HUNTINGTON BANCSHARES INC/MD
Form 10-Q
August 08, 2011

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
QUARTERLY PERIOD ENDED June 30, 2011
Commission File Number 1-34073
Huntington Bancshares Incorporated

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

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

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

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

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

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

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

There were 863,323,099 shares of Registrant s common stock ($0.01 par value) outstanding on June 30, 2011.

HUNTINGTON BANCSHARES INCORPORATED
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Glossary of Acronyms and Terms

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

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

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

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

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PART I. FINANCIAL INFORMATION

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

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

INTRODUCTION

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

This MD&A provides information we believe necessary for understanding our financial condition, changes in financial condition, results of operations, and cash flows. The MD&A included in our 2010 Form 10-K should be read in conjunction with this MD&A as this discussion provides only material updates to the 2010 Form 10-K. This MD&A should also be read in conjunction with the financial statements, notes and other information contained in this report.

Our discussion is divided into key segments:

- **Executive Overview** - Provides a summary of our current financial performance, and business overview, including our thoughts on the impact of the economy, legislative and regulatory initiatives, and recent industry developments. This section also provides our outlook regarding our expectations for the remainder of 2011.
- **Discussion of Results of Operations** - Reviews financial performance from a consolidated Company perspective. It also includes a Significant Items section that summarizes key issues helpful for understanding performance trends. Key consolidated average balance sheet and income statement trends are also discussed in this section.
- **Risk Management and Capital** - Discusses credit, market, liquidity, operational, and compliance risks, including how these are managed, as well as performance trends. It also includes a discussion of liquidity policies, how we obtain funding, and related performance. In addition, there is a discussion of guarantees and / or commitments made for items such as standby letters of credit and commitments to sell loans, and a discussion that reviews the adequacy of capital, including regulatory capital requirements.
- **Business Segment Discussion** - Provides an overview of financial performance for each of our major business segments and provides additional discussion of trends underlying consolidated financial performance.
- **Additional Disclosures** - Provides comments on important matters including forward-looking statements, critical accounting policies and use of significant estimates, recent accounting pronouncements and developments, and acquisitions.

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

EXECUTIVE OVERVIEW

Summary of 2011 Second Quarter Results

For the quarter, we reported net income of $145.9 million, or $0.16 per common share, compared with $126.4 million, or $0.14 per common share, in the prior quarter (*see Table 1*).

Fully-taxable equivalent net interest income was $407.2 million for the quarter, down $1.1 million, or less than 1%, from the prior quarter. The decline primarily reflected a 1% (3% annualized) decrease in average earning assets and a 2 basis point decline in the fully-taxable equivalent net interest margin to 3.40% from 3.42%.

The provision for credit losses in the 2011 second quarter was $35.8 million, down $13.6 million, or 28% from the prior quarter. The decline in provision expense reflected a combination of lower NCOs and the reduction of Criticized loans throughout the entire loan and lease portfolio. The reduction in Criticized loans reflected the resolution of problem credits for which reserves had previously been established. The current quarter s provision for credit losses was $61.7 million less than total NCOs.

Total noninterest income increased $18.8 million, or 8%, from the prior quarter. This reflected an increase in other income due to higher market related gains and capital markets income, service charges on deposit accounts due to higher NSF / OD fees, electronic banking reflecting higher activity levels, and bank owned life insurance income.

Total noninterest expense declined $2.3 million, or 1%, from the prior quarter. This reflected a decrease in other expense due to the prior quarter s additions to litigation reserves. Partially offsetting this decline were increases in professional services for costs supporting regulatory and litigation efforts, deposit and other insurance, outside data processing and other services due to higher appraisal costs and system upgrade expenses, and marketing expense reflecting higher advertising costs.

Credit quality performance in the 2011 second quarter reflected continued improvement in the overall loan portfolio. NCOs and nonaccrual loans declined 41% and 3%, respectively, from the prior quarter. The NAL, NPA and Criticized asset ratios all showed continued improvement in the quarter. The ALLL and ACL coverage ratios fell slightly to 2.74% and 2.84%, from 2.96% and 3.07%, respectively, but remain sufficient and appropriate. NPAs fell by 5% in the quarter.

On July 21, 2011, we announced that our board of directors had declared a quarterly common stock cash dividend of $0.04 per common share, up from the prior quarterly dividend of $0.01. The dividend is payable on October 3, 2011, to shareholders of record on September 19, 2011. We are very pleased that our financial strength and performance have improved to the point that enabled us to take this action.

Business Overview

General

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

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

Our emphasis on cross-sell, coupled with consumer customers increasingly being attracted by the benefits offered through our Fair Play banking philosophy, with programs such as 24-Hour Grace® on overdrafts and more recently the launch of Asterisk-Free Checking and Huntington Plus Checking , is having a positive effect. The percentage of consumer households with over four products at the end of the 2011 second quarter was 71.3%, up from 69.4% at the end of last year. And for the first half of this year, consumer checking account households grew at a 9.9% annualized rate, up from 6.8% for full year 2010.

Economy

Borrower and consumer confidence and the sustainability of the slow economic recovery remain major factors impacting growth opportunities for the remainder of 2011. Unfortunately, during the first half of 2011, a number of issues have emerged that could negatively impact the recovery. These additional risks include the U.S. debt ceiling discussions, the budget issues in local governments, and the continued economic and political instability in Europe as well as the political instability in the Middle East with its ramifications on the cost of oil translating to higher gas prices. In addition, above average office vacancy rates in large metropolitan areas indicate the possibility for some continued softness in commercial real estate in 2011. Within our footprint states of Indiana, Kentucky, Michigan, Ohio, Pennsylvania, and West Virginia, real estate has generally remained weak, in line with national trends, reflecting capacity overhang created by weakness in economic growth prior to the recovery. However, there are some signs that our footprint states have been experiencing cyclical recovery in line with, and in certain instances stronger than, the national average. They include:

- From January 2009 through May 2011, an increase in total payroll for all footprint states, with all but West Virginia (one of our smaller regions) exceeding the national average.
- Manufacturing that is expected to continue to improve, although near-term weakness is likely as a result of the negative impact of high energy prices on demand and supply bottlenecks created by the crisis in Japan.
- From May 2010 to May 2011, unemployment rates declined for all of our footprint states.
- Since its low in January 2009, exports have grown faster than the U.S. average in all footprint states except Kentucky.
- State and local fiscal conditions will likely remain tight in the next year, although rising tax revenue should gradually reduce strains.

For now, we continue to believe the economy is likely to remain fragile and not show much growth throughout the remainder of 2011.

Legislative and Regulatory

Regulatory reforms continue to be adopted which impose additional restrictions on current business practices. Recent actions affecting us included an amendment to Reg E relating to certain overdraft fees for consumer deposit accounts and the rules and regulations that have been issued pursuant to the Dodd-Frank Act.

Durbin Amendment The Durbin Amendment to the Dodd-Frank Act instructed the Federal Reserve to establish the rate merchants pay banks for electronic clearing of debit card transactions (i.e., the interchange rate). The Federal Reserve recently issued its final rule establishing standards for debit card interchange fees and prohibiting network exclusivity arrangements and routing restrictions. The final rule establishes standards for assessing whether debit card interchange fees received by debit card issuers are reasonable and proportional to the costs incurred by issuers for electronic debit transactions. Under the final rule, the maximum permissible interchange fee that an issuer may receive for an electronic debit transaction will be the sum of 21 cents per transaction, 1 cent fraud prevention adjustment, and 5 basis points multiplied by the value of the transaction. This provision regarding debit card interchange fees will become effective on October 1, 2011. Based on the final rule, we expect our 2011 fourth quarter electronic banking income to decline from the 2011 second quarter level by approximately 50%.

Recent Industry Developments

Foreclosure Documentation On June 30, 2011, the OCC issued OCC Bulletin 2011-29 clarifying their expectations for the oversight and management of mortgage foreclosure activities by national banks and directing national banks to perform a self-assessment no later than September 30, 2011. We believe that, with the self-assessments Huntington has performed and is currently performing, we are in compliance with the OCC expectation for self-assessment.

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

June 30, 2011, we estimated a 25% increase to our loan servicing market cost assumption would result in a fair value impairment charge of approximately $8.3 million.

Representation and Warranty Reserve We primarily conduct our loan sale and securitization activity with FNMA and FHLMC. In connection with these and other sale and securitization transactions, we make representations and warranties that the loans meet certain criteria, such as collateral type and underwriting standards. We may be required to repurchase individual loans and / or indemnify these organizations against losses due to material breaches of these representations and warranties. At June 30, 2011, we had a reserve for such losses of $24.5 million, which is included in accrued expenses and other liabilities.

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Expectations

The lack of prospects for meaningful economic improvement, higher interest rates, and wider spreads between short-term and long-term interest rates over the remainder of this year is a challenge. Further, borrower and consumer confidence remain fragile. And while we now have clarity on the amount and timing of the pending reduction in debit card interchange fees, this nevertheless represents a reduction in fee income. All of these combined represent meaningful revenue growth headwinds.

Net income is expected to grow from the current quarter level throughout the rest of the year, primarily reflecting modest revenue growth and disciplined expense control.

We believe the momentum we are seeing in loan and low cost deposit growth will continue. This, coupled with a stable net interest margin, is expected to contribute to modest growth in net interest income. Our C&I portfolio is expected to continue to show meaningful growth. We believe period-end balances in our C&I and automobile loan portfolios position us for continued growth in average balances for these portfolios as we head into the third quarter. We anticipate our total core deposits will increase, reflecting continued growth in consumer households and business relationships. Further, we expect the shift toward lower-cost noninterest-bearing and interest-bearing demand deposit accounts will continue.

Noninterest income is expected to grow modestly in the 2011 second half. The primary driver is expected to be service charge income as the benefits from our Fair Play banking philosophy continue to gain momentum commensurate with consumer household growth and increased product penetration. Mortgage banking income will likely show only modest, if any, growth throughout the second half of the year. As described above, electronic banking income in the fourth quarter is expected to decline by approximately 50% as the new interchange fee structure will be implemented October 1, 2011. We also expect to see continued growth in the earnings contribution from other key fee income activities including capital markets, treasury management services, and brokerage, reflecting the impact of our cross-sell and product penetration initiatives throughout the company, as well as the positive impact from strategic initiatives.

In addition, expense levels are expected to remain relatively stable.

Nonaccrual loans and net charge-offs are expected to continue to decline throughout the year.

We anticipate the effective tax rate for the remainder of the year to approximate 35% of income before income taxes less approximately $40.0 million of permanent tax differences over the remainder of 2011 primarily related to tax-exempt income, tax-advantaged investments, and general business credits.

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DISCUSSION OF RESULTS OF OPERATIONS

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

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Table 1 Selected Quarterly Income Statement Data (1)

	2011		2010		
(dollar amounts in thousands, except per share amounts)	**Second**	First	Fourth	Third	Second
Interest income	**$ 492,137**	$ 501,877	$ 528,291	$ 534,669	$ 535,653
Interest expense	**88,800**	97,547	112,997	124,707	135,997
Net interest income	**403,337**	404,330	415,294	409,962	399,656
Provision for credit losses	**35,797**	49,385	86,973	119,160	193,406
Net interest income after provision for credit losses	**367,540**	354,945	328,321	290,802	206,250
Service charges on deposit accounts	**60,675**	54,324	55,810	65,932	75,934
Mortgage banking income	**23,835**	22,684	53,169	52,045	45,530
Trust services	**30,392**	30,742	29,394	26,997	28,399
Electronic banking	**31,728**	28,786	28,900	28,090	28,107
Insurance income	**16,399**	17,945	19,678	19,801	18,074
Brokerage income	**20,819**	20,511	16,953	16,575	18,425
Bank owned life insurance income	**17,602**	14,819	16,113	14,091	14,392
Automobile operating lease income	**7,307**	8,847	10,463	11,356	11,842
Securities gains (losses)	**1,507**	40	(103)	(296)	156
Other income	**45,503**	38,247	33,843	32,552	28,784
Total noninterest income	**255,767**	236,945	264,220	267,143	269,643
Personnel costs	**218,570**	219,028	212,184	208,272	194,875
Outside data processing and other services	**43,889**	40,282	40,943	38,553	40,670
Net occupancy	**26,885**	28,436	26,670	26,718	25,388
Deposit and other insurance expense	**23,823**	17,896	23,320	23,406	26,067
Professional services	**20,080**	13,465	21,021	20,672	24,388
Equipment	**21,921**	22,477	22,060	21,651	21,585
Marketing	**20,102**	16,895	16,168	20,921	17,682
Amortization of intangibles	**13,386**	13,370	15,046	15,145	15,141
OREO and foreclosure expense	**4,398**	3,931	10,502	12,047	4,970
Automobile operating lease expense	**5,434**	6,836	8,142	9,159	9,667
Other expense	**29,921**	48,083	38,537	30,765	33,377
Total noninterest expense	**428,409**	430,699	434,593	427,309	413,810
Income before income taxes	**194,898**	161,191	157,948	130,636	62,083
Provision (benefit) for income taxes	**48,980**	34,745	35,048	29,690	13,319
Net income	**$ 145,918**	$ 126,446	$ 122,900	$ 100,946	$ 48,764
Dividends on preferred shares	**7,704**	7,703	83,754	29,495	29,426
Net income applicable to common shares	**$ 138,214**	$ 118,743	$ 39,146	$ 71,451	$ 19,338
Average common shares basic	**863,358**	863,359	757,924	716,911	716,580

Average common shares diluted (2)	**867,469**	867,237	760,582	719,567	719,387
Net income per common share basic	**$ 0.16**	$ 0.14	$ 0.05	$ 0.10	$ 0.03
Net income per common share diluted	**0.16**	0.14	0.05	0.10	0.03
Cash dividends declared per common share	**0.01**	0.01	0.01	0.01	0.01
Return on average total assets	**1.11%**	0.96%	0.90%	0.76%	0.38%
Return on average common shareholders equity	**11.6**	10.3	3.8	7.4	2.1
Return on average tangible common shareholders equity (3)	**13.3**	12.7	5.6	10.0	3.8
Net interest margin (4)	**3.40**	3.42	3.37	3.45	3.46
Efficiency ratio (5)	**62.7**	64.7	61.4	60.6	59.4
Effective tax rate	**25.1**	21.6	22.2	22.7	21.5
Revenue FTE					
Net interest income	**$ 403,337**	$ 404,330	$ 415,294	$ 409,962	$ 399,656
FTE adjustment	**3,834**	3,945	3,708	2,631	2,490
Net interest income (4)	**407,171**	408,275	419,002	412,593	402,146
Noninterest income	**255,767**	236,945	264,220	267,143	269,643
Total revenue (4)	**$ 662,938**	$ 645,220	$ 683,222	$ 679,736	$ 671,789

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

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

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

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

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

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

	Six Months Ended June 30,		Change	
(dollar amounts in thousands, except per share amounts)	**2011**	2010	Amount	Percent
Interest income	**$ 994,014**	$ 1,082,432	$ (88,418)	(8)%
Interest expense	**186,347**	288,883	(102,536)	(35)
Net interest income	**807,667**	793,549	14,118	2
Provision for credit losses	**85,182**	428,414	(343,232)	(80)
Net interest income after provision for credit losses	**722,485**	365,135	357,350	98
Service charges on deposit accounts	**114,999**	145,273	(30,274)	(21)
Mortgage banking income	**46,519**	70,568	(24,049)	(34)
Trust services	**61,134**	56,164	4,970	9
Electronic banking	**60,514**	53,244	7,270	14
Insurance income	**34,344**	36,934	(2,590)	(7)
Brokerage income	**41,330**	35,327	6,003	17
Bank owned life insurance income	**32,421**	30,862	1,559	5
Automobile operating lease income	**16,154**	24,145	(7,991)	(33)
Securities gains	**1,547**	125	1,422	1,138
Other income	**83,750**	57,853	25,897	45
Total noninterest income	**492,712**	510,495	(17,783)	(3)
Personnel costs	**437,598**	378,517	59,081	16
Outside data processing and other services	**84,171**	79,752	4,419	6
Net occupancy	**55,321**	54,474	847	2
Deposit and other insurance expense	**41,719**	50,822	(9,103)	(18)
Professional services	**33,545**	47,085	(13,540)	(29)
Equipment	**44,398**	42,209	2,189	5
Marketing	**36,997**	28,835	8,162	28
Amortization of intangibles	**26,756**	30,287	(3,531)	(12)
OREO and foreclosure expense	**8,329**	16,500	(8,171)	(50)
Automobile operating lease expense	**12,270**	19,733	(7,463)	(38)
Other expense	**78,004**	63,689	14,315	22
Total noninterest expense	**859,108**	811,903	47,205	6
Income before income taxes	**356,089**	63,727	292,362	459
Provision (benefit) for income taxes	**83,725**	(24,774)	108,499	N.R.
Net income	**$ 272,364**	$ 88,501	$ 183,863	208%
Dividends declared on preferred shares	**15,407**	58,783	(43,376)	(74)
Net income applicable to common shares	**$ 256,957**	$ 29,718	$ 227,239	765%
Average common shares basic	**863,358**	716,450	146,908	21%

Average common shares diluted (2)	**867,353**	718,990	148,363	21
Per common share				
Net income per common share basic	**$ 0.30**	$ 0.04	$ 0.26	650%
Net income per common share diluted	**0.30**	0.04	0.26	650
Cash dividends declared	**0.02**	0.02		
Return on average total assets	**1.03%**	0.35%	0.68%	194%
Return on average common shareholders equity	**11.0**	1.6	9.4	588
Return on average tangible common shareholders equity (3)	**13.4**	3.2	10.2	319
Net interest margin (4)	**3.41**	3.47	(0.06)	(2)
Efficiency ratio (5)	**63.7**	59.7	4.0	7
Effective tax rate (benefit)	**23.5**	(38.9)	62.4	N.R.
Revenue FTE				
Net interest income	**$ 807,667**	$ 793,549	$ 14,118	2%
FTE adjustment	**7,779**	4,738	3,041	64
Net interest income (4)	**815,446**	798,287	17,159	2
Noninterest income	**492,712**	510,495	(17,783)	(3)
Total revenue (4)	**$ 1,308,158**	$ 1,308,782	$ (624)	%

N.R. Not relevant, as denominator of calculation is a loss in prior period compared with income in current period.

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

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

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

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

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

Significant Items

Definition of Significant Items

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

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

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

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

Significant Items Influencing Financial Performance Comparisons

Earnings comparisons were impacted by the Significant Items summarized below.

1. **Litigation Reserve.** During the 2011 first quarter, $17.0 million of additions to litigation reserves were recorded as other noninterest expense. This resulted in a negative impact of $0.01 per common share.
2. **Franklin Relationship.** Our relationship with Franklin was acquired in the 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. 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).

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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, 2011		March 31, 2011		June 30, 2010	
(dollar amounts in thousands, except per share amounts)	**After-tax**	**EPS**	After-tax	EPS	After-tax	EPS
Net income	**$ 145,918**		$ 126,446		$ 48,764	
Earnings per share, after-tax		**$ 0.16**		$ 0.14		$ 0.03
Change from prior quarter $		**0.02**		0.09		0.02
Change from prior quarter %		**14.3%**		180.0%		200.0%
Change from year-ago $		**$ 0.13**		$ 0.13		$ 0.43
Change from year-ago %		**433%**		1,300%		(107.5)%

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)
Litigation reserves addition			(17,028)	(0.01)		

(1) Pretax unless otherwise noted.

	Six Months Ended			
	June 30, 2011		June 30, 2010	
(dollar amounts in thousands)	**After-tax**	**EPS**	After-tax	EPS
Net income	**$ 272,364**		$ 88,501	
Earnings per share, after-tax		**$ 0.30**		$ 0.04
Change from a year-ago $		**0.26**		6.51
Change from a year-ago %		**650%**		101%

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
Litigation reserves addition	**(17,028)**	**(0.01)**		

(1) Pretax unless otherwise noted.

(2) After-tax.

Pretax, Pre-provision Income Trends

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

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

Table 4 Pretax, Pre-provision Income (1)

	2011		2010		
(dollar amounts in thousands)	**Second**	First	Fourth	Third	Second
Income before income taxes	**$ 194,898**	$ 161,191	$ 157,948	$ 130,636	$ 62,083
Add: Provision for credit losses	**35,797**	49,385	86,973	119,160	193,406
Less: Securities gains (losses)	**1,507**	40	(103)	(296)	156
Add: Amortization of intangibles	**13,386**	13,370	15,046	15,145	15,141
Less: Litigation reserves addition		(17,028)			
Total pretax, pre-provision income	**$ 242,574**	$ 240,934	$ 260,070	$ 265,237	$ 270,474
Change in total pretax, pre-provision income:					
Prior quarter change amount	**$ 1,640**	$ (19,136)	$ (5,167)	$ (5,237)	$ 18,645
Prior quarter change percent	**1%**	(7)%	(2)%	(2)%	7%

(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.

Pretax, pre-provision income was $242.6 million in the 2011 second quarter, up $1.6 million, or 1%, from the prior quarter. As discussed in the sections that follow, the increase from the prior quarter primarily reflected higher revenue partially offset by higher noninterest expense after consideration of the prior quarter Significant Item.

