HUNTINGTON BANCSHARES INC/MD
Form 10-Q
August 10, 2009

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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, 2009**
**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). o 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<br>(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 569,017,481 shares of Registrant s common stock ($0.01 par value) outstanding on July 31, 2009.

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## PART I. FINANCIAL INFORMATION

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

### INTRODUCTION

Huntington Bancshares Incorporated (we or our) is a multi-state diversified financial holding company organized under Maryland law in 1966 and headquartered in Columbus, Ohio. Through our subsidiaries, including our bank subsidiary, The Huntington National Bank (the Bank), organized in 1866, 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 banking offices are located in Ohio, Michigan, Pennsylvania, Indiana, West Virginia, and Kentucky. Selected financial service activities are also conducted in other states including Private Financial Group (PFG) offices in Florida, and Mortgage Banking offices in Maryland and New Jersey. International banking services are available through the headquarters office in Columbus and a limited purpose office located in both the Cayman Islands and Hong Kong.

The following Management s Discussion and Analysis of Financial Condition and Results of Operations (MD&A) provides information we believe necessary for understanding our financial condition, changes in financial condition, results of operations, and cash flows. This MD&A provides updates to the discussion and analysis included in our Annual Report on Form 10-K for the year ended December 31, 2008 (2008 Form 10-K). This MD&A should be read in conjunction with our 2008 Form 10-K as well as the financial statements, notes, and other information contained in this report.

Our discussion is divided into key segments:

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

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

### Forward-Looking Statements

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

Actual results could differ materially from those contained or implied by such statements for a variety of factors including: (1) deterioration in the loan portfolio could be worse than expected due to a number of factors such as the underlying value of the collateral could prove less valuable than otherwise assumed and assumed cash flows may be worse than expected; (2) changes in economic conditions; (3) movements in interest rates; (4) competitive pressures on product pricing and services; (5) success and timing of other business strategies; (6) the nature, extent, and timing of governmental actions and reforms, including existing and potential future restrictions and limitations imposed in connection with the Troubled Asset Relief Program (TARP) voluntary Capital Purchase Plan (CPP) or otherwise under the Emergency Economic Stabilization Act of 2008; and (7) extended disruption of vital infrastructure.

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Additional factors that could cause results to differ materially from those described above can be found in our 2008 Form 10-K, and documents subsequently filed by us with the Securities and Exchange Commission (SEC). All forward-looking statements included in this filing are based on information available at the time of the filing. We assume no obligation to update any forward-looking statement.

**Risk Factors**

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

More information on risk is set forth under the heading Risk Factors included in Item 1A of our 2008 Form 10-K. Additional information regarding risk factors can also be found in the Risk Management and Capital discussion.

***Update to Risk Factors***

*All of our loan portfolios, particularly our construction and commercial real estate (CRE) loans, may continue to be affected by the sustained economic weakness of our Midwest markets and the impact of higher unemployment rates. This may significantly adversely affect our business, financial condition, liquidity, capital, and results of operation.*

As described in the Credit Risk discussion, credit quality performance continued to be under pressure during the first six-month period of 2009, with nonaccrual loans and leases (NALs) and nonperforming assets (NPAs) both increasing at June 30, 2009, compared with December 31, 2008, and June 30, 2008. The allowance for credit losses (ACL) of $964.8 million at June 30, 2009, was 2.51% of period-end loans and leases and 53% of period-end NALs.

The majority of our credit risk is associated with lending activities, as the acceptance and management of credit risk is central to profitable lending. Credit risk is mitigated through a combination of credit policies and processes, market risk management activities, and portfolio diversification. However, adverse changes in our borrowers ability to meet their financial obligations under agreed upon terms and, in some cases, to the value of the assets securing our loans to them may increase our credit risk. Our commercial portfolio, as well as our real estate-related portfolios, have continued to be negatively affected by the ongoing reduction in real estate values and reduced levels of sales and leasing activities. We periodically review the ACL for adequacy considering economic conditions and trends, collateral values, and credit quality indicators, including past charge-off experience and levels of past due loans and NPAs. There is no certainty that the ACL will be adequate over time to cover credit losses in the portfolio because of continued adverse changes in the economy, market conditions, or events adversely affecting specific customers, industries or markets. If the credit quality of the customer base materially decreases, if the risk profile of a market, industry, or group of customers changes materially, or if the ACL is not adequate, our business, financial condition, liquidity, capital, and results of operations could be materially adversely affected.

Bank regulators periodically review our ACL and may require us to increase our provision for loan and lease losses or loan charge-offs. Any increase in our ACL or loan charge-offs as required by these regulatory authorities could have a material adverse effect on our results of operations and our financial condition.

In particular, an increase in our ACL could result in a reduction in the amount of our tangible common equity (TCE) and/or our Tier 1 common equity. Given the focus on these measurements, we may be required to raise additional capital through the issuance of common stock as a result of an increase in our ACL. The issuance of additional common stock or other actions could have a dilutive effect on the existing holders of our common stock, and adversely affect the market price of our common stock.

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*Legislative and regulatory actions taken now or in the future to address the current liquidity and credit crisis in the financial industry may significantly affect our financial condition, results of operation, liquidity, or stock price.*

Current economic conditions, particularly in the financial markets, have resulted in government regulatory agencies and political bodies placing increased focus on and scrutiny of the financial services industry. The U.S. Government has intervened on an unprecedented scale, responding to what has been commonly referred to as the financial crisis. In addition to the U.S. Treasury Department s CPP under the TARP announced in the fall of 2008 and the new Capital Assistance Program (CAP) announced in spring of 2009, the U.S. Government has taken steps that include enhancing the liquidity support available to financial institutions, establishing a commercial paper funding facility, temporarily guaranteeing money market funds and certain types of debt issuances, and increasing insurance on bank deposits. The U.S. Congress, through the Emergency Economic Stabilization Act of 2008 and the American Recovery and Reinvestment Act of 2009, has imposed a number of restrictions and limitations on the operations of financial services firms participating in the federal programs.

These programs subject us and other financial institutions that participate in them to additional restrictions, oversight, and costs that may have an adverse impact on our business, financial condition, results of operations, or the price of our common stock. In addition, new proposals for legislation continue to be introduced in the U.S. Congress that could further increase regulation of the financial services industry and impose restrictions on the operations and general ability of firms within the industry to conduct business consistent with historical practices, including as related to compensation, interest rates, the impact of bankruptcy proceedings on consumer real property mortgages, and otherwise. Federal and state regulatory agencies also frequently adopt changes to their regulations and/or change the manner in which existing regulations are applied. We cannot predict the substance or impact of pending or future legislation, regulation, or its application. Compliance with such current and potential regulation and scrutiny may significantly increase our costs, impede the efficiency of our internal business processes, negatively impact the recoverability of certain of our recorded assets, require us to increase our regulatory capital, and limit our ability to pursue business opportunities in an efficient manner.

*We may raise additional capital, which could have a dilutive effect on the existing holders of our common stock and adversely affect the market price of our common stock.*

We are not restricted from issuing additional authorized shares of common stock or securities that are convertible into or exchangeable for, or that represent the right to receive, common stock. We continually evaluate opportunities to access capital markets taking into account our regulatory capital ratios, financial condition, and other relevant considerations, and anticipate that, subject to market conditions, we are likely to take further capital actions. Such actions, with regulatory approval when required, may include opportunistically retiring our outstanding securities, including our subordinated debt, trust-preferred securities, and preferred shares, in open market transactions, privately negotiated transactions, or public offers for cash or common shares, as well as issuing additional shares of common stock in public or private transactions in order to increase our capital levels above our already well-capitalized levels, as defined by the federal bank regulatory agencies, and other regulatory capital targets.

During the 2009 second quarter, the Federal Reserve conducted a Supervisory Capital Assessment Program (SCAP) on the country s 19 largest bank holding companies to determine the amount of capital required to absorb losses that could arise under baseline and more adverse economic scenarios. While we were not one of these 19 institutions required to conduct a forward-looking capital assessment, or stress test , we voluntarily conducted our own analysis and recognized a need to raise additional capital to improve certain capital ratios, including our Tier 1 common equity risk based ratio. During the first six-month period of 2009, we issued an additional 201.6 million shares of common stock. The issuance of these additional shares of common stock was dilutive to existing common shareholders. *(See the Capital section located within the Risk Management and Capital section for additional information).*

Both Huntington and the Bank are highly regulated, and we, as well as our regulators, continue to regularly perform a variety of capital analyses, including the preparation of stress case scenarios. As a result of those assessments, we could determine, or our regulators could require us, to raise additional capital in the future. Any such capital raise could include, among other things, the potential issuance of additional common equity to the public, the potential issuance of common equity to the government under the CAP, or the additional conversions of our existing Series B

Preferred Stock to common equity. There could also be market perceptions that we need to raise additional capital, and regardless of the outcome of any stress test or other stress case analysis, such perceptions could have an adverse effect on the price of our common stock.

Furthermore, in order to improve our capital ratios above our already adequately capitalized levels, we can decrease the amount of our risk-weighted assets, increase capital, or a combination of both. If it is determined that additional capital is required in order to improve or maintain our capital ratios, we may accomplish this through the issuance of additional common stock.

The issuance of any additional shares of common stock or securities convertible into or exchangeable for common stock or that represent the right to receive common stock, or the exercise of such securities, could be substantially dilutive to existing common shareholders. Shareholders of our common stock have no preemptive rights that entitle holders to purchase their pro rata share of any offering of shares of any class or series and, therefore, such sales or offerings could result in increased dilution to existing shareholders. The market price of our common stock could decline as a result of sales of shares of our common stock or securities convertible into or exchangeable for common stock in anticipation of such sales.

*We are subject to ongoing tax examinations in various jurisdictions. The Internal Revenue Service and other taxing jurisdictions may propose various adjustments to our previously filed tax returns. It is possible that the ultimate resolution of such proposed adjustments, if unfavorable, may be material to the results of operations in the period it occurs.*

The calculation of our provision for federal and state and local income taxes is complex and requires the use of estimates and judgments. We have two accruals for income taxes: our federal income tax receivable represents the estimated amount currently due from the federal government, net of any reserve for potential audit issues, and is reported as a component of accrued income and other assets and state and local tax reserves for potential audit issues are reported as a component of other liabilities in our consolidated balance sheet; our deferred federal and state and local income tax asset or liability represents the estimated impact of temporary differences between how we recognize our assets and liabilities under GAAP, and how such assets and liabilities are recognized under federal and state and local tax law.

In the ordinary course of business, we operate in various taxing jurisdictions and are subject to income and nonincome taxes. The effective tax rate is based in part on our interpretation of the relevant current tax laws. We believe the aggregate liabilities related to taxes are appropriately reflected in the consolidated financial statements. We review the appropriate tax treatment of all transactions taking into consideration statutory, judicial, and regulatory guidance in the context of our tax positions. In addition, we rely on various tax opinions, recent tax audits, and historical experience.

From time to time, we engage in business transactions that may have an effect on our tax liabilities. Where appropriate, we have obtained opinions of outside experts and have assessed the relative merits and risks of the appropriate tax treatment of business transactions taking into account statutory, judicial, and regulatory guidance in the context of the tax position. However, changes to our estimates of accrued taxes can occur due to changes in tax rates, implementation of new business strategies, resolution of issues with taxing authorities regarding previously taken tax positions and newly enacted statutory, judicial, and regulatory guidance. Such changes could affect the amount of our accrued taxes and could be material to our financial position and/or results of operations.

During the 2009 second quarter, the State of Ohio completed the audit of our 2001, 2002, and 2003 corporate franchise tax returns. During 2008, the Internal Revenue Service (IRS) completed the audit of our consolidated federal income tax returns for tax years 2004 and 2005. In addition, we are subject to ongoing tax examinations in various other state and local jurisdictions. Both the IRS and various state tax officials have proposed adjustments to our previously filed tax returns. We believe that the tax positions taken by us related to such proposed adjustments were correct and supported by applicable statutes, regulations, and judicial authority, and intend to vigorously defend them. It is possible that the ultimate resolution of the proposed adjustments, if unfavorable, may be material to the results of operations in the period it occurs. However, although no assurances can be given, we believe that the resolution of these examinations will not, individually or in the aggregate, have a material adverse impact on our consolidated financial position.

Furthermore, we still face risk relating to the Franklin relationship not withstanding the restructuring announced on March 31, 2009. The Franklin restructuring resulted in a $159.9 million net deferred tax asset equal to the amount of income and equity that was included in our operating results for the 2009 first quarter. While we believe that our position regarding the deferred tax asset and related income recognition is correct, that position could be subject to challenge.

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### Recent Accounting Pronouncements and Developments

Note 2 to the Unaudited Condensed Consolidated Financial Statements discusses new accounting pronouncements adopted during 2009 and the expected impact of accounting pronouncements recently issued but not yet required to be adopted. To the extent that we believe the adoption of new accounting standards will materially affect our financial condition, results of operations, or liquidity, the impacts or potential impacts are discussed in the applicable section of this MD&A and the Notes to the Unaudited Condensed Consolidated Financial Statements.

### Critical Accounting Policies and Use of Significant Estimates

Our financial statements are prepared in accordance with generally accepted accounting principles in the United States (GAAP). The preparation of financial statements in conformity with GAAP requires us to establish critical accounting policies and make accounting estimates, assumptions, and judgments that affect amounts recorded and reported in our financial statements. Note 1 of the Notes to Consolidated Financial Statements included in our 2008 Form 10-K as supplemented by this report lists significant accounting policies we use in the development and presentation of our financial statements. This MD&A, the significant accounting policies, and other financial statement disclosures identify and address key variables and other qualitative and quantitative factors necessary to understand and evaluate our company, financial position, results of operations, and cash flows.

An accounting estimate requires assumptions about uncertain matters that could have a material effect on the financial statements if a different amount within a range of estimates were used or if estimates changed from period to period. Estimates are made under facts and circumstances at a point in time, and changes in those facts and circumstances could produce results that differ from when those estimates were made. The most significant accounting estimates and their related application are discussed in our 2008 Form 10-K.

The following discussion provides updates of our accounting estimates related to the fair value measurements of certain portfolios within our investment securities portfolio, goodwill, and Franklin loans.

***Securities and Other-Than-Temporary Impairment (OTTI)***

*(This section should be read in conjunction with the Investment Securities Portfolio discussion.)*

Effective with the 2009 second quarter, we adopted two FASB Staff Positions (FSPs) that impact estimates and assumptions utilized by us in determining the fair values of securities. The first, FSP Financial Accounting Standard (FAS) 157-4, Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly, reaffirms the exit price fair value measurement guidance in Statement No. 157, Fair Value Measurements, and also provides additional guidance for estimating fair value in accordance with Statement No. 157 when the volume and level of activity for the asset or liability have significantly decreased. The second, FSP FAS 115-2 and FAS 124-2, Recognition and Presentation of Other-Than-Temporary Impairments, amended the other-than-temporary impairment (OTTI) guidance in GAAP for debt securities.

We recognize OTTI through earnings on those debt securities that: (a) have a fair value less than its book value, and (b) we intend to sell (or we cannot assert that it is more likely than not that we will not have to sell before recovery). The amount of OTTI recognized is the difference between the fair value and book value of the securities.

If we do not intend to sell a debt security, but it is probable that we will not collect all amounts due according to the debt s contractual terms, we separate the impairment into credit and noncredit components. The credit component of the impairment, measured as the difference between amortized cost and the present value of expected cash flows discounted at the security s effective interest rate, is recognized in earnings. The noncredit component is recognized in other comprehensive income (OCI), separately from other unrealized gains and losses on available-for-sale securities.

The adoption of FSP FAS 115-2 and FAS 124-2 required an after-tax adjustment of $3.5 million to increase retained earnings, with an equal and offsetting adjustment to OCI, that was recorded at the beginning of the 2009 second quarter to reclassify noncredit related impairment to OCI for previously impaired securities. The adjustment was applicable only to noncredit OTTI relating to the debt securities that we do not have the intent to sell. Noncredit OTTI losses related to debt securities that we intend to sell (or for which we cannot assert that it is more likely than not that we will not have to sell the securities before recovery) were not reclassified.

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OTTI ANALYSIS ON CERTAIN SECURITIES PORTFOLIOS

Our three highest risk segments of our investment portfolio are the Alt-A mortgage backed, pooled-trust-preferred, and private-label collateralized mortgage obligation (CMO) portfolios. The Alt-A mortgage backed securities and pooled-trust-preferred securities are located within the asset-backed securities portfolio. The performance of the underlying securities in each of these segments continued to reflect the economic environment. Each of these securities in these three segments is subjected to a monthly review of the projected cash flows, supporting our impairment analysis. These reviews are supported with analysis from independent third parties. *(See the Securities and Other-Than-Temporary Impairment section located within the Critical Accounting Policies and Use of Significant Estimates section for additional information.)* These three segments, and the results of our impairment analysis for each segment, are discussed in further detail below:

Alt-A mortgage-backed and private-label collateralized mortgage obligation (CMO) securities represent securities collateralized by first-lien residential mortgage loans. As the lowest level input that is significant to the fair value measurement of these securities in its entirety was a Level 3 input, we classified all securities within these portfolios as Level 3 in the fair value hierarchy. The securities were priced with the assistance of an outside third-party consultant using a discounted cash flow approach and the independent third-party s proprietary pricing model. The model used inputs such as estimated prepayment speeds, losses, recoveries, default rates that were implied by the underlying performance of collateral in the structure or similar structures, discount rates that were implied by market prices for similar securities, collateral structure types, and house price depreciation/appreciation rates that were based upon macroeconomic forecasts.

We analyzed both our Alt-A mortgage-backed and private-label CMO securities portfolios to determine if the securities in these portfolios were other-than-temporarily-impaired. We used the analysis to determine whether we believed it probable that all contractual cash flows would not be collected. All securities in these portfolios remained current with respect to interest and principal at June 30, 2009.

Our analysis indicated, as of June 30, 2009, a total of 14 Alt-A mortgage-backed securities and 4 private-label CMO securities could experience loss of principal in the future. The future expected losses of principal on these other-than-temporarily impaired securities ranged from 0.1% to 89.1% of their par value. The average amount of future principal loss was 3.9% of their par value. These losses were projected to occur beginning anywhere from 6 months to as many as 18 years in the future. We measured the amount of credit impairment on these securities using the cash flows discounted at each securities effective rate. As a result, in the 2009 second quarter, we recorded $5.9 million of credit OTTI in our Alt-A mortgage-backed securities portfolio representing additional impairment on four previously impaired securities and one security that was previously not impaired. Credit OTTI of $1.3 million was recorded for three newly impaired and one previously impaired private-label CMO securities in the 2009 second quarter.

