loans as customers continue to reduce their debt and/or remain cautious about increasing debt until they have a higher degree of confidence of sustainable economic recovery. One area of loan growth success, however, has been in automobile loans, a business we have been in for over 50 years. We have been able to take advantage of the fact that many competitors have decreased their automobile lending activities or exited the business entirely. We anticipate this will be an area where we will be able to continue to see good loan growth.

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

Legislative and Regulatory

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

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The Federal Reserve Board recently amended Regulation E to prohibit charging overdraft fees for ATM or point-of-sale debit card transactions unless the customer opts-in to the overdraft service. For us, such fees are approximately $90 million per year. Our basic strategy is to mitigate the potential impact by alerting our customers that we can no longer cover such overdrafts unless they opt-in to our overdraft service. To date, our results have surpassed our expectations, however, until we have completed opt-in campaign, the ultimate impact to related revenue cannot be estimated.

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

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

At June 30, 2010, we had $569.9 million of outstanding trust-preferred-securities that, if disallowed, would reduce our regulatory Tier 1 risk-based capital ratio by approximately 134 basis points. However, there is a 3-year phase-in period beginning on January 1, 2013, that we believe would provide sufficient time to evaluate and address the impacts to our capital structure around this new legislation. Accordingly, we do not anticipate that this potential change would have a significant impact to our business.

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

2010 Outlook

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

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

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

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DISCUSSION OF RESULTS OF OPERATIONS

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

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

Table 1 Selected Quarterly Income Statement Data (1)

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

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

N.M., not a meaningful value.

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

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

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

(4) Net income (loss) excluding expense for amortization of intangibles for the period divided by average tangible

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

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

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

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

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

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

N.M., not a meaningful value.

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

(2) The 2009 gain included $67.4 million

related to the
purchase of
certain trust
preferred
securities.

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

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

tax rate.

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

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

Significant Items

Definition of Significant Items

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

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

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

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

Significant Items Influencing Financial Performance Comparisons

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

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

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

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

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

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

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

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

   On July 20, 2010, $274.2 million of the $275.2 million of residential mortgages were sold.
3. **Early Extinguishment of Debt.** The positive impacts relating to the early extinguishment of debt on our reported results were: $73.6 million ($0.07 per common share) in the 2009 fourth quarter and $67.4 million ($0.10 per common share) in the 2009 second quarter. These amounts were recorded to noninterest expense.

4. **Preferred Stock Conversion.** During the 2009 first and second quarters, we converted 114,109 and 92,384 shares, respectively, of Series A 8.50% Non-cumulative Perpetual Preferred (Series A Preferred Stock) stock into common stock. As part of these transactions, there was a deemed dividend that did not impact net income, but resulted in a negative impact of $0.08 per common share for the 2009 first quarter and $0.06 per common share for the 2009 second quarter.

5. **Visa®.** Prior to the Visa® initial public offering (IPO) occurring in March 2008, Visa® was owned by its member banks, which included the Bank. As a result of this ownership, we received shares of Visa® stock at the time of the IPO. In the 2009 second quarter, we sold these Visa® stock shares, resulting in a $31.4 million pretax gain ($0.04 per common share). This amount was recorded to noninterest income.

6. **Other Significant Items Influencing Earnings Performance Comparisons.** In addition to the items discussed separately in this section, a number of other items impacted financial results. These included:

2009 Fourth Quarter

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

2009 Second Quarter

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

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

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

Table 3 Significant Items Influencing Earnings Performance Comparison

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

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

N.M., not a meaningful value.

(1) Pretax unless otherwise noted.

(2) After-tax.

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

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Pretax, Pre-provision Income Trends

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

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

Table 4 Pretax, Pre-provision Income (1)

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

(1) Pretax, pre-provision income is a non-GAAP financial measure. Any ratio utilizing this financial measure is also non-GAAP. This financial measure has

been included as it is considered to be an important metric with which to analyze and evaluate our results of operations and financial strength. Other companies may calculate this financial measure differently.

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

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

Net Interest Income / Average Balance Sheet

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

2010 Second Quarter versus 2009 Second Quarter

Fully-taxable equivalent net interest income increased $51.0 million, or 15%, from the year-ago quarter. This reflected the favorable impact of the significant increase in the net interest margin to 3.46% from 3.10%, as well as a 2% increase in average total earning assets. A significant portion of the increase in the net interest margin reflected a shift in our deposit mix from higher-cost time deposits to lower-cost transaction-based accounts. The increase in average earning assets reflected a $3.5 billion, or 65%, increase in average total investment securities, partially offset by a $1.9 billion, or 5%, decline in average total loans and leases.

