HUNTINGTON BANCSHARES INC/MD
Form 10-K
February 18, 2010

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-K

(Mark One)

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2009

or

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Commission File Number 1-34073
Huntington Bancshares Incorporated
(Exact name of registrant as specified in its charter)

Maryland	**31-0724920**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*
41 S. High Street, Columbus, Ohio	**43287**
(Address of principal executive offices)	*(Zip Code)*

Registrant s telephone number, including area code (614) 480-8300

Securities registered pursuant to Section 12(b) of the Act:

Title of Class	Name of Exchange on Which Registered
8.50% Series A non-voting, perpetual convertible preferred stock	NASDAQ
Common Stock Par Value $0.01 per Share	NASDAQ

Securities registered pursuant to Section 12(g) of the Act:
None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Exchange Act. þ Yes o No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. o Yes þ No

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 (or for such shorter period that the registrant was required to file such reports), 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. þ

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

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

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

The aggregate market value of voting and non-voting common equity held by non-affiliates of the registrant as of June 30, 2009, determined by using a per share closing price of $4.18, as quoted by NASDAQ on that date, was $2,298,648,203. As of January 31, 2010, there were 716,382,350 shares of common stock with a par value of $0.01 outstanding.

Documents Incorporated By Reference

Part III of this Form 10-K incorporates by reference certain information from the registrant s definitive Proxy Statement for the 2010 Annual Shareholders Meeting

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Huntington Bancshares Incorporated

PART I

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

Item 1: *Business*

We are a multi-state diversified financial holding company organized under Maryland law in 1966 and headquartered in Columbus, Ohio. Through our subsidiaries, we provide full-service commercial and consumer banking services, mortgage banking services, automobile financing, equipment leasing, investment management, trust services, brokerage services, customized insurance service programs, and other financial products and services. The Bank, organized in 1866, is our only bank subsidiary. At December 31, 2009, the Bank had:

340 banking offices in Ohio

115 banking offices in Michigan

56 banking offices in Pennsylvania

50 banking offices in Indiana

28 banking offices in West Virginia

13 banking offices in Kentucky

9 private banking offices

one foreign office in the Cayman Islands

one foreign office in Hong Kong

We conduct certain activities in other states including Arizona, Florida, Maryland, Massachusetts, Nevada, New Jersey, New York, Tennessee, Texas, and Virginia. Our foreign banking activities, in total or with any individual country, are not significant. At December 31, 2009, we had 10,272 full-time equivalent employees.

Our business segments are discussed in our Management s Discussion and Analysis of Financial Condition and Results of Operations and the financial statement results for each of our business segments can be found in Note 27 of the Notes to Consolidated Financial Statements, both are included in our Annual Report to shareholders, which is incorporated into this report by reference.

Competition

Competition is intense in most of our markets. We compete on price and service with other banks and financial services companies such as savings and loans, credit unions, finance companies, mortgage banking companies, insurance companies, and brokerage firms. Competition could intensify in the future as a result of industry consolidation, the increasing availability of products and services from non-banks, greater technological developments in the industry, and banking reform.

Regulatory Matters

General

We are a bank holding company and are qualified as a financial holding company with the Federal Reserve. We are subject to examination and supervision by the Federal Reserve pursuant to the Bank Holding Company Act. We are required to file reports and other information regarding our business operations and the business operations of our subsidiaries with the Federal Reserve.

Because we are a public company, we are also subject to regulation by the Securities and Exchange Commission (SEC). The SEC has established three categories of issuers for the purpose of filing periodic and annual reports. Under these regulations, we are considered to be a large accelerated filer and, as such, must comply with SEC accelerated reporting requirements.

The Bank is subject to examination and supervision by the Office of the Comptroller of the Currency (OCC). Its domestic deposits are insured by the Deposit Insurance Fund (DIF) of the Federal Deposit Insurance Corporation (FDIC), which also has certain regulatory and supervisory authority over it. Our non-bank subsidiaries are also subject to examination and supervision by the Federal Reserve or, in the case of non-bank subsidiaries of the Bank, by the OCC. Our subsidiaries are also subject to examination by other federal and state agencies, including, in the case of certain securities and investment management activities, regulation by the SEC and the Financial Industry Regulatory Authority.

In connection with emergency economic stabilization programs adopted in late 2008 as described below under Recent Regulatory Developments, we are also subject for the foreseeable future to certain direct oversight by the U.S. Treasury Department and to certain non-traditional oversight by our normal banking regulators.