Net Interest Income / Average Balance Sheet

2011 Second Quarter versus 2010 Second Quarter

Fully-taxable equivalent net interest income increased $5.0 million, or 1%, from the year-ago quarter. This reflected the benefit of a $1.4 billion, or 3%, increase in average earning assets and a 6 basis points decline in the FTE net interest margin. The increase in average earning assets reflected a combination of factors including:

- $1.4 billion, or 4%, increase in average total loans and leases.
- $0.3 billion, or 3%, increase in average total available-for-sale and other securities and held-to-maturity securities.

The 6 basis points decline in the FTE net interest margin reflected a reduction in derivatives income, lower loan and securities yields, partially offset by the positive impacts of increases in low cost deposits and improved deposit pricing.

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

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

	Second Quarter		Change	
(dollar amounts in millions)	**2011**	2010	Amount	Percent
Loans/Leases				
Commercial and industrial	**$ 13,370**	$ 12,244	$ 1,126	9%
Commercial real estate	**6,233**	7,364	(1,131)	(15)
Total commercial	**19,603**	19,608	(5)	
Automobile	**5,954**	4,634	1,320	28
Home equity	**7,874**	7,544	330	4
Residential mortgage	**4,566**	4,608	(42)	(1)
Other loans	**538**	695	(157)	(23)
Total consumer	**18,932**	17,481	1,451	8
Total loans and leases	**$ 38,535**	$ 37,089	$ 1,446	4%
Deposits				
Demand deposits noninterest-bearing	**$ 7,806**	$ 6,849	$ 957	14%
Demand deposits interest-bearing	**5,565**	5,971	(406)	(7)
Money market deposits	**12,879**	11,103	1,776	16
Savings and other domestic time deposits	**4,778**	4,677	101	2
Core certificates of deposit	**8,079**	9,199	(1,120)	(12)
Total core deposits	**39,107**	37,799	1,308	3
Other deposits	**2,147**	2,568	(421)	(16)
Total deposits	**$ 41,254**	$ 40,367	$ 887	2%

The $1.4 billion, or 4%, increase in average total loans and leases primarily reflected:

- $1.3 billion, or 28%, increase in the average automobile portfolio. Automobile lending is a core competency and continued area of growth. The growth from the year-ago quarter exhibited further penetration within our historical geographic footprint, as well as the positive impact of our expansion into Eastern Pennsylvania and selected New England states. Origination quality remained high.
- $1.1 billion, or 9%, increase in the average C&I portfolio. Growth from the year-ago quarter reflected the benefits from our strategic initiatives including large corporate, asset based lending, automobile floor plan lending, and equipment finance. In addition, traditional middle-market loans continued to grow despite line utilization rates that remained well below historical norms.
- $0.3 billion, or 4%, increase in average home equity portfolio, reflecting continued slower runoff due to the low interest rate environment.

Partially offset by:

- $1.1 billion, or 15%, decrease in average CRE loans reflecting the continued execution of our plan to reduce the CRE exposure, primarily in the noncore CRE segment. This reduction is expected to continue through 2011, reflecting normal amortization, paydowns, refinancing, and restructures.

The $0.9 billion, or 2%, increase in average total deposits from the year-ago quarter reflected:

$1.3 billion, or 3%, growth in average total core deposits. The drivers of this change were a $1.8 billion, or 16%, growth in average money market deposits, and a $1.0 billion, or 14%, growth in average noninterest-bearing demand deposits. These increases were partially offset by a $1.1 billion, or 12%, decline in average core certificates of deposit and a $0.4 billion, or 7%, decrease in average interest-bearing demand deposits.

Partially offset by:

$0.4 billion, or 16%, decline in other deposits including a $0.2 billion, or 11%, decline in average brokered deposits and negotiable CDs, and a $0.2 billion, or 29%, decrease in other domestic deposits of $250,000 or more, which reflected a strategy of reducing such noncore funding.

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2011 Second Quarter versus 2011 First Quarter

FTE net interest income decreased $1.1 million, or less than 1%, from the 2011 first quarter. This reflected a 1% (3% annualized) decrease in average earning assets and a decrease in the FTE net interest margin to 3.40% from 3.42%. The decrease in average earning assets reflected a combination of factors including:

- $0.5 billion, or 5% (22% annualized), decrease in average available-for-sale and other and held-to-maturity securities given the low level of interest rates and the incremental cost to grow interest-bearing deposits. Certain higher cost deposits were allowed to mature without replacement, resulting in a reduction to the securities portfolio.
- $0.2 billion decline in loans held for sale as our mortgage pipeline slowed considerably during the current quarter and sales of prior originations were completed.

The 2 basis points decline in the FTE net interest margin reflected a reduction in derivatives income and lower loan yields, partially offset by the positive impact of increases in low cost deposits and improved deposit pricing.

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

Table 6 Average Loans/Leases and Deposits 2011 Second Quarter vs. 2011 First Quarter

	2011		Change	
(dollar amounts in millions)	**Second Quarter**	First Quarter	Amount	Percent
Loans/Leases				
Commercial and industrial	**$ 13,370**	$ 13,121	$ 249	2%
Commercial real estate	**6,233**	6,524	(291)	(4)
Total commercial	**19,603**	19,645	(42)	
Automobile	**5,954**	5,701	253	4
Home equity	**7,874**	7,728	146	2
Residential mortgage	**4,566**	4,465	101	2
Other consumer	**538**	559	(21)	(4)
Total consumer	**18,932**	18,453	479	3
Total loans and leases	**$ 38,535**	$ 38,098	$ 437	1%
Deposits				
Demand deposits noninterest-bearing	**$ 7,806**	$ 7,333	$ 473	6%
Demand deposits interest-bearing	**5,565**	5,357	208	4
Money market deposits	**12,879**	13,492	(613)	(5)
Savings and other domestic time deposits	**4,778**	4,701	77	2
Core certificates of deposit	**8,079**	8,391	(312)	(4)
Total core deposits	**39,107**	39,274	(167)	
Other deposits	**2,147**	2,390	(243)	(10)
Total deposits	**$ 41,254**	$ 41,664	$ (410)	(1)%

The $0.4 billion, or 1% (5% annualized), increase in average total loans and leases reflected:

- $0.2 billion, or 2% (8% annualized), growth in the average C&I portfolio. The growth in the C&I portfolio during the second quarter came from several business lines including business banking, large corporate, middle market, asset based lending, and equipment finance. The growth was also evident across our

geographic footprint, further contributing to the diversity of the portfolio. Non-automobile floorplan C&I utilization rates were little changed from the end of the prior quarter. In contrast, automobile floor plan utilization rates were down, primarily reflecting the slowdown in production by Japanese manufacturers.

$0.3 billion, or 4% (18% annualized), growth in the average automobile portfolio. We continued to originate very high quality loans with attractive returns. We focus on larger, multi-franchised, well-capitalized dealers that are rarely reliant on the success of one franchise to generate profitability. While the used automobile market remained very strong, we increased our originations of new vehicle loans, which reflected a reduction by the captive finance companies in the number and magnitude of incentive programs offered through dealers due to supply concerns.

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Partially offset by:

- $0.3 billion, or 4% (18% annualized), decline in average CRE loans, primarily as a result of our on-going strategy to reduce our exposure to the commercial real estate market. We were successful in reducing exposure across virtually all of the CRE project types that we actively manage through our concentration management process. The decline in noncore CRE accounted for the vast majority of the decline in the total CRE portfolio. The noncore CRE portfolio declines reflected paydowns, refinancing, and NCOs. The core CRE portfolio continued to exhibit high quality characteristics with minimal downgrade or NCO activity.

The $0.4 billion, or 1% (4% annualized), decrease in average total deposits from the 2011 first quarter reflected:

- $0.6 billion, or 5% (18% annualized), decline in average money market deposits, reflecting lowered pricing on our money market accounts.
- $0.3 billion, or 4% (15% annualized), decrease in average core certificates of deposit as rates offered on new certificates of deposits declined.

Partially offset by:

- $0.5 billion, or 6% (26% annualized), increase in average noninterest-bearing demand deposit accounts. This was driven primarily by growth in commercial noninterest-bearing demand deposits related to government finance and business banking.
- $0.2 billion, or 4% (16% annualized), growth in interest-bearing demand deposits, primarily driven by consumer checking account growth.

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

Table 7 Consolidated Quarterly Average Balance Sheets

	2011		2010			Change 2Q11 vs. 2Q10	
(dollar amounts in millions)	**Second**	First	Fourth	Third	Second	Amount	Percent
Assets							
Interest-bearing deposits in banks	**$ 131**	$ 130	$ 218	$ 282	$ 309	$ (178)	(58)%
Trading account securities	**112**	144	297	110	127	(15)	(12)
Federal funds sold and securities purchased under resale agreement	**21**						
Loans held for sale	**181**	420	779	663	323	(142)	(44)
Available-for-sale and other securities:							
Taxable	**8,428**	9,108	9,747	8,876	8,369	59	1
Tax-exempt	**436**	445	449	365	389	47	12
Total available-for-sale and other securities	**8,864**	9,553	10,196	9,241	8,758	106	1
Held-to-maturity securities taxable	**174**					174	
Loans and leases: (1)							
Commercial:							
Commercial and industrial	**13,370**	13,121	12,767	12,393	12,244	1,126	9
Commercial real estate:							
Construction	**554**	611	716	989	1,279	(725)	(57)
Commercial	**5,679**	5,913	6,082	6,084	6,085	(406)	(7)
Commercial real estate	**6,233**	6,524	6,798	7,073	7,364	(1,131)	(15)
Total commercial	**19,603**	19,645	19,565	19,466	19,608	(5)	
Consumer:							
Automobile	**5,954**	5,701	5,520	5,140	4,634	1,320	28
Home equity	**7,874**	7,728	7,709	7,567	7,544	330	4
Residential mortgage	**4,566**	4,465	4,430	4,389	4,608	(42)	(1)
Other consumer	**538**	559	576	653	695	(157)	(23)
Total consumer	**18,932**	18,453	18,235	17,749	17,481	1,451	8
Total loans and leases	**38,535**	38,098	37,800	37,215	37,089	1,446	4
Allowance for loan and lease losses	**(1,128)**	(1,231)	(1,323)	(1,384)	(1,506)	378	(25)
Net loans and leases	**37,407**	36,867	36,477	35,831	35,583	1,824	5

Total earning assets	**48,018**	48,345	49,290	47,511	46,606	1,412	3
Cash and due from banks	**1,068**	1,299	1,187	1,618	1,509	(441)	(29)
Intangible assets	**652**	665	679	695	710	(58)	(8)
All other assets	**4,160**	4,291	4,313	4,277	4,384	(224)	(5)
Total assets	**$ 52,770**	$ 53,369	$ 54,146	$ 52,717	$ 51,703	$ 1,067	2%
Liabilities and Shareholders Equity							
Deposits:							
Demand deposits noninterest-bearing	**$ 7,806**	$ 7,333	$ 7,188	$ 6,768	$ 6,849	$ 957	14%
Demand deposits interest-bearing	**5,565**	5,357	5,317	5,319	5,971	(406)	(7)
Money market deposits	**12,879**	13,492	13,158	12,336	11,103	1,776	16
Savings and other domestic deposits	**4,778**	4,701	4,640	4,639	4,677	101	2
Core certificates of deposit	**8,079**	8,391	8,646	8,948	9,199	(1,120)	(12)
Total core deposits	**39,107**	39,274	38,949	38,010	37,799	1,308	3
Other domestic time deposits of $250,000 or more	**467**	606	737	690	661	(194)	(29)
Brokered deposits and negotiable CDs	**1,333**	1,410	1,575	1,495	1,505	(172)	(11)
Deposits in foreign offices	**347**	374	443	451	402	(55)	(14)
Total deposits	**41,254**	41,664	41,704	40,646	40,367	887	2
Short-term borrowings	**2,112**	2,134	2,134	1,739	966	1,146	119
Federal Home Loan Bank advances	**97**	30	112	188	212	(115)	(54)
Subordinated notes and other long-term debt	**3,249**	3,525	3,558	3,672	3,836	(587)	(15)
Total interest-bearing liabilities	**38,906**	40,020	40,320	39,477	38,532	374	1
All other liabilities	**913**	994	993	952	924	(11)	(1)
Shareholders equity	**5,145**	5,022	5,645	5,520	5,398	(253)	(5)
Total liabilities and shareholders equity	**$ 52,770**	$ 53,369	$ 54,146	$ 52,717	$ 51,703	$ 1,067	2%

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

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Table 8 Consolidated Quarterly Net Interest Margin Analysis

	Average Rates (2)				
	2011		2010		
Fully-taxable equivalent basis (1)	**Second**	First	Fourth	Third	Second
Assets					
Interest-bearing deposits in banks	**0.22%**	0.11%	0.63%	0.21%	0.20%
Trading account securities	**1.59**	1.37	1.98	1.20	1.74
Federal funds sold and securities purchased under resale agreement	**0.09**				
Loans held for sale	**4.97**	4.08	4.01	5.75	5.02
Available-for-sale and other securities:					
Taxable	**2.59**	2.53	2.42	2.77	2.85
Tax-exempt	**4.02**	4.70	4.59	4.70	4.62
Total available-for-sale and other securities	**2.66**	2.63	2.52	2.84	2.93
Held-to-maturity securities taxable	**2.96**				
Loans and leases: (3)					
Commercial:					
Commercial and industrial	**4.31**	4.57	4.94	5.14	5.31
Commercial real estate:					
Construction	**3.37**	3.36	3.07	2.83	2.61
Commercial	**3.90**	3.93	3.92	3.91	3.69
Commercial real estate	**3.84**	3.88	3.83	3.76	3.49
Total commercial	**4.16**	4.34	4.56	4.64	4.63
Consumer:					
Automobile	**5.06**	5.22	5.46	5.79	6.46
Home equity	**4.49**	4.54	4.64	4.74	5.26
Residential mortgage	**4.62**	4.76	4.82	4.97	4.70
Other consumer	**7.76**	7.85	7.92	7.10	6.84
Total consumer	**4.79**	4.90	5.04	5.19	5.49
Total loans and leases	**4.47**	4.61	4.79	4.90	5.04
Total earning assets	**4.14%**	4.24%	4.29%	4.49%	4.63%
Liabilities and Shareholders Equity					
Deposits:					
Demand deposits noninterest-bearing	**%**	%	%	%	%
Demand deposits interest-bearing	**0.09**	0.09	0.13	0.17	0.22
Money market deposits	**0.40**	0.50	0.77	0.86	0.93
	0.74	0.81	0.90	0.99	1.07

Savings and other domestic deposits					
Core certificates of deposit	**2.04**	2.07	2.11	2.31	2.68
Total core deposits	**0.82**	0.89	1.05	1.18	1.33
Other domestic time deposits of $250,000 or more	**1.01**	1.08	1.21	1.28	1.37
Brokered deposits and negotiable CDs	**0.89**	1.11	1.53	2.21	2.56
Deposits in foreign offices	**0.26**	0.20	0.17	0.22	0.19
Total deposits	**0.82**	0.90	1.06	1.21	1.37
Short-term borrowings	**0.16**	0.18	0.20	0.22	0.21
Federal Home Loan Bank advances	**0.88**	2.98	0.95	1.25	1.93
Subordinated notes and other long-term debt	**2.39**	2.34	2.15	2.15	2.05
Total interest-bearing liabilities	**0.91%**	0.99%	1.11%	1.25%	1.41%
Net interest rate spread	**3.19%**	3.21%	3.16%	3.24%	3.22%
Impact of noninterest-bearing funds on margin	**0.21**	0.21	0.21	0.21	0.24
Net interest margin	**3.40%**	3.42%	3.37%	3.45%	3.46%

(1) FTE yields are calculated assuming a 35% tax rate.

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

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

2011 First Six Months versus 2010 First Six Months

Fully-taxable equivalent net interest income for the six-month period of 2011 increased $17.2 million, or 2%, from the comparable year-ago period. This reflected the benefit of a 4% increase in average total earning assets partially offset by a decrease in the net interest margin to 3.41% from 3.47%. The increase in average earning assets reflected a combination of factors including:

- $1.3 billion, or 3%, increase in average total loans and leases.
- $0.7 billion, or 7%, increase in average total available-for-sale and other and held-to-maturity securities.

The 6 basis points decrease in the net interest margin reflected reduction in derivatives income, lower loan yields, and lower securities yields, partially offset by the positive impact of increases in low cost deposits and improved deposit pricing.

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

Table 9 Average Loans/Leases and Deposits 2011 First Six Months vs. 2010 First Six Months

	Six Months Ended June 30,		Change	
(dollar amounts in millions)	**2011**	2010	Amount	Percent
Loans/Leases				
Commercial and industrial	**$ 13,246**	$ 12,279	$ 967	8%
Commercial real estate	**6,377**	7,520	(1,143)	(15)
Total commercial	**19,623**	19,799	(176)	(1)
Automobile	**5,829**	4,443	1,386	31
Home equity	**7,801**	7,541	260	3
Residential mortgage	**4,516**	4,543	(27)	(1)
Other consumer	**548**	709	(161)	(23)
Total consumer	**18,694**	17,236	1,458	8
Total loans and leases	**$ 38,317**	$ 37,035	$ 1,282	3%
Deposits				
Demand deposits noninterest-bearing	**$ 7,571**	$ 6,739	$ 832	12%
Demand deposits interest-bearing	**5,462**	5,844	(382)	(7)
Money market deposits	**13,184**	10,723	2,461	23
Savings and other domestic deposits	**4,740**	4,645	95	2
Core certificates of deposit	**8,234**	9,586	(1,352)	(14)
Total core deposits	**39,191**	37,537	1,654	4
Other deposits	**2,268**	2,759	(491)	(18)
Total deposits	**$ 41,459**	$ 40,296	$ 1,163	3%

The $1.3 billion, or 3%, increase in average total loans and leases primarily reflected:

- $1.4 billion, or 31%, increase in the average automobile portfolio. Automobile lending is a core competency and continued area of growth. The growth from the year-ago period exhibited further penetration within our historical geographic footprint, as well as the positive impact of our expansion into Eastern Pennsylvania and selected New England states. Origination quality remained high.
- $1.0 billion, or 8%, increase in the average C&I portfolio. Growth from the year-ago period reflected the benefits from our strategic initiatives including large corporate, asset based lending, automobile floor plan lending, and equipment finance. Traditional middle-market loans continued to grow despite line utilization

rates that remain well below historical norms.

$0.3 billion, or 3%, increase in the average home equity portfolio, reflecting higher originations and continued slower runoff.

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Partially offset by:

- $1.1 billion, or 15%, decrease in average CRE loans reflecting the continued execution of our plan to reduce the CRE exposure, primarily in the noncore CRE segment. This reduction is expected to continue through 2011, reflecting normal amortization, paydowns, and refinancing.

The $1.2 billion, or 3%, increase in average total deposits reflected:

- $1.7 billion, or 4%, growth in average total core deposits. The drivers of this change were a $2.5 billion, or 23%, growth in average money market deposits, and a $0.8 billion, or 12%, growth in average noninterest-bearing demand deposits. These increases were partially offset by a $1.4 billion, or 14%, decline in average core certificates of deposit and a $0.4 billion, or 7%, decrease in average interest-bearing demand deposits.

Partially offset by:

- $0.5 billion, or 18%, decline in other deposits including a $0.3 billion, or 18%, decline in average brokered deposits and negotiable CDs, and a $0.1 billion, or 21%, decrease in other domestic time deposits of $250,000 or more, reflecting a strategy of reducing such noncore funding.

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

Fully-taxable equivalent basis (1) *(dollar amounts in millions)*	YTD Average Balances Six Months Ended June 30, 2011	2010	Change Amount	Percent	YTD Average Rates (2) Six Months Ended June 30, 2011	2010
Assets						
Interest-bearing deposits in banks	**$ 130**	$ 328	$ (198)	(60)%	**0.17%**	0.19%
Trading account securities	**128**	112	16	14	**1.47**	1.92
Federal funds sold and securities purchased under resale agreement	**11**		11		**0.09**	
Loans held for sale	**300**	334	(34)	(10)	**4.36**	5.00
Available-for-sale and other securities:						
Taxable	**8,766**	8,197	569	7	**2.56**	2.89
Tax-exempt	**441**	418	23	6	**4.37**	4.49
Total available-for-sale and other securities	**9,207**	8,615	592	7	**2.65**	2.97
Total held-to-maturity securities	**87**		87		**2.95**	
Loans and leases: (3)						
Commercial:						
Commercial and industrial	**13,246**	12,279	967	8	**4.44**	5.45
Commercial real estate:						
Construction	**582**	1,344	(762)	(57)	**3.37**	2.64
Commercial	**5,795**	6,176	(381)	(6)	**3.91**	3.64
Commercial real estate	**6,377**	7,520	(1,143)	(15)	**3.86**	3.46
Total commercial	**19,623**	19,799	(176)	(1)	**4.25**	4.70
Consumer:						
Automobile	**5,829**	4,443	1,386	31	**5.14**	6.54
Home equity	**7,801**	7,541	260	3	**4.51**	5.42
Residential mortgage	**4,516**	4,543	(27)	(1)	**4.69**	4.79
Other consumer	**548**	709	(161)	(23)	**7.80**	6.92
Total consumer	**18,694**	17,236	1,458	8	**4.85**	5.61
Total loans and leases	**38,317**	37,035	1,282	3	**4.54**	5.12
Allowance for loan and lease losses	**(1,179)**	(1,508)	329	(22)		
Net loans and leases	**37,138**	35,527	1,611	5		
Total earning assets	**48,180**	46,424	1,756	4	**4.19%**	4.72%
Cash and due from banks	**1,183**	1,634	(451)	(28)		
Intangible assets	**659**	717	(58)	(8)		

All other assets	**4,224**	4,436	(212)	(5)		
Total assets	**$ 53,067**	$ 51,703	$ 1,364	3%		
Liabilities and Shareholders Equity						
Deposits:						
Demand deposits noninterest-bearing	**$ 7,571**	$ 6,739	$ 832	12%	**%**	%
Demand deposits interest-bearing	**5,462**	5,844	(382)	(7)	**0.09**	0.22
Money market deposits	**13,184**	10,723	2,461	23	**0.45**	0.96
Savings and other domestic deposits	**4,740**	4,645	95	2	**0.78**	1.13
Core certificates of deposit	**8,234**	9,586	(1,352)	(14)	**2.05**	2.81
Total core deposits	**39,191**	37,537	1,654	4	**0.86**	1.42
Other domestic time deposits of $250,000 or more	**536**	680	(144)	(21)	**1.05**	1.41
Brokered deposits and negotiable CDs	**1,372**	1,673	(301)	(18)	**1.00**	2.52
Deposits in foreign offices	**360**	406	(46)	(11)	**0.23**	0.19
Total deposits	**41,459**	40,296	1,163	3	**0.86**	1.46
Short-term borrowings	**2,123**	947	1,176	124	**0.17**	0.21
Federal Home Loan Bank advances	**63**	196	(133)	(68)	**1.36**	2.28
Subordinated notes and other long-term debt	**3,386**	3,948	(562)	(14)	**2.36**	2.15
Total interest-bearing liabilities	**39,460**	38,648	812	2	**0.95**	1.51
All other liabilities	**952**	935	17	2		
Shareholders equity	**5,084**	5,381	(297)	(6)		
Total liabilities and shareholders equity	**$ 53,067**	$ 51,703	$ 1,364	3%		
Net interest rate spread					**3.20**	3.21
Impact of noninterest-bearing funds on margin					**0.21**	0.26
Net interest margin					**3.41%**	3.47%

(1) FTE yields are calculated assuming a 35% tax rate.