Pooled-trust-preferred securities represent collateralized debt obligations (CDOs) backed by a pool of debt securities issued by financial institutions. As the lowest level input that is significant to the fair value measurement of these securities in its entirety was a Level 3 input, we classified all securities within this portfolio as Level 3 in the fair value hierarchy. The collateral generally consisted of trust-preferred securities and subordinated debt securities issued by banks, bank holding companies, and insurance companies. A full cash flow analysis was used to estimate fair values and assess impairment for each security within this portfolio. Impairment was calculated as the difference between the carrying amount and the amount of cash flows discounted at each securities effective rate. We engaged a third party specialist with direct industry experience in pooled trust preferred securities valuations to provide assistance in estimating the fair value and expected cash flows for each security in this portfolio. Relying on cash flows was necessary because there was a lack of observable transactions in the market and many of the original sponsors or dealers for these securities were no longer able to provide a fair value that was compliant with FASB Statement No. 157, *Fair Value Measurements.*

The analysis was completed by evaluating the relevant credit and structural aspects of each pooled trust preferred security in the portfolio, including collateral performance projections for each piece of collateral in each security and terms of each security s structure. The credit review included analysis of profitability, credit quality, operating efficiency, leverage, and liquidity using the most recently available financial and regulatory information for each underlying collateral issuer. We also reviewed historical industry default data and current/near term operating conditions. Using the results of our analysis, we estimated appropriate default and recovery probabilities for each piece of collateral and then estimated the expected cash flows for each security. All deferrals were considered to be defaults and a recovery assumption of 10% on bank issuers and 15% on insurance issuers one year after the actual or projected default occurs was used. As a result of this testing, we believe we will experience a loss of principal on seven securities; and as such, recorded credit OTTI of $12.5 million for five newly impaired and two previously impaired pooled-trust-preferred securities in the 2009 second quarter.

Please refer to the Investment Securities Portfolio discussion for additional information regarding OTTI.

***Goodwill***

Goodwill is tested for impairment annually, as of October 1, using a two-step process that begins with an estimation of the fair value of a reporting unit. Goodwill impairment exists when a reporting unit s carrying value of goodwill exceeds its implied fair value. Goodwill is also tested for impairment on an interim basis, using the same two-step process as the annual testing, if an event occurs or circumstances change between annual tests that would more likely than not reduce the fair value of the reporting unit below its carrying amount. We had previously performed goodwill impairment tests at June 30, October 1, and December 31, 2008, and concluded no impairment existed at those dates. During the 2009 first quarter, our stock price declined 78%, from $7.66 per common share at December 31, 2008, to $1.66 per common share at March 31, 2009. Peer banks also experienced declines in market capitalization. This decline primarily reflected the continuing economic slowdown and increased market concern surrounding financial institutions credit risks and capital positions, as well as uncertainty related to increased regulatory supervision and intervention. We determined that these changes would more-likely-than-not reduce the fair value of certain reporting units below their carrying amounts. Therefore, we performed an interim goodwill impairment test during the 2009 first quarter. An independent third party was engaged to assist with the impairment assessment.

Significant judgment is applied when goodwill is assessed for impairment. This judgment includes developing cash flow projections, selecting appropriate discount rates, identifying relevant market comparables, incorporating general economic and market conditions, and selecting an appropriate control premium. The selection and weighting of the various fair value techniques may result in a higher or lower fair value. Judgment is applied in determining the weightings that are most representative of fair value. The assumptions used in the goodwill impairment assessment and the application of these estimates and assumptions are discussed below.

<u>2009 FIRST QUARTER IMPAIRMENT TESTING</u>

The first step (Step 1) of impairment testing requires a comparison of each reporting unit s fair value to carrying value to identify potential impairment. For our impairment testing conducted during the 2009 first quarter, we identified four reporting units: Regional Banking, PFG, Insurance, and Auto Finance and Dealer Services (AFDS).

Although Insurance is included within PFG for business segment reporting, it was evaluated as a separate reporting unit for goodwill impairment testing because it has its own separately allocated goodwill resulting from prior acquisitions. The fair value of PFG (determined using the market approach as described below), excluding Insurance, exceeded its carrying value, and goodwill was determined to not be impaired for this reporting unit.

There was no goodwill associated with AFDS and, therefore, it was not subject to impairment testing.

For Regional Banking, we utilized both the income and market approaches to determine fair value. The income approach was based on discounted cash flows derived from assumptions of balance sheet and income statement activity. An internal forecast was developed by considering several long-term key business drivers such as anticipated loan and deposit growth. The long-term growth rate used in determining the terminal value was estimated at 2.5%. The discount rate of 14% was estimated based on the Capital Asset Pricing Model, which considered the risk-free interest rate (20-year Treasury Bonds), market risk premium, equity risk premium, and a company-specific risk factor. The company-specific risk factor was used to address the uncertainty of growth estimates and earnings projections of management. For the market approach, revenue, earnings and market capitalization multiples of comparable public companies were selected and applied to the Regional Banking unit s applicable metrics such as book and tangible book values. A 20% control premium was used in the market approach. The results of the income and market approaches were weighted 75% and 25%, respectively, to arrive at the final calculation of fair value. As market capitalization declined across the banking industry, we believed that a heavier weighting on the income approach is more representative of a market participant s view. For the Insurance reporting unit, management utilized a market approach to determine fair value. The aggregate fair market values were compared with market capitalization as an assessment of the appropriateness of the fair value measurements. As our stock price fluctuated greatly, we used our average stock price for the 30 days preceding the valuation date to determine market capitalization. The aggregate fair market values of the reporting units compared with market capitalization indicated an implied premium of 27%. A control premium analysis indicated that the implied premium was within range of overall premiums observed in the market place. Neither the Regional Banking nor Insurance reporting units passed Step 1.

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The second step (Step 2) of impairment testing is necessary only if the reporting unit does not pass Step 1. Step 2 compares the implied fair value of the reporting unit goodwill with the carrying amount of the goodwill for the reporting unit. The implied fair value of goodwill is determined in the same manner as goodwill that is recognized in a business combination. Significant judgment and estimates are involved in estimating the fair value of the assets and liabilities of the reporting unit.

To determine the implied fair value of goodwill, the fair value of Regional Banking and Insurance (as determined in Step 1) was allocated to all assets and liabilities of the reporting units including any recognized or unrecognized intangible assets. The allocation was done as if the reporting unit was acquired in a business combination, and the fair value of the reporting unit was the price paid to acquire the reporting unit. This allocation process is only performed for purposes of testing goodwill for impairment. The carrying values of recognized assets or liabilities (other than goodwill, as appropriate) were not adjusted nor were any new intangible assets recorded. Key valuations were the assessment of core deposit intangibles, the mark-to-fair-value of outstanding debt and deposits, and mark-to-fair-value on the loan portfolio. Core deposits were valued using a 15% discount rate. The marks on our outstanding debt and deposits were based upon observable trades or modeled prices using current yield curves and market spreads. The valuation of the loan portfolio indicated discounts in the ranges of 9%-24%, depending upon the loan type. For every 100 basis point change in the valuation of our overall loan portfolio, implied goodwill would be impacted by approximately $325 million. The estimated fair value of these loan portfolios was based on an exit price, and the assumptions used were intended to approximate those that a market participant would have used in valuing the loans in an orderly transaction, including a market liquidity discount. The significant market risk premium that is a consequence of the current distressed market conditions was a significant contributor to the valuation discounts associated with these loans. We believed these discounts were consistent with transactions currently occurring in the marketplace.

Upon completion of Step 2, we determined that the Regional Banking and Insurance reporting units goodwill carrying values exceeded their implied fair values of goodwill by $2,573.8 million and $28.9 million, respectively. As a result, we recorded a noncash pretax impairment charge of $2,602.7 million, or $7.09 per common share, in the 2009 first quarter. The impairment charge was included in noninterest expense and did not affect our regulatory and tangible capital ratios.

2009 SECOND QUARTER IMPAIRMENT TESTING

While we recorded an impairment charge of $4.2 million related to the sale of a small payments-related business completed in July 2009, we concluded that no other goodwill impairment was required during the 2009 second quarter.

Subsequent to the 2009 first quarter impairment testing, we reorganized our Regional Banking segment to reflect how our assets and operations are now managed. The Regional Banking business segment, which through March 31, 2009, had been managed geographically, is now managed by a product segment approach. Essentially, Regional Banking has been divided into the new segments of Retail and Business Banking, Commercial Banking, and Commercial Real Estate.

Primarily as a result of the 2009 first and second quarter impairment charges, our goodwill totaled $0.4 billion at June 30, 2009. Of this amount, $0.3 billion was allocated to the Retail and Business Banking segment.

Due to the current economic environment and other uncertainties, it is possible that our estimates and assumptions may adversely change in the future. If our market capitalization decreases or the liquidity discount on our loan portfolio improves significantly without a concurrent increase in market capitalization, we may be required to record additional goodwill impairment losses in future periods, whether in connection with our next annual impairment testing in the 2009 third quarter or prior to that, if any changes constitute a triggering event. It is not possible at this time to determine if any such future impairment loss would result or, if it does, whether such charge would be material. However, any such future impairment loss would be limited to the remaining goodwill balance of $0.4 billion at June 30, 2009.

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***Franklin Loans Restructuring Transaction***

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

Franklin is a specialty consumer finance company primarily engaged in servicing residential mortgage loans. Prior to March 31, 2009, Franklin owned a portfolio of loans secured by first- and second- liens on 1-4 family residential properties. At December 31, 2008, our total loans outstanding to Franklin were $650.2 million, all of which were placed on nonaccrual status. Additionally, the specific allowance for loan and lease losses for the Franklin portfolio was $130.0 million, resulting in our net exposure to Franklin at December 31, 2008, of $520.2 million.

On March 31, 2009, we entered into a transaction with Franklin whereby a Huntington wholly-owned REIT subsidiary (REIT) indirectly acquired an 84% ownership right in a trust which holds all the underlying consumer loans and other real estate owned (OREO) properties that were formerly collateral for the Franklin commercial loans. The equity interests provided to Franklin by the REIT were pledged by Franklin as collateral for the Franklin commercial loans.

As a result of the restructuring, on a consolidated basis, the $650.2 million nonaccrual commercial loan to Franklin at December 31, 2008, is no longer reported. Instead, we now report the loans secured by first- and second- mortgages on residential properties and OREO properties both of which had previously been assets of Franklin or its subsidiaries and were pledged to secure our loan to Franklin. At the time of the restructuring, the loans had a fair value of $493.6 million and the OREO properties had a fair value of $79.6 million. As a result, NALs declined by a net amount of $284.1 million as there were $650.2 million commercial NALs outstanding related to Franklin, and $366.1 million mortgage-related NALs outstanding, representing first- and second- lien mortgages that were nonaccruing at March 31, 2009. Also, our specific allowance for loan and lease losses for the Franklin portfolio of $130.0 million was eliminated; however, no initial increase to the allowance for loan and lease losses (ALLL) relating to the acquired mortgages was recorded as these assets were recorded at fair value.

In accordance with Statement No. 141R, we recorded a net deferred tax asset of $159.9 million related to the difference between the tax basis and the book basis in the acquired assets. Because the acquisition price, represented by the equity interests in our wholly-owned subsidiary, was equal to the fair value of the acquired 84% ownership right, no goodwill was created from the transaction. The recording of the net deferred tax asset was a bargain purchase under Statement No. 141R, and was recorded as a tax benefit in the 2009 first quarter.

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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 consolidated balance sheet and income statement trends are discussed. All earnings per share data are reported on a diluted basis. For additional insight on financial performance, please read this section in conjunction with the Business Segment discussion.

The below summary provides an update of key events and trends during the current quarter. Comparisons are made with the prior quarter, as we believe this comparison provides the most meaningful measurement relative to analyzing trends.

**Summary**

We reported a net loss of $125.1 million in the 2009 second quarter, representing a loss per common share of $0.40. This compared favorably with the prior quarter s net loss of $2,433.2 million, or $6.79 per common share, as the prior quarter was significantly impacted by a $2,602.7 million ($7.09 per common share) goodwill impairment charge, partially offset by a $159.9 million ($0.44 per common share) nonrecurring tax benefit associated with the prior quarter s Franklin restructuring. In addition to these items, comparisons with the prior quarter were significantly impacted by other factors that are discussed later in the Significant Items section *(see Significant Items discussion).*

The largest contributor to our 2009 second quarter net loss was a $121.9 million, or 42%, increase in our provision for credit losses to $413.7 million. This increase resulted from our decision to continue to build reserves based primarily from our review of every noncriticized commercial relationship with an aggregate exposure of over $500,000. The review encompassed $13 billion of outstanding balances consisting of commercial and industrial (C&I), CRE, and business banking loans. *(See Commercial Loan Portfolio Review And Actions section located within the Commercial Credit section for additional information.)* While we continue to believe our commercial portfolio will remain under pressure, we believe that the risks in our portfolio are manageable.

Credit quality performance in the 2009 second quarter continued to be negatively impacted by the sustained economic weaknesses in our Midwest markets. The continued trend of higher unemployment rates and declining home values in our markets negatively impacted consumer loan credit quality. Non-Franklin net charge-offs (NCOs) totaled $344.5 million, compared with $213.2 million in the prior quarter. The increase was largely within the commercial loan portfolio, as the single family home builder and retail project segments continued to be stressed. NPAs also increased, primarily within the commercial loan portfolio, reflecting the continued decline in the housing markets, and stress on retail sales. Our outlook is that the economy will remain under stress, and that no improvement will be seen through the end of 2009. As a result, we expect that the overall level of NPAs and NCOs will remain elevated, especially as related to continued softness in our C&I and CRE portfolios.

During the current quarter, we took proactive steps to increase our capital position as we executed total additions of $704.9 million to Tier 1 common equity. This capital raising was accomplished through several actions including discretionary equity issuances, a common stock offering, conversion of preferred stock, and a gain on the redemption of a portion of our junior subordinated debt. These actions strengthened all of our period-end capital ratios. Our TCE ratio increased to 5.68% from 4.65%, and our Tier 1 common equity ratio increased to 6.80% from 5.64%.

Our period-end liquidity position remained strong as average core deposits grew at a 17% annualized rate, thus reducing our reliance on noncore funding. As of June 30, 2009, we had $8.0 billion of unused Federal Home Loan Bank (FHLB) and Federal Reserve borrowing capacity, $3.2 billion in unpledged investment securities, and our available cash totaled $2.1 billion.

Fully-taxable equivalent net interest income in the 2009 second quarter increased $10.0 million, or 3%, compared with the prior quarter. The increase reflected a 13 basis point improvement in our net interest margin, partially offset by a 5% decline in average total loans and leases. The margin improvement reflected the impact of strong core deposit growth, the benefits of a more disciplined focus on deposit and loan pricing, and the benefits of our Franklin restructuring during the 2009 first quarter; partially offset by the negative impact of maintaining a higher liquidity position and the higher levels of NPAs. We expect that the net interest margin will be flat or improve slightly from the 2009 second quarter level. We expect that average total loans will decline modestly, reflecting the impacts of our efforts to reduce our CRE exposure and the weak economy, as well as charge-offs. As previously mentioned, average core deposits grew at an annualized 17% rate, despite the competitive market. Deposit growth is a strategic priority for us through the end of 2009.

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Noninterest income in the 2009 second quarter increased $26.8 million compared with the 2009 first quarter. The following table reflects the impacts of Significant Items to noninterest income *(see Significant Items ).*

**Table 1 Noninterest Income Significant Items Impact 2009 Second Quarter vs. 2009 First Quarter**

| *(in thousands)* | **Second Quarter 2009** | First Quarter 2009 | Change |
|---|---|---|---|
| **Total noninterest income, excluding Significant Items** | **$ 234,583** | $ 239,102 | $ (4,519) |
| *Significant Items:* | | | |
| Gain related to Visa® stock | **31,362** | | 31,362 |
| **Total noninterest income** | **$ 265,945** | $ 239,102 | $ 26,843 |

As shown in the table above, after adjusting for Significant Items , noninterest income decreased $4.5 million. This decrease reflected a decline in brokerage and insurance income as a result of lower annuity sales and stronger seasonal insurance income in the prior quarter. The prior quarter also represented a record level of investment sales. This decrease was partially offset by stronger growth in service charges on deposits and electronic banking income as a result of normal season increases.

The following table reflects the impacts of Significant Items to noninterest expense *(see Significant Items ).*

**Table 2 Noninterest Expense Significant Items Impact 2009 Second Quarter vs. 2009 First Quarter**

| *(in thousands)* | **Second Quarter 2009** | First Quarter 2009 | Change |
|---|---|---|---|
| **Total noninterest expense, excluding Significant Items** | **$ 379,605** | $ 367,056 | $ 12,549 |
| *Significant Items:* | | | |
| Goodwill impairment | **4,231** | 2,602,713 | (2,598,482) |
| FDIC special assessment | **23,555** | | 23,555 |
| Gain on redemption of junior subordinated debt | **(67,409)** | | (67,409) |
| **Total noninterest expense** | **$ 339,982** | $ 2,969,769 | $ (2,629,787) |

As shown in the table above, after adjusting for Significant Items *(see Significant Items )*, noninterest expense increased $12.5 million. This increase primarily reflected a $16.6 million increase in OREO expenses, partially offset by a $4.2 million decline in personnel expenses. The decrease in personnel expenses reflected the implementation of our $100 million expense reduction initiatives. We expect to exceed the targeted $100 million of expense savings during 2010.

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**Table 3 Selected Quarterly Income Statement Data**[1]

| | 2009 | | 2008 | | |
|---|---|---|---|---|---|
| *(in thousands, except per share amounts)* | **Second** | First | Fourth | Third | Second |
| Interest income | **$ 563,004** | $ 569,957 | $ 662,508 | $ 685,728 | $ 696,675 |
| Interest expense | **213,105** | 232,452 | 286,143 | 297,092 | 306,809 |
| Net interest income | **349,899** | 337,505 | 376,365 | 388,636 | 389,866 |
| Provision for credit losses | **413,707** | 291,837 | 722,608 | 125,392 | 120,813 |
| **Net interest (loss) income after provision for credit losses** | **(63,808)** | 45,668 | (346,243) | 263,244 | 269,053 |
| Service charges on deposit accounts | **75,353** | 69,878 | 75,247 | 80,508 | 79,630 |
| Brokerage and insurance income | **32,052** | 39,948 | 31,233 | 34,309 | 35,694 |
| Trust services | **25,722** | 24,810 | 27,811 | 30,952 | 33,089 |
| Electronic banking | **24,479** | 22,482 | 22,838 | 23,446 | 23,242 |
| Bank owned life insurance income | **14,266** | 12,912 | 13,577 | 13,318 | 14,131 |
| Automobile operating lease income | **13,116** | 13,228 | 13,170 | 11,492 | 9,357 |
| Mortgage banking income (loss) | **30,827** | 35,418 | (6,747) | 10,302 | 12,502 |
| Securities gains (losses) | **(7,340)** | 2,067 | (127,082) | (73,790) | 2,073 |
| Other income | **57,470** | 18,359 | 17,052 | 37,320 | 26,712 |
| **Total noninterest income** | **265,945** | 239,102 | 67,099 | 167,857 | 236,430 |
| Personnel costs | **171,735** | 175,932 | 196,785 | 184,827 | 199,991 |
| Outside data processing and other services | **39,266** | 32,432 | 31,230 | 32,386 | 30,186 |
| Net occupancy | **24,430** | 29,188 | 22,999 | 25,215 | 26,971 |
| Equipment | **21,286** | 20,410 | 22,329 | 22,102 | 25,740 |
| Amortization of intangibles | **17,117** | 17,135 | 19,187 | 19,463 | 19,327 |
| Professional services | **18,789** | 18,253 | 17,420 | 13,405 | 13,752 |
| Marketing | **7,491** | 8,225 | 9,357 | 7,049 | 7,339 |
| Automobile operating lease expense | **11,400** | 10,931 | 10,483 | 9,093 | 7,200 |
| Telecommunications | **6,088** | 5,890 | 5,892 | 6,007 | 6,864 |
| Printing and supplies | **4,151** | 3,572 | 4,175 | 4,316 | 4,757 |
| Goodwill impairment | **4,231** | 2,602,713 | | | |
| Other expense | **13,998** | 45,088 | 50,237 | 15,133 | 35,676 |
| **Total noninterest expense** | **339,982** | 2,969,769 | 390,094 | 338,996 | 377,803 |
| (Loss) Income before income taxes | **(137,845)** | (2,684,999) | (669,238) | 92,105 | 127,680 |
| (Benefit) Provision for income taxes | **(12,750)** | (251,792) | (251,949) | 17,042 | 26,328 |
| **Net (loss) income** | **$ (125,095)** | $ (2,433,207) | $ (417,289) | $ 75,063 | $ 101,352 |
| Dividends on preferred shares | **57,451** | 58,793 | 23,158 | 12,091 | 11,151 |
| | **$ (182,546)** | $ (2,492,000) | $ (440,447) | $ 62,972 | $ 90,201 |

| | | | | | |
|---|---|---|---|---|---|
| **Net (loss) income applicable to common shares** | | | | | |
| Average common shares basic | **459,246** | 366,919 | 366,054 | 366,124 | 366,206 |
| Average common shares diluted (2) | **459,246** | 366,919 | 366,054 | 367,361 | 367,234 |
| **Per common share** | | | | | |
| Net (loss) income diluted | **(0.40)** | (6.79) | (1.20) | 0.17 | 0.25 |
| Cash dividends declared | **0.0100** | 0.0100 | 0.1325 | 0.1325 | 0.1325 |
| Return on average total assets | **0.97**% | (18.22) | (3.04)% | 0.55% | 0.73% |
| Return on average total shareholders equity | **(10.2)** | N.M. | (23.6) | 4.7 | 6.4 |
| Return on average tangible shareholders equity (3) | **(10.3)** | 18.4 | (43.2) | 11.6 | 15.0 |
| Net interest margin (4) | **3.10** | 2.97 | 3.18 | 3.29 | 3.29 |
| Efficiency ratio (5) | **51.0** | 60.5 | 64.6 | 50.3 | 56.9 |
| Effective tax rate (benefit) | **(9.2)** | (9.4) | (37.6) | 18.5 | 20.6 |
| **Revenue fully taxable equivalent (FTE)** | | | | | |
| Net interest income | **$ 349,899** | $ 337,505 | $ 376,365 | $ 388,636 | $ 389,866 |
| FTE adjustment | **1,216** | 3,582 | 3,641 | 5,451 | 5,624 |
| Net interest income (4) | **351,115** | 341,087 | 380,006 | 394,087 | 395,490 |
| Noninterest income | **265,945** | 239,102 | 67,099 | 167,857 | 236,430 |
| **Total revenue (4)** | **$ 617,060** | $ 580,189 | $ 447,105 | $ 561,944 | $ 631,920 |

N.M., not a meaningful value.