In addition to the impact of federal and state regulation, the Bank and our non-bank subsidiaries are affected significantly by the actions of the Federal Reserve as it attempts to control the money supply and credit availability in order to influence the economy.

Holding Company Structure

We have one national bank subsidiary and numerous non-bank subsidiaries. Exhibit 21.1 of this report lists all of our subsidiaries.

The Bank is subject to affiliate transaction restrictions under federal laws, which limit the transfer of funds by a subsidiary bank or its subsidiaries to its parent corporation or any non-bank subsidiary of its parent corporation, whether in the form of loans, extensions of credit, investments, or asset purchases. Such transfers by a subsidiary bank are limited to:

- 10% of the subsidiary bank s capital and surplus for transfers to its parent corporation or to any individual non-bank subsidiary of the parent, and

- An aggregate of 20% of the subsidiary bank s capital and surplus for transfers to such parent together with all such non-bank subsidiaries of the parent.

Furthermore, such loans and extensions of credit must be secured within specified amounts. In addition, all affiliate transactions must be conducted on terms and under circumstances that are substantially the same as such transactions with unaffiliated entities.

As a matter of policy, the Federal Reserve expects a bank holding company to act as a source of financial and managerial strength to each of its subsidiary banks and to commit resources to support each such subsidiary bank. Under this source of strength doctrine, the Federal Reserve may require a bank holding company to make capital injections into a troubled subsidiary bank. They may charge the bank holding company with engaging in unsafe and unsound practices if it fails to commit resources to such a subsidiary bank or if it undertakes actions that the Federal Reserve believes might jeopardize its ability to commit resources to such subsidiary bank. A capital injection may be required at times when the holding company does not have the resources to provide it.

Any loans by a holding company to a subsidiary bank are subordinate in right of payment to deposits and to certain other indebtedness of such subsidiary bank. In the event of a bank holding company s bankruptcy, the bankruptcy trustee will assume any commitment by the holding company to a federal bank regulatory agency to maintain the capital of a subsidiary bank. Moreover, the bankruptcy law provides that claims based on any such commitment will be entitled to a priority of payment over the claims of the institution s general unsecured creditors, including the holders of its note obligations.

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Federal law permits the OCC to order the pro rata assessment of shareholders of a national bank whose capital stock has become impaired, by losses or otherwise, to relieve a deficiency in such national bank s capital stock. This statute also provides for the enforcement of any such pro rata assessment of shareholders of such national bank to cover such impairment of capital stock by sale, to the extent necessary, of the capital stock owned by any assessed shareholder failing to pay the assessment. As the sole shareholder of the Bank, we are subject to such provisions.

Moreover, the claims of a receiver of an insured depository institution for administrative expenses and the claims of holders of deposit liabilities of such an institution are accorded priority over the claims of general unsecured creditors of such an institution, including the holders of the institution s note obligations, in the event of liquidation or other resolution of such institution. Claims of a receiver for administrative expenses and claims of holders of deposit liabilities of the Bank, including the FDIC as the insurer of such holders, would receive priority over the holders of notes and other senior debt of the Bank in the event of liquidation or other resolution and over our interests as sole shareholder of the Bank.

The Federal Reserve maintains a bank holding company rating system that emphasizes risk management, introduces a framework for analyzing and rating financial factors, and provides a framework for assessing and rating the potential impact of non-depository entities of a holding company on its subsidiary depository institution(s).

A composite rating is assigned based on the foregoing three components, but a fourth component is also rated, reflecting generally the assessment of depository institution subsidiaries by their principal regulators. Ratings are made on a scale of 1 to 5 (1 highest) and are not made public. The bank holding company rating system, which became effective in 2005, applies to us. The composite ratings assigned to us, like those assigned to other financial institutions, are confidential and may not be directly disclosed, except to the extent required by law.