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

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

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Provision for Credit Losses

(This section should be read in conjunction with Significant Item 2, the Credit Risk section, and the Franklin-related Impacts section.)

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

The provision for credit losses for the 2011 second quarter was $35.8 million, down $13.6 million, or 28%, from the prior quarter and down $157.6 million, or 81%, from the year-ago quarter. The provision for credit losses for the first six-month period of 2011 was $85.2 million, down $343.2 million, or 80%, from the year-ago period. These declines reflected a combination of lower NCOs and a reduction in commercial Criticized loans. The reduction in commercial Criticized loans reflected the resolution of problem credits for which reserves had been previously established. The current quarter s provision for credit losses was $61.7 million less than total NCOs and the provision for credit losses for the first six-month period of 2011 was $177.4 million less than total NCOs *(see Credit Quality discussion).*

Noninterest Income

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

Table 11 Noninterest Income

	2011		2010		
(dollar amounts in thousands)	**Second**	First	Fourth	Third	Second
Service charges on deposit accounts	**$ 60,675**	$ 54,324	$ 55,810	$ 65,932	$ 75,934
Mortgage banking income	**23,835**	22,684	53,169	52,045	45,530
Trust services	**30,392**	30,742	29,394	26,997	28,399
Electronic banking	**31,728**	28,786	28,900	28,090	28,107
Insurance income	**16,399**	17,945	19,678	19,801	18,074
Brokerage income	**20,819**	20,511	16,953	16,575	18,425
Bank owned life insurance income	**17,602**	14,819	16,113	14,091	14,392
Automobile operating lease income	**7,307**	8,847	10,463	11,356	11,842
Securities gains (losses)	**1,507**	40	(103)	(296)	156
Other income	**45,503**	38,247	33,843	32,552	28,784
Total noninterest income	**$ 255,767**	$ 236,945	$ 264,220	$ 267,143	$ 269,643

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

Table 12 Mortgage Banking Income

	2011		2010		
(dollar amounts in thousands, except as noted)	**Second**	First	Fourth	Third	Second
Mortgage banking income					
Origination and secondary marketing	**$ 11,522**	$ 19,799	$ 48,236	$ 35,840	$ 19,778
Servicing fees	**12,417**	12,546	11,474	12,053	12,178
Amortization of capitalized servicing	**(9,052)**	(9,863)	(13,960)	(13,003)	(10,137)
Other mortgage banking income	**4,259**	3,769	4,789	4,966	3,664
Sub-total	**19,146**	26,251	50,539	39,856	25,483
MSR valuation adjustment[1]	**(8,292)**	774	31,319	(12,047)	(26,221)

Net trading gains (losses) related to MSR hedging	**12,981**	(4,341)	(28,689)	24,236	46,268
Total mortgage banking income	**$ 23,835**	$ 22,684	$ 53,169	$ 52,045	$ 45,530
Mortgage originations (in millions)	**$ 916**	$ 929	$ 1,827	$ 1,619	$ 1,161
Average trading account securities used to hedge MSRs (in millions)	**22**	46	184	23	28
Capitalized mortgage servicing rights[2]	**189,740**	202,559	196,194	161,594	179,138
Total mortgages serviced for others (in millions)[2]	**16,315**	16,456	15,933	15,713	15,954
MSR % of investor servicing portfolio	**1.16%**	1.23%	1.23%	1.03%	1.12%
Net impact of MSR hedging					
MSR valuation adjustment[1]	**$ (8,292)**	$ 774	$ 31,319	$ (12,047)	$ (26,221)
Net trading gains (losses) related to MSR hedging	**12,981**	(4,341)	(28,689)	24,236	46,268
Net interest income related to MSR hedging	**84**	99	713	32	58
Net gain (loss) of MSR hedging	**$ 4,773**	$ (3,468)	$ 3,343	$ 12,221	$ 20,105

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

(2) At period end.

2011 Second Quarter versus 2010 Second Quarter

Noninterest income decreased $13.9 million, or 5%, from the year-ago quarter.

Table 13 Noninterest Income 2011 Second Quarter vs. 2010 Second Quarter

	Second Quarter		Change	
(dollar amounts in thousands)	**2011**	2010	Amount	Percent
Service charges on deposit accounts	**$ 60,675**	$ 75,934	$ (15,259)	(20)%
Mortgage banking income	**23,835**	45,530	(21,695)	(48)
Trust services	**30,392**	28,399	1,993	7
Electronic banking	**31,728**	28,107	3,621	13
Insurance income	**16,399**	18,074	(1,675)	(9)
Brokerage income	**20,819**	18,425	2,394	13
Bank owned life insurance income	**17,602**	14,392	3,210	22
Automobile operating lease income	**7,307**	11,842	(4,535)	(38)
Securities gains (losses)	**1,507**	156	1,351	866
Other income	**45,503**	28,784	16,719	58
Total noninterest income	**$ 255,767**	$ 269,643	$ (13,876)	(5)%

The $13.9 million, or 5%, decrease in total noninterest income from the year-ago quarter reflected:

- $21.7 million, or 48%, decrease in mortgage banking income. This primarily reflected a $15.4 million decrease in MSR net hedging income and an $8.3 million, or 42%, decrease in origination and secondary marketing income, as originations decreased 21% from the year-ago quarter.
- $15.3 million, or 20%, decline in service charges on deposit accounts, reflecting lower personal service charges due to the implementation of the amendment to Reg E and lower underlying activity levels.
- $4.5 million, or 38%, decline in automobile operating lease income reflecting the impact of a declining portfolio as a result of having exited that business in 2008.

Partially offset by:

- $16.7 million, or 58%, increase in other income, of which $10.8 million was associated with SBA gains and servicing. Also contributing to the growth were increases from the sale of interest rate protection products and capital markets activities.
- $3.6 million, or 13%, increase in electronic banking income, reflecting an increase in debit card transaction volume and new account growth.
- $3.2 million, or 22%, increase in bank owned life insurance income.
- $2.4 million, or 13%, increase in brokerage income, primarily reflecting increased sales of investment products.
- $2.0 million, or 7%, increase in trust services income, due to a $10.3 billion increase in total trust assets, including a $2.5 billion increase in assets under management. This increase reflected improved market values and net growth in accounts.

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2011 Second Quarter versus 2011 First Quarter

Noninterest income increased $18.8 million, or 8%, from the prior quarter.

Table 14 Noninterest Income 2011 Second Quarter vs. 2011 First Quarter

	2011		Change	
(dollar amounts in thousands)	**Second Quarter**	First Quarter	Amount	Percent
Service charges on deposit accounts	**$ 60,675**	$ 54,324	$ 6,351	12%
Mortgage banking income	**23,835**	22,684	1,151	5
Trust services	**30,392**	30,742	(350)	(1)
Electronic banking	**31,728**	28,786	2,942	10
Insurance income	**16,399**	17,945	(1,546)	(9)
Brokerage income	**20,819**	20,511	308	2
Bank owned life insurance income	**17,602**	14,819	2,783	19
Automobile operating lease income	**7,307**	8,847	(1,540)	(17)
Securities gains	**1,507**	40	1,467	3,668
Other income	**45,503**	38,247	7,256	19
Total noninterest income	**$ 255,767**	$ 236,945	$ 18,822	8%

The $18.8 million, or 8%, increase in total noninterest income from the prior quarter reflected:

- $7.3 million, or 19%, increase in other income, reflecting SBA gains, higher market-related gains and capital markets income.
- $6.4 million, or 12%, increase in service charges on deposit accounts, primarily reflecting an increase in personal services charges, mostly due to higher NSF/OD fees.
- $2.9 million, or 10%, increase in electronic banking income, reflecting higher activity levels.

2011 First Six Months versus 2010 First Six Months

Noninterest income for the first six-month period of 2011 decreased $17.8 million, or 3%, from the comparable year-ago period.

Table 15 Noninterest Income 2011 First Six Months vs. 2010 First Six Months

	Six Months Ended June 30,		Change	
(dollar amounts in thousands)	**2011**	2010	Amount	Percent
Service charges on deposit accounts	**$ 114,999**	$ 145,273	$ (30,274)	(21)%
Mortgage banking income	**46,519**	70,568	(24,049)	(34)
Trust services	**61,134**	56,164	4,970	9
Electronic banking	**60,514**	53,244	7,270	14
Insurance income	**34,344**	36,934	(2,590)	(7)
Brokerage income	**41,330**	35,327	6,003	17
Bank owned life insurance income	**32,421**	30,862	1,559	5
Automobile operating lease income	**16,154**	24,145	(7,991)	(33)
Securities gains	**1,547**	125	1,422	1,138
Other income	**83,750**	57,853	25,897	45
Total noninterest income	**$ 492,712**	$ 510,495	$ (17,783)	(3)%

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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 2011 and 2010:

Table 16 Year to Date Mortgage Banking Income and Net Impact of MSR Hedging

	Six Months Ended June 30,		YTD Change 2011 vs 2010	
(dollar amounts in thousands, except as noted)	**2011**	2010	Amount	Percent
Mortgage Banking Income				
Origination and secondary marketing	**$ 31,321**	$ 33,364	$ (2,043)	(6)%
Servicing fees	**24,963**	24,596	367	1
Amortization of capitalized servicing	**(18,915)**	(20,202)	1,287	(6)
Other mortgage banking income	**8,028**	6,874	1,154	17
Subtotal	**45,397**	44,632	765	2
MSR valuation adjustment (1)	**(7,518)**	(31,993)	24,475	(77)
Net trading gains related to MSR hedging	**8,640**	57,929	(49,289)	(85)
Total mortgage banking income	**$ 46,519**	$ 70,568	$ (24,049)	(34)%
Mortgage originations (in millions)	**$ 1,845**	$ 2,030	$ (185)	(9)%
Average trading account securities used to hedge MSRs (in millions)	**34**	23	11	48
Capitalized mortgage servicing rights (2)	**189,740**	179,138	10,602	6
Total mortgages serviced for others (in millions) (2)	**16,315**	15,954	361	2
MSR % of investor servicing portfolio	**1.16%**	1.12%	0.04%	357%
Net Impact of MSR Hedging				
MSR valuation adjustment (1)	**$ (7,518)**	$ (31,993)	$ 24,475	(77)%
Net trading gains related to MSR hedging	**8,640**	57,929	(49,289)	(85)
Net interest income related to MSR hedging	**183**	227	(44)	(19)
Net impact of MSR hedging	**$ 1,305**	$ 26,163	$ (24,858)	(95)%

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

(2) At period end.

The $17.8 million, or 3%, decrease in total noninterest income reflected:

- $30.3 million, or 21%, decline in service charges on deposit accounts, reflecting lower personal service charges due to the implementation of the amendment to Reg E and lower underlying activity levels.
- $24.0 million, or 34%, decrease in mortgage banking income. This primarily reflected a $24.9 million decrease in MSR net hedging income and a $2.0 million, or 6%, decrease in origination and secondary marketing income, as originations decreased 9% from the year-ago period.

Partially offset by:

- $25.9 million, or 45%, increase in other income, of which $20.2 million was associated with SBA gains and loan fees. Also contributing to the growth were increases from the sale of interest rate protection products and capital markets activities.

- $7.3 million, or 14%, increase in electronic banking income, reflecting an increase in debit card transaction volume and new account growth.
- $6.0 million, or 17%, increase in brokerage income, primarily reflecting increased sales of investment products.
- $5.0 million, or 9%, increase in trust services income, due to a $10.3 billion increase in total trust assets, including a $2.5 billion increase in assets under management. This increase reflected improved market values and net growth in accounts.

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

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Noninterest Expense

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

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

Table 17 Noninterest Expense

	2011		2010		
(dollar amounts in thousands)	**Second**	First	Fourth	Third	Second
Personnel costs	**$ 218,570**	$ 219,028	$ 212,184	$ 208,272	$ 194,875
Outside data processing and other services	**43,889**	40,282	40,943	38,553	40,670
Net occupancy	**26,885**	28,436	26,670	26,718	25,388
Deposit and other insurance expense	**23,823**	17,896	23,320	23,406	26,067
Professional services	**20,080**	13,465	21,021	20,672	24,388
Equipment	**21,921**	22,477	22,060	21,651	21,585
Marketing	**20,102**	16,895	16,168	20,921	17,682
Amortization of intangibles	**13,386**	13,370	15,046	15,145	15,141
OREO and foreclosure expense	**4,398**	3,931	10,502	12,047	4,970
Automobile operating lease expense	**5,434**	6,836	8,142	9,159	9,667
Other expense	**29,921**	48,083	38,537	30,765	33,377
Total noninterest expense	**$ 428,409**	$ 430,699	$ 434,593	$ 427,309	$ 413,810
Number of employees (full-time equivalent), at period-end	**11,457**	11,319	11,341	11,279	11,117

2011 Second Quarter versus 2010 Second Quarter

Noninterest expense increased $14.6 million, or 4%, from the year-ago quarter.

Table 18 Noninterest Expense 2011 Second Quarter vs. 2010 Second Quarter

	Second Quarter		Change	
(dollar amounts in thousands)	**2011**	2010	Amount	Percent
Personnel costs	**$ 218,570**	$ 194,875	$ 23,695	12%
Outside data processing and other services	**43,889**	40,670	3,219	8
Net occupancy	**26,885**	25,388	1,497	6
Deposit and other insurance expense	**23,823**	26,067	(2,244)	(9)
Professional services	**20,080**	24,388	(4,308)	(18)
Equipment	**21,921**	21,585	336	2
Marketing	**20,102**	17,682	2,420	14
Amortization of intangibles	**13,386**	15,141	(1,755)	(12)
OREO and foreclosure expense	**4,398**	4,970	(572)	(12)
Automobile operating lease expense	**5,434**	9,667	(4,233)	(44)
Other expense	**29,921**	33,377	(3,456)	(10)
Total noninterest expense	**$ 428,409**	$ 413,810	$ 14,599	4%
	11,457	11,117	340	3%

Number of employees (full-time equivalent), at period-end

The $14.6 million, or 4%, increase in total noninterest expense from the year-ago quarter reflected:

- $23.7 million, or 12%, increase in personnel costs, primarily reflecting a 3% increase in full-time equivalent staff in support of strategic initiatives, as well as higher benefit related expenses, including costs associated with the reinstatement of our 401(k) plan matching contribution in May 2010.
- $3.2 million, or 8%, increase in outside data processing and other service, reflecting higher costs associated with the implementation of strategic initiatives.
- $2.4 million, or 14%, increase in marketing expense, reflecting higher advertising costs.

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Partially offset by:

$4.3 million, or 18%, decrease in professional services, reflecting lower legal costs, as collection activities declined, and consulting expenses.

$4.2 million, or 44%, decline in automobile operating lease expense as that portfolio continued to run-off.

$3.5 million, or 10%, decrease in other expense, primarily reflecting a decline in expenses related to representations and warranties losses on mortgage loans sold.

2011 Second Quarter versus 2011 First Quarter

Noninterest expense decreased $2.3 million, or 1%, from the prior quarter.

Table 19 Noninterest Expense 2011 Second Quarter vs. 2011 First Quarter

	2011		Change	
(dollar amounts in thousands)	**Second Quarter**	First Quarter	Amount	Percent
Personnel costs	**$ 218,570**	$ 219,028	$ (458)	%
Outside data processing and other services	**43,889**	40,282	3,607	9
Net occupancy	**26,885**	28,436	(1,551)	(5)
Deposit and other insurance expense	**23,823**	17,896	5,927	33
Professional services	**20,080**	13,465	6,615	49
Equipment	**21,921**	22,477	(556)	(2)
Marketing	**20,102**	16,895	3,207	19
Amortization of intangibles	**13,386**	13,370	16	
OREO and foreclosure expense	**4,398**	3,931	467	12
Automobile operating lease expense	**5,434**	6,836	(1,402)	(21)
Other expense	**29,921**	48,083	(18,162)	(38)
Total noninterest expense	**$ 428,409**	$ 430,699	$ (2,290)	(1)%
Number of employees (full-time equivalent), at period-end	**11,457**	11,319	138	1%

The $2.3 million, or 1%, decrease in total noninterest expense from the prior quarter reflected:

$18.2 million, or 38%, decrease in other expense, primarily reflecting the prior quarter s $17.0 million addition to litigation reserves.

Partially offset by:

$6.6 million, or 49%, increase in professional services, reflecting higher costs supporting regulatory and litigation efforts.

$5.9 million, or 33%, temporary increase in deposit and other insurance expenses.

$3.6 million, or 9%, increase in outside data processing and other services, reflecting higher appraisal costs and system upgrade expenses.

$3.2 million, or 19%, increase in marketing expense, reflecting higher advertising costs.

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2011 First Six Months versus 2010 First Six Months

Noninterest expense for the first six-month period of 2011 increased $47.2 million, or 6%, from the comparable year-ago period.

Table 20 Noninterest Expense 2011 First Six Months vs. 2010 First Six Months

	Six Months Ended June 30,		Change	
(dollar amounts in thousands)	**2011**	2010	Amount	Percent
Personnel costs	**$ 437,598**	$ 378,517	$ 59,081	16%
Outside data processing and other services	**84,171**	79,752	4,419	6
Net occupancy	**55,321**	54,474	847	2
Deposit and other insurance expense	**41,719**	50,822	(9,103)	(18)
Professional services	**33,545**	47,085	(13,540)	(29)
Equipment	**44,398**	42,209	2,189	5
Marketing	**36,997**	28,835	8,162	28
Amortization of intangibles	**26,756**	30,287	(3,531)	(12)
OREO and foreclosure expense	**8,329**	16,500	(8,171)	(50)
Automobile operating lease expense	**12,270**	19,733	(7,463)	(38)
Other expense	**78,004**	63,689	14,315	22
Total noninterest expense	**$ 859,108**	$ 811,903	$ 47,205	6%

The $47.2 million, or 6%, increase in total noninterest expense reflected:

- $59.1 million, or 16%, increase in personnel costs, primarily reflecting an increase in full-time equivalent staff in support of strategic initiatives, as well as higher benefit related expenses, including the reinstatement of our 401(k) plan matching contribution in May of 2010.
- $14.3 million, or 22%, increase in other expense, primarily reflecting the 2011 first quarter $17.0 million addition to litigation reserves.
- $8.2 million, or 28%, increase in marketing expense, reflecting higher advertising costs.

Partially offset by:

- $13.5 million, or 29%, decrease in professional services, reflecting lower legal costs, as collection activities declined, and consulting expenses.
- $8.2 million, or 50%, decline in OREO and foreclosure expenses as OREO balances declined 72% in the current period.
- $7.5 million, or 38%, decline in automobile operating lease expense as that portfolio continued to run-off having exited that business in 2008.

Provision for Income Taxes

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

The provision for income taxes in the 2011 second quarter was $49.0 million. This compared with a provision for income taxes of $34.7 million in the 2011 first quarter and a provision for income taxes of $13.3 million in the 2010 second quarter. All three quarters include the benefits from tax-exempt income, tax-advantaged investments, and general business credits. At June 30, 2011, we had a net deferred tax asset of $432.7 million. Based on both positive and negative evidence and our level of forecasted future taxable income, there was no impairment to the deferred tax asset at June 30, 2011. The total disallowed deferred tax asset for regulatory capital purposes decreased to $48.2 million at June 30, 2011, from $89.9 million at March 31, 2011.