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

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

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

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

$3.1 billion, or 14%, decrease in average total commercial loans. A $1.3 billion, or 9%, decline in average C&I loans reflected a general decrease in borrowing as reflected in a decline in line-of-credit utilization, including reductions in our automobile dealer floorplan exposure, charge-off activity, and the reclassification in the 2010 first quarter of variable rate demand notes to municipal securities. These negatives were partially offset by the impact of the 2009 reclassifications of certain CRE loans, primarily representing owner-occupied properties, to C&I loans. The $1.8 billion, or 20%, decrease in average CRE loans reflected these reclassifications, as well as our on-going commitment to lower our overall CRE exposure. We continue to execute our plan to reduce our CRE exposure while maintaining a commitment to our core CRE borrowers. The decrease in average balances is associated with the noncore portfolio, as our core portfolio average balances were little changed during the current period.

Partially offset by:

$1.2 billion, or 7%, increase in average total consumer loans. This growth reflected a $1.3 billion, or 41%, increase in average automobile loans and leases primarily as a result of the adoption of a new accounting standard in which, on January 1, 2010, we consolidated a 2009 first quarter $1.0 billion automobile loan securitization. At June 30, 2010, these formerly securitized loans had a remaining balance of $0.7 billion *(see Note 5 of the Notes to the Unaudited Condensed Consolidated Financial Statements).* In addition, underlying growth in automobile loans continued to be strong, reflecting a 139% increase in loan originations for the first six months of 2010 from the comparable year-ago period. The growth has come while maintaining our commitment to excellent credit quality and an appropriate return. Average home equity loans were little changed as lower origination volume was offset by slower runoff experience and slightly higher line-of-credit utilization. Increased line usage continued to be associated with higher quality customers taking advantage of the low interest rate environment. Average residential mortgages were essentially unchanged, reflecting the impact of the continued refinance of portfolio loans and the related increased sale of fixed-rate originations. The transfer of the Franklin-related loans into held for sale occurred at the end of the quarter and had no impact on related average residential mortgages or home equity loans *(see Significant Item 2).*

The $3.5 billion, or 65%, increase in average total investment securities reflected the deployment of the cash from core deposit growth and loan runoff over this period, as well as the proceeds from 2009 capital actions.

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

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

Partially offset by:

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

2010 Second Quarter versus 2010 First Quarter

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

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

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

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

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

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

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

Partially offset by:

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

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

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

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

Partially offset by:

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

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

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Table 7 Consolidated Quarterly Average Balance Sheets

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

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

N.M., not a meaningful value.

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

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Table 8 Consolidated Quarterly Net Interest Margin Analysis

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

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

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

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

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

average
balances of
loans.

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2010 First Six Months versus 2009 First Six Months

Fully-taxable equivalent net interest income for the first six-month period of 2010 increased $106.1 million, or 15%, from the comparable year-ago period. This increase primarily reflected the favorable impact of the significant increase in the net interest margin to 3.47% from 3.03% and, to a lesser degree, a 1% increase in average total earning assets. A significant portion of the increase in the net interest margin reflected a shift in our deposit mix from higher-cost time deposits to lower-cost transaction-based accounts. Although average total earning assets increased only slightly compared with the year-ago period, this change reflected a $3.7 million, or 77%, increase in average total investment securities, mostly offset by a $2.9 billion, or 7%, decline in average total loans and leases.

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

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

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

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

$3.4 billion, or 15%, decline in average total commercial loans as C&I loans declined $1.3 billion, or 9%, and CRE loans declined $2.1 billion, or 22%. The decline in C& I loans reflected a general decrease in borrowing as reflected in a decline in line-of-credit utilization, including reductions in our automobile dealer floorplan exposure, charge-off activity, the 2009 first quarter Franklin restructuring, and the 2010 first quarter reclassification of variable rate demand notes to municipal securities. These declines were partially offset by the impact of the 2009 reclassifications of certain CRE loans, primarily representing owner-occupied properties, to C&I loans. The decline in CRE loans reflected these reclassifications, as well as our continuing commitment to lower our overall CRE exposure. We continue to execute our plan to reduce the CRE exposure while maintaining a commitment to our core CRE borrowers.