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

(2) For all the quarterly periods presented above, the impact of the convertible preferred stock issued in April of 2008 was excluded from

the diluted share calculation because the result would have been higher than basic earnings per common share (anti-dilutive) for the periods.

(3) Net income excluding expense for amortization of intangibles for the period divided by average tangible shareholders equity. Average tangible shareholders equity equals average total stockholders 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 divided by the sum of FTE net interest income and noninterest income excluding securities gains (losses).

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**Table 4 Selected Year to Date Income Statement Data**[1]

| | Six Months Ended June 30, | | Change | |
|---|---|---|---|---|
| *(in thousands, except per share amounts)* | **2009** | 2008 | Amount | Percent |
| Interest income | **$ 1,132,961** | $ 1,450,086 | $ (317,125) | (21.9)% |
| Interest expense | **445,557** | 683,396 | (237,839) | (34.8) |
| Net interest income | **687,404** | 766,690 | (79,286) | (10.3) |
| Provision for credit losses | **705,544** | 209,463 | 496,081 | N.M. |
| **Net interest (loss) income after provision for credit losses** | **(18,140)** | 557,227 | (575,367) | N.M. |
| Service charges on deposit accounts | **145,231** | 152,298 | (7,067) | (4.6) |
| Brokerage and insurance income | **72,000** | 72,254 | (254) | (0.4) |
| Trust services | **50,532** | 67,217 | (16,685) | (24.8) |
| Electronic Banking | **46,961** | 43,983 | 2,978 | 6.8 |
| Bank owned life insurance income | **27,178** | 27,881 | (703) | (2.5) |
| Automobile operating lease income | **26,344** | 15,189 | 11,155 | 73.4 |
| Mortgage banking income | **66,245** | 5,439 | 60,806 | N.M. |
| Securities (losses) gains | **(5,273)** | 3,502 | (8,775) | N.M. |
| Other income | **75,829** | 84,419 | (8,590) | (10.2) |
| **Total noninterest income** | **505,047** | 472,182 | 32,865 | 7.0 |
| Personnel costs | **347,667** | 401,934 | (54,267) | (13.5) |
| Outside data processing and other services | **71,698** | 64,547 | 7,151 | 11.1 |
| Net occupancy | **53,618** | 60,214 | (6,596) | (11.0) |
| Equipment | **41,696** | 49,534 | (7,838) | (15.8) |
| Amortization of intangibles | **34,252** | 38,244 | (3,992) | (10.4) |
| Professional services | **37,042** | 22,842 | 14,200 | 62.2 |
| Marketing | **15,716** | 16,258 | (542) | (3.3) |
| Automobile operating lease expense | **22,331** | 11,706 | 10,625 | 90.8 |
| Telecommunications | **11,978** | 13,109 | (1,131) | (8.6) |
| Printing and supplies | **7,723** | 10,379 | (2,656) | (25.6) |
| Goodwill impairment | **2,606,944** | | 2,606,944 | |
| Other expense | **59,086** | 59,517 | (431) | (0.7) |
| **Total noninterest expense** | **3,309,751** | 748,284 | 2,561,467 | N.M. |
| (Loss) Income before income taxes | **(2,822,844)** | **281,125** | (3,103,969) | N.M. |
| (Benefit) Provision for income taxes | **(264,542)** | 52,705 | (317,247) | N.M. |
| **Net (loss) income** | **$ (2,558,302)** | $ 228,420 | $ (2,786,722) | N.M.% |
| Dividends declared on preferred shares | **116,244** | 11,151 | 105,093 | N.M. |
| **Net (loss) income applicable to common shares** | **$ (2,674,546)** | $ 217,269 | $ (2,891,815) | N.M.% |

| | | | | |
|---|---|---|---|---|
| Average common shares basic | **413,083** | 366,221 | 46,862 | 12.8% |
| Average common shares diluted [2] | **413,083** | 387,322 | 25,761 | 6.7 |
| **Per common share** | | | | |
| Net (loss) income per common share diluted | **$ (6.47)** | $ 0.59 | $ (7.06) | N.M. |
| Cash dividends declared | **0.0200** | 0.3975 | (0.3775) | (95.0) |
| Return on average total assets | **(9.77)%** | 0.83% | (10.60)% | N.M.% |
| Return on average total shareholders equity | **(85.0)** | 7.6 | (92.6) | N.M. |
| Return on average tangible shareholders equity [3] | **(124.2)** | 18.2 | (142.4) | N.M. |
| Net interest margin [4] | **3.03** | 3.26 | (0.23) | (7.1) |
| Efficiency ratio [5] | **55.6** | 57.0 | (1.4) | (2.5) |
| (Benefit) Effective tax rate | **(9.4)** | 18.7 | (28.1) | N.M |
| **Revenue fully taxable equivalent (FTE)** | | | | |
| Net interest income | **$ 687,404** | $ 766,690 | $ (79,286) | (10.3)% |
| FTE adjustment | **4,798** | 11,126 | (6,328) | (56.9) |
| Net interest income | **692,202** | 777,816 | (85,614) | (11.0) |
| Non-interest income | **505,047** | 472,182 | 32,865 | 7.0 |
| **Total revenue** | **$ 1,197,249** | $ 1,249,998 | $ (52,749) | (4.2)% |

N.M., not a meaningful value.

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

(2) For the six months ended June 30, 2009, the impact of the convertible preferred stock issued in April of 2008 was excluded from the diluted share calculation because the result was more

than basic earnings per common share (anti-dilutive) for the period. For the six months ended June 30, 2008, the impact of the convertible preferred stock issued in April of 2008 was included from the diluted share calculation because the result was less than basic earnings per common share (dilutive) for the period.

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

calculated assuming a 35% tax rate.

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

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

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## Significant Items

### *Definition of Significant Items*

From time to time, revenue, expenses, or taxes, are impacted by items we believe 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 we believe the outsized impact at that time to be one-time 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: regulatory actions/assessments, windfall gains, changes in accounting principles, one-time tax assessments/refunds, and other similar items. In other cases they may result from our decisions associated with significant corporation actions out of the ordinary course of business: merger/restructuring charges, recapitalization actions, goodwill impairment, and other similar items.

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, and asset valuation writedowns reflect ordinary banking activities and are, therefore, typically excluded from consideration as a significant item.

We believe the disclosure of Significant Items in current and prior period results aids in better understanding our performance and trends so readers can ascertain which of such items, if any, they may wish to include or exclude from an analysis of our performance 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.

Significant Items for any particular period are not intended to be a complete list of items that may materially impact current or future period performance. A number of items could materially impact these periods, including those described in our 2008 Annual Report on Form 10-K and other factors described from time to time in our other filings with the SEC.

The above description of Significant Items represents a change in definition from that provided in our 2008 Annual Report. Certain components listed within the Timing Differences section found within the Significant Items section on our 2008 Annual Report are no longer considered within the scope of our definition of Significant Items . Although these items are subject to more volatility than other items due to changes in market and economic environment conditions, they reflect ordinary banking activities.

**Table 5 Significant Items Influencing Earnings Performance Comparison**

| | Three Months Ended | | | | | |
|---|---|---|---|---|---|---|
| | **June 30, 2009** | | March 31, 2009 | | June 30, 2008 | |
| *(in millions)* | **After-tax** | **EPS** | After-tax | EPS | After-tax | EPS |
| **Net income reported earnings** | **$ (125.1)** | | $ (2,433.2) | | $ 101.4 | |
| **Earnings per share, after tax** | | **$ (0.40)** | | $ (6.79) | | $ 0.25 |
| Change from prior quarter $ | | **6.39** | | (5.59) | | (0.10) |
| Change from prior quarter % | | **(94.1)%** | | N.M.% | | 28.6% |
| Change from a year-ago $ | | **$ (0.65)** | | $ (7.14) | | $ (0.09) |
| Change from a year-ago % | | **N.M.%** | | N.M.% | | (26.5)% |

| **Significant items favorable (unfavorable) impact:** | **Earnings (1)** | **EPS** | Earnings (1) | EPS | Earnings (1) | EPS |
|---|---|---|---|---|---|---|
| Gain on redemption of junior subordinated debt | **$ 67.4** | **$ 0.10** | $ | $ | $ | $ |
| Gain related to Visa® stock | **31.4** | **0.04** | | | | |
| FDIC special assessment | **(23.6)** | **(0.03)** | | | | |
| Goodwill impairment | **(4.2)** | **(0.01)** | (2,602.7) | (7.09) | | |
| Preferred stock conversion deemed dividend | | **(0.06)** | | (0.08) | | |
| Franklin relationship restructuring (2) | | | 159.9 | 0.44 | | |
| Deferred tax valuation allowance benefit (2) | | | | | 3.4 | 0.01 |
| Merger and restructuring costs | | | | | (14.6) | (0.03) |

| | Six Months Ended | | | |
|---|---|---|---|---|
| | **June 30, 2009** | | June 30, 2008 | |
| *(in millions)* | **After-tax** | **EPS** | After-tax | EPS |
| **Net income reported earnings** | **$ (2,558.3)** | | $ 228.4 | |
| **Earnings per share, after tax** | | **$ (6.47)**(3) | | $ 0.59 |
| Change from a year-ago $ | | **(7.06)** | | (0.15) |
| Change from a year-ago % | | **N.M.%** | | (20.3)% |

| **Significant items favorable (unfavorable) impact:** | **Earnings (1)** | **EPS** | Earnings (1) | EPS |
|---|---|---|---|---|
| Franklin relationship restructuring (2) | **$ 159.9** | **$ 0.39** | $ | $ |
| Gain on redemption of junior subordinated debt | **67.4** | **0.11** | | |
| Gain related to Visa® stock | **31.4** | **0.05** | 25.1 | 0.04 |
| Goodwill impairment | **(2,606.9)** | **(6.31)** | | |
| FDIC special assessment | **(23.6)** | **(0.04)** | | |
| Preferred stock conversion deemed dividend | | **(0.14)** | | |
| Deferred tax valuation allowance benefit (2) | | | 14.5 | 0.04 |
| Visa® indemnification liability | | | 12.4 | 0.02 |
| Merger and restructuring costs | | | (21.9) | (0.04) |
| Asset impairment | | | (12.4) | (0.02) |

N.M., not a meaningful value.

(1) Pretax unless otherwise noted.

(2) After-tax.

(3) Reflects the impact of the 201.6 million additional shares of common stock issued during the period. Of these shares, 24.6 million were issued late in the 2009 first quarter and the remaining 177.0 million shares were issued during the 2009 second quarter.

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

Earnings comparisons were impacted by a number of significant items summarized below.

1. **Goodwill Impairment.** The impacts of goodwill impairment on our reported results were as follows:
   - During the 2009 first quarter, bank stock prices continued to decline significantly. Our stock price declined 78% from $7.66 per share at December 31, 2008 to $1.66 per share at March 31, 2009. Given this significant decline, we conducted an interim test for goodwill impairment. As a result, we recorded a noncash $2,602.7 million pretax ($7.09 per common share) charge. *(See Goodwill discussion located within the Critical Accounting Policies and Use of Significant Estimates section for additional information).*
   - During the 2009 second quarter, a pretax goodwill impairment of $4.2 million ($0.01 per common share) was recorded relating to the sale of a small payments-related business in July 2009.
2. **Franklin Relationship Restructuring.** The impacts of the Franklin relationship on our reported results were as follows *(see Franklin Relationship discussion located within the Risk Management and Capital section and the Franklin Loans discussion located within the Critical Accounting Policies and Use of Significant Estimates discussion for additional information.)*:
   - Performance for the 2009 first quarter included a nonrecurring net tax benefit of $159.9 million ($0.44 per common share) related to the restructuring with Franklin. Also as a result of the restructuring, although earnings were not significantly impacted, commercial NCOs increased $128.3 million as the previously established $130.0 million Franklin-specific ALLL was utilized to write-down the acquired mortgages and OREO collateral to fair value.
   - The restructuring affects the comparability of our 2009 second quarter income statement with prior periods. In the 2009 second quarter, we recorded interest income from the loans that we now own as a result of the restructuring. Interest income was earned through interest payments on accruing loans, from the payoff of loans that were recorded at a discount, and through the accretion of the accretable discount recorded at the time the loans were acquired. Noninterest expense was also impacted as, effective with the 2009 second quarter, we pay Franklin to service the loans, and record the expense of holding foreclosed homes, including any declines in the fair value of these homes below their carrying value.
3. **Preferred Stock Conversion.** During the 2009 first and second quarters, we converted 114,109 and 92,384 shares, respectively, of Series A 8.50% Non-cumulative Perpetual Preferred (Series A Preferred Stock) stock into common stock. As part of these transactions, there was a deemed dividend that did not impact net income, but resulted in negative impacts of $0.08 per common share for the 2009 first quarter and $0.06 per common share for the 2009 second quarter. *(See Capital discussion located within the Risk Management and Capital section for additional information.)*

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4. **Visa®.** Prior to the Visa® initial public offering (IPO) occurring in March 2008, Visa® was owned by its member banks, which included the Bank. The impacts related to the Visa® IPO for the first six-month periods of 2009 and 2008 are presented in the following table:

**Table 6 Visa® impacts First Six Months of 2009 and 2008**

| | 2009 | | 2008 | |
|---|---|---|---|---|
| *(in millions)* | **Second Quarter** | First Quarter | Second Quarter | First Quarter |
| Gain related to Visa® stock (1) | **$ 31.4** | $ | $ | $ 25.1 |
| Visa® indemnification liability (2) | | | | 12.4 |
| Deferred tax valuation allowance benefit (3) | | | 11.1 | 3.4 |

(1) Pretax. Recorded to noninterest income, and represents a gain on the sale of ownership interest in Visa®. As part of the 2009 second quarter sale, we released $7.1 million, as of June 30, 2009, of the remaining indemnification liability. Concurrently, we established a $7.1 million swap liability associated with the conversion protection provided to the purchasers of the Visa® shares.

(2) Pretax. Recorded to noninterest expense, and represents a

reversal of our pro-rata portion of an indemnification charge provided to Visa® by its member banks for various litigation filed against Visa®, as an escrow account was established by Visa® using a portion of the proceeds received from the IPO.

(3) After-tax. Recorded to provision for income taxes, and represents a reduction to the previously established capital loss carry-forward valuation allowance related to the value of Visa® shares held.

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

***2009 Second Quarter***

$67.4 million pretax gain ($0.10 per common share) related to the redemption of a portion of our junior subordinated debt.

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

***2008 Second Quarter***

$14.6 million ($0.03 per common share) of merger and restructuring costs related to the Sky Financial Group, Inc. acquisition in 2007.

$1.4 million of asset impairment, included in other noninterest expense, relating to the charge-off of a receivable.

***2008 First Quarter***

$11.0 million ($0.02 per common share) of asset impairment, including (a) $5.9 million venture capital loss included in other noninterest income, (b) $2.6 million charge-off of a receivable included in other noninterest expense, and (c) $2.5 million write-down of leasehold improvements in our Cleveland main office included net occupancy expense.

$7.3 million ($0.01 per common share) of merger and restructuring costs related to the Sky Financial Group, Inc. acquisition in 2007.

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## Net Interest Income / Average Balance Sheet

### *2009 Second Quarter versus 2008 Second Quarter*

Fully-taxable equivalent net interest income decreased $44.4 million, or 11%, from the year-ago quarter primarily reflecting a 19 basis point decline in the net interest margin to 3.10% from 3.29%. This decline primarily reflected the unfavorable impact of maintaining a higher liquidity position partially offset by managed reductions of our balance sheet and other capital management initiatives. Declining market interest rates as well as the impact of increased NALs also contributed to the decline in net interest margin. Average earning assets also decreased $2.8 billion, or 6%, primarily reflecting a $2.0 billion, or 5%, decline in average total loans and leases.