The IRS completed audits of our consolidated federal income tax returns for tax years through 2007. The IRS, various states, and other jurisdictions remain open to examination, including Kentucky, Indiana, Michigan, Pennsylvania, West Virginia and Illinois. The IRS and the Commonwealth of Kentucky have proposed adjustments to our previously filed tax returns. We believe that our tax positions related to such proposed adjustments are correct and supported by

applicable statutes, regulations, and judicial authority, and intend to vigorously defend them. It is possible the ultimate resolution of the proposed adjustments, if unfavorable, may be material to the results of operations in the period it occurs. However, although no assurance can be given, we believe the resolution of these examinations will not, individually or in the aggregate, have a material adverse impact on our consolidated financial position.

RISK MANAGEMENT AND CAPITAL

Risk awareness, identification and assessment, reporting, and active management are key elements in overall risk management. We manage risk to an aggregate moderate-to-low risk profile strategy through a control framework and by monitoring and responding to potential risks. We believe that our primary risk exposures are credit, market, liquidity, operational, and compliance risk. More information on risk can be found in the Risk Factors section included in Item 1A of our 2010 Form 10-K and subsequent filings with the SEC. Additionally, the MD&A included in our 2010 Form 10-K should be read in conjunction with this MD&A as this discussion provides only material updates to the 2010 Form 10-K. Our definition, philosophy, and approach to risk management have not materially changed from the discussion presented in the 2010 Form 10-K.

Credit Risk

Credit risk is the risk of financial loss if a counterparty is not able to meet the agreed upon terms of the financial obligation. The majority of our credit risk is associated with lending activities, as the acceptance and management of credit risk is central to profitable lending. We also have significant credit risk associated with our available-for-sale and other investment securities portfolio *(see Investment Securities Portfolio discussion)*. While there is credit risk associated with derivative activity, we believe this exposure is minimal. The significant change in the economic conditions and the resulting changes in borrower behavior over the past several years resulted in our focusing significant resources to the identification, monitoring, and managing of our credit risk. In addition to the traditional credit risk mitigation strategies of credit policies and processes, market risk management activities, and portfolio diversification, we added more quantitative measurement capabilities utilizing external data sources, enhanced use of modeling technology, and internal stress testing processes. The continued expansion of our portfolio management resources demonstrates our commitment to maintaining an aggregate moderate-to-low risk profile.

Loan and Lease Credit Exposure Mix

At June 30, 2011, our loans and leases totaled $39.1 billion, representing a $1.0 billion, or 3%, increase compared to $38.1 billion at December 31, 2010, primarily reflecting growth in the consumer loan portfolio. The automobile portfolio represented 56% of the total consumer portfolio growth, reflecting an increase in automobile sales across the industry, as well as our expansion into the New England market. The home equity and residential mortgage portfolios both increased modestly compared to December 31, 2010. All of the growth within the consumer portfolio was consistent with our focus on high quality borrowers. Total commercial loans were little changed as the growth in the C&I portfolio was offset by a decline in the CRE portfolio.

At June 30, 2011, commercial loans and leases totaled $19.7 billion, and represented 50% of our total credit exposure. Our commercial portfolio is diversified along product type, size, and geography within our footprint and is comprised of the following (*see Commercial Credit discussion)*:

C&I C&I loans and leases are made to commercial customers for use in normal business operations to finance working capital needs, equipment purchases, or other projects. The majority of these borrowers are customers doing business within our geographic regions. C&I loans and leases are generally underwritten individually and secured with the assets of the company and/or the personal guarantee of the business owners. The financing of owner occupied facilities is considered a C&I loan even though there is improved real estate as collateral. This treatment is a function of the credit decision process, which focuses on cash flow from operations of the business to repay the debt. The operation, sale, rental, or refinancing of the real estate is not considered the primary repayment source for these types of loans. As we look to grow our C&I portfolio, we have further developed our ABL capabilities by adding experienced ABL professionals to take advantage of market opportunities resulting in better leveraging of the manufacturing base in our primary markets. Also, our Equipment Finance area is targeting larger equipment financings in the manufacturing sector in addition to our core products. We also expanded our large corporate banking group with sufficient resources to ensure we appropriately recognize and manage the risks associated with these types of lending.

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

repaid through cash flows related to the operation, sale, or refinance of the property.

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

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Total consumer loans and leases were $19.4 billion at June 30, 2011, and represented 50% of our total loan and lease credit exposure. The consumer portfolio was primarily diversified among home equity loans and lines-of-credit, residential mortgages, and automobile loans and leases *(see Consumer Credit discussion)*.

Automobile Automobile loans and leases are primarily comprised of loans made through automotive dealerships and include exposure in selected states outside of our primary banking markets. No state outside of our primary banking markets represented more than 5% of our total automobile portfolio at June 30, 2011. Our automobile lease portfolio represents an immaterial portion of the total portfolio as we exited the automobile leasing business during the 2008 fourth quarter.

Home equity Home equity lending includes both home equity loans and lines-of-credit. This type of lending, which is secured by a first-lien or second-lien on the borrower s residence, allows customers to borrow against the equity in their home. Given the current low interest rate environment, many borrowers have utilized the line-of-credit home equity product as the primary source of financing their home. As a result, the proportion of the home equity portfolio secured by a first-lien has increased significantly over the past three years, positively impacting the portfolio s performance, and providing a positive basis regarding the expected future performance of this portfolio. Real estate market values at the time of origination directly affect the amount of credit extended and, in the event of default, subsequent changes in these values impact the severity of losses. We actively manage the extension of credit and the amount of credit extended through a combination of criteria including debt-to-income policies and LTV policy limits.

Residential mortgage Residential mortgage loans represent loans to consumers for the purchase or refinance of a residence. These loans are generally financed over a 15-year to 30-year term, and in most cases, are extended to borrowers to finance their primary residence. Generally, our practice is to sell a significant portion of our fixed-rate originations in the secondary market. As such, the majority of the loans in our portfolio are ARMs. These ARMs primarily consist of a fixed-rate of interest for the first 3 to 5 years, and then adjust annually. These loans comprised approximately 54% of our total residential mortgage loan portfolio at June 30, 2011. We are subject to repurchase risk associated with residential mortgage loans sold in the secondary market. This activity has increased recently reflecting the overall market conditions and GSE activity and an appropriate level of allowance has been established to address the repurchase risk inherent in the portfolio *(refer to the Operational Risk section for additional discussion).*

Other consumer This portfolio primarily consists of consumer loans not secured by real estate or automobiles, including personal unsecured loans.

Table 21 Loan and Lease Portfolio Composition

	2011				2010					
(dollar amounts in millions)	**June 30,**		March 31,		December 31,		September 30,		June 30,	
Commercial:[1]										
Commercial and industrial	**$ 13,544**	**34%**	$ 13,299	35%	$ 13,063	34%	$ 12,425	33%	$ 12,392	34%
Commercial real estate:										
Construction	**591**	**2**	587	2	650	2	738	2	1,106	3
Commercial	**5,573**	**14**	5,711	15	6,001	16	6,174	16	6,078	16
Total commercial real estate	**6,164**	**16**	6,298	17	6,651	18	6,912	18	7,184	19
Total commercial	**19,708**	**50**	19,597	52	19,714	52	19,337	51	19,576	53
Consumer:										
Automobile	**6,190**	**16**	5,802	15	5,614	15	5,385	14	4,847	13
Home equity	**7,952**	**20**	7,784	20	7,713	20	7,690	21	7,510	20
Residential mortgage	**4,751**	**12**	4,517	12	4,500	12	4,511	12	4,354	12
Other consumer	**525**	**2**	546	1	566	1	578	2	683	2
Total consumer	**19,418**	**50**	18,649	48	18,393	48	18,164	49	17,394	47

Total loans and leases	**$ 39,126**	**100%**	$ 38,246	100%	$ 38,107	100%	$ 37,501	100%	$ 36,970	100%

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

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

Table 22 Loan and Lease Portfolio by Collateral Type

	2011						2010			
(dollar amounts in millions)	**June 30,**		March 31,		December 31,		September 30,		June 30,	
Secured loans:										
Real estate commercial	**$ 9,781**	**25%**	$ 9,931	26%	$ 10,389	27%	$ 10,516	28%	$ 10,698	29%
Real estate consumer	**12,703**	**32**	12,300	32	12,214	32	12,201	33	11,968	32
Vehicles	**7,594**	**19**	7,333	19	7,134	19	6,652	18	6,054	16
Receivables/Inventory	**4,171**	**11**	3,819	10	3,763	10	3,524	9	3,511	9
Machinery/Equipment	**1,784**	**5**	1,787	5	1,766	5	1,763	5	1,812	5
Securities/Deposits	**802**	**2**	778	2	734	2	730	2	780	2
Other	**1,095**	**3**	1,139	3	990	2	1,097	2	1,120	4
Total secured loans and leases	**37,930**	**97**	37,087	97	36,990	97	36,483	97	35,943	97
Unsecured loans and leases	**1,196**	**3**	1,159	3	1,117	3	1,018	3	1,027	3
Total loans and leases	**$ 39,126**	**100%**	$ 38,246	100%	$ 38,107	100%	$ 37,501	100%	$ 36,970	100%

Commercial Credit

In commercial lending, on-going credit management is dependent on the type and nature of the loan. We monitor all significant exposures on an on-going basis. All commercial credit extensions are assigned internal risk ratings reflecting the borrower s probability-of-default and loss-given-default (severity of loss). This two-dimensional rating methodology provides granularity in the portfolio management process. The probability-of-default is rated and applied at the borrower level. The loss-given-default is rated and applied based on the specific type of credit extension and the quality and lien position associated with the underlying collateral. The internal risk ratings are assessed at origination and updated at each periodic monitoring event. There is also extensive macro portfolio management analysis on an on-going basis. As an example, the retail properties class of the CRE portfolio and manufacturing loans within the C&I portfolio have each received more frequent evaluation at the individual loan level given the weak environment and our portfolio composition. We continually review and adjust our risk-rating criteria based on actual experience, which provides us with the current risk level in the portfolio and is the basis for determining an appropriate allowance amount for this portfolio.

Our Credit Review group performs testing to provide an independent review and assessment of the quality and / or risk of new loan originations. This group is part of our Risk Management area, and conducts portfolio reviews on a risk-based cycle to evaluate individual loans, validate risk ratings, as well as test the consistency of credit processes. Similarly, to provide consistent oversight, a centralized portfolio management team monitors and reports on the performance of small business loans, which are included within the commercial loan portfolio.

All loans categorized as Classified *(see Note 3 of Notes to Unaudited Condensed Consolidated Financial Statements)* are managed by our SAD. The SAD is a specialized credit group that handles the day-to-day management of workouts, commercial recoveries, and problem loan sales. Its responsibilities include developing and implementing action plans, assessing risk ratings, and determining the adequacy of the allowance, the accrual status, and the ultimate collectability of the Classified loan portfolio.

Our commercial portfolio is diversified by customer size, as well as geographically throughout our footprint. No outstanding commercial loans and leases comprised an industry or geographic concentration of lending. Certain segments of our commercial portfolio are discussed in further detail below.

C&I PORTFOLIO

We manage the risks inherent in this portfolio through origination policies, concentration limits, on-going loan level reviews and portfolio 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.

While C&I borrowers have been challenged by the weak economy, problem loans have trended downward, reflecting a combination of proactive risk identification as well as some relative improvement in the economic conditions. Nevertheless, some borrowers may no longer have sufficient capital to withstand the extended stress. As a result, these borrowers may not be able to comply with the original terms of their credit agreements. We continue to focus attention on the portfolio management process to proactively identify borrowers that may be facing financial difficulty and to assess all potential solutions. 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.

As shown in the following table, C&I loans and leases totaled $13.5 billion at June 30, 2011:

Table 23 Commercial and Industrial Loans and Leases by Class

	June 30, 2011			
	Commitments		Loans Outstanding	
(dollar amounts in millions)	Amount	Percent	Amount	Percent
Class:				
Owner occupied	$ 4,259	21%	$ 3,870	29%
Other commercial and industrial	16,288	79	9,674	71
Total	**$** 20,547	100%	$ 13,544	100%

The difference in the composition between the commitments and loans and leases outstanding in the other commercial and industrial class results from a significant amount of working capital lines-of-credit and businesses have reduced these borrowings. The funding percentage associated with the lines-of-credit has been a significant indicator of credit quality. Generally, borrowers that fully utilize their line-of-credit consistently, over time, have a higher risk profile. This represents one of many credit risk factors we utilize in assessing the credit risk portfolio of individual borrowers and the overall portfolio.

CRE PORTFOLIO

We manage the risks inherent in this portfolio specific to CRE lending, focusing on the quality of the developer, and the specifics associated with each project. Generally, we: (1) limit our loans to 80% of the appraised value of the commercial real estate, (2) require net operating cash flows to be 125% of required interest and principal payments, and (3) if the commercial real estate is nonowner occupied, require that at least 50% of the space of the project be preleased.

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

A CRE loan is generally considered core when the borrower is an experienced, well-capitalized developer in our Midwest footprint, and has either an established meaningful relationship with us that generates an acceptable return on capital or demonstrates the prospect of becoming one. The core CRE portfolio was $4.0 billion at June 30, 2011, representing 65% of total CRE loans. The performance of the core portfolio met our expectations based on the consistency of the asset quality metrics within the portfolio. Based on our extensive project level assessment process, including forward-looking collateral valuations, we continue to believe the credit quality of the core portfolio is stable.

A CRE loan is generally considered noncore based on the lack of a substantive relationship outside of the loan product, with no immediate prospects for meeting the core relationship criteria. The noncore CRE portfolio declined from $2.6 billion at December 31, 2010, to $2.2 billion at June 30, 2011, and represented 35% of total CRE loans. Of the loans in the noncore portfolio at June 30, 2011, 62% were categorized as Pass, 95% had guarantors, 99% were secured, and 95% were located within our geographic footprint. However, it is within the noncore portfolio where most of the credit quality challenges exist. For example, $0.3 billion, or 12%, of related outstanding balances, are classified as NALs. SAD administered $1.0 billion, or 45%, of total noncore CRE loans at June 30, 2011. We expect to exit the majority of noncore CRE relationships over time through normal repayments and refinancings, possible sales should economically attractive opportunities arise, or the reclassification to a core CRE relationship if it expands to meet the core criteria.

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The table below provides a segregation of the CRE portfolio as of June 30, 2011:

Table 24 Core Commercial Real Estate Loans by Property Type and Property Location

	June 30, 2011									
(dollar amounts in millions)	Ohio	Michigan	Pennsylvania	Indiana	Kentucky	Florida	West Virginia	Other	Total Amount	%
Core portfolio:										
Retail properties	$ 488	$ 91	$ 74	$ 93	$ 8	$ 39	$ 30	$ 344	$ 1,167	19%
Office	330	103	95	18	10	1	38	52	647	10
Multi family	269	85	60	32	30	1	26	60	563	9
Industrial and warehouse	237	81	21	43	3	2	6	83	476	8
Other commercial real estate	725	128	38	48		20	53	120	1,132	18
Total core portfolio	2,049	488	288	234	51	63	153	659	3,985	65
Total noncore portfolio	1,200	366	131	185	30	102	49	116	2,179	35
Total	**$** 3,249	**$** 854	**$** 419	**$** 419	**$** 81	**$** 165	**$** 202	**$** 775	$ 6,164	100%

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

Table 25 Commercial Real Estate Core vs. Noncore Portfolios

	June 30, 2011					
(dollar amounts in millions)	Ending Balance	Prior NCOs	ACL $	ACL %	Credit Mark (1)	Nonaccrual Loans
Total core	**$ 3,985**	**$ 11**	**$ 140**	**3.51%**	**3.78%**	**$ 26**
Noncore SAD (2)	**988**	**322**	**236**	**23.89**	**42.60**	**240**
Noncore Other	**1,191**	**13**	**95**	**7.98**	**8.97**	**26**
Total noncore	**2,179**	**335**	**331**	**15.19**	**26.49**	**266**
Total commercial real estate	**$ 6,164**	**$ 346**	**$ 471**	**7.64%**	**12.55%**	**$ 292**
	December 31, 2010					
Total core	$ 4,042	$ 5	$ 160	3.96%	4.08%	$ 16
Noncore SAD (2)	1,400	379	329	23.50	39.80	307
Noncore Other	1,209	5	105	8.68	9.06	41
Total noncore	2,609	384	434	16.63	27.33	348
Total commercial real estate	$ 6,651	$ 389	$ 594	8.93%	13.96%	$ 364

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

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

As shown in the above table, the ending balance of the CRE portfolio at June 30, 2011, declined $0.5 billion, or 7%, compared with December 31, 2010. Of this decline, 85% occurred in the noncore segment of the portfolio administered by the SAD, and was a result of payoffs and NCOs as we actively focus on the noncore portfolio to reduce our overall CRE exposure. This reduction demonstrates our continued commitment to maintaining an aggregate moderate-to-low risk profile. We anticipate further noncore CRE declines in future periods based on our strategy to reduce our overall CRE exposure. The reduction in the core segment is a result of limited origination activity reflecting our strategy to reduce our overall CRE exposure. We will continue to support our core developer customers as appropriate, however, we do not believe that significant additional CRE activity is appropriate given our current exposure in CRE lending and the current economic conditions.

Also as shown above, substantial reserves for the noncore portfolio have been established. At June 30, 2011, the ACL related to the noncore portfolio was 15.19%. The combination of the existing ACL and prior NCOs represents the total credit actions taken on each segment of the portfolio. From this data, we calculate a credit mark that provides a consistent measurement of the cumulative credit actions taken against a specific portfolio segment. We believe the combined credit activity is appropriate for each of the CRE segments.

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Retail Properties

Our portfolio of total CRE loans secured by retail properties totaled $1.7 billion, or approximately 4%, of total loans and leases, at June 30, 2011. Loans within this portfolio segment declined $0.1 billion, or 5%, from $1.8 billion at December 31, 2010. Credit approval in this portfolio segment is generally dependent on preleasing 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 continued to impact the projects that secure the loans in this portfolio class. Lower occupancy rates, reduced rental rates, and the expectation these levels will remain stressed for the foreseeable future may adversely affect some of our borrowers ability to repay these loans. We have increased the level of credit risk management activity on this portfolio segment, and we analyze our retail property loans in detail by combining property type, geographic location, and other data, to assess and manage our credit risks. We review the majority of this portfolio segment on a monthly basis.

Consumer Credit

Consumer credit approvals are based on, among other factors, the financial strength and payment history of the borrower, type of exposure, and the transaction structure. We make extensive use of portfolio assessment models to continuously monitor the quality of the portfolio, which may result in changes to future origination strategies. The on-going analysis and review process results in a determination of an appropriate allowance for our consumer loan and lease portfolio.

AUTOMOBILE PORTFOLIO

Our strategy in the automobile portfolio continued to focus on high quality borrowers as measured by both FICO and internal custom scores, combined with appropriate LTVs, terms, and a reasonable level of profitability. We discontinued automobile leasing in 2008 with the portfolio in run-off mode thereafter. Our strategy and operational capabilities allow us to appropriately manage the origination quality across the entire portfolio, including our newer markets. Although increased origination volume and the expansion into new markets can be associated with increased risk levels, we believe our strategy and operational capabilities significantly mitigate these risks.

We have continued to consistently execute our value proposition while taking advantage of market opportunities that allow us to grow our automobile loan portfolio. The significant growth in the portfolio over the past two years was accomplished while maintaining our consistently high credit quality metrics. As we further execute our strategies and take advantage of these opportunities, we are developing alternative plans to address any growth in excess of our established portfolio concentration limits, including both securitizations and loan sales.

RESIDENTIAL-SECURED PORTFOLIOS

The properties securing our residential mortgage and home equity portfolios are primarily located within our footprint. The continued stress on home prices has caused the performance in these portfolios to remain weaker than historical levels. We continue to evaluate all of our policies and processes associated with managing these portfolios to provide as much clarity as possible.

In the 2011 first quarter, we implemented a more conservative position regarding NCOs in our residential mortgage portfolio by accelerating the timing of charge-off recognition. In addition, we established an immediate charge-off process regardless of the delinquency status for short sale situations. Both of these policy changes resulted in accelerated recognition of residential mortgage charge-offs totaling $6.8 million in the 2011 first quarter. Further, in the 2011 second quarter, we implemented a policy change regarding the placement of loans on nonaccrual status in both our home equity and residential mortgage portfolios. This policy change resulted in accelerated placement of loans on nonaccrual status totaling $6.7 million in the home equity portfolio and $8.0 million in the residential mortgage portfolio.

Table 26 Selected Home Equity and Residential Mortgage Portfolio Data

(dollar amounts in millions)

	Home Equity				Residential Mortgage	
	Secured by first-lien		Secured by second-lien			
	06/30/11	12/31/10	**06/30/11**	12/31/10	**06/30/11**	12/31/10

Ending balance	**$ 3,398**	$ 3,041	**$ 4,554**	$ 4,672	**$ 4,751**	$ 4,500
Portfolio weighted average LTV ratio(1)	**70%**	70%	**80%**	80%	**78%**	77%
Portfolio weighted average FICO score(2)	**748**	745	**734**	733	**729**	721

	Home Equity				Residential Mortgage (3)	
	Secured by first-lien		Secured by second-lien			
	Six Months Ended June 30,					
	2011	2010	**2011**	2010	**2011**	2010
Originations	**$ 918**	$ 552	**$ 435**	$ 329	**$ 751**	$ 694
Origination weighted average LTV ratio(1)	**71%**	69%	**82%**	78%	**84%**	80%
Origination weighted average FICO score(2)	**768**	765	**758**	755	**757**	761

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

(2) Portfolio weighted average FICO scores reflect currently updated customer credit scores whereas origination weighted average FICO scores reflect the customer credit scores at the time of loan origination.