Partially offset by:

$0.5 billion, or 3%, increase in average total consumer loans. This growth reflected a $0.6 billion, or 16%, increase in average automobile loans and leases primarily as a result of the adoption of a new accounting standard in which, on January 1, 2010, we consolidated a 2009 first quarter $1.0 billion automobile loan securitization *(see Note 5 of the Notes to the Unaudited Condensed Consolidated Financial Statements).* At June 30, 2010, these securitized loans had a remaining balance of $0.7 billion. Additionally, underlying growth in automobile loans continued to be strong, reflecting a 139% increase in loan originations compared with the year-ago period. These increases were partially offset by a $0.3 billion, or 60%, decline in average automobile leases due to the continued run-off of that portfolio. Average home equity loans were little changed as lower origination volume was offset by slower runoff experience and slightly higher line-of-credit utilization. Average residential mortgages declined slightly reflecting the impact of loan sales, as well as the continued refinance of portfolio loans and the related increased sale of fixed-rate originations, partially offset by the additions related to the 2009 first quarter Franklin restructuring. The transfer of the Franklin-related loans into loans held for sale occurred at the end of the 2010 second quarter and had no impact on related average residential mortgages or home equity loans *(see Significant Item 2).*

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Offsetting the decline in average total loans and leases on average earning assets was a $3.7 billion, or 77%, increase in average total investment securities, reflected the deployment of the cash from core deposit growth and loan run-off throughout the current period, as well as the proceeds from the 2009 capital actions.

The $1.4 billion, or 4%, increase in average total deposits reflected:

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

Partially offset by:

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

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

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

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

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

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

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

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

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Provision for Credit Losses

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

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

The provision for credit losses for the 2010 second quarter was $193.4 million, down $41.6 million, or 18%, from the prior quarter and down $220.3 million, or 53%, from the year-ago quarter. The 2010 second quarter included $80.0 million of Franklin-related credit provision, and reflected $75.5 million associated with the transfer of Franklin-related loans to loans held for sale *(see Significant Item 2),* and $4.5 million of other Franklin-related NCOs. Reflecting the utilization of previously established reserves, the current quarter s provision for credit losses was $85.8 million less than total NCOs *(see Credit Quality discussion).*

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

Table 11 Provision for Credit Losses Franklin-Related Impact

	2010	2009			
(in millions)	**Second**	First	Fourth	Third	Second
Provision for (reduction to) credit losses					
Franklin	$ **80.0**	$ 11.5	$ 1.2	$ (3.5)	$ (10.1)
Non-Franklin	**113.4**	223.5	892.8	478.6	423.8
Total	$ **193.4**	$ 235.0	$ 894.0	$ 475.1	$ 413.7
Total net charge-offs (recoveries)					
Franklin related to transfer to loans held for sale	$ **75.5**	$	$	$	$
Franklin unrelated to transfer to loans held for sale	**4.5**	11.5	1.2	(3.5)	(10.1)
Non-Franklin	**199.2**	227.0	443.5	359.4	344.5
Total	$ **279.2**	$ 238.5	$ 444.7	$ 355.9	$ 334.4
Provision for (reduction to) credit losses in excess of net charge-offs					
Franklin	$	$	$	$	$
Non-Franklin	**(85.8)**	(3.5)	449.3	119.2	79.3
Total	$ **(85.8)**	$ (3.5)	$ 449.3	$ 119.2	$ 79.3

Noninterest Income

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

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

Table 12 Noninterest Income

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

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

Table 13 Mortgage Banking Income

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

(1)

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

(2) At period end.

2010 Second Quarter versus 2009 Second Quarter

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

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

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

N.M., not a meaningful value.

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

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

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

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

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

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

Partially offset by:

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

2010 Second Quarter versus 2010 First Quarter

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

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

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

N.M., not a meaningful value.

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

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

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

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

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Partially offset by:

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

2010 First Six Months versus 2009 First Six Months

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

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

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

N.M., not a meaningful value.

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

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

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

N.M., not a meaningful value.

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

(2) At period end.

The $5.4 million, or 1%, increase in total noninterest income reflected:

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

Partially offset by:

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

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

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Noninterest Expense

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

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

Table 18 Noninterest Expense

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

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2010 Second Quarter versus 2009 Second Quarter

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

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

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

N.M., not a meaningful value.