Emergency Economic Stabilization Act of 2008, Federal Deposit Insurance Corporation, Financial Stability Plan, American Recovery and Reinvestment Act of 2009, Homeowner Affordability and Stability Plan, Other Regulatory Developments and Pending Legislation

Emergency Economic Stabilization Act of 2008

On October 3, 2008, the Emergency Economic Stabilization Act of 2008 (EESA) was enacted. EESA enables the federal government, under terms and conditions developed by the Secretary of the Treasury, to insure troubled assets, including mortgage-backed securities, and collect premiums from participating financial institutions. EESA includes, among other provisions: (a) the $700 billion Troubled Assets Relief Program (TARP), under which the Secretary of the Treasury is authorized to purchase, insure, hold, and sell a wide variety of financial instruments, particularly those that are based on or related to residential or commercial mortgages originated or issued on or before March 14, 2008; and (b) an increase in the amount of deposit insurance provided by the Federal Deposit Insurance Corporation (FDIC). Both of these specific provisions are discussed in the below sections. In December 2009, the Secretary of the Treasury announced the extension of the TARP to October 2010, but indicated that not more than $550 billion of the total authorized would actually be deployed.

Under the TARP, the Department of Treasury authorized a voluntary capital purchase program (CPP) to purchase up to $250 billion of senior preferred shares of qualifying financial institutions that elected to participate by November 14, 2008. Participating companies must adopt certain standards for executive compensation, including (a) prohibiting golden parachute payments as defined in EESA to senior Executive Officers; (b) requiring recovery of any compensation paid to senior Executive Officers based on criteria that is later proven to be materially inaccurate; and (c) prohibiting incentive compensation that encourages unnecessary and excessive risks that threaten the value of the financial institution. The terms of the CPP also limit certain uses of capital by the issuer, including repurchases of company stock, and increases in dividends. In late 2009, the Treasury Department announced that the CPP was effectively closed, and that certain other emergency programs under the TARP had been or would be terminated.

On November 14, 2008, we participated in the CPP and issued approximately $1.4 billion in capital in the form of non-voting cumulative preferred stock that pays cash dividends at the rate of 5% per annum for the first five years, and then pays cash dividends at the rate of 9% per annum thereafter. In addition, the Department of Treasury received warrants to purchase shares of our common stock having an aggregate market price equal to 15% of the preferred stock amount. The proceeds of the $1.4 billion have been credited to the preferred stock and additional paid-in-capital. The difference between the par value of the preferred stock and the amount credited to the preferred stock account is amortized against retained earnings and is reflected in our income statement as dividends on preferred shares, resulting in additional dilution to our common stock. The exercise price for the warrant of $8.90, and the market price for determining the number of shares of common stock subject to the warrants, was determined on the date of the preferred investment (calculated on a 20-trading day trailing average). The warrants are immediately exercisable, in whole or in part, over a term of 10 years. The warrants are included in our diluted average common shares outstanding in periods when the effect of their inclusion is dilutive to earnings per share.

Federal Deposit Insurance Corporation (FDIC)

EESA temporarily raised the limit on federal deposit insurance coverage from $100,000 to $250,000 per depositor. Separate from EESA, in October 2008, the FDIC also announced the Temporary Liquidity Guarantee Program (TLGP) to guarantee certain debt issued by FDIC-insured institutions through October 31, 2009. Under one component of this program, the Transaction Account Guaranty Program (TAGP), the FDIC temporarily provided unlimited coverage for noninterest bearing transaction deposit accounts through December 31, 2009. The $250,000 deposit insurance coverage limit was scheduled to return to $100,000 on January 1, 2010, but was extended by congressional action until December 31, 2013. The TLGP has been extended to cover debt of FDIC-insured institutions issued through April 30, 2010, and the TAGP has been extended through June 30, 2010. We participated in the TAGP since its beginning, and have elected to continue our participation during the extension period.

In addition, on February 3, 2009, the Bank completed the issuance and sale of $600 million of Floating Rate Senior Bank Notes with a variable rate of three month LIBOR plus 40 basis points, due June 1, 2012 (the Notes). The Notes are guaranteed by the FDIC under the TLGP and are backed by the full faith and credit of the United States. The FDIC s guarantee cost $20 million which will be amortized over the term of the notes.

(See Bank Liquidity discussion for additional details regarding the Temporary Liquidity Guarantee Program.)

Financial Stability Plan

On February 10, 2009, the Financial Stability Plan (FSP) was announced by the U.S. Treasury Department. The FSP is a comprehensive set of measures intended to shore up the financial system. The core elements of the plan include making bank capital injections, creating a public-private investment fund to buy troubled assets, establishing guidelines for loan modification programs and expanding the Federal Reserve lending program. During the course of 2009, the Treasury Department announced numerous programs in implementation of the FSP, and sent various legislative proposals to the Congress for consideration. Summaries of these programs and legislative proposals have been posted on a government website, FinancialStability.gov. We continue to monitor these developments and assess their potential impact on our business.