(3) Represents only owned-portfolio originations.

Home Equity Portfolio

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

At June 30, 2011, approximately 43% of our home equity portfolio was secured by first-lien mortgages. The credit risk profile is substantially reduced when we hold a first-lien position. During the first six-month period of 2011, more than 65% of our home equity portfolio originations were secured by a first-lien mortgage. We focus on high quality borrowers primarily located within our footprint. The majority of our home equity line-of-credit borrowers consistently pay more than the required interest-only amount. Additionally, since we focus on developing complete relationships with our customers, many of our home equity borrowers are utilizing other products and services.

We believe we have underwritten credit conservatively within this portfolio. We have not originated home equity loans or lines-of-credit with an LTV at origination greater than 100%, except for infrequent situations with high quality borrowers. However, continued declines in housing prices have decreased the value of the collateral for this portfolio and have caused a portion of the portfolio to have an LTV greater than 100%.

For certain home equity loans and lines-of-credit, we may utilize an AVM or an other model-driven value estimate during the credit underwriting process. We utilize a series of credit parameters to determine the appropriate valuation methodology. While we believe an AVM estimate is an appropriate valuation source for a portion of our home equity lending activities, we continue to re-evaluate all of our policies on an on-going basis, specifically related to the December 2010 FFIEC guidelines regarding property valuation. The intent of these guidelines is to ensure complete independence in the requesting and review of real estate valuations associated with loan decisions. We are committed to appropriate valuations for all of our real estate lending, and do not anticipate significant impacts to our loan decision process as a result of these guidelines. We update values as appropriate, and in compliance with applicable regulations, for loans identified as higher risk. Loans are identified as higher risk based on performance indicators and the updated values are utilized to facilitate our portfolio management processes, as well as our workout and loss mitigation functions.

We continue to make origination policy adjustments based on our assessment of an appropriate risk profile, as well as industry actions. In addition to origination policy adjustments, we take actions, as necessary, to manage the risk profile of this portfolio.

Residential Mortgage Portfolio

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

All residential mortgages are originated based on a completed full appraisal during the credit underwriting process. We update values on a regular basis in compliance with applicable regulations to facilitate our portfolio management, as well as our workout and loss mitigation functions.

A majority of the loans in our portfolio have adjustable rates. These ARMs comprised approximately 54% of our total residential mortgage loan portfolio at June 30, 2011. At June 30, 2011, ARM loans that were expected to have rates reset totaled $1.6 billion through 2014. These loans scheduled to reset are primarily associated with loans originated subsequent to 2007, and as such, are not subject to the most significant declines in value. Given the quality of our borrowers and the relatively low current interest rates, we believe that we have a relatively limited exposure to ARM reset risk. Nonetheless, we have taken actions to mitigate our risk exposure. We initiate borrower contact at least six months prior to the interest rate resetting, and have been successful in converting many ARMs to fixed-rate loans through this process. Our ARM portfolio has performed substantially better than the fixed-rate portfolio in part due to this proactive management process. Additionally, when borrowers are experiencing payment difficulties, loans may be reunderwritten based on the borrower s ability to repay the loan.

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Several government actions were enacted that impacted the residential mortgage portfolio, including various refinance programs which positively affected the availability of credit for the industry. We are utilizing these programs to enhance our existing strategy of working closely with our customers.

Credit Quality

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

Credit quality performance in the 2011 second quarter reflected continued improvement in the loan portfolio relating to NCO activity, as well as some improvement in delinquency trends. Key credit quality metrics also showed improvement, including a 5% decline in NPAs and an 11% decline in the level of Criticized commercial loans compared to the prior quarter. The reduction in NPAs was achieved despite a more conservative policy on residential mortgage and home equity loans implemented during the current quarter. New NPA inflows increased in the current quarter compared to the prior quarter as a result of the more conservative policy. We anticipate lower inflows in future quarters.

Our ACL declined $63.3 million to $1,112.2 million, or 2.84% of period-end loans and leases at June 30, 2011, from $1,175.4 million, or 3.07% at March 31, 2011. This decline reflected a reduction to the commercial-related ACL as a result of an overall reduction in the level of commercial Criticized loans and NCOs on loans with specific reserves, partially offset by a slight increase in the consumer-related ACL as a result of consumer loan growth.

NPAs, NALs, AND TDRs

NPAs and NALs

(This section should be read in conjunction with the Franklin-related Impacts section.)

NPAs consist of (1) NALs, which represent loans and leases no longer accruing interest, (2) impaired loans held for sale, (3) OREO properties, and (4) other NPAs. Any loan in our portfolio may be placed on nonaccrual status prior to the policies described below when collection of principal or interest is in doubt.

C&I and CRE loans are placed on nonaccrual status at 90-days past due. With the exception of residential mortgage loans guaranteed by government organizations which continue to accrue interest, residential mortgage loans are placed on nonaccrual status at 150-days past due. First-lien and second-lien home equity loans are placed on nonaccrual status at 150-days past due and 120-days past due, respectively. Automobile and other consumer loans are not placed on nonaccrual status, but are generally charged-off when the loan is 120-days past due. When interest accruals are suspended, accrued interest income is reversed with current year accruals charged to earnings and prior year amounts generally charged-off as a credit loss. When, in our judgment, the borrower s ability to make required interest and principal payments has resumed and collectability is no longer in doubt, the loan or lease is returned to accrual status.

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

Table 27 Nonaccrual Loans and Leases and Nonperforming Assets

	2011		2010		
(dollar amounts in thousands)	**June 30,**	March 31,	December 31,	September 30,	June 30,
Nonaccrual loans and leases:					
Commercial and industrial	**$ 229,327**	$ 260,397	$ 346,720	$ 398,353	$ 429,561
Commercial real estate	**291,500**	305,793	363,692	478,754	663,103
Residential mortgage	**59,853**	44,812	45,010	82,984	86,486
Home equity	**33,545**	25,255	22,526	21,689	22,199
Total nonaccrual loans and leases	**614,225**	636,257	777,948	981,780	1,201,349
Other real estate owned, net					
Residential	**20,803**	28,668	31,649	65,775	71,937
Commercial	**17,909**	25,961	35,155	57,309	67,189
Total other real estate owned, net	**38,712**	54,629	66,804	123,084	139,126
Impaired loans held for sale(1)					242,227
Total nonperforming assets	**$ 652,937**	$ 690,886	$ 844,752	$ 1,104,864	$ 1,582,702
Nonaccrual loans as a % of total loans and leases	**1.57%**	1.66%	2.04%	2.62%	3.25%
Nonperforming assets ratio(2)	**1.67**	1.80	2.21	2.94	4.24
Nonperforming Franklin assets:					
Residential mortgage	**$**	$	$	$	$
Home equity					
OREO	**883**	5,971	9,477	15,330	24,515
Impaired loans held for sale					242,227
Total nonperforming Franklin assets	**$ 883**	$ 5,971	$ 9,477	$ 15,330	$ 266,742

(1) The June 30, 2010, figure represents NALs associated with the transfer of Franklin-related residential mortgage and home equity loans to loans held for sale. Loans held for sale are carried at the lower of cost or fair value less costs to sell.

(2) This ratio is calculated as NPAs divided by the sum of loans and leases, impaired loans held for sale, and net other real estate.

The $37.9 million decline in NPAs compared with March 31, 2011, primarily reflected:

$31.1 million, or 12%, decline in C&I NALs, reflecting both NCO activity and problem credit resolutions, including payoffs. The decline was associated with loans throughout our footprint, with no specific geographic concentration. The reduction was achieved despite an increase in the level of new NALs compared to the prior quarter level. The increased inflows was primarily the result of one large relationship.

- $14.3 million, or 5%, decline in CRE NALs, reflecting both NCO activity and problem credit resolutions, including borrower payments and payoffs. The reduction was achieved despite an increase in the level of new NALs compared to the prior quarter level. The increased level of inflows was primarily centered in three relatively large relationships, and we do not believe this increase to be an indication of a reversal of the overall declining trend of new NALs. We continue to be focused on early recognition of risks through our on-going portfolio management processes.
- $15.9 million, or 29%, decline in OREO, primarily reflecting continued declines in both the commercial and residential segments. We continue to be active in the on-going management of our OREO portfolio as lower inflow levels combined with aggressive sales activities resulted in the continued declining trend in our OREO levels.

Partially offset by:

- $15.0 million, or 34%, increase in residential mortgage NALs, primarily reflecting a change to our nonaccrual policy *(see Consumer Credit section).*
- $8.3 million, or 33%, increase in home equity NALs, primarily reflecting a change to our nonaccrual policy *(see Consumer Credit section).*

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

Compared with December 31, 2010, NPAs decreased $191.8 million, or 23%, primarily reflecting:

- $117.4 million, or 34%, decline in C&I NALs, reflecting both NCO activity and problem credit resolutions, including payoffs. The decline was associated with loans throughout our footprint, with no specific geographic concentration. From an industry perspective, improvement in the manufacturing-related segment accounted for a significant portion of the decrease.
- $72.2 million, or 20%, decline in CRE NALs, reflecting both NCO activity and problem credit resolutions, including borrower payments and payoffs. This decline was a direct result of our on-going proactive management of these credits by our SAD.
- $28.1 million, or 42%, decrease in OREO properties, reflecting lower inflow levels combined with aggressive sales activities.

Partially offset by:

- $14.8 million, or 33%, increase in residential mortgage NALs, primarily reflecting a change in our nonaccrual policy *(see Consumer Credit section).*
- $11.0 million, or 49%, increase in home equity NALs, primarily reflecting a change in our nonaccrual policy *(see Consumer Credit section).*

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

Table 28 Nonperforming Asset Activity

	2011		2010		
(dollar amounts in thousands)	**Second**	First	Fourth	Third	Second
Nonperforming assets, beginning of period	**$ 690,886**	$ 844,752	$ 1,104,864	$ 1,582,702	$ 1,918,368
New nonperforming assets	**210,255**	192,044	237,802	278,388	171,595
Franklin-related impact, net	**(5,088)**	(3,506)	(5,853)	(251,412)	(86,715)
Returns to accruing status	**(68,429)**	(70,886)	(100,051)	(111,168)	(78,739)
Loan and lease losses	**(74,945)**	(128,730)	(126,047)	(151,013)	(173,159)
Other real estate owned gains (losses)	**388**	1,492	(5,117)	(5,302)	2,483
Payments	**(73,009)**	(87,041)	(191,296)	(210,612)	(140,881)
Sales	**(27,121)**	(57,239)	(69,550)	(26,719)	(30,250)
Nonperforming assets, end of period	**$ 652,937**	$ 690,886	$ 844,752	$ 1,104,864	$ 1,582,702

As discussed previously, residential mortgage loans are placed on nonaccrual status at 150-days past due, with the exception of residential mortgage loans guaranteed by government organizations which continue to accrue interest, and first-lien and second-lien home equity loans and lines-of-credit are placed on nonaccrual status at 150-days past due and 120-days past due, respectively.

The following table reflects period-end accruing loans and leases 90 days or more past due for each of the last five quarters:

Table 29 Accruing Past Due Loans and Leases

	2011		2010		
(dollar amounts in thousands)	**June 30,**	March 31,	December 31,	September 30,	June 30,
Accruing loans and leases past due 90 days or more:					
Commercial and industrial	**$**	$	$	$	$
Residential mortgage (excluding loans guaranteed by the U.S. government)	**33,975**	41,858	53,983	56,803	47,036
Home equity	**17,451**	24,130	23,497	27,160	26,797
Other consumer	**6,227**	7,578	10,177	11,423	9,533
Total, excl. loans guaranteed by the U.S. government	**57,653**	73,566	87,657	95,386	83,366
Add: loans guaranteed by the U.S. government	**76,979**	94,440	98,288	94,249	95,421
Total accruing loans and leases past due 90 days or more, including loans guaranteed by the U.S. government	**$ 134,632**	$ 168,006	$ 185,945	$ 189,635	$ 178,787
Ratios: (1)					
Excluding loans guaranteed by the U.S. government, as a percent of total loans and leases	**0.15%**	0.19%	0.23%	0.25%	0.23%
Guaranteed by the U.S. government, as a percent of total loans and leases	**0.19**	0.25	0.26	0.26	0.26
Including loans guaranteed by the U.S. government, as a percent of total loans and leases	**0.34**	0.44	0.49	0.51	0.49

(1) Ratios are calculated as a percentage of related loans and leases.

Loans guaranteed by the U.S. government accrue interest at the rate guaranteed by the government agency. We are reimbursed from the government agency for reasonable expenses incurred in servicing loans. The FHA reimburses us for 66% of expenses, and the VA reimburses us at a maximum percentage of guarantee which is established for each individual loan. We have not experienced either material losses in excess of guarantees caps or significant delays or rejected claims from the related government entity.

The over 90-day delinquency ratio for total loans not guaranteed by a U.S. government agency was 0.15% at June 30, 2011, representing an 8 basis point decline compared with December 31, 2010. This decline reflected the sale of

certain loans in this category.
TDR Loans
TDRs are modified loans in which a concession is provided to a borrower experiencing financial difficulties. Loan modifications are considered TDRs when the concessions provided are not available to the borrower through either normal channels or other sources. However, not all loan modifications are TDRs. Our standards relating to loan modifications consider, among other factors, minimum verified income requirements, cash flow analysis, and collateral valuations. Each potential loan modification is reviewed individually and the terms of the loan are modified to meet a borrower s specific circumstances at a point in time. All loan modifications, including those classified as TDRs, are reviewed and approved. Our ALLL is largely driven by updated risk ratings assigned to commercial loans, updated borrower credit scores on consumer loans, and borrower delinquency history in both the commercial and consumer portfolios. As such, the provision for credit losses is impacted primarily by changes in borrower payment performance rather than the TDR classification. TDRs can be classified as either accrual or nonaccrual loans. Nonaccrual TDRs are included in NALs whereas accruing TDRs are excluded from NALs as it is probable that all contractual principal and interest due under the restructured terms will be collected.
In the workout of a problem loan, many factors are considered when determining the most favorable resolution. For consumer loans, we evaluate the ability and willingness of the borrower to make contractual or reduced payments, the value of the underlying collateral, and the costs associated with the foreclosure or repossession, and remarketing of the collateral. For commercial loans, we consider similar criteria and also evaluate the borrower s business prospects.

Residential Mortgage loan TDRs   Residential mortgage TDRs represent loan modifications associated with traditional first-lien mortgage loans in which a concession has been provided to the borrower. Residential mortgages identified as TDRs involve borrowers who are unable to refinance their mortgages through our normal mortgage origination channels or through other independent sources. Some, but not all, of the loans may be delinquent. Modifications can include adjustments to rates and/or principal. Modified loans identified as TDRs are aggregated into pools for analysis. Cash flows and weighted average interest rates are used to calculate impairment at the pooled-loan level. Once the loans are aggregated into the pool, they continue to be classified as TDRs until contractually repaid or charged-off. No consideration is given to removing individual loans from the pools.

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

Residential mortgage loan TDR classifications resulted in an impairment adjustment of $0.2 million during the 2011 second quarter, and $2.2 million for the first six-month period of 2011. Prior to the TDR classification, residential mortgage loans individually had minimal ALLL associated with them because the ALLL is calculated on a total pooled-portfolio basis.

Other Consumer loan TDRs   Generally, these are TDRs associated with home equity borrowings and automobile loans. We make similar interest rate, term, and principal concessions as with residential mortgage loan TDRs. The TDR classification for these other consumer loans resulted in an impairment adjustment of $0.2 million during the 2011 second quarter, and $0.7 million for the first six-month period of 2011.

Commercial loan TDRs   Commercial accruing TDRs represent loans most often rated as Classified and are no more than 90-days past due on contractual principal and interest, but undergo a modification. Accruing TDRs often result from loans rated as Classified receiving a concession at terms that are not considered a market transaction for us. The TDR remains in accruing status as long as the customer is less than 90 days past due on payments per the restructured loan terms and no loss is probable.

Commercial nonaccrual TDRs result from either: (1) an accruing commercial TDR being placed on nonaccrual status (at June 30, 2011, approximately $7.3 million of our commercial nonaccrual TDRs represented this situation); or (2) a workout where an existing commercial NAL is restructured and a concession is given. At June 30, 2011, approximately $70.4 million of our commercial nonaccrual TDRs resulted from such workouts. Frequently, these workouts restructure the NAL so that two or more new notes are created. The primary note is underwritten based upon our normal underwriting standards at current market rates and is sized so projected cash flows are sufficient to repay contractual principal and interest. The terms on the secondary note(s) vary by situation, and may include notes that defer interest payments until after the primary note is repaid. Creating two or more notes often allows the borrower to continue a project or weather a temporary economic downturn and allows us to right-size a loan based upon the current expectations for a project s performance. If we believe the outstanding balance will be collected, the note is considered for return to accrual status upon the borrower sustaining sufficient cash flows for a six-month period of time. This six-month period could extend before or after the restructure date. Subordinated notes created in the workout are charged-off immediately. If, during or after the restructuring, a charge-off occurs, any interest or principal payments received are applied to first reduce the outstanding balance. After the outstanding balance has been satisfied, any further payments are recorded as recoveries.

As the loans are already considered Classified, an adequate ALLL has been recorded when appropriate. Consequently, a TDR classification on commercial loans does not usually result in significant additional reserves. We consider removing the TDR status on commercial loans if the loan is at a market rate of interest and after the loan has performed in accordance with the restructured terms for a sustained period of time, generally one year.

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

Table 30 Accruing and Nonaccruing Troubled Debt Restructured Loans

	2011			2010	
(dollar amounts in thousands)	**June 30,**	March 31,	December 31,	September 30,	June 30,
Troubled debt restructured loans accruing:					
Residential mortgage	**$ 313,772**	$ 333,492	$ 328,411	$ 304,356	$ 281,473
Other consumer	**75,036**	78,488	76,586	73,210	65,061
Commercial	**240,126**	206,462	222,632	157,971	141,353
Total troubled debt restructured loans accruing	**628,934**	618,442	627,629	535,537	487,887
Troubled debt restructured loans nonaccruing:					
Residential mortgage	**14,378**	8,523	5,789	10,581	11,337
Other consumer	**140**	14			
Commercial	**77,745**	37,858	33,462	33,236	90,266
Total troubled debt restructured loans nonaccruing	**92,263**	46,395	39,251	43,817	101,603
Total troubled debt restructured loans	**$ 721,197**	$ 664,837	$ 666,880	$ 579,354	$ 589,490

ACL

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

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

A provision for credit losses is recorded to adjust the ACL to the level we have determined to be appropriate to absorb credit losses inherent in our loan and lease portfolio. The provision for credit losses in the 2011 second quarter was $35.8 million, compared with $49.4 million in the prior quarter and $193.4 million in the year-ago quarter. The decline in provision expense reflects improved credit migration as shown by a combination of lower NCOs and the reduction of commercial Criticized loans.

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

estate values and the diversification of CRE loans, particularly loans secured by retail properties.
Our ACL evaluation process includes the on-going assessment of credit quality metrics, and a comparison of certain ACL benchmarks to current performance. While the total ACL balance has declined in recent quarters, all of the relevant benchmarks improved as a result of the asset quality improvement. The coverage ratios of NALs, Criticized, and Classified loans have significantly improved in recent quarters despite the decline in the ACL level. For example, the ACL coverage ratio associated with NALs was 181% at June 30, 2011, compared with 166% at December 31, 2010 and 120% at June 30, 2010.

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

Table 31 Quarterly Allowance for Credit Losses Analysis

	2011		2010		
(dollar amounts in thousands)	**Second**	First	Fourth	Third	Second
Allowance for loan and lease losses, beginning of period	**$ 1,133,226**	$ 1,249,008	$ 1,336,352	$ 1,402,160	$ 1,477,969
Loan and lease losses	**(128,701)**	(199,007)	(205,587)	(221,144)	(312,954)
Recoveries of loans previously charged-off	**31,167**	33,924	33,336	36,630	33,726
Net loan and lease losses	**(97,534)**	(165,083)	(172,251)	(184,514)	(279,228)
Provision for loan and lease losses	**36,948**	49,301	84,907	118,788	203,633
Allowance for assets sold	**(1,514)**			(82)	(214)
Allowance for loan and lease losses, end of period	**$ 1,071,126**	$ 1,133,226	$ 1,249,008	$ 1,336,352	$ 1,402,160
Allowance for unfunded loan commitments and letters of credit, beginning of period	**$ 42,211**	$ 42,127	$ 40,061	$ 39,689	$ 49,916
Provision for (reduction in) unfunded loan commitments and letters of credit losses	**(1,151)**	84	2,066	372	(10,227)
Allowance for unfunded loan commitments and letters of credit, end of period	**$ 41,060**	$ 42,211	$ 42,127	$ 40,061	$ 39,689
Total allowance for credit losses, end of period	**$ 1,112,186**	$ 1,175,437	$ 1,291,135	$ 1,376,413	$ 1,441,849
Allowance for loan and lease losses as % of:					
Total loans and leases	**2.74%**	2.96%	3.28%	3.56%	3.79%
Nonaccrual loans and leases	**174**	178	161	136	117
Nonperforming assets	**164**	164	148	121	89
Total allowance for credit losses as % of:					
Total loans and leases	**2.84%**	3.07%	3.39%	3.67%	3.90%
Nonaccrual loans and leases	**181**	185	166	140	120
Nonperforming assets	**170**	170	153	125	91

The reduction in the ALLL, compared with both March 31, 2011, and December 31, 2010, reflected a decline in the commercial portfolio ALLL as a result of NCOs on loans with specific reserves, and an overall reduction in the level of commercial Criticized loans. Commercial Criticized loans are commercial loans rated as OLEM, Substandard, Doubtful, or Loss. As shown in the table below, commercial Criticized loans declined $0.3 billion from March 31, 2011, and $0.7 billion from December 31, 2010, reflecting significant upgrade and payment activity.