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

- $73.0 million benefit in the year-ago quarter from a gain on the early extinguishment of debt.
- $23.1 million, or 13%, increase in personnel costs, primarily reflecting an 8% increase in full-time equivalent staff in support of strategic initiatives, as well as higher commissions and other incentive expenses and the reinstatement of our 401(k) plan matching contribution.
- $10.2 million increase in marketing expense reflecting increases in branding and product advertising activities in support of strategic initiatives.
- $9.5 million, or 69%, increase in other expense, reflecting a combination of factors including a $5.2 million increase in repurchase reserves related to representations and warranties made on mortgage loans sold and an increase in other miscellaneous expenses in support of implementing strategic initiatives, partially offset by a decrease in franchise and other taxes.
- $7.7 million, or 46%, increase in professional services, reflecting higher consulting and legal expenses.

Partially offset by:

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

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2010 Second Quarter versus 2010 First Quarter

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

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

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

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

$11.2 million, or 6%, increase in personnel costs, primarily reflecting higher salaries due to a 4% increase in full-time equivalent staff in support of strategic initiatives, as well as a full quarter s impact of merit increases and reinstatement of our 401(k) plan matching contribution.

$6.5 million, or 59%, increase in marketing expense, reflecting increases in branding and product advertising activities in support of strategic initiatives.

$2.8 million, or 14%, increase in other expense, reflecting a $5.4 million increase in repurchase reserves related to representations and warranties made on mortgage loans sold, partially offset by a decrease in franchise and other taxes.

Partially offset by:

$6.6 million, or 57%, decrease in OREO and foreclosure expense.

$3.7 million, or 13%, decrease in net occupancy expense, primarily reflecting seasonally lower expenses.

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2010 First Six Months versus 2009 First Six Months

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

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

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

N.M., not a meaningful value.

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

- $2,606.9 million of goodwill impairment in the year-ago period.
- $19.9 million, or 55%, decline in OREO and foreclosure expense reflecting lower OREO losses.
- $14.7 million, or 22%, decline in deposit and other insurance expense primarily due to a $23.6 million FDIC insurance special assessment in the year-ago period, partially offset by higher FDIC insurance costs in the current period as premium rates increased and the level of deposits grew.

Partially offset by:

- $73.8 million benefit in the year-ago period from a gain on the early extinguishment of debt.
- $30.9 million, or 9%, increase in personnel costs, primarily reflecting an 8% increase in full-time equivalent staff in support of strategic initiatives, as well as higher commissions and other incentive expenses, and the reinstatement of our 401(k) plan matching contribution.
- $14.0 million, or 42%, increase in professional services reflecting higher collection-related expenses, as well as an increase in consulting expenses and legal expenses.
- $13.1 million, or 83%, increase in marketing expense, reflecting increases in branding and product advertising activities in support of strategic initiatives.
- $10.2 million, or 31%, increase in other expense reflecting $7.1 million of higher franchise and other taxes, $5.7 million of legal fees associated with redemption of a bank note, and a $6.3 million increase in

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

Provision for Income Taxes

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

The provision for income taxes in the 2010 second quarter was $13.3 million. This compared with a tax benefit of $38.1 million in the 2010 first quarter and a tax benefit of $12.8 million in the 2009 second quarter. As of June 30, 2010, we had a net deferred tax asset of $389.8 million. There was no impairment to the deferred tax asset as a result of projected taxable income.

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

RISK MANAGEMENT AND CAPITAL

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

Credit Risk

Credit risk is the risk of loss due to our counterparties not being able to meet their financial obligations under agreed upon terms. The majority of our credit risk is associated with lending activities, as the acceptance and management of credit risk is central to profitable lending. We also have credit risk associated with our investment and derivatives activities. Credit risk is incidental to trading activities and represents a significant risk that is associated with our investment securities portfolio *(see Investment Securities Portfolio discussion)*. Credit risk is mitigated through a combination of credit policies and processes, market risk management activities, and portfolio diversification.

Credit Loan and Lease Exposure Mix

At June 30, 2010, commercial loans totaled $19.6 billion, and represented 53% of our total loan and lease credit exposure. Our commercial loan portfolio is diversified along product type, size, and geography within our footprint, and is comprised of the following (*see Commercial Credit discussion)*:

Commercial and Industrial (C&I) loans C&I loans represent loans to commercial customers for use in normal business operations to finance working capital needs, equipment purchases, or other projects. The vast majority of these borrowers are commercial customers doing business within our geographic regions. C&I loans are generally underwritten individually and usually secured with the assets of the company and/or the personal guarantee of the business owners. The financing of owner-occupied facilities is considered a C&I loan even though there is improved real estate as collateral. This treatment is a function of the underwriting process, which focuses on cash flow from operations to repay the debt. The sale of the real estate is not considered the primary repayment source for the loan.