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

**Table 7 Average Loans/Leases and Deposits 2009 Second Quarter vs. 2008 Second Quarter**

| | Second Quarter | | Change | |
|---|---|---|---|---|
| *(in thousands)* | **2009** | 2008 | Amount | Percent |
| Net interest income FTE | **$ 351,115** | $ 395,490 | $ (44,375) | (11.2)% |
| | | | | |
| *(in millions)* | | | | |
| **Average Loans/Leases** | | | | |
| Commercial and industrial | **$ 13,523** | $ 13,631 | $ (108) | (0.8)% |
| Commercial real estate | **9,199** | 9,601 | (402) | (4.2) |
| Total commercial | **22,722** | 23,232 | (510) | (2.2) |
| Automobile loans and leases | **3,290** | 4,551 | (1,261) | (27.7) |
| Home equity | **7,640** | 7,365 | 275 | 3.7 |
| Residential mortgage | **4,657** | 5,178 | (521) | (10.1) |
| Other consumer | **698** | 699 | (1) | (0.1) |
| Total consumer | **16,285** | 17,793 | (1,508) | (8.5) |
| Total loans | **$ 39,007** | $ 41,025 | $ (2,018) | (4.9)% |
| | | | | |
| **Average Deposits** | | | | |
| Demand deposits noninterest bearing | **$ 6,021** | $ 5,061 | $ 960 | 19.0% |
| Demand deposits interest bearing | **4,547** | 4,086 | 461 | 11.3 |
| Money market deposits | **6,355** | 6,267 | 88 | 1.4 |
| Savings and other domestic time deposits | **5,031** | 5,242 | (211) | (4.0) |
| Core certificates of deposit | **12,501** | 11,058 | 1,443 | 13.0 |
| Total core deposits | **34,455** | 31,714 | 2,741 | 8.6 |
| Other deposits | **5,079** | 6,313 | (1,234) | (19.5) |
| Total deposits | **$ 39,534** | $ 38,027 | $ 1,507 | 4.0% |

The $2.0 billion, or 5%, decrease in average total loans and leases reflected:

- $1.5 billion, or 8%, decrease in average total consumer loans. This primarily reflected a $1.3 billion, or 28%, decline in average automobile loans and leases due to the 2009 first quarter securitization of $1.0 billion of automobile loans and continued runoff of the automobile lease portfolio. The $0.5 billion, or 10%, decline in average residential mortgages reflected the impact of loan sales, as well as the continued refinance of portfolio loans. The majority of this refinance activity has been fixed-rate loans, which we typically sell to the secondary market. Average home equity loans increased 4%, due primarily to higher utilization of existing lines and slower runoff experience. The increased line usage was a result of higher quality borrowers taking advantage of the low interest rate environment.

$0.5 billion, or 2%, decrease in average total commercial loans, with most of the decline reflected in CRE loans. The decline in CRE loans primarily reflected the reclassification process of CRE loans to C&I loans completed late in the 2009 first quarter. The reclassification was primarily associated with loans to businesses secured by the real estate and buildings that house their operations. These owner-occupied loans secured by real estate were underwritten based on the cash flow of the business and are more appropriately classified as C&I loans. Also contributing to the decline were payoffs and pay downs, as well as the impact of NCOs. The decline in average C&I loans reflected pay downs, the impact of the 2009 first quarter reclassification project, and the Franklin restructuring. Also contributing to the decline were payoffs, balance reductions, and charge-offs.

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Average total deposits increased $1.5 billion, or 4%, from the year-ago quarter and reflected:

$2.7 billion, or 9%, growth in average total core deposits, primarily reflecting increased marketing efforts and initiatives for deposit accounts.

Partially offset by:

$1.2 billion, or 20%, decrease in average other deposits, primarily reflecting a managed decline in public fund and foreign time deposits.

***2009 Second Quarter versus 2009 First Quarter***

Compared with the 2009 first quarter, fully-taxable equivalent net interest income increased $10.0 million, or 3%. This reflected a 13 basis point increase in the net interest margin to 3.10% from 2.97%. The increase in the net interest margin reflected a combination of factors including favorable impacts from strong core deposit growth, the benefit of lower deposit pricing, and the recognition of purchase accounting discounts from the payoff of Franklin loans partially offset by the negative impact of maintaining a higher liquidity position. Fully-taxable equivalent net interest income increased despite a $1.1 billion, or 2%, decline in average earning assets with average total loans and leases decreasing 5% and other earning assets, which includes investment securities, increasing 13%.

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

**Table 8 Average Loans/Leases and Deposits 2009 Second Quarter vs. 2009 First Quarter**

| *(in thousands)* | **2009 Second Quarter** | 2009 First Quarter | Change Amount | Change Percent |
|---|---|---|---|---|
| Net interest income FTE | **$ 351,115** | $ 341,087 | $ 10,028 | 2.9% |
| | | | | |
| *(in millions)* | | | | |
| **Average Loans/Leases** | | | | |
| Commercial and industrial | **$ 13,523** | $ 13,541 | $ (18) | (0.1)% |
| Commercial real estate | **9,199** | 10,112 | (913) | (9.0) |
| Total commercial | **22,722** | 23,653 | (931) | (3.9) |
| Automobile loans and leases | **3,290** | 4,354 | (1,064) | (24.4) |
| Home equity | **7,640** | 7,577 | 63 | 0.8 |
| Residential mortgage | **4,657** | 4,611 | 46 | 1.0 |
| Other consumer | **698** | 671 | 27 | 4.0 |
| Total consumer | **16,285** | 17,213 | (928) | (5.4) |
| Total loans | **$ 39,007** | $ 40,866 | $ (1,859) | (4.5)% |
| | | | | |
| **Average Deposits** | | | | |
| Demand deposits noninterest bearing | **$ 6,021** | $ 5,544 | $ 477 | 8.6% |
| Demand deposits interest bearing | **4,547** | 4,076 | 471 | 11.6 |
| Money market deposits | **6,355** | 5,593 | 762 | 13.6 |
| Savings and other domestic time deposits | **5,031** | 5,041 | (10) | (0.2) |
| Core certificates of deposit | **12,501** | 12,784 | (283) | (2.2) |
| Total core deposits | **34,455** | 33,038 | 1,417 | 4.3 |
| Other deposits | **5,079** | 5,151 | (72) | (1.4) |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Total deposits | **$** | **39,534** | $ | 38,189 | $ | 1,345 | 3.5% |

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Average total loans and leases declined $1.9 billion, or 5%, primarily reflecting declines in total CRE and automobile loans and leases.
Average total commercial loans decreased $0.9 billion, or 4%. The decline in average CRE loans primarily reflected the reclassification process of CRE loans to C&I loans noted earlier. Also contributing to the decline were payoffs, balance reductions, and charge-offs. Average C&I loans were essentially unchanged, reflecting the benefit of the first quarter s CRE reclassification and new loan originations, offset almost entirely by payoffs and line reductions as well as the first quarter restructuring of the Franklin relationship which had the effect of reducing C&I loans and increasing residential mortgages and home equity loans.
Average total consumer loans declined $0.9 billion, or 5%. This decline was entirely attributable to the $1.1 billion, or 24%, decrease in average total automobile loans and leases. Average automobile loans declined $1.0 billion, reflecting the impact of a $1.0 billion automobile loan securitization at the end of the 2009 first quarter. Average automobile leases declined $0.1 billion, reflecting the continued runoff of the lease portfolio.
Average residential mortgages and home equity loans were essentially unchanged. The increase due to the 2009 first quarter reclassification of Franklin loans to these categories from C&I loans offset the negative impact of the sale of mortgage loans at the end of the 2009 first quarter. Though mortgage loan originations remained strong, as is our practice, we sold virtually all of our fixed-rate production in the secondary market. Demand for home equity loans remained weak, reflecting the impact of the economic environment and home values.
The 13% increase in average other earning assets reflected redeployment of the cash proceeds from the 2009 first quarter automobile loan securitization into investment securities, as well as the retention of a portion of the resulting securities. Average investment securities increased $0.9 billion, or 20%, from the prior quarter.
Average total deposits increased $1.3 billion, or 4% (14% annualized), from the prior quarter and reflected:

- $1.4 billion, or 4%, growth in average total core deposits, primarily reflecting increased marketing efforts and initiatives for deposit accounts.

Tables 9 and 10 reflect quarterly average balance sheets and rates earned and paid on interest-earning assets and interest-bearing liabilities.

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**Table 9 Consolidated Quarterly Average Balance Sheets**

| Fully-taxable equivalent basis | **2009** | | 2008 | | | Change 2Q09 vs 2Q08 | |
|---|---|---|---|---|---|---|---|
| *(in millions)* | **Second** | First | Fourth | Third | Second | Amount | Percent |
| **Assets** | | | | | | | |
| Interest bearing deposits in banks | **$ 369** | $ 355 | $ 343 | $ 321 | $ 256 | $ 113 | 44.1% |
| Trading account securities | **88** | 278 | 940 | 992 | 1,243 | (1,155) | (92.9) |
| Federal funds sold and securities purchased under resale agreements | | 19 | 48 | 363 | 566 | (566) | (100.0) |
| Loans held for sale | **709** | 627 | 329 | 274 | 501 | 208 | 41.5 |
| Investment securities: | | | | | | | |
| Taxable | **5,181** | 3,961 | 3,789 | 3,975 | 3,971 | 1,210 | 30.5 |
| Tax-exempt | **126** | 465 | 689 | 712 | 717 | (591) | (82.4) |
| Total investment securities | **5,307** | 4,426 | 4,478 | 4,687 | 4,688 | 619 | 13.2 |
| Loans and leases: (1) | | | | | | | |
| Commercial: | | | | | | | |
| Commercial and industrial | **13,523** | 13,541 | 13,746 | 13,629 | 13,631 | (108) | (0.8) |
| Commercial real estate: | | | | | | | |
| Construction | **1,946** | 2,033 | 2,103 | 2,090 | 2,038 | (92) | (4.5) |
| Commercial | **7,253** | 8,079 | 8,115 | 7,726 | 7,563 | (310) | (4.1) |
| Commercial real estate | **9,199** | 10,112 | 10,218 | 9,816 | 9,601 | (402) | (4.2) |
| Total commercial | **22,722** | 23,653 | 23,964 | 23,445 | 23,232 | (510) | (2.2) |
| Consumer: | | | | | | | |
| Automobile loans | **2,867** | 3,837 | 3,899 | 3,856 | 3,636 | (769) | (21.1) |
| Automobile leases | **423** | 517 | 636 | 768 | 915 | (492) | (53.8) |
| Automobile loans and leases | **3,290** | 4,354 | 4,535 | 4,624 | 4,551 | (1,261) | (27.7) |
| Home equity | **7,640** | 7,577 | 7,523 | 7,453 | 7,365 | 275 | 3.7 |
| Residential mortgage | **4,657** | 4,611 | 4,737 | 4,812 | 5,178 | (521) | (10.1) |
| Other loans | **698** | 671 | 678 | 670 | 699 | (1) | (0.1) |
| Total consumer | **16,285** | 17,213 | 17,473 | 17,559 | 17,793 | (1,508) | (8.5) |
| Total loans and leases | **39,007** | 40,866 | 41,437 | 41,004 | 41,025 | (2,018) | (4.9) |
| Allowance for loan and lease losses | **(930)** | (913) | (764) | (731) | (654) | (276) | 42.2 |
| Net loans and leases | **38,077** | 39,953 | 40,673 | 40,273 | 40,371 | (2,294) | (5.7) |
| Total earning assets | **45,480** | 46,571 | 47,575 | 47,641 | 48,279 | (2,799) | (5.8) |
| Cash and due from banks | **2,466** | 1,553 | 928 | 925 | 943 | 1,523 | N.M. |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Intangible assets | **780** | 3,371 | 3,421 | 3,441 | 3,449 | (2,669) | (77.4) |
| All other assets | **3,701** | 3,571 | 3,447 | 3,384 | 3,522 | 179 | 5.1 |
| **Total Assets** | **$ 51,497** | $ 54,153 | $ 54,607 | $ 54,660 | $ 55,539 | $ (4,042) | (7.3)% |
| **Liabilities and Shareholders Equity** | | | | | | | |
| Deposits: | | | | | | | |
| Demand deposits noninterest bearing | **$ 6,021** | $ 5,544 | $ 5,205 | $ 5,080 | $ 5,061 | $ 960 | 19.0% |
| Demand deposits interest bearing | **4,547** | 4,076 | 3,988 | 4,005 | 4,086 | 461 | 11.3 |
| Money market deposits | **6,355** | 5,593 | 5,500 | 5,860 | 6,267 | 88 | 1.4 |
| Savings and other domestic deposits | **5,031** | 5,041 | 5,034 | 5,100 | 5,242 | (211) | (4.0) |
| Core certificates of deposit | **12,501** | 12,784 | 12,588 | 11,993 | 11,058 | 1,443 | 13.0 |
| Total core deposits | **34,455** | 33,038 | 32,315 | 32,038 | 31,714 | 2,741 | 8.6 |
| Other domestic deposits of $250,000 or more | **886** | 1,069 | 1,365 | 1,692 | 1,842 | (956) | (51.9) |
| Brokered deposits and negotiable CDs | **3,740** | 3,449 | 3,049 | 3,025 | 3,361 | 379 | 11.3 |
| Deposits in foreign offices | **453** | 633 | 854 | 1,048 | 1,110 | (657) | (59.2) |
| Total deposits | **39,534** | 38,189 | 37,583 | 37,803 | 38,027 | 1,507 | 4.0 |
| Short-term borrowings | **879** | 1,099 | 1,748 | 2,131 | 2,854 | (1,975) | (69.2) |
| Federal Home Loan Bank advances | **947** | 2,414 | 3,188 | 3,139 | 3,412 | (2,465) | (72.2) |
| Subordinated notes and other long-term debt | **4,640** | 4,612 | 4,252 | 4,382 | 3,928 | 712 | 18.1 |
| Total interest bearing liabilities | **39,979** | 40,770 | 41,566 | 42,375 | 43,160 | (3,181) | (7.4) |
| All other liabilities | **569** | 614 | 817 | 882 | 961 | (392) | (40.8) |
| Shareholders equity | **4,928** | 7,225 | 7,019 | 6,323 | 6,357 | (1,429) | (22.5) |
| **Total Liabilities and Shareholders Equity** | **$ 51,497** | $ 54,153 | $ 54,607 | $ 54,660 | $ 55,539 | $ (4,042) | (7.3)% |

N.M., not a meaningful value.

(1) For purposes of this analysis, non-accrual loans are reflected in the

average
balances of
loans.

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**Table 10 Consolidated Quarterly Net Interest Margin Analysis**

| | Average Rates (2) | | | | |
|---|---|---|---|---|---|
| | **2009** | | 2008 | | |
| Fully-taxable equivalent basis (1) | **Second** | First | Fourth | Third | Second |
| **Assets** | | | | | |
| Interest bearing deposits in banks | **0.37%** | 0.45% | 1.44% | 2.17% | 2.77% |
| Trading account securities | **2.22** | 4.04 | 5.32 | 5.45 | 5.13 |
| Federal funds sold and securities purchased under resale agreements | **0.82** | 0.20 | 0.24 | 2.02 | 2.08 |
| Loans held for sale | **5.19** | 5.04 | 6.58 | 6.54 | 5.98 |
| Investment securities: | | | | | |
| Taxable | **4.63** | 5.60 | 5.74 | 5.54 | 5.50 |
| Tax-exempt | **6.83** | 6.61 | 7.02 | 6.80 | 6.77 |
| Total investment securities | **4.69** | 5.71 | 5.94 | 5.73 | 5.69 |
| Loans and leases: (3) | | | | | |
| Commercial: | | | | | |
| Commercial and industrial | **5.00** | 4.60 | 5.01 | 5.46 | 5.53 |
| Commercial real estate: | | | | | |
| Construction | **2.78** | 2.76 | 4.55 | 4.69 | 4.81 |
| Commercial | **3.56** | 3.76 | 5.07 | 5.33 | 5.47 |
| Commercial real estate | **3.39** | 3.55 | 4.96 | 5.19 | 5.32 |
| Total commercial | **4.35** | 4.15 | 4.99 | 5.35 | 5.45 |
| Consumer: | | | | | |
| Automobile loans | **7.28** | 7.20 | 7.17 | 7.13 | 7.12 |
| Automobile leases | **6.12** | 6.03 | 5.82 | 5.70 | 5.59 |
| Automobile loans and leases | **7.13** | 7.06 | 6.98 | 6.89 | 6.81 |
| Home equity | **5.75** | 5.13 | 5.87 | 6.19 | 6.43 |
| Residential mortgage | **5.12** | 5.71 | 5.84 | 5.83 | 5.78 |
| Other loans | **8.22** | 8.97 | 9.25 | 9.71 | 9.98 |
| Total consumer | **5.95** | 5.92 | 6.28 | 6.41 | 6.48 |
| Total loans and leases | **5.02** | 4.90 | 5.53 | 5.80 | 5.89 |
| **Total earning assets** | **4.99%** | 4.99% | 5.57% | 5.77% | 5.85% |
| **Liabilities and Shareholders Equity** | | | | | |
| Deposits: | | | | | |
| Demand deposits noninterest bearing | **%** | % | % | % | % |
| Demand deposits interest bearing | **0.18** | 0.14 | 0.34 | 0.51 | 0.55 |

| | | | | | |
|---|---|---|---|---|---|
| Money market deposits | **1.14** | 1.02 | 1.31 | 1.66 | 1.76 |
| Savings and other domestic deposits | **1.37** | 1.50 | 1.72 | 1.79 | 1.91 |
| Core certificates of deposit | **3.50** | 3.81 | 4.02 | 4.05 | 4.36 |
| Total core deposits | **2.06** | 2.28 | 2.50 | 2.58 | 2.68 |
| Other domestic deposits of $250,000 or more | **2.61** | 2.92 | 3.39 | 3.50 | 3.76 |
| Brokered deposits and negotiable CDs | **2.54** | 2.97 | 3.39 | 3.37 | 3.38 |
| Deposits in foreign offices | **0.20** | 0.17 | 0.90 | 1.49 | 1.66 |
| Total deposits | **2.11** | 2.33 | 2.58 | 2.66 | 2.78 |
| Short-term borrowings | **0.26** | 0.25 | 0.85 | 1.42 | 1.66 |
| Federal Home Loan Bank advances | **1.13** | 1.03 | 3.04 | 2.92 | 3.01 |
| Subordinated notes and other long-term debt | **2.91** | 3.29 | 4.49 | 4.29 | 4.21 |
| **Total interest bearing liabilities** | **2.14%** | 2.31% | 2.74% | 2.79% | 2.85% |
| Net interest rate spread | **2.85%** | 2.68% | 2.83% | 2.98% | 3.00% |
| Impact of noninterest bearing funds on margin | **0.25** | 0.29 | 0.35 | 0.31 | 0.29 |
| **Net interest margin** | **3.10%** | 2.97% | 3.18% | 3.29% | 3.29% |

(1) Fully taxable equivalent (FTE) yields are calculated assuming a 35% tax rate. See Table 3 for the FTE adjustment.

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

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

average
balances of
loans.

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***2009 First Six Months versus 2008 First Six Months***

Fully-taxable equivalent net interest income for the first six-month period of 2009 declined $85.6 million, or 11%, from the comparable year-ago period primarily reflecting a 23 basis point decline in the net interest margin. This decline primarily reflected the unfavorable impact of maintaining a higher liquidity position partially offset by managed reductions of our balance sheet and other capital management initiatives. Declining market interest rates as well as the impact of increased NALs also contributed to the decline in net interest margin. Average earning assets also declined $1.9 billion, or 4%, primarily reflecting a $1.0 billion decline in trading account securities, as well as a $0.8 billion, or 2%, decline in average total loans and leases.