American Recovery and Reinvestment Act of 2009

On February 17, 2009, the American Recovery and Reinvestment Act of 2009 (ARRA) was enacted. ARRA is intended to provide a stimulus to the U.S. economy in the wake of the economic downturn brought about by the subprime mortgage crisis and the resulting credit crunch. The bill includes federal tax cuts, expansion of unemployment benefits and other social welfare provisions, and domestic spending in education, healthcare, and infrastructure, including the energy structure. The new law also includes numerous non-economic recovery related items, including a limitation on executive compensation in federally aided banks.

Under ARRA, an institution will be subject to the following restrictions and standards throughout the period in which any obligation arising from financial assistance provided under TARP remains outstanding:

Limits on compensation incentives for risk taking by senior executive officers.

Requirement of recovery of any compensation paid based on inaccurate financial information.

Prohibition on Golden Parachute Payments .

Prohibition on compensation plans that would encourage manipulation of reported earnings to enhance the compensation of employees.

Publicly registered TARP recipients must establish a board compensation committee comprised entirely of independent directors, for the purpose of reviewing employee compensation plans.

Prohibition on bonus, retention award, or incentive compensation, except for payments of long term restricted stock.

Limitation on luxury expenditures.

TARP recipients are required to permit a separate shareholder vote to approve the compensation of executives, as disclosed pursuant to the SEC s compensation disclosure rules.

The chief executive officer and chief financial officer of each TARP recipient will be required to provide a written certification of compliance with these standards to the SEC.

The foregoing is a summary of requirements included in standards established by the Secretary of the Treasury.

Homeowner Affordability and Stability Plan

On February 18, 2009, the Homeowner Affordability and Stability Plan (HASP) was announced by the President of the United States. HASP is intended to support a recovery in the housing market and ensure that workers can continue to pay off their mortgages through the following elements:

Provide access to low-cost refinancing for responsible homeowners suffering from falling home prices.

A $75 billion homeowner stability initiative to prevent foreclosure and help responsible families stay in their homes.

Support low mortgage rates by strengthening confidence in Fannie Mae and Freddie Mac.

The Treasury Department has issued extensive guidance on the scope and mechanics of various components of HASP. We continue to monitor these developments and assess their potential impact on our business.

Other Regulatory Developments

The Basel Committee on Banking Supervision s Basel II regulatory capital guidelines originally published in June 2004 and adopted in final form by U.S. regulatory agencies in November 2007 are designed to promote improved risk measurement and management processes and better align minimum capital requirements with risk. The Basel II guidelines became operational in April 2008, but are mandatory only for core banks, i.e., banks with consolidated total assets of $250 billion or more. They are thus not applicable to the Bank, which continues to operate under U.S. risk-based capital guidelines consistent with Basel I guidelines published in 1988.

Federal regulators issued for public comment in December 2006 proposed rules (designated as Basel IA rules) applicable to non-core banks that would have modified the existing U.S. Basel I-based capital framework. In July 2008, however, these regulators issued, instead of the Basel 1A proposals, new rulemaking involving a standardized framework that would implement some of the simpler approaches for both credit risk and operational risk from the more advanced Basel II framework. Non-core U.S. depository institutions would be allowed to opt in to the standardized framework or elect to remain under the existing Basel 1-based regulatory capital framework. The new rulemaking remained pending at the end of 2009.

Pending Legislation

At the end of 2009, there were numerous legislative proposals, originating both in Congressional committees and in the Obama Administration, that would, if enacted, have significant impact on the banking industry. These proposals include the creation of a Consumer Financial Protection Agency with rulemaking, examination, and enforcement powers to oversee consumer lending, credit card, and other consumer financial activities. The Agency would take over certain functions now lodged with banking regulators and other agencies. They also include a broad financial regulatory reform initiative that would, among other things, (a) abolish the thrift charter and convert the Office of Thrift Supervision into a division of the Office of the Comptroller of the Currency, (b) establish a Financial Stability Council to oversee systemic risk issues, (c) extend regulation beyond bank holding companies to financial sector companies not presently regulated, including hedge funds, and (d) provide a means for resolving, without governmental bailouts, entities previously regarded as too big to fail. We will monitor all legislative developments and assess their potential impact on our business.