Commercial real estate (CRE) loans CRE loans consist of loans for income producing real estate properties, real estate investment trusts, and real estate developers. We mitigate our risk on these loans by requiring collateral values that exceed the loan amount and underwriting the loan with projected cash flow in excess of the debt service requirement. These loans are made to finance properties such as apartment buildings, office and industrial buildings, and retail shopping centers; and are repaid through cash flows related to the operation, sale, or refinance of the property.

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

Total consumer loans were $17.4 billion at June 30, 2010, and represented 47% of our total loan and lease credit exposure. The consumer portfolio was diversified among home equity loans, residential mortgages, and automobile loans and leases *(see Consumer Credit discussion).*

Home equity Home equity lending includes both home equity loans and lines-of-credit. This type of lending, which is secured by a first- or second- mortgage on the borrower s residence, allows customers to borrow against the equity in their home. Real estate market values as of the time the loan or line is granted directly affect the amount of credit extended and, in addition, changes in these values impact the severity of losses.

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

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

Table 22 Loan and Lease Portfolio Composition

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

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

(2) The 2009 first quarter and 2009 fourth quarter reflected net reclassifications from commercial real

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

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

Commercial Credit

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

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

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

Our Special Assets Division (SAD) is a specialized credit group that handles workouts, commercial recoveries, and problem loan sales. This group is involved in the day-to-day management of relationships rated substandard or lower. Its responsibilities include developing an action plan, assessing the risk rating, and determining the adequacy of the reserve, the accrual status, and the ultimate collectibility of the managed monitored credits.

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Our commercial loan portfolio, including CRE loans, is diversified by customer size, as well as throughout our geographic footprint. Beginning in 2009, we engaged in a large number of enhanced portfolio management initiatives, including a review to ensure the appropriate classification of CRE loans. The results of this initiative included reclassifications in 2009 totaling $1.4 billion that increased C&I loan balances, and correspondingly decreased CRE loan balances, primarily representing owner-occupied properties. We believe that the changes provide improved visibility and clarity to us and our investors.

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

COMMERCIAL REAL ESTATE (CRE) PORTFOLIO

As shown in the following table, CRE loans totaled $7.2 billion and represented 19% of our total loan exposure at June 30, 2010.

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

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

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

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

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

(1) Represents percentage of related outstanding loans.

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

We manage the risks inherent in this portfolio through origination policies, concentration limits, on-going loan level reviews, recourse requirements, and continuous portfolio risk management activities. Our origination policies for this portfolio include product-type specific policies such as loan-to-value (LTV), debt service coverage ratios, and pre-leasing requirements, as applicable. Generally, we: (a) limit our loans to 80% of the appraised value of the commercial real estate, (b) require net operating cash flows to be 125% of required interest and principal payments, and (c) if the commercial real estate is non-owner-occupied, require that at least 50% of the space of the project be pre-leased.

Dedicated real estate professionals within our Commercial Real Estate business segment team originated the majority of the portfolio, with the remainder obtained from prior acquisitions. Appraisals from approved vendors are reviewed by an internal appraisal review group to ensure the quality of the valuation used in the underwriting process. The portfolio is diversified by project type and loan size, and represents a significant piece of the credit risk management strategies employed for this portfolio. Our loan review staff provides an assessment of the quality of the underwriting and structure and validates the risk rating assigned to the loan.

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

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

Retail Properties

Our portfolio of CRE loans secured by retail properties totaled $2.0 billion, or approximately 5% of total loans and leases, at June 30, 2010. Loans within this portfolio segment declined $0.2 billion, or 7%, from December 31, 2009. Credit approval in this portfolio segment is generally dependent on pre-leasing requirements, and net operating income from the project must cover debt service by specified percentages when the loan is fully funded.

The weakness of the economic environment in our geographic regions continues to significantly impact the projects that secure the loans in this portfolio segment. Lower occupancy rates, reduced rental rates, increased unemployment levels compared with recent years, and the expectation that these levels will continue to increase for the foreseeable future are expected to adversely affect our borrowers ability to repay these loans. We have increased the level of credit risk management activity to this portfolio segment, and we analyze our retail property loans in detail by combining property type, geographic location, tenants, and other data, to assess and manage our credit concentration risks.