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

**Table 11 Average Loans/Leases and Deposits 2009 First Six Months vs. 2008 First Six Months**

| | Six Months Ended June 30, | | Change | |
|---|---|---|---|---|
| *(in thousands)* | **2009** | 2008 | Amount | Percent |
| Net interest income FTE | **$ 692,202** | $ 777,816 | $ (85,614) | (11.0)% |
| | | | | |
| *(in millions)* | | | | |
| **Average Loans/Leases** | | | | |
| Commercial and industrial | **$ 13,532** | $ 13,487 | $ 45 | 0.3% |
| Commercial real estate | **9,653** | 9,444 | 209 | 2.2 |
| Total commercial | **23,185** | 22,931 | 254 | 1.1 |
| Automobile loans and leases | **3,820** | 4,475 | (655) | (14.6) |
| Home equity | **7,609** | 7,320 | 289 | 3.9 |
| Residential mortgage | **4,634** | 5,264 | (630) | (12.0) |
| Other consumer | **683** | 706 | (23) | (3.3) |
| Total consumer | **16,746** | 17,765 | (1,019) | (5.7) |
| Total loans | **$ 39,931** | $ 40,696 | $ (765) | (1.9)% |
| | | | | |
| **Average Deposits** | | | | |
| Demand deposits noninterest bearing | **$ 5,784** | $ 5,047 | $ 737 | 14.6% |
| Demand deposits interest bearing | **4,312** | 4,010 | 302 | 7.5 |
| Money market deposits | **5,975** | 6,510 | (535) | (8.2) |
| Savings and other domestic time deposits | **5,036** | 5,228 | (192) | (3.7) |
| Core certificates of deposit | **12,643** | 10,975 | 1,668 | 15.2 |
| Total core deposits | **33,750** | 31,770 | 1,980 | 6.2 |
| Other deposits | **5,115** | 6,209 | (1,094) | (17.6) |
| Total deposits | **$ 38,865** | $ 37,979 | $ 886 | 2.3% |

The $0.8 billion, or 2%, decrease in average total loans and leases primarily reflected:

$0.7 billion, or 15%, decline in average automobile loans and leases, primarily reflecting the 2009 securitization of $1.0 billion of automobile loans, and the continued runoff of the automobile lease portfolio.

$0.6 billion, or 12%, decline in residential mortgages, reflecting the impact of loan sales, as well as the continued refinance of portfolio loans. The majority of this re-finance activity has been fixed-rate loans, which we typically sell to the secondary market.

Partially offset by:

- $0.3 billion, or 4%, increase in average home equity loans, reflecting higher utilization of existing lines resulting from higher quality borrowers taking advantage of the current relatively lower interest rate environment, as well as a slowdown in runoff.
- $0.2 billion, or 2%, increase in average CRE loans, reflecting draws on existing performing projects and new originations to existing CRE borrowers. These increases were partially offset by our 2009 second quarter efforts to shrink this portfolio through payoffs and pay downs, as well as the impact of NCOs and the impact of the 2009 first quarter reclassification for CRE loans into C&I loans noted earlier.

The $0.9 billion, or 2%, increase/decrease in average total deposits reflected:

- $2.0 billion, or 6%, growth in total core deposits, primarily reflecting increased marketing efforts and initiatives for deposit accounts.

Partially offset by:

- $1.1 billion, or 18%, decline in average other deposits, primarily reflecting a managed decline in public fund and foreign time deposits.

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**Table 12 Consolidated YTD Average Balance Sheets and Net Interest Margin Analysis**

| | YTD Average Balances | | | | YTD Average Rates (1) | |
|---|---|---|---|---|---|---|
| Fully taxable equivalent basis | Six Months Ending June 30, | | Change | | Six Months Ending June 30, | |
| *(in millions of dollars)* | **2009** | 2008 | Amount | Percent | **2009** | 2008 |
| **Assets** | | | | | | |
| Interest bearing deposits in banks | **$ 362** | $ 274 | $ 88 | 32.1% | **0.41%** | 3.43% |
| Trading account securities | **182** | 1,214 | (1,032) | (85.0) | **3.61** | 5.18 |
| Federal funds sold and securities purchased under resale agreements | **9** | 668 | (659) | (98.7) | **0.21** | 2.65 |
| Loans held for sale | **668** | 533 | 135 | 25.3 | **5.12** | 5.68 |
| Investment securities: | | | | | | |
| Taxable | **4,575** | 3,873 | 702 | 18.1 | **5.05** | 5.60 |
| Tax-exempt | **295** | 710 | (415) | (58.5) | **6.68** | 6.76 |
| Total investment securities | **4,870** | 4,583 | 287 | 6.3 | **5.15** | 5.78 |
| Loans and leases: (2) | | | | | | |
| Commercial: | | | | | | |
| Commercial and industrial | **13,532** | 13,487 | 45 | 0.3 | **4.80** | 5.92 |
| Commercial real estate: | | | | | | |
| Construction | **1,989** | 2,026 | (37) | (1.8) | **2.77** | 5.34 |
| Commercial | **7,664** | 7,418 | 246 | 3.3 | **3.66** | 5.86 |
| Commercial real estate | **9,653** | 9,444 | 209 | 2.2 | **3.48** | 5.75 |
| Total commercial | **23,185** | 22,931 | 254 | 1.1 | **4.25** | 5.85 |
| Consumer: | | | | | | |
| Automobile loans | **3,350** | 3,472 | (122) | (3.5) | **7.23** | 7.18 |
| Automobile leases | **470** | 1,003 | (533) | (53.1) | **6.07** | 5.56 |
| Automobile loans and leases | **3,820** | 4,475 | (655) | (14.6) | **7.09** | 6.82 |
| Home equity | **7,609** | 7,320 | 289 | 3.9 | **5.44** | 6.82 |
| Residential mortgage | **4,634** | 5,264 | (630) | (12.0) | **5.41** | 5.82 |
| Other loans | **683** | 706 | (23) | (3.3) | **8.58** | 10.21 |
| Total consumer | **16,746** | 17,765 | (1,019) | (5.7) | **5.94** | 6.66 |
| Total loans and leases | **39,931** | 40,696 | (765) | (1.9) | **4.96** | 6.20 |
| Allowance for loan and lease losses | **(922)** | (642) | (280) | (43.6) | | |
| Net loans and leases | **39,009** | 40,054 | (1,045) | (2.6) | | |
| Total earning assets | **46,022** | 47,968 | (1,946) | (4.1) | **5.00%** | 6.13% |

| | | | | | | |
|---|---|---|---|---|---|---|
| Cash and due from banks | **2,012** | 990 | 1,022 | N.M. | | |
| Intangible assets | **2,069** | 3,460 | (1,391) | (40.2) | | |
| All other assets | **3,637** | 3,436 | 201 | 5.8 | | |
| **Total Assets** | **$ 52,818** | $ 55,212 | $ (2,394) | (4.3)% | | |
| **Liabilities and Shareholders Equity** | | | | | | |
| Deposits: | | | | | | |
| Demand deposits non-interest bearing | **$ 5,784** | $ 5,047 | $ 737 | 14.6% | **%** | % |
| Demand deposits interest bearing | **4,312** | 4,010 | 302 | 7.5 | **0.16** | 0.68 |
| Money market deposits | **5,975** | 6,510 | (535) | (8.2) | **1.09** | 2.31 |
| Savings and other domestic time deposits | **5,036** | 5,228 | (192) | (3.7) | **1.43** | 2.13 |
| Core certificates of deposit | **12,643** | 10,975 | 1,668 | 15.2 | **3.66** | 4.52 |
| Total core deposits | **33,750** | 31,770 | 1,980 | 6.2 | **2.17** | 2.94 |
| Other domestic time deposits of $250,000 or more | **977** | 1,760 | (783) | (44.5) | **2.78** | 4.05 |
| Brokered deposits and negotiable CDs | **3,596** | 3,451 | 145 | 4.2 | **2.74** | 3.92 |
| Deposits in foreign offices | **542** | 998 | (456) | (45.7) | **0.18** | 1.88 |
| Total deposits | **38,865** | 37,979 | 886 | 2.3 | **2.22** | 3.07 |
| Short-term borrowings | **988** | 2,813 | (1,825) | (64.9) | **0.26** | 2.21 |
| Federal Home Loan Bank advances | **1,677** | 3,399 | (1,722) | (50.7) | **1.06** | 3.47 |
| Subordinated notes and other long-term debt | **4,627** | 3,872 | 755 | 19.5 | **3.10** | 4.66 |
| Total interest bearing liabilities | **40,373** | 43,016 | (2,643) | (6.1) | **2.22** | 3.19 |
| All other liabilities | **591** | 1,032 | (441) | (42.7) | | |
| Shareholders equity | **6,070** | 6,117 | (47) | (0.8) | | |
| **Total Liabilities and Shareholders Equity** | **$ 52,818** | $ 55,212 | $ (2,394) | (4.3)% | | |
| Net interest rate spread | | | | | **2.78** | 2.94 |
| Impact of non-interest bearing funds on margin | | | | | **0.25** | 0.32 |
| **Net interest margin** | | | | | **3.03%** | 3.26% |

N.M., not a meaningful value.

(1) Loan and lease and deposit

average rates include impact of applicable derivatives and non-deferrable fees.

(2) For purposes of this analysis, non-accrual loans are reflected in the average balances of loans.

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**Provision for Credit Losses**

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

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

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

**Table 13 Provision for Credit Losses Franklin-Related Impact**

| | 2009 | | 2008 | | |
|---|---|---|---|---|---|
| *(in millions)* | **Second** | First | Fourth | Third | Second |
| **Provision for credit losses** | | | | | |
| Franklin | **$ (10.1)** | $ (1.7) | $ 438.0 | $ | $ |
| Non-Franklin | **423.8** | 293.5 | 284.6 | 125.4 | 120.8 |
| Total | **$ 413.7** | $ 291.8 | $ 722.6 | $ 125.4 | $ 120.8 |
| **Total net charge-offs (recoveries)** | | | | | |
| Franklin | **$ (10.1)** | $ 128.3 | $ 423.3 | $ | $ |
| Non-Franklin | **344.5** | 213.2 | 137.3 | 83.8 | 65.2 |
| Total | **$ 334.4** | $ 341.5 | $ 560.6 | $ 83.8 | $ 65.2 |
| **Provision for credit losses in excess of net charge-offs** | **$ (344.5)** | $ (213.2) | $ (137.3) | $ (83.8) | $ (65.2) |
| Franklin | | (130.0) | 14.7 | | |
| Non-Franklin | **79.3** | 80.3 | 147.3 | 41.6 | 55.6 |
| Total | **$ 79.3** | $ (49.7) | $ 162.0 | $ 41.6 | $ 55.6 |

The provision for credit losses in the first six-month period of 2009 was $705.5 million, up $496.1 million compared with $209.5 million in 2008. The reported provision for credit losses for the first six-month period of 2009 of $705.5 million exceeded total NCOs by $29.6 million. (*See Credit Quality discussion).*

**Noninterest Income**

*(This section should be read in conjunction with Significant Items 4 and 5.)*

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

**Table 14 Noninterest Income**

| | 2009 | | 2008 | | |
|---|---|---|---|---|---|
| *(in thousands)* | **Second** | First | Fourth | Third | Second |
| Service charges on deposit accounts | **$ 75,353** | $ 69,878 | $ 75,247 | $ 80,508 | $ 79,630 |
| Brokerage and insurance income | **32,052** | 39,948 | 31,233 | 34,309 | 35,694 |
| Trust services | **25,722** | 24,810 | 27,811 | 30,952 | 33,089 |
| Electronic banking | **24,479** | 22,482 | 22,838 | 23,446 | 23,242 |

| | | | | | |
|---|---|---|---|---|---|
| Bank owned life insurance income | **14,266** | 12,912 | 13,577 | 13,318 | 14,131 |
| Automobile operating lease income | **13,116** | 13,228 | 13,170 | 11,492 | 9,357 |
| Mortgage banking income (loss) | **30,827** | 35,418 | (6,747) | 10,302 | 12,502 |
| Securities (losses) gains | **(7,340)** | 2,067 | (127,082) | (73,790) | 2,073 |
| Other income | **57,470** | 18,359 | 17,052 | 37,320 | 26,712 |
| **Total non-interest income** | **$ 265,945** | $ 239,102 | $ 67,099 | $ 167,857 | $ 236,430 |

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

**Table 15 Mortgage Banking Income and Net Impact of MSR Hedging**

| | **2009** | | | 2008 | |
|---|---|---|---|---|---|
| *(in thousands, except as noted)* | **Second** | First | Fourth | Third | Second |
| **Mortgage Banking Income** | | | | | |
| Origination and secondary marketing | **$ 31,782** | $ 29,965 | $ 7,180 | $ 7,647 | $ 13,098 |
| Servicing fees | **12,045** | 11,840 | 11,660 | 11,838 | 11,166 |
| Amortization of capitalized servicing [1] | **(14,445)** | (12,285) | (6,462) | (6,234) | (7,024) |
| Other mortgage banking income | **5,381** | 9,404 | 2,959 | 3,519 | 5,959 |
| Sub-total | **34,763** | 38,924 | 15,337 | 16,770 | 23,199 |
| MSR valuation adjustment [1] | **46,551** | (10,389) | (63,355) | (10,251) | 39,031 |
| Net trading (losses) gains related to MSR hedging | **(50,487)** | 6,883 | 41,271 | 3,783 | (49,728) |
| Total mortgage banking income (loss) | **$ 30,827** | $ 35,418 | $ (6,747) | $ 10,302 | $ 12,502 |
| Mortgage originations *(in millions)* | **$ 1,587** | $ 1,546 | $ 724 | $ 680 | $ 1,127 |
| Average trading account securities used to hedge MSRs *(in millions)* | **20** | 223 | 857 | 941 | 1,190 |
| Capitalized mortgage servicing rights [2] | **219,282** | 167,838 | 167,438 | 230,398 | 240,024 |
| Total mortgages serviced for others *(in millions)* [2] | **16,246** | 16,315 | 15,754 | 15,741 | 15,770 |
| MSR % of investor servicing portfolio | **1.35%** | 1.03% | 1.06% | 1.46% | 1.52% |
| **Net Impact of MSR Hedging** | | | | | |
| MSR valuation adjustment [1] | **$ 46,551** | $ (10,389) | $ (63,355) | $ (10,251) | $ 39,031 |
| Net trading (losses) gains related to MSR hedging | **(50,487)** | 6,883 | 41,271 | 3,783 | (49,728) |
| Net interest income related to MSR hedging | **199** | 2,441 | 9,473 | 8,368 | 9,364 |
| Net impact of MSR hedging | **$ (3,737)** | $ (1,065) | $ (12,611) | $ 1,900 | $ (1,333) |

(1) The change in fair value for the period represents the MSR valuation

adjustment, excluding amortization of capitalized servicing.

(2) At period end.

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***2009 Second Quarter versus 2008 Second Quarter***

Noninterest income increased $29.5 million, or 12%, from the year-ago quarter.

**Table 16 Noninterest Income 2009 Second Quarter vs. 2008 Second Quarter**

| | Second Quarter | | Change | |
|---|---|---|---|---|
| *(in thousands)* | **2009** | 2008 | Amount | Percent |
| Service charges on deposit accounts | **$ 75,353** | $ 79,630 | $ (4,277) | (5.4)% |
| Brokerage and insurance income | **32,052** | 35,694 | (3,642) | (10.2) |
| Trust services | **25,722** | 33,089 | (7,367) | (22.3) |
| Electronic banking | **24,479** | 23,242 | 1,237 | 5.3 |
| Bank owned life insurance income | **14,266** | 14,131 | 135 | 1.0 |
| Automobile operating lease income | **13,116** | 9,357 | 3,759 | 40.2 |
| Mortgage banking income | **30,827** | 12,502 | 18,325 | N.M. |
| Securities (losses) gains | **(7,340)** | 2,073 | (9,413) | N.M. |
| Other income | **57,470** | 26,712 | 30,758 | N.M. |
| **Total noninterest income** | **$ 265,945** | $ 236,430 | $ 29,515 | 12.5% |

N.M., not a meaningful value.

The $29.5 million increase in total noninterest income reflected:

- $30.8 million increase in other income, primarily reflecting a $31.4 million gain on the sale of Visa ® stock.
- $18.3 million increase in mortgage banking income, primarily reflecting an $18.7 million increase in origination and secondary marketing income as current quarter loan sales increased 59% from the year-ago quarter and loan originations that were 41% higher than in the year-ago quarter *(see Table 15)*.
- $3.8 million, or 40%, increase in automobile operating lease income, reflecting a 34% increase in average operating lease balances, as lease originations since the 2007 fourth quarter were recorded as operating leases. Separately, all automobile lease origination activities were discontinued in the 2008 fourth quarter.

Partially offset by:

- $9.4 million decline in securities gains (losses) as the current quarter reflected a $7.3 million loss compared with a $2.1 million gain in the year-ago quarter.
- $7.4 million, or 22%, decline in trust services income, reflecting the impact of reduced market values on asset management revenues and lower yields on proprietary money market funds.
- $4.3 million, or 5%, decline in service charges on deposit accounts primarily reflecting lower consumer NSF and overdraft fees, partially offset by higher commercial service charges.
- $3.6 million, or 10%, decrease in brokerage and insurance income reflecting lower mutual fund and annuity sales, as well as reduced commercial property and casualty agency commissions.

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***2009 Second Quarter versus 2009 First Quarter***

Noninterest income increased $26.8 million, or 11%, from the 2009 first quarter.

**Table 17 Noninterest Income 2009 Second Quarter vs. 2009 First Quarter**

| *(in thousands)* | **Second Quarter 2009** | First Quarter 2009 | Change Amount | Change Percent |
|---|---|---|---|---|
| Service charges on deposit accounts | **$ 75,353** | $ 69,878 | $ 5,475 | 7.8% |
| Brokerage and insurance income | **32,052** | 39,948 | (7,896) | (19.8) |
| Trust services | **25,722** | 24,810 | 912 | 3.7 |
| Electronic banking | **24,479** | 22,482 | 1,997 | 8.9 |
| Bank owned life insurance income | **14,266** | 12,912 | 1,354 | 10.5 |
| Automobile operating lease income | **13,116** | 13,228 | (112) | (0.8) |
| Mortgage banking income | **30,827** | 35,418 | (4,591) | (13.0) |
| Securities (losses) gains | **(7,340)** | 2,067 | (9,407) | N.M. |
| Other income | **57,470** | 18,359 | 39,111 | N.M. |
| **Total noninterest income** | **$ 265,945** | $ 239,102 | $ 26,843 | 11.2% |

N.M., not a meaningful value.

The $26.8 million increase in total noninterest income reflected:

- $39.1 million increase in other income, primarily reflecting a $31.4 million gain on the sale of our Visa ® stock and, to a lesser degree, a $6.2 million improvement in loan sale gains as the prior quarter included a $5.9 million loss associated with the automobile loan securitization at the end of the 2009 first quarter. Also contributing to the increase in other income from the prior quarter were higher equity investment gains and derivatives revenue.
- $5.5 million, or 8%, increase in service charges on deposit accounts, reflecting seasonally higher personal service charges, primarily NSF charges.
- $2.0 million, or 9%, seasonal increase in electronic banking income.

Partially offset by:

- $9.4 million decline in securities gains (losses) as the current quarter reflected a $7.3 million loss compared with a $2.1 million gain in the prior quarter.
- $7.9 million, or 20%, decline in brokerage and insurance income, reflecting lower annuity sales and first quarter seasonal insurance income. The 2009 first quarter also represented a record level of investment sales.
- $4.6 million, or 13%, decline in mortgage banking income as 2009 first quarter results included a $4.3 million portfolio loan sale gain.

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***2009 First Six Months versus 2008 First Six Months***

The following table reflects noninterest income for the first six-month periods of 2009 and 2008:

**Table 18 Noninterest Income 2009 First Six Months vs. 2008 First Six Months**

| | Six Months Ended June 30, | | Change | |
|---|---|---|---|---|
| *(in thousands)* | **2009** | 2008 | Amount | Percent |
| Service charges on deposit accounts | **$ 145,231** | $ 152,298 | $ (7,067) | (4.6)% |
| Brokerage and insurance income | **72,000** | 72,254 | (254) | (0.4) |
| Trust services | **50,532** | 67,217 | (16,685) | (24.8) |
| Electronic banking | **46,961** | 43,983 | 2,978 | 6.8 |
| Bank owned life insurance income | **27,178** | 27,881 | (703) | (2.5) |
| Automobile operating lease income | **26,344** | 15,189 | 11,155 | 73.4 |
| Mortgage banking income | **66,245** | 5,439 | 60,806 | N.M. |
| Securities (losses) gains | **(5,273)** | 3,502 | (8,775) | N.M. |
| Other income | **75,829** | 84,419 | (8,590) | (10.2) |
| **Total noninterest income** | **$ 505,047** | $ 472,182 | $ 32,865 | 7.0% |

N.M., not a meaningful value.