Dividend Restrictions

Dividends from the Bank are the primary source of funds for payment of dividends to our shareholders. However, there are statutory limits on the amount of dividends that the Bank can pay to us without regulatory approval. The Bank may not, without prior regulatory approval, pay a dividend in an amount greater than its undivided profits. In addition, the prior approval of the OCC is required for the payment of a dividend by a national bank if the total of all dividends declared in a calendar year would exceed the total of its net income for the year combined with its retained net income for the two preceding years. As a result, for the year ended December 31, 2009, the Bank did not pay any cash dividends to Huntington. At December 31, 2009, the Bank could not have declared and paid any additional dividends to the parent company without regulatory approval.

If, in the opinion of the applicable regulatory authority, a bank under its jurisdiction is engaged in or is about to engage in an unsafe or unsound practice, such authority may require, after notice and hearing, that such bank cease and desist from such practice. Depending on the financial condition of the Bank, the applicable regulatory authority might deem us to be engaged in an unsafe or unsound practice if the Bank were to pay dividends. The Federal Reserve and the OCC have issued policy statements that provide that insured banks and bank holding companies should generally only pay dividends out of current operating earnings. As previously described, the CPP limits our ability to increase dividends to shareholders.

FDIC Insurance

With the enactment in February 2006 of the Federal Deposit Insurance Reform Act of 2005 and related legislation, and the adoption by the FDIC of implementing regulations in November 2006, major changes were introduced in FDIC deposit insurance, effective January 1, 2007.

Under the reformed deposit insurance regime, the FDIC designates annually a target reserve ratio for the DIF within the range of 1.15 percent and 1.5 percent, instead of the prior fixed requirement to manage the DIF so as to maintain a designated reserve ratio of 1.25 percent.

In addition, the FDIC adopted a new risk-based system for assessment of deposit insurance premiums on depository institutions, under which all such institutions would pay at least a minimum level of premiums. The new system is based on an institution s probability of causing a loss to the DIF, and requires that each depository institution be placed in one of four risk categories, depending on a combination of its capitalization and its supervisory ratings. Under the base rate schedule adopted in late 2006, institutions in Risk Category I would be assessed between 2 and 4 basis points, while institutions in Risk Category IV could be assessed a maximum of 40 basis points.

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The FDIC set 2007 assessment rates at three basis points above the base schedule rates, i.e., between 5 and 7 basis points for Risk Category I institutions and up to 43 basis points for Risk Category IV institutions. To assist the transition to the new system requiring assessment payments by all insured institutions, the Bank and other depository institutions that were in existence on and paid deposit insurance assessments prior to December 31, 1996, were made eligible for a one-time assessment credit based on their shares of the aggregate 1996 assessment base. The Bank s assessment rate, like that of other financial institutions, is confidential and may not be directly disclosed, except to the extent required by law.

For 2008, the FDIC resolved to maintain the designated reserve ratio at 1.25 percent, and to leave risk-based assessments at the same rates as in 2007, that is between 5 and 43 basis points, depending upon an institution s risk category.

As a participating FDIC insured bank, we were assessed deposit insurance premiums totaling $24.1 million during 2008. However, the one-time assessment credit described above was fully utilized to substantially offset our 2008 deposit insurance premium and, therefore, only $7.9 million of deposit insurance premium expense was recognized during 2008.

In late 2008, the FDIC raised assessment rates for the first quarter of 2009 by a uniform 7 basis points, resulting in a range between 12 and 50 basis points, depending upon the risk category. At the same time, the FDIC proposed further changes in the assessment system beginning in the second quarter of 2009. As amended in a final rule issued in March 2009, the changes commencing April 1, 2009, set a five-year target of 1.15 percent for the designated reserve ratio (which had fallen sharply during 2008 and early 2009), and set base assessment rates between 12 and 45 basis points, depending on the risk category. However, adjustments (relating to unsecured debt, secured liabilities, and brokered deposits) were provided for in the case of individual institutions that could result in assessment rates between 7 and 24 basis points for institutions in the lowest risk category and 40 to 77.5 basis points for institutions in the highest risk category. The purpose of the April 1, 2009, changes was to ensure that riskier institutions bear a greater share of the increase in assessments, and are subsidized to a lesser degree by less risky institutions.