Table 32 Criticized Commercial Loan Activity

	2011		2010		
(dollar amounts in thousands)	**Second**	First	Fourth	Third	Second
Criticized commercial loans, beginning of period	**$ 2,660,792**	$ 3,074,481	$ 3,637,533	$ 4,106,602	$ 4,608,610
New additions / increases	**250,422**	169,884	289,850	407,514	280,353
Advances	**44,442**	61,516	52,282	75,386	79,392
Upgrades to Pass	**(271,698)**	(238,518)	(382,713)	(391,316)	(409,092)
Payments	**(231,819)**	(294,564)	(401,302)	(408,698)	(331,145)
Loan losses	**(72,989)**	(112,008)	(121,169)	(151,955)	(121,516)
Criticized commercial loans, end of period	**$ 2,379,150**	$ 2,660,792	$ 3,074,481	$ 3,637,533	$ 4,106,602

The entire loan and lease portfolio has shown steadily improving credit quality trends throughout 2010 and 2011, and we believe that early identification of problem loans and aggressive action plans for these problem loans, combined with originating high quality new loans will result in continued improvement in our key credit quality metrics. However, the continued weakness in the residential real estate market and the overall economic conditions remained stressed, and additional risks emerged during the first six-month period of 2011. These additional risks include the U.S. debt ceiling discussions, the budget issues in local governments, the political instability in the Middle East with its ramifications on the cost of oil, European instability, and the flattening of the economic growth in the current quarter compared to the prior quarter. Continued high unemployment, among other factors, has slowed any significant recovery. In the near-term, we anticipate a continued high unemployment rate and the concern around the U.S., state, and local government budget issues will impact the financial condition of some of our retail and commercial borrowers. The pronounced downturn in the residential real estate market that began in early 2007 has resulted in significantly lower residential real estate values. We have significant exposure to loans secured by residential real estate and continue to be an active lender in our communities. The impact of the downturn in real estate values has had a significant impact on some of our borrowers as evidenced by the higher delinquencies and NCOs experienced over the past three years. We do not anticipate any meaningful economic improvement in the near-term. All of these factors are impacting consumer confidence, as well as business investments and acquisitions. Given the combination of these noted factors, we believe that our ACL is appropriate and its coverage level is reflective of the quality of our portfolio and the operating environment.

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

Table 33 Allocation of Allowance for Credit Losses (1)

	2011				2010					
lollar amounts in thousands)	**June 30,**		March 31,		December 31,		September 30,		June 30,	
ommercial										
ommercial and industrial	**$ 281,016**	**35%**	$ 299,564	35%	$ 340,614	34%	$ 353,431	33%	$ 426,767	34
ommercial real estate	**463,874**	**16**	511,068	17	588,251	18	654,219	18	695,778	19
otal commercial	**744,890**	**51**	810,632	52	928,865	52	1,007,650	51	1,122,545	53
onsumer										
utomobile	**55,428**	**16**	50,862	15	49,488	15	44,505	14	41,762	13
ome equity	**146,444**	**20**	149,370	20	150,630	20	154,323	21	117,708	20
esidential mortgage	**98,992**	**12**	96,741	12	93,289	12	93,407	12	79,105	12
ther consumer	**25,372**	**1**	25,621	1	26,736	1	36,467	2	41,040	2
otal consumer	**326,236**	**49**	322,594	48	320,143	48	328,702	49	279,615	47
otal allowance for loan and ease losses	**1,071,126**	**100%**	1,133,226	100%	1,249,008	100%	1,336,352	100%	1,402,160	100
llowance for unfunded loan ommitments	**41,060**		42,211		42,127		40,061		39,689	
otal allowance for credit osses	**$ 1,112,186**		$ 1,175,437		$ 1,291,135		$ 1,376,413		$ 1,441,849	

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

The consumer-related ALLL at June 30, 2011, increased $6.1 million, or 2%, from December 31, 2010, primarily reflecting increased loan-related balances over the first six-month period of 2011. The home equity-related ALLL decreased slightly as a result of lower delinquency levels, and to a lesser extent, improvement in the weighted average FICO score for the portfolio.

The table below reflects activity in the ALLL and AULC for the first six-month periods ended June 30, 2011 and 2010.

Table 34 Year to Date Allowance for Credit Losses Analysis

	Six Months Ended June 30,	
(dollar amounts in thousands)	**2011**	2010
Allowance for loan and lease losses, beginning of period	**$ 1,249,008**	$ 1,482,479
Loan and lease losses	**(327,708)**	(577,176)
Recoveries of loans previously charged-off	**65,091**	59,467
Net loan and lease losses	**(262,617)**	(517,709)
Provision for loan and lease losses	**86,249**	437,604
Allowance for assets sold	**(1,514)**	(214)

Allowance for loan and lease losses, end of period	**$ 1,071,126**	$ 1,402,160
Allowance for unfunded loan commitments and letters of credit, beginning of period	**$ 42,127**	$ 48,879
Provision for (reduction in) unfunded loan commitments and letters of credit losses	**(1,067)**	(9,190)
Allowance for unfunded loan commitments and letters of credit, end of period	**$ 41,060**	$ 39,689
Total allowance for credit losses	**$ 1,112,186**	$ 1,441,849
Allowance for loan and lease losses as % of:		
Total loans and leases	**2.74%**	3.79%
Nonaccrual loans and leases	**174**	117
Nonperforming assets	**164**	89
Total allowance for credit losses as % of:		
Total loans and leases	**2.84%**	3.90%
Nonaccrual loans and leases	**181**	120
Nonperforming assets	**170**	91

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NCOs

(This section should be read in conjunction with Significant Item 2 and the Franklin-related Impacts section.)

Any loan in any portfolio may be charged-off prior to the policies described below if a loss confirming event has occurred. Loss confirming events include, but are not limited to, bankruptcy (unsecured), continued delinquency, foreclosure, or receipt of an asset valuation indicating a collateral deficiency and that asset is the sole source of repayment.

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

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

Table 35 Quarterly Net Charge-off Analysis

	2011		2010		
(dollar amounts in thousands)	**Second**	First	Fourth	Third	Second
Net charge-offs by loan and lease type:					
Commercial:					
Commercial and industrial	**$ 18,704**	$ 42,191	$ 59,124	$ 62,241	$ 58,128
Commercial real estate:					
Construction	**4,145**	28,400	11,084	17,936	45,562
Commercial	**23,450**	39,283	33,787	45,725	36,169
Commercial real estate	**27,595**	67,683	44,871	63,661	81,731
Total commercial	**46,299**	109,874	103,995	125,902	139,859
Consumer:					
Automobile	**2,255**	4,712	7,035	5,570	5,436
Home equity[1]	**25,441**	26,715	29,175	27,827	44,470
Residential mortgage[2], [3]	**16,455**	18,932	26,775	18,961	82,848
Other consumer	**7,084**	4,850	5,271	6,254	6,615
Total consumer	**51,235**	55,209	68,256	58,612	139,369
Total net charge-offs	**$ 97,534**	$ 165,083	$ 172,251	$ 184,514	$ 279,228
Net charge-offs annualized percentages:					
Commercial:					
Commercial and industrial	**0.56%**	1.29%	1.85%	2.01%	1.90%
Commercial real estate:					
Construction	**2.99**	18.59	6.19	7.25	14.25
Commercial	**1.65**	2.66	2.22	3.01	2.38
Commercial real estate	**1.77**	4.15	2.64	3.60	4.44
Total commercial	**0.94**	2.24	2.13	2.59	2.85
Consumer:					
Automobile	**0.15**	0.33	0.51	0.43	0.47
Home equity[1]	**1.29**	1.38	1.51	1.47	2.36
Residential mortgage[2], [3]	**1.44**	1.70	2.42	1.73	7.19
Other consumer	**5.27**	3.47	3.66	3.83	3.81
Total consumer	**1.08**	1.20	1.50	1.32	3.19
Net charge-offs as a % of average loans	**1.01%**	1.73%	1.82%	1.98%	3.01%

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

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

(3) The 2010 fourth quarter included net charge-offs of $16,389 thousand related to the sale of certain underperforming residential mortgage loans.

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

2011 Second Quarter versus 2011 First Quarter

C&I NCOs declined $23.5 million, or 56%. CRE NCOs decreased $40.1 million, or 59%. These declines were evident across our geographic footprint and generally associated with small relationships. The performance of both portfolios was consistent with our expectations. Based on asset quality trends, we continue to anticipate this lower level of CRE NCOs in future quarters.

Automobile NCOs declined $2.5 million, or 52%, and reflected historically lower delinquency levels during the current quarter, the continued high credit quality of originations, and a strong resale market for used vehicles.

Home equity NCOs declined $1.3 million, or 5%. This performance was consistent with our expectations for the portfolio given the economic conditions in our markets. We continue to manage the default rate through focused delinquency monitoring as virtually all defaults for second-lien home equity loans incur significant losses primarily due to insufficient equity in the collateral property.

Residential mortgage NCOs declined $2.5 million, or 13%. The current quarter included Franklin-related net charge-offs of $0.6 million, and the prior quarter included $6.8 million of NCOs related to a change in loss recognition policy *(see Consumer Credit section)* and Franklin-related net recoveries of $3.1 million. Excluding these impacts, residential mortgage NCOs increased $0.7 million, consistent with our expectations.

The following table reflects NCO activity for the first six-month periods ended June 30, 2011 and 2010.

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Table 36 Year to Date Net Charge-off Analysis

(dollar amounts in thousands)	Six Months Ended June 30, 2011	2010
Net charge-offs by loan and lease type:		
Commercial:		
Commercial and industrial	$ **60,895**	$ 133,567
Commercial real estate:		
Construction	**32,545**	79,988
Commercial	**62,733**	87,042
Commercial real estate	**95,278**	167,030
Total commercial	**156,173**	300,597
Consumer:		
Automobile	**6,967**	13,967
Home equity(1)	**52,156**	82,371
Residential mortgage(2)	**35,387**	107,159
Other loans	**11,934**	13,615
Total consumer	**106,444**	217,112
Total net charge-offs	$ **262,617**	$ 517,709
Net charge-offs annualized percentages:		
Commercial:		
Commercial and industrial	**0.92%**	2.18%
Commercial real estate:		
Construction	**11.18**	11.90
Commercial	**2.17**	2.82
Commercial real estate	**2.99**	4.44
Total commercial	**1.59**	3.04
Consumer:		
Automobile	**0.24**	0.63
Home equity(1)	**1.34**	2.18
Residential mortgage(2)	**1.57**	4.72
Other loans	**4.36**	3.84
Total consumer	**1.14**	2.52
Net charge-offs as a % of average loans	**1.37%**	2.80%

(1) The 2010 first six-month period included net charge-offs totaling $14,678 thousand associated with the transfer of Franklin-related home equity loans to loans held for sale and $4,991 thousand of other Franklin-related net charge-offs.

(2) The 2010 first six-month period included net charge-offs totaling $60,822 thousand associated with the transfer of Franklin-related residential mortgage loans to loans held for sale and $11,525 thousand of other Franklin-related net charge-offs.

2011 First Six Months versus 2010 First Six Months

C&I NCOs decreased $72.7 million, or 54%. CRE NCOs decreased $71.8 million, or 43%. These declines primarily reflected significant credit quality improvement in the underlying portfolio as well as our on-going proactive credit management practices.

Automobile NCOs decreased $7.0 million, or 50%, reflected our consistent high quality origination profile, as well as a continued strong market for used automobiles. This focus on origination quality has been the primary driver for the improvement in this portfolio in the current period compared with the year-ago period. Origination quality remained high.

Home equity NCOs declined $30.2 million, or 37%. The first six-month period of 2010 included $19.7 million of Franklin-related NCOs compared with no Franklin-related NCOs in the current period. Excluding the Franklin-related impacts, home equity NCOs decreased $10.5 million compared with the first six-month period of 2010. The performance was consistent with our expectations for the portfolio.

Residential mortgage NCOs declined $71.8 million, or 67%. The first six-month period of 2010 included $72.3 million of Franklin-related net charge-offs, while the first six-month period of 2011 included $6.8 million of NCOs related to a change in loss recognition policy *(see Consumer Credit section)* and Franklin-related net recoveries of $2.5 million. Excluding these impacts, residential mortgage NCOs decreased $3.8 million compared with the first six-month period of 2010. The performance was consistent with our expectations for the portfolio.

AVAILABLE-FOR-SALE AND OTHER SECURITIES PORTFOLIO

(This section should be read in conjunction with Note 4 of Notes to Unaudited Condensed Consolidated Financial Statements.)

During the first six-month period of 2011, we recorded $4.3 million of credit OTTI losses. This amount was comprised of $3.2 million related to the pooled-trust-preferred securities, $0.9 million related to the CMO securities, and $0.2 million related to the Alt-A mortgage-backed securities. Given the continued disruption in the housing markets, we may be required to recognize additional credit OTTI losses in future periods with respect to our available-for-sale and other securities portfolio. The amount and timing of any additional credit OTTI will depend on the decline in the underlying cash flows of the securities. If our intent to hold temporarily impaired securities changes in future periods, we may be required to recognize noncredit OTTI through income, which will negatively impact earnings.

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

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

The following table presents the credit ratings for our Alt-A mortgage-backed, pooled-trust-preferred, and private label CMO securities as of June 30, 2011:

Table 37 Credit Ratings of Selected Investment Securities (1)

	Amortized		**Average Credit Rating of Fair Value Amount**				
(dollar amounts in millions)	Cost	Fair Value	AAA	AA +/-	A +/-	BBB +/-	<BBB-
Private-label CMO securities	$ 97.7	$ 88.8	$ 3.3	$ 6.6	$ 20.5	$ 8.2	$ 50.2
Alt-A mortgage-backed securities	62.1	55.5		26.4	10.9		18.2
Pooled-trust-preferred securities	228.7	110.3			26.3		84.0
Total at June 30, 2011	**$ 388.5**	**$ 254.6**	**$ 3.3**	**$ 33.0**	**$ 57.7**	**$ 8.2**	**$ 152.4**
Total at December 31, 2010	$ 435.8	$ 284.6	$ 41.2	$ 33.8	$ 29.7	$ 15.1	$ 164.8

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

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

The following table summarizes the relevant characteristics of our pooled-trust-preferred securities portfolio at June 30, 2011. Each security is part of a pool of issuers and supports a more senior tranche of securities except for the I-Pre TSL II, MM Comm II and MM Comm III securities which are the most senior class.

Table 38 Trust-preferred Securities Data
June 30, 2011
(dollar amounts in thousands)

Deal Name	Par Value	Amortized Cost	Fair Value	Unrealized Loss	Lowest Credit Rating(2)	# of Issuers Currently Performing/ Remaining(3)	Actual Deferrals and Defaults as a % of Original Collateral	Expected Defaults as a % of Remaining Performing Collateral	Excess Subordination(4)
Alesco II(1)	$ 41,447	$ 31,540	$ 11,249	$ (20,291)	C	32/38	14%	16%	%
Alesco IV(1)	20,864	8,243	459	(7,784)	C	31/42	17	26	
ICONS	20,000	20,000	13,418	(6,582)	BB	28/29	3	13	56
I-Pre TSL II	36,680	36,582	26,329	(10,253)	A	27/28	3	11	74
MM Comm II	20,970	20,041	19,712	(329)	BB	4/7	5	3	17
MM Comm III	11,081	10,587	7,344	(3,243)	CC	6/11	7	12	28
Pre TSL IX(1)	5,014	3,995	1,561	(2,434)	C	33/48	27	22	
Pre TSL X(1)	17,684	9,915	3,475	(6,440)	C	35/55	40	29	
Pre TSL XI(1)	25,362	22,725	7,647	(15,078)	C	44/64	29	21	
Pre TSL XIII(1)	28,073	22,703	7,653	(15,050)	C	45/65	31	22	
Reg Diversified(1)	25,500	7,499	484	(7,015)	D	23/44	46	34	
Soloso(1)	12,500	3,906	721	(3,185)	C	42/68	29	21	
Tropic III	31,000	31,000	10,232	(20,768)	CC	25/45	39	28	28
Total	**$ 296,175**	**$ 228,736**	**$ 110,284**	**$ (118,452)**					

(1) Security was determined to have OTTI. As such, the book value is net of recorded credit impairment.

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

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

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

Market Risk

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

Interest Rate Risk

OVERVIEW

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

INCOME SIMULATION AND ECONOMIC VALUE ANALYSIS

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

The models used for these measurements take into account prepayment speeds on mortgage loans, mortgage-backed securities, and consumer installment loans, as well as cash flows of other assets and liabilities. Balance sheet growth assumptions are also considered in the ISE analysis. The models include the effects of derivatives, such as interest rate swaps, caps, floors, and other types of interest rate options.

The baseline scenario for ISE analysis, with which all other scenarios are compared, is based on market interest rates implied by the prevailing yield curve as of the period-end. Alternative interest rate scenarios are then compared with the baseline scenario. These alternative interest rate scenarios include parallel rate shifts on both a gradual and an immediate basis, movements in interest rates that alter the shape of the yield curve (e.g., flatter or steeper yield curve), and no changes in current interest rates for the entire measurement period. Scenarios are also developed to measure short-term repricing risks, such as the impact of LIBOR-based interest rates rising or falling faster than the prime rate.

The simulations for evaluating short-term interest rate risk exposure are scenarios that model gradual +/-100 and +/-200 basis points parallel shifts in market interest rates over the next one-year period beyond the interest rate change implied by the current yield curve. We assumed market interest rates would not fall below 0% over the next one-year period for the scenarios that used the -100 and -200 basis points parallel shift in market interest rates. The table below shows the results of the scenarios as of June 30, 2011, and December 31, 2010. All of the positions were within the board of directors policy limits as of June 30, 2011.

Table 39 Interest Sensitive Earnings at Risk

	Interest Sensitive Earnings at Risk (%)			
Basis point change scenario	-200	-100	+100	+200
Board policy limits	-4.0%	-2.0%	-2.0%	-4.0%
June 30, 2011	**-2.5**	**-1.5**	**1.3**	**1.9**
December 31, 2010	-3.2	-1.8	0.3	0.0

The ISE at risk reported as of June 30, 2011, for the +200 basis points scenario shows a significant change to an asset sensitive near-term interest rate risk position compared with December 31, 2010. The ALCO s strategy is to be near-term asset-sensitive to a rising rate scenario. The primary factor contributing to this change is the 2011 first quarter termination of $4.6 billion of interest rate swaps maturing through June 2012.

The following table shows the income sensitivity of select portfolios to changes in market interest rates. A portfolio with 100% sensitivity would indicate that interest income and expense will change with the same magnitude and direction as interest rates. A portfolio with 0% sensitivity is insensitive to changes in interest rates. For the +200 basis points scenario, total interest-sensitive income is 37.7% sensitive to changes in market interest rates, while total interest-sensitive expense is 41.1% sensitive to changes in market interest rates. However, net interest income at risk for the +200 basis points scenario has an asset-sensitive near-term interest rate risk position because of the larger base of total interest-sensitive income relative to total interest-sensitive expense.

Table 40 Interest Income/Expense Sensitivity

	Percent of Total Earning Assets (1)	Percent Change in Interest Income/Expense for a Given Change in Interest Rates Over / (Under) Base Case Parallel Ramp			
Basis point change scenario		-200	-100	+100	+200
Total loans	81%	-17.6%	-24.3%	42.1%	41.9%
Total investments and other earning assets	19	-16.3	-21.0	34.3	24.6
Total interest sensitive income		-16.9	-23.0	39.6	37.7

Total interest-bearing deposits	67	-11.0	-15.7	37.2	37.1
Total borrowings	11	-13.8	-26.6	58.7	61.6
Total interest-sensitive expense		-11.5	-17.5	40.7	41.1

(1) At June 30, 2011.

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The primary simulations for EVE at risk assume immediate +/-100 and +/-200 basis points parallel shifts in market interest rates beyond the interest rate change implied by the current yield curve. The table below outlines the June 30, 2011, results compared with December 31, 2010. All of the positions were within the board of directors policy limits.

Table 41 Economic Value of Equity at Risk

	Economic Value of Equity at Risk (%)			
Basis point change scenario	-200	-100	+100	+200
Board policy limits	-12.0%	-5.0%	-5.0%	-12.0%
June 30, 2011	**-1.4**	**1.4**	**-2.9**	**-6.8**
December 31, 2010	-0.5	1.3	-4.0	-8.9

The EVE at risk reported as of June 30, 2011, for the +200 basis points scenario shows a change to a lower long-term liability sensitive position compared with December 31, 2010. The primary factor contributing to this change is the 2011 first quarter termination of $4.6 billion of interest rate swaps maturing through June 2012.