The following table details mortgage banking income and the net impact of MSR hedging activity for the first six-month periods of 2009 and 2008:

**Table 19 Mortgage Banking Income and Net Impact of MSR Hedging**

| | Six Months Ended June 30, | | YTD 2009 vs 2008 | |
|---|---|---|---|---|
| *(in thousands, except as noted)* | **2009** | 2008 | Amount | Percent |
| **Mortgage Banking Income** | | | | |
| Origination and secondary marketing | **$ 61,747** | $ 22,430 | $ 39,317 | N.M.% |
| Servicing fees | **23,885** | 22,060 | 1,825 | 8.3 |
| Amortization of capitalized servicing (1) | **(26,730)** | (13,938) | (12,792) | (91.8) |
| Other mortgage banking income | **14,785** | 10,290 | 4,495 | 43.7 |
| Sub-total | **73,687** | 40,842 | 32,845 | 80.4 |
| MSR valuation adjustment (1) | **36,162** | 20,938 | 15,224 | 72.7 |
| Net trading losses related to MSR hedging | **(43,604)** | (56,341) | 12,737 | 22.6 |
| Total mortgage banking income | **$ 66,245** | $ 5,439 | $ 60,806 | N.M.% |
| Mortgage originations *(in millions)* | **$ 3,133** | $ 2,369 | $ 764 | 32.2% |
| Average trading account securities used to hedge MSRs *(in millions)* | **121** | 1,164 | (1,043) | (89.6) |
| Capitalized mortgage servicing rights (2) | **219,282** | 240,024 | (20,742) | (8.6) |
| Total mortgages serviced for others (2) *(in millions)* | **16,246** | 15,770 | 476 | 3.0 |
| MSR % of investor servicing portfolio | **1.35%** | 1.52% | (0.17)% | (11.2)% |
| **Net Impact of MSR Hedging** | | | | |
| MSR valuation adjustment (1) | **$ 36,162** | $ 20,938 | $ 15,224 | 72.7% |
| Net trading losses related to MSR hedging | **(43,604)** | (56,341) | 12,737 | (22.6) |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Net interest income related to MSR hedging | | **2,640** | | 15,298 | | (12,658) | (82.7) |
| Net impact of MSR hedging | **$** | **(4,802)** | $ | (20,105) | $ | 15,303 | (76.1)% |

N.M., not a meaningful value.

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

(2) At period end.

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The $32.9 million, or 7%, increase in total noninterest income reflected:

- $60.8 million increase in mortgage banking income reflecting: (a) $39.3 million increase in origination and secondary marketing income as loan sales and loan originations increased substantially in the first six-month period of 2009 compared with the first six-month period of 2008, and (b) $28.0 million improvement in MSR hedging *(see Table 19)*.
- $11.2 million, or 73%, increase in automobile operating lease income, reflecting a 73% increase in average operating lease balances, as lease originations since the 2007 fourth quarter were recorded as operating leases. Separately, all automobile lease origination activities were discontinued in the 2008 fourth quarter.

Partially offset by:

- $16.7 million, or 25%, decrease in trust services income, reflecting the impact of reduced market values on asset management revenues, as well as lower yields on proprietary money market funds.
- $8.8 million decline in securities gains (losses).
- $8.6 million decline in other income, primarily reflecting a $25.1 million gain in the first six-month period of 2008 reflecting the sale of a portion of our Visa® stock, and a $14.0 million decline in customer derivatives income from the comparable year-ago period, partially offset by a $31.4 million gain in the first six-month period of 2009 reflecting the sale of our remaining Visa® stock *(see Significant Items discussion)*.
- $7.1 million, or 5%, decline in service charges on deposit accounts, primarily reflecting lower consumer NSF and overdraft fees, partially offset by higher commercial service charges.

**Noninterest Expense**

*(This section should be read in conjunction with Significant Items 1, 4, and 5.)*

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

**Table 20 Noninterest Expense**

| | **2009** | | 2008 | | |
|---|---|---|---|---|---|
| *(in thousands)* | **Second** | First | Fourth | Third | Second |
| Personnel costs | **$ 171,735** | $ 175,932 | $ 196,785 | $ 184,827 | $ 199,991 |
| Outside data processing and other services | **39,266** | 32,432 | 31,230 | 32,386 | 30,186 |
| Net occupancy | **24,430** | 29,188 | 22,999 | 25,215 | 26,971 |
| Equipment | **21,286** | 20,410 | 22,329 | 22,102 | 25,740 |
| Amortization of intangibles | **17,117** | 17,135 | 19,187 | 19,463 | 19,327 |
| Professional services | **18,789** | 18,253 | 17,420 | 13,405 | 13,752 |
| Marketing | **7,491** | 8,225 | 9,357 | 7,049 | 7,339 |
| Automobile operating lease expense | **11,400** | 10,931 | 10,483 | 9,093 | 7,200 |
| Telecommunications | **6,088** | 5,890 | 5,892 | 6,007 | 6,864 |
| Printing and supplies | **4,151** | 3,572 | 4,175 | 4,316 | 4,757 |
| Goodwill impairment | **4,231** | 2,602,713 | | | |
| Other expense | **13,998** | 45,088 | 50,237 | 15,133 | 35,676 |
| **Total noninterest expense** | **$ 339,982** | $ 2,969,769 | $ 390,094 | $ 338,996 | $ 377,803 |
| Full-time equivalent employees, at period end | **10,252** | 10,540 | 10,951 | 10,901 | 11,251 |

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***2009 Second Quarter versus 2008 Second Quarter***

Noninterest expense decreased $37.8 million, or 10%, from the year-ago quarter.

**Table 21 Noninterest Expense 2009 Second Quarter vs. 2008 Second Quarter**

| *(in thousands)* | **Second Quarter 2009** | Second Quarter 2008 | Change Amount | Change Percent |
|---|---|---|---|---|
| Personnel costs | **$ 171,735** | $ 199,991 | $ (28,256) | (14.1)% |
| Outside data processing and other services | **39,266** | 30,186 | 9,080 | 30.1 |
| Net occupancy | **24,430** | 26,971 | (2,541) | (9.4) |
| Equipment | **21,286** | 25,740 | (4,454) | (17.3) |
| Amortization of intangibles | **17,117** | 19,327 | (2,210) | (11.4) |
| Professional services | **18,789** | 13,752 | 5,037 | 36.6 |
| Marketing | **7,491** | 7,339 | 152 | 2.1 |
| Automobile operating lease expense | **11,400** | 7,200 | 4,200 | 58.3 |
| Telecommunications | **6,088** | 6,864 | (776) | (11.3) |
| Printing and supplies | **4,151** | 4,757 | (606) | (12.7) |
| Goodwill impairment | **4,231** | | 4,231 | |
| Other expense | **13,998** | 35,676 | (21,678) | (60.8) |
| **Total noninterest expense** | **$ 339,982** | $ 377,803 | $ (37,821) | (10.0)% |
| Full-time equivalent employees, at period-end | **10,252** | 11,251 | (999) | (8.9)% |

The $37.8 million decline reflected:

$28.3 million, or 14%, decline in personnel costs, primarily reflecting a $16.4 million decline in salaries, an $8.0 million decline in severance costs, and lower benefits expenses. Full-time equivalent staff declined 9% from the year-ago period.

$21.7 million, or 61%, decrease in other expense reflecting the benefit in the 2009 second quarter of a $67.4 million gain on the redemption of a portion of our junior subordinated debt, a $3.5 million net comparative benefit related to gains resulting from debt extinguishment, and a $6.8 million decline in franchise tax-related expense. Partially offsetting these favorable items was a $43.5 million increase in deposit insurance. This increase was comprised of two components: (a) $23.6 million FDIC special assessment during the current quarter, and (b) $19.9 million increase primarily related to our 2008 FDIC assessments being reduced by a nonrecurring deposit insurance assessment credit provided by the FDIC that was depleted during the 2008 fourth quarter. This deposit insurance credit offset substantially all of our assessment in the 2008 second quarter. Also contributing to the increase in other expense was a $14.6 million increase in OREO expense.

$4.5 million, or 17%, decline in equipment costs, reflecting lower depreciation costs from the year-ago period.

$2.5 million, or 9%, decline in net occupancy expenses, reflecting lower rental costs.

$2.2 million, or 11%, decline in amortization of intangibles expense.

Partially offset by:

$9.1 million, or 30%, increase in outside data processing and other services, primarily reflecting portfolio servicing fees now paid to Franklin as a result of the 2009 first quarter restructuring of this relationship, as well as higher outside appraisal costs.

$5.0 million, or 37%, increase in professional services, reflecting higher legal and collection-related expenses.

$4.2 million goodwill impairment charge related to the sale of a small payments-related business completed in July 2009.

$4.2 million, or 58%, increase in automobile operating lease expense, primarily reflecting the 34% increase in average operating leases discussed above.

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***2009 Second Quarter versus 2009 First Quarter***

Noninterest expense decreased $2,629.8 million, or 89%, from the 2009 first quarter.

**Table 22 Noninterest Expense 2009 Second Quarter vs. 2009 First Quarter**

| (in thousands) | **Second Quarter 2009** | First Quarter 2009 | Change Amount | Change Percent |
|---|---|---|---|---|
| Personnel costs | **$ 171,735** | $ 175,932 | $ (4,197) | (2.4)% |
| Outside data processing and other services | **39,266** | 32,432 | 6,834 | 21.1 |
| Net occupancy | **24,430** | 29,188 | (4,758) | (16.3) |
| Equipment | **21,286** | 20,410 | 876 | 4.3 |
| Amortization of intangibles | **17,117** | 17,135 | (18) | (0.1) |
| Professional services | **18,789** | 18,253 | 536 | 2.9 |
| Marketing | **7,491** | 8,225 | (734) | (8.9) |
| Automobile operating lease expense | **11,400** | 10,931 | 469 | 4.3 |
| Telecommunications | **6,088** | 5,890 | 198 | 3.4 |
| Printing and supplies | **4,151** | 3,572 | 579 | 16.2 |
| Goodwill impairment | **4,231** | 2,602,713 | (2,598,482) | (99.8) |
| Other expense | **13,998** | 45,088 | (31,090) | (69.0) |
| **Total noninterest expense** | **$ 339,982** | $ 2,969,769 | $ (2,629,787) | (88.6)% |
| Full-time equivalent employees, at period-end | **10,252** | 10,540 | (288) | (2.7)% |

The $2,629.8 million decrease in noninterest expense reflected:

- $2,598.5 million decline in goodwill impairment. The prior quarter included a goodwill noncash impairment charge of $2,602.7 million. The current quarter s goodwill noncash impairment charge of $4.2 million was related to the sale of a small payments-related business completed in July 2009. *(See Goodwill discussion located within the Critical Account Policies and Use of Significant Estimates for additional information).*
- $31.1 million, or 69%, decline in other expense, reflecting the benefit of a $67.4 million gain on the redemption of a portion of our junior subordinated debt, a $5.6 million gain resulting from other debt extinguishment, and a $6.9 million decline in franchise tax-related expense. Partially offsetting these favorable items were this quarter s $23.6 million FDIC special assessment and a $16.6 million increase in OREO expense.
- $4.8 million, or 16%, decrease in net occupancy expense, reflecting lower seasonal expenses, as well as lower rental costs.
- $4.2 million, or 2%, decline in personnel costs, reflecting a decline in severance and other benefits and incentive-based expense, partially offset by higher commissions. Full-time equivalent staff declined 3% from the prior period.

Partially offset by:

- $6.8 million, or 21%, increase in outside data processing and other services, primarily reflecting portfolio servicing fees paid to Franklin for servicing the related residential mortgage and home equity portfolios and outside appraisal costs, partially offset by lower software maintenance expense.

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***2009 First Six Months versus 2008 First Six Months***

Noninterest expense for the first six-month period of 2009 increased $2,561.5 million from the comparable year-ago period.

**Table 23 Noninterest Expense 2009 First Six Months vs. 2008 First Six Months**

| | Six Months Ended June 30, | | Change | |
|---|---|---|---|---|
| *(in thousands)* | **2009** | 2008 | Amount | Percent |
| Personnel costs | **$ 347,667** | $ 401,934 | $ (54,267) | (13.5)% |
| Outside data processing and other services | **71,698** | 64,547 | 7,151 | 11.1 |
| Net occupancy | **53,618** | 60,214 | (6,596) | (11.0) |
| Equipment | **41,696** | 49,534 | (7,838) | (15.8) |
| Amortization of intangibles | **34,252** | 38,244 | (3,992) | (10.4) |
| Professional services | **37,042** | 22,842 | 14,200 | 62.2 |
| Marketing | **15,716** | 16,258 | (542) | (3.3) |
| Automobile operating lease expense | **22,331** | 11,706 | 10,625 | 90.8 |
| Telecommunications | **11,978** | 13,109 | (1,131) | (8.6) |
| Printing and supplies | **7,723** | 10,379 | (2,656) | (25.6) |
| Goodwill impairment | **2,606,944** | | 2,606,944 | |
| Other expense | **59,086** | 59,517 | (431) | (0.7) |
| **Total noninterest expense** | **$ 3,309,751** | $ 748,284 | $ 2,561,467 | N.M.% |
| Full-time equivalent employees, at period-end | **10,252** | 11,251 | (999) | (8.9) |

N.M., not a meaningful value.

The $2,561.5 million increase in total noninterest expense reflected:

- $2,606.9 million of goodwill impairment recorded in 2009. The majority of the goodwill impairment, $2,602.7 million, was recorded during the 2009 first quarter. The remaining $4.2 million of goodwill impairment was recorded in the 2009 second quarter, and was related to the sale of a small payments-related business in July 2009. *(See Goodwill discussion located within the Critical Account Policies and Use of Significant Estimates for additional information).*
- $14.2 million, or 62%, increase in professional services, reflecting higher legal and collection-related expenses.
- $10.6 million, or 91%, increase in automobile operating lease expense, primarily reflecting the 73% increase in average operating lease assets discussed above.
- $7.2 million, or 11%, increase in outside data processing and other services, primarily reflecting portfolio servicing fees now paid to Franklin resulting from the restructuring of the relationship at the end of the 2009 first quarter, as well as higher outside appraisal costs.

Partially offset by:

- $54.3 million, or 14%, decline in personnel costs reflecting a 9% reduction in full-time equivalent staff from the comparable year-ago period.
- $7.8 million, or 16%, decline in equipment costs, reflecting lower depreciation costs, as well as lower repair and maintenance costs.
- $6.6 million, or 11%, decline in net occupancy, reflecting lower rental costs and lower seasonal expenses.
- $0.4 million, or 1%, decrease in other expense, reflecting the benefit in the 2009 second quarter of a $67.4 million gain on the redemption of a portion of our junior subordinated debt, and a $5.3 million decline in franchise tax-related expense. Partially offsetting these favorable items was a $56.4 million increase in deposit insurance. This increase was comprised of two components: (a) $23.6 million FDIC

special assessment during the current quarter, and (b) $32.8 million increase primarily related to our 2008 FDIC assessments being significantly reduced by a nonrecurring deposit insurance assessment credit provided by the FDIC that was depleted during the 2008 fourth quarter. This deposit insurance credit offset substantially all of our assessment in the first six-month period of 2008. Also contributing to the increase in other expense was a $15.2 million increase in OREO expense.

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### Provision for Income Taxes

*(This section should be read in conjunction with Significant Items 2 and 4.)*

The provision for income taxes in the 2009 second quarter was a benefit of $12.7 million, resulting in an effective tax rate benefit of 9.2%. This compared with a tax benefit of $251.8 million in the 2009 first quarter and a tax expense of $26.3 million in the 2008 second quarter. The effective tax rates in the prior quarter and the year-ago quarter were a benefit of 9.4% and an expense of 20.6%, respectively. During the 2009 first quarter, the effective tax rate included a $159.9 million nonrecurring tax benefit from the Franklin restructuring and the nondeductibility of $2,595.0 million of the total $2,602.7 million of goodwill impairment. The effective tax rate for the first six-month period of 2009 was a benefit of 9.4% compared with an expense of 18.7% for the first six-month period of 2008. The effective tax rate for the 2009 second quarter and for the first six-month period of 2009 were both impacted by the goodwill impairment and the Franklin restructuring benefit.

In the ordinary course of business, we operate in various taxing jurisdictions and are subject to income and nonincome taxes. Also, we are subject to ongoing tax examinations in various jurisdictions. During the 2009 second quarter, the State of Ohio completed the audit of our 2001, 2002, and 2003 corporate franchise tax returns. During 2008, the IRS completed the audit of our consolidated federal income tax returns for tax years 2004 and 2005. In addition, we are subject to ongoing tax examinations in various other state and local jurisdictions. Both the IRS and various state tax officials have proposed adjustments to our previously filed tax returns. We believe that the tax positions taken by us related to such proposed adjustments were correct and supported by applicable statutes, regulations, and judicial authority, and intend to vigorously defend them. It is possible that the ultimate resolution of the proposed adjustments, if unfavorable, may be material to the results of operations in the period it occurs. However, although no assurances can be given, we believe that the resolution of these examinations will not, individually or in the aggregate, have a material adverse impact on our consolidated financial position.

We account for uncertainties in income taxes in accordance with FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes (FIN 48). At June 30, 2009 we had a gross unrecognized tax benefit of $10.4 million in income tax liability related to tax positions taken in prior periods. This balance includes $6.8 million of unrecognized tax benefits that would impact the effective tax rate, if recognized. Prior to June 30, 2009, we had recorded no significant unrecognized tax benefits. Due to the complexity of some of these uncertainties, the ultimate resolution may result in a payment that is materially different from our current estimate of the tax liabilities. However, any ultimate settlement is not expected to be material to the financial statements as a whole. Our policy is to recognize interest and penalties, if any, related to unrecognized tax benefits in the provision for income taxes. Accrued interest and penalties are included within the related tax liability line in the consolidated balance sheet. It is possible that the amount of the liability for unrecognized tax benefits under examination could change during the next 12 months. An estimate of the range of the possible change cannot be made at this time.

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## RISK MANAGEMENT AND CAPITAL

Risk identification and monitoring are key elements in overall risk management. We believe our primary risk exposures are credit, market, liquidity, and operational risk. More information on risk can be found under the heading Risk Factors included in Item 1A of our 2008 Form 10-K, and subsequent filings with the SEC. Additionally, the MD&A, included as an exhibit to our 2008 Form 10-K, should be read in conjunction with this MD&A as this report provides only material updates to the 2008 Form 10-K. Our definition, philosophy, and approach to risk management are unchanged from the discussion presented in the 2008 Form 10-K.