In addition to these changes in the basic assessment regime, the FDIC, in an interim rule also issued in March 2009, imposed a 20 basis point emergency special assessment on deposits of insured institutions as of June 30, 2009, to be collected on September 30, 2009. In May 2009, the FDIC imposed a further special assessment on insured institutions of five basis points on their June 30, 2009, assets minus Tier 1 capital, also payable September 30, 2009. And in November 2009, the FDIC required all insured institutions to prepay, on December 30, 2009, slightly over three years of estimated insurance assessments.

Taking into account both regular and special deposit insurance assessments, we were required to pay total deposit and other insurance expense of $113.8 million in 2009. We also prepaid an estimated insurance assessment of $325 million on December 30, 2009.

The Bank continues to be required to make payments for the servicing of obligations of the Financing Corporation (FICO) that were issued in connection with the resolution of savings and loan associations, so long as such obligations remain outstanding.

Capital Requirements

The Federal Reserve has issued risk-based capital ratio and leverage ratio guidelines for bank holding companies. The risk-based capital ratio guidelines establish a systematic analytical framework that:

makes regulatory capital requirements sensitive to differences in risk profiles among banking organizations, takes off-balance sheet exposures into explicit account in assessing capital adequacy, and

minimizes disincentives to holding liquid, low-risk assets.

Under the guidelines and related policies, bank holding companies must maintain capital sufficient to meet both a risk-based asset ratio test and a leverage ratio test on a consolidated basis. The risk-based ratio is

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determined by allocating assets and specified off-balance sheet commitments into four weighted categories, with higher weighting assigned to categories perceived as representing greater risk. The risk-based ratio represents capital divided by total risk weighted assets. The leverage ratio is core capital divided by total assets adjusted as specified in the guidelines. The Bank is subject to substantially similar capital requirements.

Generally, under the applicable guidelines, a financial institution s capital is divided into two tiers. Institutions that must incorporate market risk exposure into their risk-based capital requirements may also have a third tier of capital in the form of restricted short-term subordinated debt. These tiers are:

 Tier 1 , or core capital, includes total equity plus qualifying capital securities and minority interests, excluding unrealized gains and losses accumulated in other comprehensive income, and non-qualifying intangible and servicing assets.

 Tier 2 , or supplementary capital, includes, among other things, cumulative and limited-life preferred stock, mandatory convertible securities, qualifying subordinated debt, and the allowance for credit losses, up to 1.25% of risk-weighted assets.

 Total capital is Tier 1 plus Tier 2 capital.

The Federal Reserve and the other federal banking regulators require that all intangible assets (net of deferred tax), except originated or purchased mortgage-servicing rights, non-mortgage servicing assets, and purchased credit card relationships, be deducted from Tier 1 capital. However, the total amount of these items included in capital cannot exceed 100% of its Tier 1 capital.

Under the risk-based guidelines, financial institutions are required to maintain a risk-based ratio of 8%, with 4% being Tier 1 capital. The appropriate regulatory authority may set higher capital requirements when they believe an institution s circumstances warrant.

Under the leverage guidelines, financial institutions are required to maintain a leverage ratio of at least 3%. The minimum ratio is applicable only to financial institutions that meet certain specified criteria, including excellent asset quality, high liquidity, low interest rate risk exposure, and the highest regulatory rating. Financial institutions not meeting these criteria are required to maintain a minimum Tier 1 leverage ratio of 4%.

Special minimum capital requirements apply to equity investments in non-financial companies. The requirements consist of a series of deductions from Tier 1 capital that increase within a range from 8% to 25% of the adjusted carrying value of the investment.

Failure to meet applicable capital guidelines could subject the financial institution to a variety of enforcement remedies available to the federal regulatory authorities. These include limitations on the ability to pay dividends, the issuance by the regulatory authority of a capital directive to increase capital, and the termination of deposit insurance by the FDIC. In addition, the financial institution could be subject to the measures described below under Prompt Corrective Action as applicable to under-capitalized institutions.

The risk-based capital standards of the Federal Reserve, the OCC, and the FDIC specify that evaluations by the banking agencies of a bank s capital adequacy will include an assessment of the exposure to declines in the economic value of the bank s capital due to changes in interest rates. These banking agencies issued a joint policy statement on interest rate risk describing prudent methods for monitoring such risk that rely principally on internal measures of exposure and active oversight of risk management activities by senior management.

Prompt Corrective Action

The Federal Deposit Insurance Corporation Improvement Act of 1991, known as FDICIA, requires federal banking regulatory authorities to take prompt corrective action with respect to depository institutions that do not meet minimum capital requirements. For these purposes, FDICIA establishes five capital tiers: well-capitalized, adequately-capitalized, under-capitalized, significantly under-capitalized, and critically under-capitalized.