The following table shows the economic value sensitivity of select portfolios to changes in market interest rates. The change in economic value for each portfolio is measured as the percent change from the base economic value for that portfolio. For the +200 basis points scenario, total net tangible assets decreased in value 3.4% to changes in market interest rates, while total net tangible liabilities increased in value 2.8% to changes in market interest rates.

Table 42 Economic Value Sensitivity

	Percent of Total Net Tangible Assets (1)	Percent Change in Economic Value for a Given Change in Interest Rates Over / (Under) Base Case Parallel Shocks			
Basis point change scenario		-200	-100	+100	+200
Total loans	74%	1.4%	1.1%	-1.4%	-2.7%
Total investments and other earning assets	17	3.8	2.7	-3.3	-6.6
Total net tangible assets (2)		1.8	1.4	-1.6	-3.4
Total deposits	78	-2.6	-1.4	1.5	3.0
Total borrowings	10	-1.4	-0.8	0.7	1.4
Total net tangible liabilities (3)		-2.4	-1.4	1.4	2.8

(1) At June 30, 2011.

(2) Tangible assets excluding ALLL.

(3) Tangible liabilities excluding AULC.

MSRs

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

At June 30, 2011, we had a total of $189.7 million of capitalized MSRs representing the right to service $16.3 billion in mortgage loans. Of this $189.7 million, $105.0 million was recorded using the fair value method, and $84.7 million was recorded using the amortization method. When we actively engage in hedging, the MSR asset is recorded using the fair value method.

MSR fair values are very sensitive to movements in interest rates as expected future net servicing income depends on the projected outstanding principal balances of the underlying loans, which can be greatly reduced by prepayments.

Prepayments usually increase when mortgage interest rates decline and decrease when mortgage interest rates rise. We have employed strategies to reduce the risk of MSR fair value changes or impairment. In addition, we engage a third party to provide valuation tools and assistance with our strategies with the objective to decrease the volatility from MSR fair value changes. However, volatile changes in interest rates can diminish the effectiveness of these hedges. We typically report MSR fair value adjustments net of hedge-related trading activity in the mortgage banking income category of noninterest income. Changes in fair value between reporting dates are recorded as an increase or a decrease in mortgage banking income.

MSRs recorded using the amortization method generally relate to loans originated with historically low interest rates, resulting in a lower probability of prepayments and, ultimately, impairment. MSR assets are included in other assets and presented in Table 12 and Table 16.

Price Risk

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

Liquidity Risk

Liquidity risk is the risk of loss due to the possibility that funds may not be available to satisfy current or future commitments resulting from external macro market issues, investor and customer perception of financial strength, and events unrelated to us, such as war, terrorism, or financial institution market specific issues. We manage liquidity risk at both the Bank and the parent company.

Bank Liquidity and Sources of Liquidity

Our primary sources of funding for the Bank are retail and commercial core deposits. At June 30, 2011, these core deposits funded 74% of total assets. At June 30, 2011, total core deposits represented 95% of total deposits, an increase from 93% at December 31, 2010.

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

Core deposits may increase our need for liquidity as certificates of deposit mature or are withdrawn before maturity and as nonmaturity deposits, such as checking and savings account balances, are withdrawn.

Demand deposit overdrafts that have been reclassified as loan balances were $15.9 million, $13.1 million, and $18.2 million at June 30, 2011, December 31, 2010, and June 30, 2010, respectively.

Other domestic time deposits of $250,000 or more and brokered deposits and negotiable CDs totaled $1.9 billion, $2.2 billion, and $2.1 billion at June 30, 2011, December 31, 2010, and June 30, 2010, respectively.

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

Table 43 Deposit Composition

	2011				2010					
(dollar amounts in millions)	**June 30,**		March 31,		December 31,		September 30,		June 30,	
By Type										
Demand deposits noninterest-bearing	**$ 8,210**	**20%**	$ 7,597	18%	$ 7,217	17%	$ 6,926	17%	$ 6,463	16%
Demand deposits interest-bearing	**5,642**	**14**	5,532	13	5,469	13	5,347	13	5,850	15
Money market deposits	**12,643**	**31**	13,105	32	13,410	32	12,679	31	11,437	29
Savings and other domestic deposits	**4,752**	**11**	4,762	12	4,643	11	4,613	11	4,652	12
Core certificates of deposit	**7,936**	**19**	8,208	20	8,525	20	8,765	21	8,974	23
Total core deposits	**39,183**	**95**	39,204	95	39,264	93	38,330	93	37,376	95
Other domestic deposits of $250,000 or more	**436**	**1**	531	1	675	2	730	2	678	2
Brokered deposits and negotiable CDs	**1,486**	**4**	1,253	3	1,532	4	1,576	4	1,373	3
Deposits in foreign offices	**297**		378	1	383	1	436	1	422	
Total deposits	**$ 41,402**	**100%**	$ 41,366	100%	$ 41,854	100%	$ 41,072	100%	$ 39,849	100%
Total core deposits:										
Commercial	**$ 13,541**	**35%**	$ 12,785	33%	$ 12,476	32%	$ 12,262	32%	$ 11,515	31%
Consumer	**25,642**	**65**	26,419	67	26,788	68	26,068	68	25,861	69
Total core deposits	**$ 39,183**	**100%**	$ 39,204	100%	$ 39,264	100%	$ 38,330	100%	$ 37,376	100%

Table 44 Federal Funds Purchased and Repurchase Agreements

	2011		2010		
(dollar amounts in millions)	**June 30,**	March 31,	December 31,	September 30,	June 30,
Balance at period-end					
Federal Funds purchased and securities sold under agreements to repurchase	**$ 1,983**	$ 2,017	$ 1,966	$ 1,773	$ 1,012
Other short-term borrowings	**40**	34	75	86	81
Weighted average interest rate at period-end					
Federal Funds purchased and securities sold under agreements to repurchase	**0.15%**	0.17%	0.19%	0.22%	0.17%
Other short-term borrowings	**0.69**	0.92	0.53	0.40	0.36

Maximum amount outstanding at month-end during the period										
Federal Funds purchased and securities sold under agreements to repurchase	**$**	**2,361**	$	2,091	$	2,084	$	1,773	$	1,012
Other short-term borrowings		**50**		86		108		99		81
Average amount outstanding during the period										
Federal Funds purchased and securities sold under agreements to repurchase	**$**	**2,067**	$	2,064	$	2,045	$	1,645	$	907
Other short-term borrowings		**45**		69		89		94		59
Weighted average interest rate during the period										
Federal Funds purchased and securities sold under agreements to repurchase		**0.15%**		0.17%		0.19%		0.21%		0.19%
Other short-term borrowings		**0.58**		0.52		0.38		0.35		0.50

To the extent we are unable to obtain sufficient liquidity through core deposits, we may meet our liquidity needs through sources of wholesale funding. These sources include other domestic time deposits of $250,000 or more, brokered deposits and negotiable CDs, deposits in foreign offices, short-term borrowings, FHLB advances, other long-term debt, and subordinated notes. At June 30, 2011, total wholesale funding was $7.6 billion, a decrease from $8.4 billion at December 31, 2010.

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The Bank also has access to the Federal Reserve s discount window. These borrowings are secured by commercial loans and home equity lines-of-credit. The Bank is also a member of the FHLB, and as such, has access to advances from this facility. These advances are generally secured by residential mortgages, other mortgage-related loans, and available-for-sale securities. Information regarding amounts pledged, for the ability to borrow if necessary, and the unused borrowing capacity at both the Federal Reserve Bank and the FHLB, is outlined in the following table:

Table 45 Federal Reserve and FHLB Borrowing Capacity

(dollar amounts in billions)	**June 30, 2011**	December 31, 2010
Loans and securities pledged:		
Federal Reserve Bank	$ **9.8**	$ 9.7
FHLB	**7.5**	7.8
Total loans and securities pledged	$ **17.3**	$ 17.5
Total unused borrowing capacity at Federal Reserve Bank and FHLB	$ **9.6**	$ 8.8

We can also obtain funding through other methods including: (1) purchasing federal funds, (2) selling securities under repurchase agreements, (3) the sale or maturity of investment securities, (4) the sale or securitization of loans, (5) the sale of national market certificates of deposit, (6) paydowns and/or securitization arising from the relatively shorter-term structure of our commercial loans and automobile loans, and (7) the issuance of common and preferred stock.

The Company is currently considering an automobile loan securitization transaction during the second half of 2011. The potential securitization is expected to be between $1.0 billion and $1.3 billion depending on existing liquidity needs, capital planning decisions, and market pricing. At June 30, 2011, and through the date of this filing, the Company has not yet identified the specific loans that would be securitized or finalized terms of the securitization, including whether the securitization would be recorded as a sale or as secured financing and, therefore, has not reclassified the loans to loans held for sale.

At June 30, 2011, we believe the Bank has sufficient liquidity to meet its cash flow obligations for the foreseeable future.

Parent Company Liquidity

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

At June 30, 2011, December 31, 2010, and June 30, 2010, the parent company had $0.6 billion, $0.6 billion and $0.9 billion, respectively, in cash and cash equivalents. The decrease from June 30, 2010, primarily reflected the net impact of the equity and debt public offerings offset by repurchase of our TARP Capital in the 2010 fourth quarter, along with dividend payments on our common and preferred stock. Appropriate limits and guidelines are in place to ensure the parent company has sufficient cash to meet operating expenses and other commitments during 2011 without relying on subsidiaries or capital markets for funding.

During the 2010 fourth quarter, we completed a public offering and sale of 146.0 million shares of common stock at a price of $6.30 per share, or $920.0 million in aggregate gross proceeds. Also during the 2010 fourth quarter, we completed the public offering and sale of $300.0 million aggregate principal amount of 7.00% Subordinated Notes due 2020. We used the net proceeds from these transactions to repurchase our TARP Capital. On January 19, 2011, we repurchased the warrant we had issued to the Treasury at an agreed upon purchase price of $49.1 million. The warrant had entitled the Treasury to purchase 23.6 million shares of common stock.

On July 21, 2011, we announced that the board of directors had declared a quarterly common stock cash dividend of $0.04 per common share, up from the prior quarterly dividend of $0.01. The dividend is payable on October 3, 2011, to shareholders of record on September 19, 2011. Based on the dividend increase to $0.04 per common share, cash demands required for common stock dividends are estimated to be approximately $34.5 million per quarter, up from $8.6 million per quarter. Based on the current dividend, cash demands required for Series A Preferred Stock are estimated to be approximately $7.7 million per quarter.

Based on a regulatory dividend limitation, the Bank could not have declared and paid a dividend to the parent company at June 30, 2011, without regulatory approval. We do not anticipate that the Bank will need to request regulatory approval to pay dividends in the near future. To help meet any additional liquidity needs, we have an open-ended, automatic shelf registration statement filed and effective with the SEC, which permits us to issue an unspecified amount of debt or equity securities.

With the exception of the common and preferred dividends previously discussed, the parent company does not have any significant cash demands. There are no maturities of parent company obligations until 2013, when a debt maturity of $50.0 million is payable. There are no maturities of Bank obligations until 2012, when a debt maturity of $64.9 million is payable. It is our policy to keep operating cash on hand at the parent company to satisfy any cash demands for the next 12 months.

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

Off-Balance Sheet Arrangements

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

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

Through our credit process, we monitor the credit risks of outstanding standby letters-of-credit. When it is probable that a standby letter of credit will be drawn and not repaid in full, losses are recognized in the provision for credit losses. At June 30, 2011, we had $0.6 billion of standby letters-of-credit outstanding, of which 79% were collateralized. Included in this $0.6 billion are letters-of-credit issued by the Bank that support securities that were issued by our customers and remarketed by The Huntington Investment Company, our broker-dealer subsidiary.

We enter into forward contracts relating to the mortgage banking business to hedge the exposures we have from commitments to extend new residential mortgage loans to our customers and from our mortgage loans held for sale. At June 30, 2011, December 31, 2010, and June 30, 2010, we had commitments to sell residential real estate loans of $400.2 million, $998.7 million, and $735.1 million, respectively. These contracts mature in less than one year.

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

Operational Risk

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

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

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

Representation and Warranty Reserve

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

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

Table 46 Summary of Reserve for Representations and Warranties on Mortgage Loans Serviced for Others

	2011		2010		
(dollar amounts in thousands)	**Second**	First	Fourth	Third	Second
Reserve for representations and warranties, beginning of period	**$ 23,785**	$ 20,170	$ 18,026	$ 10,519	$ 5,920
Assumed reserve for representations and warranties				7,000	
Reserve charges	**(365)**	(270)	(4,242)	(1,787)	(1,875)
Provision for representations and warranties	**1,076**	3,885	6,386	2,294	6,474
Reserve for representations and warranties, end of period	**$ 24,496**	$ 23,785	$ 20,170	$ 18,026	$ 10,519

Foreclosure Documentation

Compared to the high volume servicers, we service a relatively low volume of residential mortgage foreclosures, with approximately 4,400 foreclosure cases as of June 30, 2011, in states that require foreclosures to proceed through the courts. We have reviewed and are continuing to review our residential foreclosure process. We have no reason to conclude that foreclosures were filed that should not have been filed. We have and are strengthening our processes and controls to ensure that our foreclosure processes do not have the deficiencies identified in those institutions which are the subject of the consent orders between the high volume servicers and their respective federal regulators.

Compliance Risk

Financial institutions are subject to several laws, rules, and regulations emanating at both the federal and state levels. These broad-based mandates include, but are not limited to, expectations on anti-money laundering, lending limits, client privacy, fair lending, community reinvestment, and other important areas. Recently, the volume and complexity of regulatory changes has added to the overall compliance risk. We have invested in various resources to help ensure we meet expectations, and we have a team of compliance experts dedicated to ensuring our conformance. We require training for our colleagues for several broad-based laws and regulations. For example, all of our colleagues are expected to pass courses on anti-money laundering and customer privacy. Those colleagues who are engaged in lending activities must also take training related to flood disaster protection, equal credit opportunity, fair lending, and / or a variety of other courses related to the extension of credit. We set a high standard of expectation for adherence to compliance management and seek to continuously enhance our performance.

Capital

Capital is managed both at the Bank and on a consolidated basis. Capital levels are maintained based on regulatory capital requirements and the economic capital required to support credit, market, liquidity, and operational risks inherent in our business, and to provide the flexibility needed for future growth and new business opportunities. Shareholders equity totaled $5.3 billion at June 30, 2011, an increase of $0.3 billion, or 5%, from December 31, 2010, primarily reflecting an increase in retained earnings. We believe our current level of capital is adequate.

TARP Capital

As discussed in our 2010 Form 10-K, we fully exited our TARP relationship during the 2011 first quarter by repurchasing for $49.1 million the ten-year warrant we had issued to the Treasury as part of the TARP. Refer to the 2010 Form 10-K for a complete discussion regarding the issuing and repayment of our TARP Capital.

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Capital Adequacy

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

Table 47 Capital Adequacy

	2011		2010		
(dollar amounts in millions)	**June 30,**	March 31,	December 31,	September 30,	June 30,
Consolidated capital calculations:					
Common shareholders equity	**$ 4,890**	$ 4,676	$ 4,618	$ 3,867	$ 3,742
Preferred shareholders equity	**363**	363	363	1,700	1,696
Total shareholders equity	**5,253**	5,039	4,981	5,567	5,438
Goodwill	**(444)**	(444)	(444)	(444)	(444)
Other intangible assets	**(202)**	(215)	(229)	(244)	(259)
Other intangible assets deferred tax liability (1)	**71**	75	80	85	91
Total tangible equity (2)	**4,678**	4,455	4,388	4,964	4,826
Preferred shareholders equity	**(363)**	(363)	(363)	(1,700)	(1,696)
Total tangible common equity (2)	**$ 4,315**	$ 4,092	$ 4,025	$ 3,264	$ 3,130
Total assets	**$ 53,050**	$ 52,949	$ 53,820	$ 53,247	$ 51,771
Goodwill	**(444)**	(444)	(444)	(444)	(444)
Other intangible assets	**(202)**	(215)	(229)	(244)	(259)
Other intangible assets deferred tax liability (1)	**71**	75	80	85	91
Total tangible assets (2)	**$ 52,475**	$ 52,365	$ 53,227	$ 52,644	$ 51,159
Tier 1 capital	**$ 5,352**	$ 5,179	$ 5,022	$ 5,480	$ 5,317
Preferred shareholders equity	**(363)**	(363)	(363)	(1,700)	(1,696)
Trust-preferred securities	**(565)**	(570)	(570)	(570)	(570)
REIT-preferred stock	**(50)**	(50)	(50)	(50)	(50)
Tier 1 common equity (2)	**$ 4,374**	$ 4,196	$ 4,039	$ 3,160	$ 3,001
Risk-weighted assets (RWA)	**$ 44,080**	$ 43,024	$ 43,471	$ 42,759	$ 42,486
Tier 1 common equity / RWA ratio (2)	**9.92%**	9.75%	9.29%	7.39%	7.06%
Tangible equity / tangible asset ratio (2)	**8.91**	8.51	8.24	9.43	9.43
	8.22	7.81	7.56	6.20	6.12

Tangible common equity / tangible asset ratio (2)					
Tangible common equity / RWA ratio (2)	**9.79**	9.51	9.26	7.63	7.37

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

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

Capital continued to strengthen as period-end capital ratios improved compared to December 31, 2010. Our Tier 1 common risk-based ratio improved 63 basis points to 9.92% at June 30, 2011 compared to 9.29% at December 31, 2010. This increase primarily reflected the combination of an increase in retained earnings and an improvement in OCI.

The Tier 1 common risk-based ratio is the metric that has gained prominence with regulators. The recent international banking Basel III accord sets this ratio minimum at 7.0% with an additional buffer of up to 2.5% for a GSIFI. While we are not a GSIFI, the Dodd-Frank Act requires that any bank with assets over $50.0 billion would be subject to additional scrutiny. U.S. regulators have identified such qualifying banks as SIFIs. With $53.1 billion in assets at June 30, 2011, we are at the lower range of the SIFI group. Although we do not know at this time how much, if any, our required buffer will be, we believe that our current period-end capital ratios are well positioned.

Regulatory Capital

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

Regulatory capital primarily consists of Tier 1 capital and Tier 2 capital. The sum of Tier 1 capital and Tier 2 capital equals our total risk-based capital. The following table reflects changes and activity to the various components utilized in the calculation of our consolidated Tier 1, Tier 2, and total risk-based capital amounts during the first six-month period of 2011.

Table 48 Consolidated Regulatory Capital Activity

	Tier 1 Capital					
(dollar amounts in millions)	Common Shareholders Equity (1)	Preferred Shareholders Equity	Qualifying Core Capital (2)	Disallowed Goodwill & Intangible assets	Disallowed Other Adjustments (net)	Total Tier 1 Capital
Balance at December 31, 2010	$ 4,815	$ 363	$ 620	$ (607)	$ (169)	$ 5,022
Earnings	272					272
Changes to disallowed adjustments				31	(6)	25
Dividends	(33)					(33)
Repurchase of TARP Capital warrant	(49)					(49)
Repurchase of qualifying trust preferred securities			(5)			(5)
Disallowance of deferred tax assets					113	113
Other	7					7
Balance at June 30, 2011	$ 5,012	$ 363	$ 615	$ (576)	$ (62)	$ 5,352

	Total risk-based capital				
	Qualifying ACL	Qualifying Subordinated Debt	Tier 2 Capital	Tier 1 Capital (from above)	Total risk-based capital
Balance at December 31, 2010	$ 552	$ 711	$ 1,263	$ 5,022	$ 6,285
Change in qualifying subordinated debt		(56)	(56)		(56)
Change in qualifying ACL	6		6		6
Changes to Tier 1 Capital (see above)				330	330
Balance at June 30, 2011	$ 558	$ 655	$ 1,213	$ 5,352	$ 6,565

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

(2) Includes minority interest.

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

Table 49 Regulatory Capital Ratios

		2011			2010	
		June 30,	March 31,	December 31,	September 30,	June 30,
Total risk-weighted assets (in millions)	Consolidated	**$ 44,080**	$ 43,024	$ 43,471	$ 42,759	42,486
	Bank	**43,907**	42,750	43,281	42,503	42,249
Tier 1 leverage ratio	Consolidated	**10.25%**	9.80%	9.41%	10.54%	10.45%
	Bank	**7.62**	7.23	6.97	6.85	6.54
Tier 1 risk-based capital ratio	Consolidated	**12.14**	12.04	11.55	12.82	12.51
	Bank	**9.01**	8.87	8.51	8.28	7.80
Total risk-based capital ratio	Consolidated	**14.89**	14.85	14.46	15.08	14.79
	Bank	**13.17**	13.11	12.82	12.69	12.23

The increase in our consolidated Tier 1 risk-based capital ratios compared with December 31, 2010 primarily reflected earnings from the first six-month period of 2011 and a reduction in the disallowed deferred tax asset, partially offset by a slight increase in risk-weighted assets and the negative impact related to the repurchase of the TARP warrants.

At June 30, 2011, our Tier 1 and total risk-based capital in excess of the minimum level required to be considered Well-capitalized were $2.7 billion and $2.2 billion, respectively. The Bank had Tier 1 and total risk-based capital in excess of the minimum level required to be considered Well-capitalized of $1.3 billion and $1.4 billion, respectively, at June 30, 2011.