### Credit Risk

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

#### *Credit Exposure Mix*

As shown in Table 24, at June 30, 2009, commercial loans totaled $22.3 billion, and represented 58% of our total credit exposure. This portfolio was diversified between C&I and CRE loans (*see Commercial Credit discussion).* Total consumer loans were $16.2 billion at June 30, 2009, and represented 42% of our total credit exposure. The consumer portfolio included home equity loans and lines of credit, residential mortgages, and automobile loans and leases *(see Consumer Credit discussion).*

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**Table 24 Loans and Leases Composition**

| | **2008** | | | | | | 2008 | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| *(in millions)* | **June 30,** | | March 31, | | December 31, | | September 30, | | June 30, | |
| **By Type** | | | | | | | | | | |
| Commercial: (1) | | | | | | | | | | |
| Commercial and industrial (2) | **$ 13,320** | **34.6%** | $ 13,768 | 34.8% | $ 13,541 | 33.0% | $ 13,638 | 33.1% | $ 13,746 | 33.5% |
| Commercial real estate: | | | | | | | | | | |
| Construction | **1,857** | **4.8** | 2,074 | 5.2 | 2,080 | 5.1 | 2,111 | 5.1 | 2,136 | 5.2 |
| Commercial (2) | **7,089** | **18.4** | 7,187 | 18.2 | 8,018 | 19.5 | 7,796 | 18.9 | 7,565 | 18.4 |
| Commercial real estate | **8,946** | **23.2** | 9,261 | 23.4 | 10,098 | 24.6 | 9,907 | 24.0 | 9,701 | 23.6 |
| Total commercial | **22,266** | **57.8** | 23,029 | 58.2 | 23,639 | 57.6 | 23,545 | 57.1 | 23,447 | 57.1 |
| Consumer: | | | | | | | | | | |
| Automobile loans (3) | **2,855** | **7.4** | 2,894 | 7.3 | 3,901 | 9.5 | 3,918 | 9.5 | 3,759 | 9.2 |
| Automobile leases | **383** | **1.0** | 468 | 1.2 | 563 | 1.4 | 698 | 1.7 | 835 | 2.0 |
| Home equity | **7,631** | **19.8** | 7,663 | 19.4 | 7,556 | 18.4 | 7,497 | 18.2 | 7,410 | 18.1 |
| Residential mortgage | **4,646** | **12.1** | 4,837 | 12.2 | 4,761 | 11.6 | 4,854 | 11.8 | 4,901 | 11.9 |
| Other loans | **714** | **1.9** | 657 | 1.7 | 672 | 1.5 | 680 | 1.7 | 695 | 1.7 |
| Total consumer | **16,229** | **42.2** | 16,519 | 41.8 | 17,453 | 42.4 | 17,647 | 42.9 | 17,600 | 42.9 |
| **Total loans and leases** | **$ 38,495** | **100.0%** | $ 39,548 | 100.0% | $ 41,092 | 100.0 | $ 41,192 | 100.0% | $ 41,047 | 100.0% |

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

of industries.

(2) The 2009 first quarter reflected a net reclassification of $782.2 million from commercial real estate to commercial and industrial.

(3) The decrease from December 31, 2008, to March 31, 2009, reflected a $1.0 billion automobile loan sale during the 2009 first quarter.

***Franklin relationship***

*(This section should be read in conjunction with Significant Item 2 and the Franklin Loans Restructuring Transaction discussion located within the Critical Accounting Policies and Use of Significant Estimates section.)*

As a result of the restructuring, on a consolidated basis, the $650.2 million nonaccrual commercial loan to Franklin at December 31, 2008, is no longer reported. Instead, we now report the loans secured by first- and second- mortgages on residential properties and OREO properties both of which had previously been assets of Franklin or its subsidiaries and were pledged to secure our loan to Franklin. At the time of the restructuring, the loans had a fair value of $493.6 million and the OREO properties had a fair value of $79.6 million. As a result, NALs declined by a net amount of $284.1 million as there were $650.2 million commercial NALs outstanding related to Franklin, and $366.1 million mortgage-related NALs outstanding, representing first- and second- lien mortgages that were nonaccruing at March 31, 2009. Also, our specific allowance for loan and lease losses for the Franklin portfolio of $130.0 million was eliminated; however, no initial increase to the ALLL relating to the acquired mortgages was recorded as these assets were recorded at fair value.

The following table summarizes the Franklin-related balances for accruing loans, nonaccruing loans, and OREO:

**Table 25 Franklin-related loan and OREO balances**

| | 2009 | |
|---|---|---|
| *(in millions)* | June 30, | March 31, |
| Accruing loans | $ 127.4 | $ 127.4 |
| Nonaccruing loans | 344.6 | 366.1 |
| Total loans | 472.0 | 493.5 |
| OREO | 43.6 | 79.6 |
| Total Franklin loans and OREO | $ 515.6 | $ 573.1 |

An objective of the Franklin restructuring was to improve ultimate collections and recoveries. As shown in the above table, Franklin-related loans declined 4%, reflecting a 13% increase in cash collections in the 2009 second quarter compared with the 2009 first quarter. Also, Franklin-related OREO properties declined 45% reflecting accelerated sales of Franklin-related OREO properties during the 2009 second quarter. This action is consistent with our assessment of the value of the properties, as well as the current and anticipated future market conditions.

***Commercial Credit***

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

In commercial lending, ongoing credit management is dependent upon the type and nature of the loan. We monitor all significant exposures on a periodic basis. Internal risk ratings are assigned at the time of each loan approval, and are assessed and updated with each periodic monitoring event. The frequency of the monitoring event is dependent upon the size and complexity of the individual credit, but in no case less frequently than every 12 months. There is also extensive macro portfolio management analysis conducted to identify performance trends or specific portions of the overall portfolio that may need additional monitoring activity. The single family home builder portfolio and retail projects are examples of segments of the portfolio that have received more frequent evaluation at the loan level as a result of the economic environment and performance trends *(see Single Family Home Builder discussion)*. We continually review and adjust our risk rating criteria and rating determination process based on actual experience. This continuous review and analysis process results in a determination of an appropriate ALLL amount for our commercial loan portfolio.

Our commercial loan portfolio is primarily comprised of the following:

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

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

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

COMMERCIAL LOAN PORTFOLIO REVIEWS AND ACTIONS

In the 2009 first quarter, we restructured our commercial loan relationship with Franklin by taking control of the underlying mortgage loan collateral, and transferring the exposure to the consumer loan portfolio as first- and second-lien loans to individuals secured by residential real estate properties. *(See Franklin Loans Restructuring Transaction located within the Critical Accounting Policies and Use of Significant Estimates section).* We also proactively completed a concentrated review of our single family home builder and retail CRE loan portfolios, our CRE portfolio s two highest risk segments. We now review the criticized portion of these portfolios on a monthly basis. The increased review activity resulted in more pro-active decisions on nonaccrual status, reserve levels, and charge-offs. This heightened level of portfolio monitoring is ongoing.

During the 2009 second quarter, we updated our evaluation of every noncriticized commercial relationship with an aggregate exposure of over $500,000. This review included C&I, CRE, and business banking loans and encompassed 5,460 loans representing $13.2 billion, or about 59%, of total commercial loans, and $17.1 billion in related commitments.

This was a detailed, labor-intensive process designed to enhance our understanding of each borrower s financial position, and to ensure that this understanding was accurately reflected in our internal risk rating system. Our objective was to identify current and potential credit risks across the portfolio consistent with our expectation that the economy in our markets will not improve before the end of this year.

Our business segment teams conducted the reviews within their respective portfolios. Each team had a hierarchy of assessment and oversight review activity defined for each borrowing relationship. In many cases, we directly contacted the borrower and obtained the most recent financial information available, including interim financial results. In addition, we discussed the impact of the economic environment on the future direction of their company, industry prospects, collateral values, and other borrower-specific information. We then made an appropriate assessment of the current risk for each borrower.

The work of each business segment team was under the direction and oversight of a central credit review committee, which also assessed the overall results. This level of review is an ongoing activity with each team accountable for identifying specific follow up portfolio management actions. We further enhanced system capabilities to provide better credit related management information that will facilitate our ongoing portfolio management actions. Taken together, these actions will ensure that our view of the portfolio remains current.

In addition, with respect to our commercial loan exposure to automobile dealers, we have had an ongoing review process in place for some time now. Our automobile dealer commercial loan portfolio is predominantly comprised of larger, well-capitalized , multi-franchised dealer groups underwritten to conservative credit standards. These dealer groups have largely remained profitable on a consolidated basis due to franchise diversity and a shift of sales emphasis to higher-margin, used vehicles, as well as a focus on the service department. Additionally, our portfolio is closely monitored through receipt and review of monthly dealer financial statements and ongoing floor plan inventory audits, which allow for rapid response to weakening trends. As a result, we have not experienced any significant deterioration in the credit quality of our automobile dealer commercial loan portfolio and remain comfortable with our expectation of no material losses, even given the substantial stress associated with our dealership closings announced by Chrysler and GM. *(See Automobile Industry section located within the Commercial and Industrial Portfolio section for additional information.)*

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In summary, we have established an ongoing portfolio management process involving each business segment, providing an improved view of emerging risk issues at a borrower level, enhanced ongoing monitoring capabilities, and strengthened actions and timeliness to mitigate emerging loan risks. Given our stated view of continued economic weakness through 2009, we anticipate some level of additional negative credit migration in the second half of this year. While we can give no assurances given market uncertainties, we believe that as a result of our increased portfolio management actions, a portfolio management process involving each business segment, an improved view of emerging risk issues at the borrower level, enhanced ongoing monitoring capabilities, and strengthened borrower-level loan structures, any future migration will be manageable.

Our commercial loan portfolio, including CRE loans, is diversified by customer size, as well as throughout our geographic footprint. However, the following segments are noteworthy:

COMMERCIAL AND INDUSTRIAL (C&I) PORTFOLIO

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

As shown in the following table, C&I loans totaled $13.3 billion at June 30, 2009.

**Table 26 Commercial and Industrial Loans and Leases by Industry Classification**

| | At June 30, 2009 | | | |
|---|---|---|---|---|
| | Commitments | | **Loans Outstanding** | |
| *(in millions of dollars)* | Amount | Percent | **Amount** | **Percent** |
| **Industry Classification:** | | | | |
| Services | $ 5,207 | 26.6% | **$ 3,928** | **29.5%** |
| Manufacturing | 3,789 | 19.4 | **2,355** | **17.7** |
| Finance, insurance, and real estate | 2,770 | 14.2 | **2,189** | **16.4** |
| Retail trade Auto Dealers | 1,373 | 7.0 | **893** | **6.7** |
| Retail trade Other than Auto Dealers | 1,752 | 9.0 | **1,145** | **8.6** |
| Contractors and construction | 1,467 | 7.5 | **835** | **6.3** |
| Transportation, communications, and utilities | 1,172 | 6.0 | **716** | **5.4** |
| Wholesale trade | 990 | 5.1 | **500** | **3.8** |
| Agriculture and forestry | 592 | 3.0 | **412** | **3.1** |
| Energy | 277 | 1.4 | **199** | **1.5** |
| Public administration | 131 | 0.7 | **121** | **0.9** |
| Other | 32 | 0.1 | **27** | **0.1** |
| **Total** | $ 19,552 | 100.0% | **$ 13,320** | **100.0%** |

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Credit quality information regarding NCOs and NALs for our C&I loan portfolio is presented in the following table.

**Table 27 Commercial and Industrial Credit Quality Data by Industry Classification**

| | *Quarter Ended June 30, 2009* Net Charge-offs | | | *At June 30, 2009* Nonaccrual Loans | |
|---|---|---|---|---|---|
| *(in millions)* | Amount | Annualized % | Percent | Amount | % of Total Loans |
| **Industry Classification:** | | | | | |
| Services | $ **19.8** | **1.99%** | 20.1% | $ **113.5** | 2.8% |
| Finance, insurance, and real estate | **15.1** | **2.71** | 15.4 | **74.8** | 3.4 |
| Manufacturing | **39.6** | **6.67** | 40.3 | **109.6** | 4.6 |
| Retail trade Auto Dealers | **0.2** | **0.08** | 0.2 | **3.1** | 0.3 |
| Retail trade Other than Auto Dealers | **12.4** | **5.45** | 12.6 | **68.8** | 7.6 |
| Contractors and construction | **2.6** | **2.04** | 2.6 | **26.2** | 5.1 |
| Transportation, communications, and utilities | **2.0** | **1.09** | 2.0 | **11.9** | 1.6 |
| Wholesale trade | **6.3** | **3.00** | 6.4 | **30.9** | 3.7 |
| Agriculture and forestry | | | | **3.9** | 1.9 |
| Energy | | | | **12.7** | 3.0 |
| Public administration | **0.3** | **0.80** | 0.3 | **1.6** | 1.0 |
| **Total** | $ **98.3** | **2.91%** | 100.00% | $ **456.7** | 3.4% |

Within the C&I portfolio, the automotive industry segment continued to be stressed and is discussed below.

Automotive Industry

The following table provides a summary of loans and total exposure including both loans and unused commitments and standby letters of credit to companies related to the automotive industry.

**Table 28 Automotive Industry Exposure[1]**

| | **June 30, 2009** | | | December 31, 2008 | | |
|---|---|---|---|---|---|---|
| *(in millions)* | **Loans Outstanding** | **% of Total Loans** | **Total Exposure** | Loans Outstanding | % of Total Loans | Total Exposure |
| Suppliers: | | | | | | |
| Domestic | $ **196** | | $ **327** | $ 182 | | $ 331 |
| Foreign | **33** | | **46** | 33 | | 46 |
| Total Suppliers | **228** | **0.59%** | **373** | 215 | 0.52% | 377 |
| Dealer: | | | | | | |
| Floorplan domestic | **444** | | **787** | 553 | | 747 |
| Floorplan foreign | **339** | | **561** | 408 | | 544 |
| Other | **354** | | **426** | 346 | | 464 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Total Dealer | | **1,138** | **2.96** | | **1,773** | 1,306 | 3.18 | 1,755 |
| **Total Automotive** | **$** | **1,366** | **3.55** | **$** | **2,146** | $ 1,521 | 3.70 | $ 2,131 |

(1) Companies with > 25% of revenue derived from the automotive industry.

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Although we do not have direct exposure to the automobile manufacturing companies, we do have limited exposure to automobile industry suppliers, and automobile dealer-related exposures. The automobile industry supplier exposure is embedded primarily in our C&I portfolio within the Commercial Banking segment, while the dealer exposure is originated and managed within the AFDS business segment. As a result of our geographic locations and the above referenced exposure, we have closely monitored the entire automobile industry; particularly the recent events associated with General Motors and Chrysler, including bankruptcy filings, plant closings, production suspension, and model eliminations. We have anticipated the significant reductions in production across the industry that will result in additional economic distress in some of our markets. Our eastern Michigan and northern Ohio markets are particularly exposed to these reductions, but all our markets are affected. We anticipate the impact will result in additional stress throughout our commercial and consumer loan portfolios, as secondary and tertiary businesses are affected by the actions of the manufacturers. However, as these actions were anticipated, many of the potential impacts have been mitigated through changes in underwriting criteria and regionally focused policies and procedures. Within the AFDS portfolio, our dealer selection criteria and focus is on multiple brand dealership groups, as we have immaterial exposure to single-brand dealerships.

As shown in Table 28, our total direct exposure to the automotive supplier segment is $373 million, of which $228 million represented loans outstanding. We included companies that derive more than 25% of their revenues from contracts with automobile manufacturing companies. This low level of exposure is reflective of our industry-level risk-limits approach.

While the entire automotive industry is under significant pressure as evidenced by a significant reduction in new car sales and the resulting production declines, we believe that our floorplan exposure of $1.3 billion will not be materially affected. Our floorplan exposure is centered in large, multi-dealership entities, and we have focused on client selection, and conservative underwriting standards. We anticipate that the economic environment will affect our dealerships in the near-term, but we believe the majority of our portfolio will perform favorably relative to the industry in the increasingly stressed environment. The decline in floorplan loans outstanding at June 30, 2009, compared with December 31, 2008, reflected reduced dealership inventory as the market continued to contract.

While the specific impacts associated with the ongoing changes in the industry are unknown, we believe that we have taken appropriate steps to limit our exposure. When we have chosen to extend credit, our client selection process has focused us on the most diversified and strongest dealership groups.

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COMMERCIAL REAL ESTATE (CRE) PORTFOLIO

As shown in the following table, CRE loans totaled $8.9 billion and represented 23% of total loans and leases at June 30, 2009.

**Table 29 Commercial Real Estate Loans by Property Type and Property Location**

| | At June 30, 2009 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | | **Total** | |
| *(in millions)* | Ohio | Michigan | Pennsylvania | Indiana | West Virginia | Florida | Kentucky | Other | **Amount** | **Percent** |
| Retail properties | $ 921 | $ 265 | $ 161 | $ 217 | $ 48 | $ 86 | $ 11 | $ 592 | **$ 2,301** | **25.7**% |
| Multi family | 836 | 142 | 103 | 76 | 79 | 7 | 40 | 130 | **1,413** | **15.8** |
| Single family home builders | 684 | 122 | 63 | 37 | 20 | 135 | 26 | 75 | **1,162** | **13.0** |
| Office | 588 | 204 | 114 | 55 | 62 | 21 | 28 | 68 | **1,140** | **12.7** |
| Industrial and warehouse | 516 | 235 | 30 | 82 | 20 | 41 | 14 | 125 | **1,063** | **11.9** |
| Lines to real estate companies | 703 | 118 | 58 | 43 | 53 | 1 | 2 | 14 | **992** | **11.1** |
| Hotel | 143 | 86 | 24 | 21 | 10 | | | 67 | **351** | **3.9** |
| Health care | 174 | 67 | 19 | | 4 | | | 32 | **296** | **3.3** |
| Raw land and other land uses | 79 | 30 | 11 | 13 | 6 | 7 | 9 | 20 | **175** | **2.0** |
| Other | 31 | 8 | 7 | 2 | | | 4 | 1 | **53** | **0.6** |
| **Total** | $ 4,675 | $ 1,277 | $ 590 | $ 546 | $ 302 | $ 298 | $ 134 | $ 1,124 | **$ 8,946** | **100.0**% |
| % of total portfolio | 52.3% | 14.3% | 6.6% | 6.1% | 3.4% | 3.3% | 1.5% | 12.6% | **100.0%** | |
| Net charge-offs | $ 82.7 | $ 31.1 | $ | $ 2.8 | $ 1.2 | $ 29.9 | $ 2.9 | $ 22.0 | **$ 172.6** | |
| Net charge-offs annualized percentage | 6.86% | 9.46% | 0.13% | 1.97% | 1.56% | 39.22% | 8.63% | 7.63% | **7.51%** | |
| Nonaccrual loans | $ 432.8 | $ 143.8 | $ 10.7 | $ 31.4 | $ 1.4 | $ 105.4 | $ 9.3 | $ 116.0 | **$ 850.8** | |
| % of portfolio | 9.26% | 11.26% | 1.81% | 5.75% | 0.46% | 35.37% | 6.94% | 10.32% | **9.51%** | |

Credit quality data regarding NCOs and NALs for our CRE portfolio is presented in the following table.