Single Family Home Builders

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

Core and Noncore portfolios

Each CRE loan is classified as either core or noncore. We segmented the CRE portfolio into these designations in order to provide more clarity around our portfolio management strategies and to provide additional clarity for us and our investors. A CRE loan is generally considered core when the borrower is an experienced, well-capitalized developer in our Midwest footprint, and has either an established meaningful relationship or the prospective of establishing one, that generates an acceptable return on capital. The core CRE portfolio was $4.0 billion at June 30, 2010, representing 55% of total CRE loans. The performance of the core portfolio in the current quarter met our expectations, based on the consistency of the asset quality metrics within the portfolio. Based on the extensive project level assessment process, including forward-looking collateral valuations, we are comfortable with the credit quality of the core portfolio at this time.

A CRE loan is generally considered noncore based on a lack of a substantive relationship outside of the credit product, with no immediate prospects for improvement. The noncore CRE portfolio declined from $3.7 billion at December 31, 2009, to $3.2 billion at June 30, 2010, and represented 45% of total CRE loans. Of the loans in the noncore portfolio at June 30, 2010, 46% were classified as pass or better, 95% had guarantors, 99% was secured, and 89% was located within our geographic footprint. However, it is within the noncore portfolio where most of the credit quality challenges exist. For example, $0.6 billion, or 19%, of related outstanding balances, are classified as NALs. SAD administered $1.6 billion, or 50%, of total noncore CRE loans at June 30, 2010. It is expected that we will exit the majority of noncore CRE relationships over time. This would reflect normal repayments, possible sales should economically attractive opportunities arise, or the reclassification as a core CRE relationship if it expands to meet the core requirements.

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

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

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

Credit quality data regarding the allowance for credit losses (ACL) and NALs, segregated by core CRE loans and noncore CRE loans, is presented in the following table.

Table 26 Commercial Real Estate Core vs. Noncore portfolios

	June 30, 2010					
(dollar amounts in millions)	Ending Balance	Prior NCOs	ACL $	ACL %	Credit Mark (1)	Nonaccrual Loans
Total core	$ 3,965	$	$ 165	4.16%	4.16%	$ 39.1
Noncore Special Assets Division (2)	1,618	549	390	24.09	43.33	564.3
Noncore Other	1,601	24	150	9.37	10.71	59.7
Total noncore	3,219	573	540	16.78	29.35	624.0
Total commercial real estate	**$ 7,184**	**$ 573**	**$ 705**	**9.81%**	**16.48%**	**$ 663.1**
	December 31, 2009					
Total core	$ 4,038	$	$ 168	4.16%	4.16%	$ 3.8

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

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

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

As shown in the above table, the ending balance of the CRE portfolio at June 30, 2010 declined $0.5 billion compared with December 31, 2009. Of this decline, 86% occurred in the noncore segment of the portfolio, and was a function of payoffs and NCOs as we actively focus on the noncore portfolio to reduce our overall CRE exposure. We anticipate further declines in future periods based on our overall strategy regarding the CRE portfolio.

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

The combination of prior NCOs and the existing ACL represents the total credit actions taken on each segment of the portfolio. From this data, we calculate a measurement, called a credit mark , that provides a consistent measurement of the cumulative credit actions taken against a specific portfolio segment. We believe that the combined credit activity is appropriate for each of the CRE segments.

COMMERCIAL AND INDUSTRIAL (C&I) PORTFOLIO

The C&I portfolio is comprised of loans to businesses where the source of repayment is associated with the on-going operations of the business. Generally, the loans are secured with the financing of the borrower s assets, such as equipment, accounts receivable, or inventory. In many cases, the loans are secured by real estate, although the sale of the real estate is not a primary source of repayment for the loan. For loans secured by real estate, appropriate appraisals are obtained at origination, and updated on an as needed basis, in compliance with regulatory requirements. There were no outstanding commercial loans that would be considered an unwarranted industry or geographic concentration of lending. Currently, higher-risk segments of the C&I portfolio include loans to borrowers supporting the home building industry, contractors, and automotive suppliers. However, the combined total of these segments represented only 10% of the total C&I portfolio. We manage the risks inherent in this portfolio through origination policies, concentration limits, on-going loan level reviews, recourse requirements, and continuous portfolio risk management activities. Our origination policies for this portfolio include loan product-type specific policies such as LTV, and debt service coverage ratios, as applicable.

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

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

Table 27 Commercial and Industrial Loans and Leases by Industry Classification

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