Other Capital Matters

On July 21, 2011, our board of directors declared a quarterly cash dividend of $0.04 per common share, payable in October 2011. This represented an increase from a cash dividend of $0.01 per common share that has been declared for the past several quarters.

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

BUSINESS SEGMENT DISCUSSION

Overview

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

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

Funds Transfer Pricing

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

Optimal Customer Relationship (OCR)

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

OCR was introduced in late 2009. To date much effort has been spent on defining processes, sales training, and systems development to fully capture and measure OCR performance metrics. This quarter, we are introducing OCR-related metrics for consumers. We anticipate introducing OCR-related metrics for commercial customers later this year. This timing reflects the more complex nature of commercial relationships.

Consumer OCR Performance

For retail customers, there are two key performance metrics: (1) the number of services penetration per consumer checking account household, and (2) the annualized revenue generated.

We use the checking account since it typically represents the primary banking relationship product. Further, in our definition of a checking account household, we only count a product or service once. We believe this is a better metric in that consumer behavior and loyalty are driven more by the variety of products used rather than just the number of products. For example, a household that has one checking account and one mortgage, we count as having two services. A household with four checking accounts, we count as having one service. The household relationship utilizing two services is viewed likely to be more profitable and loyal, even though it has a smaller number of accounts. The overall objective, therefore, is to decrease the percentage 1-3 services per consumer checking account households, while increasing the percentage of those with over 4 services.

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

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The following table presents consumer checking account household OCR metrics:

Table 50 Consumer Checking Household OCR Cross-sell Report

	2011		2010		
	Second	First	Fourth	Third	Second
Number of households	**1,042,424**	1,015,951	993,272	980,167	962,328
Product Penetration by Number of Services					
1 Service	**4.5%**	4.9%	5.3%	5.5%	5.4%
2-3 Services	**24.2**	24.6	25.3	26.0	26.4
4+ Services	**71.3**	70.5	69.4	68.5	68.2
Total revenue (in millions)	**$ 260.0**	$ 248.6	$ 240.3	$ 239.6	$ 245.0

Table 51 Net Income by Business Segment

	Six Months Ended June 30,	
(dollar amounts in thousands)	**2011**	2010
Retail and Business Banking	**$ 101,895**	$ 56,407
Regional and Commercial Banking	**51,184**	17,395
AFCRE	**85,425**	(26,576)
WGH	**17,595**	22,305
Treasury/Other	**16,265**	18,970
Total net income	**$ 272,364**	$ 88,501

Average Loans/Leases and Deposits by Business Segment

The segregation of total average loans and leases and total average deposits by business segment for the first six-month period of 2011, is presented in the following table:

Table 52 Average Loans/Leases and Deposits by Business Segment

	Six Months Ended June 30, 2011					
(dollar amounts in millions)	Retail and Business Banking	Regional and Commercial Banking	AFCRE	WGH	Treasury / Other	TOTAL
Average Loans/Leases						
Commercial and industrial	$ 3,002	$ 7,599	$ 1,789	$ 766	$ 90	$ 13,246
Commercial real estate	448	327	5,425	177		6,377
Total commercial	3,450	7,926	7,214	943	90	19,623
Automobile			5,829			5,829
Home equity	6,977	12	1	786	25	7,801
Residential mortgage	1,035	4		3,472	5	4,516
Other consumer	402	5	133	43	(35)	548
Total consumer	8,414	21	5,963	4,301	(5)	18,694

Total loans and leases	$ 11,864	$ 7,947	$ 13,177	$ 5,244	$ 85	$ 38,317
Average Deposits						
Demand deposits noninterest-bearing	$ 3,630	$ 2,017	$ 410	$ 1,369	$ 145	$ 7,571
Demand deposits interest-bearing	4,471	90	44	851	6	5,462
Money market deposits	8,044	1,214	256	3,670		13,184
Savings and other domestic deposits	4,577	14	12	137		4,740
Core certificates of deposit	8,048	29	3	150	4	8,234
Total core deposits	28,770	3,364	725	6,177	155	39,191
Other deposits	189	210	49	1,253	567	2,268
Total deposits	$ 28,959	$ 3,574	$ 774	$ 7,430	$ 722	$ 41,459

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Retail and Business Banking

Table 53 Key Performance Indicators for Retail and Business Banking

(dollar amounts in thousands unless otherwise noted)	Six Months Ended June 30, **2011**	2010	Change Amount	Change Percent
Net interest income	**$ 473,053**	$ 417,671	$ 55,382	13%
Provision for credit losses	**58,358**	91,004	(32,646)	(36)
Noninterest income	**200,842**	198,544	2,298	1
Noninterest expense	**458,775**	438,430	20,345	5
Provision for income taxes	**54,867**	30,374	24,493	81
Net income	**$ 101,895**	$ 56,407	$ 45,488	81%
Number of employees (full-time equivalent)	**5,853**	5,398	455	8%
Total average assets (in millions)	**$ 13,243**	$ 13,158	$ 85	1
Total average loans/leases (in millions)	**11,864**	11,795	69	1
Total average deposits (in millions)	**28,959**	28,482	477	2
Net interest margin	**3.28%**	2.96%	0.32%	11
NCOs	**$ 83,012**	$ 190,651	$ (107,639)	(56)
NCOs as a % of average loans and leases	**1.40%**	3.23%	(1.83)%	(57)
Return on average common equity	**14.4**	8.0	6.4	80

eop End of Period.

2011 First Six Months vs. 2010 First Six Months

Retail and Business Banking reported net income of $101.9 million for the first six-month period of 2011. This was an increase of $45.5 million, or 81%, compared with the year-ago period.

Results for the current year continued to be positively impacted by an increase in the number of households and improved product penetration, along with deposit balance growth and deposit spread management. The positive impact has been attained through increased marketing expenses related to direct mail and media strategy changes implemented in early 2011 that continue to drive higher deposit spreads with a 33 basis point increase over the year-ago period. The marketing efforts created strong account and household production when compared to the year-ago period. Provision for credit losses for the first six-month period was lower than the year-ago period as loan credit quality benefitted from aggressive account management and disciplined centralized underwriting. Finally, loan balances are up 1% over the year-ago period, and also have a 10 basis point improvement in the portfolio spread.

The increase in net income reflected a combination of factors including:

- $55.4 million, or 13%, increase in net interest income.
- $32.6 million, or 36%, decline in the provision of credit losses.

Partially offset by:

- $20.3 million, or 5%, increase in noninterest expense.

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

- $0.5 billion, or 2%, increase in average total deposits.
- 33 basis point increase in our deposit spread.

Partially offset by:

$6.0 million of lower equity funding related to lower rate environment.

Total average loans and leases were up slightly in the first six-month period of 2011, compared to the first six-month period in 2010. This reflected:

$95 million sale of SBA loans involving an $11.6 million gain referenced below.

$87 million, or 3%, increase in our C&I (Business Banking) portfolio.

$82 million, or 1%, increase in the consumer portfolio.

Partially offset by:

$0.1 billion, or 18%, decrease in the CRE portfolio reflecting our commitment to reduce exposure to CRE loans.

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

$1.0 billion, or 14%, increase in average money market deposits.

$0.4 billion, or 13%, increase in noninterest-bearing demand deposits.

$0.3 billion, or 8%, increase in interest-bearing demand deposits.

Partially offset by:

$1.3 billion, or 14% decrease in core certificates of deposit.

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

$107.6 million, or 56%, decrease in commercial NCOs. Expressed as an annualized percentage of related average balance, NCOs decreased to 1.40% in the first six-month period of 2011 from 3.23% in the year-ago period. The overall decline in NCOs was the result of improved credit quality of the portfolio.

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

$19.9 million, or 191%, increase in other income, which reflected increased gains on sale of SBA loans and loan fees.

$7.2 million, or 14%, increase in electronic banking income, which reflected higher activation rates on new and existing cards coupled with higher transaction volumes.

$2.3 million, or 28%, increase in mortgage banking income driven by higher refinance requests beginning late in the 2010 second quarter.

Partially offset by:

$28.8 million, or 25%, decrease in deposit service charge income due to changes in Reg E and the launch of Huntington s 24-Hour Grace® feature on all consumer checking accounts in September 2010.

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

$12.0 million, or 9%, increase in personnel costs, which represent an 8% increase in full-time equivalent employees in support of strategic initiatives, such as the introduction of the in-store branches during the 2010 fourth quarter and the first six-month period of 2011.

$7.8 million, or 35%, increase in marketing expenses, which primarily reflected a greater focus on direct mail and media campaigns to drive deposit account growth. Our brand advertising did not start until June 2010, so 2011 is a more normalized run rate.

Partially offset by:

$8.3 million, or 3%, decrease in other expenses, primarily due to a $2.6 million decrease in OREO losses, $2.7 million decrease in amortization of intangibles, and $1.0 million decrease in foreclosure-related expenses.

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Regional and Commercial Banking
Table 54 Key Performance Indicators for Regional and Commercial Banking

	Six Months Ended June 30,		Change	
(dollar amounts in thousands unless otherwise noted)	**2011**	2010	Amount	Percent
Net interest income	**$ 117,467**	$ 101,716	$ 15,751	15%
Provision for credit losses	**7,427**	53,876	(46,449)	(86)
Noninterest income	**60,627**	53,667	6,960	13
Noninterest expense	**91,922**	74,746	17,176	23
Provision for income taxes	**27,561**	9,366	18,195	194
Net income	**$ 51,184**	$ 17,395	$ 33,789	194%
Number of employees (full-time equivalent)	**642**	502	140	28%
Total average assets (in millions)	**$ 8,851**	$ 8,070	$ 781	10
Total average loans/leases (in millions)	**7,947**	7,290	657	9
Total average deposits (in millions)	**3,574**	3,065	509	17
Net interest margin	**3.00%**	2.79%	0.21%	8
NCOs	**$ 26,089**	$ (12,127)	$ 38,216	N.R.
NCOs as a % of average loans and leases	**0.66%**	(0.33)%	0.99%	N.R.
Return on average common equity	**15.0**	5.2	9.8	188

N.R. Not relevant, as denominator of calculation is a loss in prior period compared with income in current period.

2011 First Six Months vs. 2010 First Six Months

Regional and Commercial Banking reported net income of $51.2 million for the first six-month period of 2011. This was an increase of $33.8 million, or 194%, compared with the year-ago period.

Contributing to the increase in net income was growth in both net interest income and noninterest income due to the successful execution of our strategic initiatives. In addition, current year results continue to reflect significant improvement in provision for credit losses, resulting from the proactive treatment of problem credits since mid-2009, an improved credit environment, and increased recoveries.

Significant investments have been made in our sales process, which entails robust customer relationship planning, as well as a renewed investment in technology, including a referral tracking system and new customer relationship management system. These investments have resulted in a 45% increase in loan originations in the first six-month period of 2011 compared to the year-ago period. Additionally, the Commercial Relationship Manager sales teams were educated on the importance of liquidity solutions by partnering with Treasury Management to deliver customer-focused solutions. This partnership, combined with the value of depository solutions, enabled our relationship managers to shift from a lending focus to a broader solutions-based, cross-selling approach including depository solutions.

The increase in net income reflected a combination of factors including:

- $15.8 million, or 15%, increase in net interest income.
- $7.0 million, or 13%, increase in noninterest income.
- $46.4 million, or 86%, decline in the provision of credit losses.

Partially offset by:

- $17.2 million, or 23%, increase in noninterest expense, due to our strategic initiatives investments.

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

$0.7 billion, or 9%, increase in total average loans and leases.

$0.6 billion, or 21%, increase in average core deposits.

21 basis point increase in the net interest margin due to a 38 basis point increase in the commercial loan spread. The commercial loan spread increase reflected lower cost of funds on our renewals. In addition, as the liquidity position of the Bank improved in 2010, the liquidity premium was lowered for new and renewed loans.

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

$0.4 billion, or 10%, increase in the core middle market loan portfolio average balance. The majority of this growth was due to marketing efforts and community development within our Michigan and Cleveland markets.

$0.3 billion, or 49%, increase in the large corporate portfolio average balance due to establishing relationships with targeted prospects within our footprint.

$0.2 billion, or 21%, increase in the equipment finance portfolio average balance which reflected our focus on developing vertical strategies in business aircraft, rail, and syndications.

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

$0.6 billion, or 21%, increase in average core deposits reflected a $0.5 billion increase in average money market deposits.

Strategic initiatives to deepen customer relationships, new and innovative product offerings, pricing discipline, and sales and retention initiatives.

Targeted money market promotions and sales campaigns for loans and other products. They served as an effective door opener to drive success in ultimately obtaining operating accounts supported with treasury management solutions to promote customer retention.

Best practices from each region were shared and institutionalized.

A money desk was created to assist commercial bankers with tailored pricing solutions for customers having complex large dollar depository needs. This additional support and expertise provided additional value and helped our bankers win relationships and encouraged their expanded prospecting efforts.

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

Improved credit quality of the portfolio.

Partially offset by:

$38.2 million increase in NCOs. Expressed as a percentage of related average balance, NCOs increased to 0.66% in the first six-month period of 2011 from net recoveries of 0.33% in the year-ago period. The increase in NCOs was the result of proactive treatment of problem credits in the portfolio.

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

- $4.4 million, or 108%, increase in derivatives revenue which reflected increased sales and trading activities.
- $2.9 million, or 284%, increase in brokerage income due to the transfer of our institutional sales business to our business segment from WGH during the six-month period of 2011.
- $2.1 million, or 87%, increase in capital markets income resulting from strategic investments made over the last year in these types of products and services.

Partially offset by:

- $1.4 million, or 46%, decrease in operating lease income as lease originations were structured as direct finance leases beginning in the 2009 second quarter.
- $1.4 million, or 6%, decrease in deposit service charge income.

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

- $14.4 million, or 50%, increase in personnel costs, which represent a 28% increase in FTE employees. This increase in personnel is attributable to our strategic investments in our core footprint markets, vertical strategies, and product capabilities.
- $3.8 million, or 9%, increase in other expenses, which reflected increased marketing and business development expenses due to expanded marketing efforts and community development.

Partially offset by:

- $1.0 million, or 42%, decrease in operating lease expense.

Automobile Finance and Commercial Real Estate

Table 55 Key Performance Indicators for Automobile Finance and Commercial Real Estate

	Six Months Ended June 30,		Change	
(dollar amounts in thousands unless otherwise noted)	**2011**	2010	Amount	Percent
Net interest income	**$ 177,130**	$ 161,214	$ 15,916	10%
Provision for credit losses	**(10,071)**	165,308	(175,379)	106
Noninterest income	**29,525**	37,256	(7,731)	(21)
Noninterest expense	**85,304**	74,048	11,256	15
Provision (benefit) for income taxes	**45,997**	(14,310)	60,307	N.R.
Net income (loss)	**$ 85,425**	$ (26,576)	$ 112,001	N.R.%
Number of employees (full-time equivalent)	**281**	255	26	10%
Total average assets (in millions)	**$ 13,156**	$ 12,725	$ 431	3
Total average loans/leases (in millions)	**13,177**	12,854	323	3
Total average deposits (in millions)	**774**	654	120	18
Net interest margin	**2.66%**	2.47%	0.19%	8
NCOs	**$ 102,160**	$ 215,344	$ (113,184)	(53)
NCOs as a % of average loans and leases	**1.55%**	3.35%	(1.80)%	(54)
Return on average common equity	**24.4**	(6.1)	30.5	N.R.

N.R. Not relevant, as denominator of calculation is a loss in prior period compared with income in current period.

2011 First Six Months vs. 2010 First Six Months

AFCRE reported net income of $85.4 million for the first six-month period of 2011. This was an increase of $112.0 million compared with the year-ago period.

Results for the current year continued to be significantly and positively impacted by lower provisions for credit losses due to reductions in required reserve levels as the underlying credit quality of the portfolios continued to improve and / or stabilize. This was in contrast to the year-ago period, which included higher provisions for credit losses in order to increase reserves due to economic and CRE-related weaknesses in our markets. Also contributing to the increase in net income, was growth in net interest income. This primarily reflected the benefit of a higher net interest margin due to improved risk-based pricing. Growth in average total loans and leases reflected the positive impact of an increase in auto finance loan production, which is on pace to exceed the record production levels in 2010, partially offset by the planned continued reduction in our CRE exposure.

The increase in net income reflected a combination of factors including:

- $15.9 million, or 10%, increase in net interest income.
- $175.4 million, or 106%, decline in the provision of credit losses.

Partially offset by:

- $11.3 million, or 15%, increase in noninterest expense.

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

- 19 basis point increase in the net interest margin. This increase primarily reflected the continuation of a risk-based pricing strategy in the CRE portfolio that began in early 2009 and has resulted in improved spreads on CRE loan renewals as well as new business originated.
- $0.3 billion, or 3%, increase in total average loans and leases.

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

$1.4 billion, or 31%, increase in the average consumer automobile portfolio. This increase resulted from continued strong origination levels. Total production for the first six months of 2011 was $1.8 billion compared to $1.6 billion for the year-ago period. Contributing to this increase was the positive impact of our expansion into eastern Pennsylvania and New England.

Partially offset by:

$1.0 billion, or 13%, decrease in our average commercial portfolio. This decrease primarily reflected a $1.1 billion decrease in CRE loans offset, in part, by a $0.4 billion increase in automobile floor plan loans. The decline in CRE loans continued to reflect our managed reduction of this overall exposure.

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

$100 million, or 16%, increase in average core deposits reflecting our commitment to strengthening relationships with core customers and prospects as well as new commercial automobile dealer relationships developed in 2010 and 2011.

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

$105.9 million, or 53%, decrease in commercial NCOs. Expressed as a percentage of related average balances, commercial NCO s decreased to 2.62% in the first six months of 2011 from 4.86% in the year-ago period.

$7.0 million, or 50%, decrease in indirect automobile-related NCOs. As a percentage of related average balances, indirect automobile-related NCO s were 0.24% in the first six months of 2011 compared to 0.63% in the year-ago period. This decrease reflected our consistent focus on high credit quality of originations combined with a very strong resale market for used vehicles.

A reduction in required reserve levels, primarily due to lower levels of commercial NALs which totaled $293 million at June 30, 2011, down 58% compared to $703 million a year earlier.

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

$8.0 million, or 33%, decrease in operating lease income resulting from the continued runoff of that portfolio as we exited that business at the end of 2008.

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

$15.3 million, or 36%, increase in other expenses, primarily reflecting a $10.4 million increase in allocated costs associated with higher production and other activity levels. In addition, other expense in the year-ago period was reduced by $3.8 million of OREO-related gains. There were no comparable OREO gains in the current six-month period.

$3.4 million, or 30%, increase in personnel costs, which primarily related to higher origination related activities, including automobile lending market expansion and the rebuilding of the CRE team.

Partially offset by:

$7.5 million, or 38%, decrease in operating lease expense resulting from the continued runoff of that portfolio.

Wealth Advisors, Government Finance, and Home Lending

Table 56 Key Performance Indicators for Wealth Advisors, Government Finance, and Home Lending

	Six Months Ended June 30,		Change	
(dollar amounts in thousands unless otherwise noted)	**2011**	2010	Amount	Percent
Net interest income	**$ 95,930**	$ 76,885	$ 19,045	25%
Provision for credit losses	**29,468**	26,717	2,751	10
Noninterest income	**133,592**	157,401	(23,809)	(15)
Noninterest expense	**172,985**	173,253	(268)	
Provision for income taxes	**9,474**	12,011	(2,537)	(21)
Net income	**$ 17,595**	$ 22,305	$ (4,710)	(21)%
Number of employees (full-time equivalent)	**2,114**	2,145	(31)	(1)%
Total average assets (in millions)	**$ 6,549**	$ 6,066	$ 483	8
Total average loans/leases (in millions)	**5,244**	4,679	565	12
Total average deposits (in millions)	**7,430**	6,877	553	8
Net interest margin	**2.24%**	2.25%	(0.01)%	
NCOs	**$ 35,440**	$ 32,470	$ 2,970	9
NCOs as a % of average loans and leases	**1.35%**	1.39%	(0.04)%	(3)
Return on average common equity	**5.3**	7.7	(2.4)	(31)
Mortgage banking origination volume (in millions)	**$ 1,844**	$ 2,030	$ (186)	(9)
Noninterest income shared with other business segments[(1)]	**$ 20,447**	$ 18,692	$ 1,755	9
Total assets under management (in billions) eop	**15.2**	12.7	2.5	20
Total trust assets (in billions) eop	**61.2**	50.9	10.3	20

(1) Amount is not included in noninterest income reported above.

eop End of Period.

2011 First Six Months vs. 2010 First Six Months

WGH reported net income of $17.6 million for the first six-month period of 2011. This was a decrease of $4.7 million, or 21%, compared with the year-ago period.

Results for the current year were impacted by a decrease in mortgage banking revenue which reflected a decline in the net impact of MSR hedging. The other businesses within the WGH segment experienced significant growth, with increased revenues for the six-month period in 2011 when compared to the year-ago period. For first the six-month period in 2011, an increase in residential charge-offs reflected a policy change, whereas non-residential NCO activity has decreased when compared to the same period in 2010. A focus on structured investment sales increased brokerage commissions and market value improvements contributed to an increase in trust income in the first six-month period of 2011 when compared to the year-ago period.

The decrease in net income reflected a combination of factors including:

$23.8 million, or 15%, decrease in noninterest income.

$2.8 million, or 10%, increase in the provision for credit losses.

Partially offset by:

$19.0 million, or 25%, increase in net interest income.

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