**Table 30 Commercial Real Estate Loans Credit Quality Data by Property Type**

| | *Quarter Ended June 30,2009* | | | *At June 30, 2009* | |
|---|---|---|---|---|---|
| | Net charge-offs | | | Nonaccrual Loans | |
| (in thousands) | Amount | Annualized % | Percent | Amount | % of Total Loans |
| Retail properties | $ 53,792 | 9.35% | 31.2% | $ 263,934 | 11.5% |
| Single family home builders | 52,208 | 17.98 | 30.2 | 289,991 | 25.0 |
| Lines to real estate companies | 24,132 | 9.28 | 14.0 | 29,898 | 3.0 |
| Multi family | 17,440 | 4.72 | 10.1 | 104,493 | 7.4 |
| Industrial and warehouse | 14,020 | 5.04 | 8.1 | 75,988 | 7.1 |
| Office | 6,528 | 2.19 | 3.8 | 53,300 | 4.7 |
| Raw land and other land uses | 4,454 | 9.82 | 2.6 | 20,206 | 11.7 |
| Hotel | 48 | 0.00 | 0.0 | 6,292 | 1.8 |
| Health care | | | | 716 | 0.2 |
| Other | | | | 6,027 | 11.4 |
| **Total** | $ 172,621 | 7.51% | 100.0% | $ 850,846 | 9.5% |

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

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

Appraisal values are updated as needed, in compliance with regulatory requirements. Given the stressed environment for some loan types, we have initiated ongoing portfolio level reviews of segments such as single family home builders and retail properties *(see Single Family Home Builders and Retail Properties discussions)*. These reviews generate action plans based on occupancy levels or sales volume associated with the projects being reviewed. The results of the 2009 first six-month period reviews of these two portfolio segments indicated that additional stress was likely due to the current economic conditions. Appraisals are updated on a regular basis to ensure that appropriate decisions regarding the ongoing management of the portfolio reflect the changing market conditions. This highly individualized process requires working closely with all of our borrowers as well as an in-depth knowledge of CRE project lending and the market environment.

At the portfolio level, we actively monitor the concentrations and performance metrics of all loan types, with a focus on higher risk segments. Macro-level stress-test scenarios based on home-price depreciation trends for the segments are embedded in our performance expectations, and lease-up and absorption is assessed. We anticipate the current stress within this portfolio will continue throughout the remainder of 2009, resulting in elevated charge-offs, NALs, and ALLL levels.

During the 2009 first quarter, a portfolio review resulted in a reclassification of certain CRE loans to C&I loans at the end of the period. This net reclassification of $782 million was primarily associated with loans to businesses secured by the real estate and buildings that house their operations. These owner-occupied loans secured by real estate were underwritten based on the cash flow of the business and are more appropriately classified as C&I loans.

Within the CRE portfolio, the single family home builder and retail properties segments continued to be stressed as a result of the continued decline in the housing markets and general economic conditions. As previously mentioned above, these segments continue to be the highest risk segments within our CRE portfolio, and are discussed further below.

Single Family Home Builders

At June 30, 2009, we had $1,162 million of CRE loans to single family home builders. Such loans represented 3% of total loans and leases. Of this portfolio segment, 69% were to finance projects currently under construction, 16% to finance land under development, and 15% to finance land held for development. The $1,162 million represented a $427 million, or 27%, decrease compared with $1,589 million at December 31, 2008. The decrease primarily reflected the reclassification of loans secured by 1-4 family residential real estate rental properties to C&I loans, consistent with industry practices in the definition of this segment. Other factors contributing to the decrease in exposure include essentially no new originations in 2009 and substantial charge-offs.

The housing market across our geographic footprint remained stressed, reflecting relatively lower sales activity, declining prices, and excess inventories of houses to be sold, particularly impacting borrowers in our eastern Michigan and northern Ohio markets. Further, a portion of the loans extended to borrowers located within our geographic regions was to finance projects outside of our geographic regions. We anticipate the residential developer market will continue to be depressed, and anticipate continued pressure on the single family home builder segment throughout 2009. As previously mentioned, all significant exposures are monitored on a periodic basis. For this portfolio segment, the periodic monitoring has included: (a) all loans greater than $50 thousand have been reviewed continuously over the past 18 months and continue to be monitored, (b) credit valuation adjustments have been made when appropriate based on the current condition of each relationship, and (c) reserves have been increased based on proactive risk identification and thorough borrower analysis.

Retail properties

Our portfolio of CRE loans secured by retail properties totaled $2.3 billion, or approximately 6% of total loans and leases, at June 30, 2009. Loans within this portfolio segment increased 2% from December 31, 2008, primarily reflecting construction draws. Credit approval in this portfolio segment is generally dependant on pre-leasing requirements, and net operating income from the project must cover debt service by specified percentages when the loan is fully funded.

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

***Consumer Credit***

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

Our consumer loan portfolio is primarily comprised of home equity loans, traditional residential mortgages, and automobile loans and leases.

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

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

*Automobile loans/leases* Automobile loans/leases is primarily comprised of loans made through automotive dealerships, and includes exposure in several out-of-market states. However, no out-of-market state represented more than 10% of our total automobile loan portfolio, and we expect to see relatively rapid reductions in these exposures as we ceased automobile loan originations in out-of-market states during the 2009 first quarter. Our automobile lease portfolio will continue to decline as we ceased new originations of all automobile leases during the 2008 fourth quarter.

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The residential mortgage and home equity portfolios are primarily located throughout our geographic footprint. The general slowdown in the housing market has impacted the performance of our residential mortgage and home equity portfolios over the past year. While the degree of price depreciation varies across our markets, all regions throughout our footprint have been affected. Given the conditions in our markets as described above in the single family home builder section, the home equity and residential mortgage portfolios are particularly noteworthy, and are discussed in greater detail below:

**Table 31 Selected Home Equity and Residential Mortgage Portfolio Data** (1)

| | Home Equity Loans | | Home Equity Lines of Credit | | Residential Mortgages | |
|---|---|---|---|---|---|---|
| *(dollar amounts in millions)* | **6/30/09** | 12/31/08 | **6/30/09** | 12/31/08 | **6/30/09** | 12/31/08 |
| Ending Balance | **$ 2,830** | $ 3,116 | **$ 4,802** | $ 4,440 | **$ 4,646** | $ 4,761 |
| Portfolio Weighted Average LTV ratio (2) | **71%** | 70% | **78%** | 78% | **77%** | 76% |
| Portfolio Weighted Average FICO (3) | **720** | 725 | **723** | 720 | **700** | 707 |

| | Three-Month Period Ended June 30, 2009 | | |
|---|---|---|---|
| | Home Equity Loans | Home Equity Lines of Credit | Residential Mortgages (4) |
| Originations | $ 28 | $ 357 | $ 94 |
| Origination Weighted Average LTV ratio (2) | 61% | 74% | 92% |
| Origination Weighted Average FICO (3) | 749 | 766 | 717 |

(1) Excludes Franklin loans.

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

(3) Portfolio Weighted Average FICO reflects currently updated customer credit scores whereas Origination Weighted Average FICO

reflects the customer credit scores at the time of loan origination.

(4) Represents only owned-portfolio originations.

HOME EQUITY PORTFOLIO

Our home equity portfolio (loans and lines of credit) consists of both first and second mortgage loans with underwriting criteria based on minimum credit scores, debt-to-income ratios, and LTV ratios. Included in our home equity loan portfolio are $1.4 billion of loans where the loan is secured by a first-mortgage lien on the property. We offer closed-end home equity loans with a fixed interest rate and level monthly payments and a variable-rate, interest-only home equity line of credit.

We believe we have granted credit conservatively within this portfolio. We have not originated home equity loans or lines of credit that allow negative amortization. Also, we have not originated home equity loans or lines of credit with an LTV ratio at origination greater than 100%, except for infrequent situations with high quality borrowers. Home equity loans are generally fixed-rate with periodic principal and interest payments. Home equity lines of credit are generally variable-rate and do not require payment of principal during the 10-year revolving period of the line.

We continue to make appropriate origination policy adjustments based on our assessment of an appropriate risk profile as well as industry actions. As an example, the significant changes made in 2008 by the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac) resulted in the reduction of our maximum LTV ratio on second-mortgage loans, even for customers with high credit scores. In addition to origination policy adjustments, we take appropriate actions, as necessary, to mitigate the risk profile of this portfolio. We focus production primarily within our banking footprint or to existing customers.

RESIDENTIAL MORTGAGES

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

A majority of the loans in our loan portfolio have adjustable rates. Our adjustable-rate mortgages (ARMs) are primarily residential mortgages that have a fixed rate for the first 3 to 5 years and then adjust annually. These loans comprised approximately 58% of our total residential mortgage loan portfolio at June 30, 2009. At June 30, 2009, ARM loans that were expected to have rates reset totaled $391.2 million for the remainder of 2009, and $753.0 million for 2010. 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. Additionally, where borrowers are experiencing payment difficulties, loans may be re-underwritten based on the borrower s ability to repay the loan.

We had $410.4 million of Alt-A mortgage loans in the residential mortgage loan portfolio at June 30, 2009, representing an 8% decline, compared with $445.4 million at December 31, 2008. These loans have a higher risk profile than the rest of the portfolio as a result of origination policies for this limited segment including reliance on stated income, stated assets, or higher acceptable LTV ratios. At June 30, 2009, borrowers for Alt-A mortgages had an average current FICO score of 665 and the loans had an average LTV ratio of 88%, compared with 671 and 88%, respectively, at December 31, 2008. Total Alt-A NCOs were an annualized 3.27% for the 2009 second quarter, compared with an annualized 2.03% for the 2008 fourth quarter. Our exposure related to this product will continue to decline in the future as we stopped originating these loans in 2007**.**

Interest-only loans comprised $624.6 million, or 13%, of residential real estate loans at June 30, 2009, representing a 10% decline, compared with $691.9 million, or 15%, at December 31, 2008. Interest-only loans are underwritten to specific standards including minimum credit scores, stressed debt-to-income ratios, and extensive collateral evaluation. At June 30, 2009, borrowers for interest-only loans had an average current FICO score of 720 and the loans had an average LTV ratio of 78%, compared with 724 and 78%, respectively, at December 31, 2008. Total interest-only NCOs were an annualized 2.74% for the 2009 second quarter, compared with an annualized 0.20% for the 2008 fourth quarter.

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

AUTOMOTIVE INDUSTRY IMPACTS ON CONSUMER LOAN PORTFOLIO

The issues affecting the automotive industry *(see Automotive Industry discussion located within the Commercial Credit section)* also have an impact on the performance of the consumer loan portfolio. While there is a direct correlation between the industry situation and our exposure to the automotive suppliers and automobile dealers in our commercial portfolio, the loss of jobs and reduction in wages may have a negative impact on our consumer portfolio. In 2008, we initiated a project to assess the impact on our geographic regions in the event of significant production changes or plant closings in our markets. This project included assessing the downstream impact on automotive suppliers, related small businesses, and consumers. As a result of this project, we believe that we have made a number of positive decisions regarding the quality of our consumer portfolio given the current environment. In the indirect automobile portfolio, we have focused on borrowers with high credit scores for many years, as reflected by the performance of the portfolio given the economic conditions. In the residential and home equity loan portfolios, we have been operating in a relatively high unemployment situation for an extended period of time, yet have been able to maintain our performance metrics reflecting our focus on strong underwriting. In summary, while we anticipate our performance results may be negatively impacted, we believe the impact will be manageable.

***Counterparty Risk***

In the normal course of business, we engage with other financial counterparties for a variety of purposes including investing, asset and liability management, mortgage banking, and for trading activities. As a result, we are exposed to credit risk, or the risk of loss if the counterparty fails to perform according to the terms of our contract or agreement. We minimize counterparty risk through credit approvals, actively setting adjusting exposure limits, implementing monitoring procedures similar to those used for our commercial portfolio *(see Commercial Credit discussion)*, generally entering into transactions only with counterparties that carry high quality ratings, and requiring collateral when appropriate.

The majority of the financial institutions with whom we are exposed to counterparty risk are large commercial banks. The potential amount of loss, which would have been recognized at June 30, 2009, if a counterparty defaulted, did not exceed $14 million for any individual counterparty.

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***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 three sections immediately following: NALs and NPAs, ACL, and NCOs.

Credit quality performance in the 2009 second quarter continued to be negatively impacted by the sustained economic weakness in our Midwest markets. In addition, the negative trends in credit quality metrics for commercial loans were also influenced by the results of the in-depth review of our commercial loan portfolio, which resulted in higher provision for credit losses. The continued trend of higher unemployment rates and declining home values in our markets negatively impacted consumer loan credit quality.

NONACCRUING LOANS (NAL/NALs) AND NONPERFORMING ASSETS (NPA/NPAs)

*(This section should be read in conjunction with the Franklin Relationship discussion.)*

NPAs consist of (a) NALs, which represent loans and leases that are no longer accruing interest, (b) impaired held-for-sale loans, (c) OREO, and (d) other NPAs. A C&I or CRE loan is generally placed on nonaccrual status when collection of principal or interest is in doubt or when the loan is 90-days past due. Home equity and residential mortgage loans are placed on nonaccrual status at 120 days and 180 days, respectively. 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.

Table 32 reflects period-end NALs, NPAs, accruing restructured loans (ARLs), and past due loans and leases detail for each of the last five quarters. Due to the impact of the NALs and NPAs related to Franklin, we believe it is helpful to analyze trends in our portfolio with those Franklin-related NALs and NPAs removed. Table 33 details the Franklin-related impacts to NALs and NPAs for each of the last five quarters.

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**Table 32 Nonaccruing Loans (NALs), Nonperforming Assets (NPAs), and Past Due Loans and Leases**

| | **2009** | | | 2008 | |
|---|---|---|---|---|---|
| *(in thousands)* | **June 30,** | March 31, | December 31, | September 30, | June 30, |
| **Nonaccrual loans and leases (NALs):** | | | | | |
| Commercial and industrial [1] | **$ 456,734** | $ 398,286 | $ 932,648 | $ 174,207 | $ 161,345 |
| Commercial real estate | **850,846** | 629,886 | 445,717 | 298,844 | 261,739 |
| Residential mortgage [1] | **475,488** | 486,955 | 98,951 | 85,163 | 82,882 |
| Home equity [1] | **35,299** | 37,967 | 24,831 | 27,727 | 29,076 |
| **Total NALs** | **1,818,367** | 1,553,094 | 1,502,147 | 585,941 | 535,042 |
| **Other real estate:** | | | | | |
| Residential [1] | **107,954** | 143,856 | 63,058 | 59,302 | 59,119 |
| Commercial | **64,976** | 66,906 | 59,440 | 14,176 | 13,259 |
| **Total other real estate** | **172,930** | 210,762 | 122,498 | 73,478 | 72,378 |
| **Impaired loans held for sale [2]** | **11,287** | 11,887 | 12,001 | 13,503 | 14,759 |
| **Other NPAs [3]** | | | | 2,397 | 2,557 |
| **Total NPAs** | **$ 2,002,584** | $ 1,775,743 | $ 1,636,646 | $ 675,319 | $ 624,736 |
| **Nonperforming Franklin loans [1]** | | | | | |
| Commercial | **$** | $ | **$ 650,225** | $ | $ |
| Residential mortgage | **342,207** | 360,106 | | | |
| OREO | **43,623** | 79,596 | | | |
| Home Equity | **2,437** | 6,000 | | | |
| **Total nonperforming Franklin loans** | **$ 388,267** | $ 445,702 | $ 650,225 | $ | $ |
| NALs as a % of total loans and leases | **4.72%** | 3.93% | 3.66% | 1.42% | 1.30% |
| NPA ratio [4] | **5.18** | 4.46 | 3.97 | 1.64 | 1.52 |
| **Accruing loans and leases past due 90 days or more:** | | | | | |
| Commercial and industrial | **$** | $ | $ 10,889 | $ 24,407 | $ 9,805 |
| Commercial real estate | | | 59,425 | 58,867 | 24,052 |
| Residential mortgage (excluding loans guaranteed by the U.S. government) | **97,937** | 88,381 | 71,553 | 58,280 | 52,006 |

| | | | | | |
|---|---|---|---|---|---|
| Home equity | **35,328** | 35,717 | 29,039 | 23,224 | 26,464 |
| Other loans and leases | **13,474** | 15,611 | 18,039 | 14,580 | 13,575 |
| Total, excl. loans guaranteed by the U.S. government | **$ 146,739** | $ 139,709 | $ 188,945 | $ 179,358 | $ 125,902 |
| Add: loans guaranteed by U.S. government | **99,379** | 88,551 | 82,576 | 68,729 | 65,021 |
| **Total accruing loans and leases past due 90 days or more, including loans guaranteed by the U.S. government** | **$ 246,118** | $ 228,260 | $ 271,521 | $ 248,087 | $ 190,923 |
| Excluding loans guaranteed by the U.S. government, as a percent of total loans and leases | **0.38%** | 0.35% | 0.46% | 0.44% | 0.31% |
| Guaranteed by U.S. government, as a percent of total loans and leases | **0.26%** | 0.22% | 0.20% | 0.17% | 0.16% |
| Including loans guaranteed by the U.S. government, as a percent of total loans and leases | **0.64%** | 0.58% | 0.66% | 0.60% | 0.47% |
| **Accruing restructured loans:** | | | | | |
| Commercial (1) | **$ 267,975** | $ 201,508 | $ 185,333 | $ 364,939 | $ 368,379 |
| Residential mortgage | **158,568** | 108,011 | 82,857 | 71,512 | 57,802 |
| Other | **35,720** | 27,014 | 41,094 | 40,414 | 34,094 |
| **Total accruing restructured loans** | **$ 462,263** | $ 336,533 | $ 309,284 | $ 476,865 | $ 460,275 |

(1) Franklin loans were reported as accruing restructured commercial loans for the three-month periods ended June 30, 2008, and September 30, 2008. For the three-month period ended December 31, 2008, Franklin loans were reported as nonaccruing

commercial and industrial loans. For the three-month periods ended March 31, 2009, and June 30, 2009, nonaccruing Franklin loans were reported as residential mortgage loans, home equity loans, and OREO; reflecting the 2009 first quarter restructuring.

(2) Represent impaired loans obtained from the Sky Financial acquisition. Held for sale loans are carried at the lower of cost or fair value less costs to sell.

(3) Other NPAs represent certain investment securities backed by mortgage loans to borrowers with lower FICO scores.

(4) Nonperforming assets divided by the sum of loans and leases, impaired loans held for sale, net other real estate,

and other NPAs.

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**Table 33 NALs/NPAs Franklin-Related Impact**

| | 2009 | | 2008 | | |
|---|---|---|---|---|---|
| *(in millions)* | **Second** | First | Fourth | Third | Second |
| **Nonaccrual loans** | | | | | |
| Franklin | **$ 344.6** | $ 366.1 | $ 650.2 | $ | $ |
| Non-Franklin | **1,473.8** | 1,187.0 | 851.9 | 585.9 | 535.0 |
| Total | **$ 1,818.4** | $ 1,553.1 | $ 1,502.1 | $ 585.9 | $ 535.0 |
| **Total loans and leases** | | | | | |
| Franklin | **$ 472.0** | $ 494.0 | $ 650.2 | $ 1,095.0 | $ 1,130.0 |
| Non-Franklin | **38,023.0** | 39,054.0 | 40,441.8 | 40,097.0 | 39,917.0 |
| Total | **$ 38,495.0** | $ 39,548.0 | $ 41,092.0 | $ 41,192.0 | $ 41,047.0 |
| **NAL ratio** | | | | | |
| Total | **4.72%** | 3.93% | 3.66% | 1.42% | 1.30% |
| Non-Franklin | **3.88** | 3.04 | 2.11 | 1.46 | 1.34 |

| | 2009 | | 2008 | | |
|---|---|---|---|---|---|
| *(in millions)* | **Second** | First | Fourth | Third | Second |
| **Nonperforming assets** | | | | | |
| Franklin | **$ 388.3** | $ 445.7 | $ 650.2 | $ | $ |
| Non-Franklin | **1,614.3** | 1,330.0 | 986.4 | 675.3 | 624.7 |
| Total | **$ 2,002.6** | $ 1,775.7 | $ 1,636.6 | $ 675.3 | $ 624.7 |
| Total loans and leases | **$** | | | | |