An institution is deemed to be:

well-capitalized if it has a total risk-based capital ratio of 10% or greater, a Tier 1 risk-based capital ratio of 6% or greater, and a Tier 1 leverage ratio of 5% or greater and is not subject to a regulatory order, agreement, or directive to meet and maintain a specific capital level for any capital measure;

adequately-capitalized if it has a total risk-based capital ratio of 8% or greater, a Tier 1 risk-based capital ratio of 4% or greater, and, generally, a Tier 1 leverage ratio of 4% or greater and the institution does not meet the definition of a well-capitalized institution;

under-capitalized if it does not meet one or more of the adequately-capitalized tests;

significantly under-capitalized if it has a total risk-based capital ratio that is less than 6%, a Tier 1 risk-based capital ratio that is less than 3%, or a Tier 1 leverage ratio that is less than 3%; and

critically under-capitalized if it has a ratio of tangible equity, as defined in the regulations, to total assets that is equal to or less than 2%.

Throughout 2009, our regulatory capital ratios and those of the Bank were in excess of the levels established for well-capitalized institutions.

			At December 31, 2009	
(in billions of dollars)		**Well-Capitalized Minimums**	**Actual**	**Excess Capital(1)**
Ratios:				
Tier 1 leverage ratio	Consolidated	5.00%	**10.09%**	**$ 2.6**
	Bank	5.00	**5.59**	**0.3**
Tier 1 risk-based capital ratio	Consolidated	6.00	**12.03**	**2.6**
	Bank	6.00	**6.66**	**0.3**
Total risk-based capital ratio	Consolidated	10.00	**14.41**	**1.9**
	Bank	10.00	**11.08**	**0.5**

(1) Amount greater than the well-capitalized minimum percentage.

FDICIA generally prohibits a depository institution from making any capital distribution, including payment of a cash dividend or paying any management fee to its holding company, if the depository institution would be under-capitalized after such payment. Under-capitalized institutions are subject to growth limitations and are required by the appropriate federal banking agency to submit a capital restoration plan. If any depository institution subsidiary of a holding company is required to submit a capital restoration plan, the holding company would be required to provide a limited guarantee regarding compliance with the plan as a condition of approval of such plan.

If an under-capitalized institution fails to submit an acceptable plan, it is treated as if it is significantly under-capitalized. Significantly under-capitalized institutions may be subject to a number of requirements and restrictions, including orders to sell sufficient voting stock to become adequately-capitalized, requirements to reduce total assets, and cessation of receipt of deposits from correspondent banks.

Critically under-capitalized institutions may not, beginning 60 days after becoming critically under-capitalized, make any payment of principal or interest on their subordinated debt. In addition, critically under-capitalized institutions are subject to appointment of a receiver or conservator within 90 days of becoming so classified.

Under FDICIA, a depository institution that is not well-capitalized is generally prohibited from accepting brokered deposits and offering interest rates on deposits higher than the prevailing rate in its market. As previously stated, the Bank is well-capitalized and the FDICIA brokered deposit rule did not adversely affect its ability to accept brokered deposits. The Bank had $2.1 billion of such brokered deposits at December 31, 2009.

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Financial Holding Company Status

In order to maintain its status as a financial holding company, a bank holding company s depository subsidiaries must all be both well capitalized and well managed, and must meet their Community Reinvestment Act obligations.

Financial holding company powers relate to financial activities that are determined by the Federal Reserve, in coordination with the Secretary of the Treasury, to be financial in nature, incidental to an activity that is financial in nature, or complementary to a financial activity, provided that the complementary activity does not pose a safety and soundness risk. The Gramm-Leach-Bliley Act designates certain activities as financial in nature, including:

- underwriting insurance or annuities;
- providing financial or investment advice;
- underwriting, dealing in, or making markets in securities;
- merchant banking, subject to significant limitations;
- insurance company portfolio investing, subject to significant limitations; and
- any activities previously found by the Federal Reserve to be closely related to banking.

The Gramm-Leach-Bliley Act also authorizes the Federal Reserve, in coordination with the Secretary of the Treasury, to determine that additional activities are financial in nature or incidental to activities that are financial in nature.

We are required by the Bank Holding Company Act to obtain Federal Reserve approval prior to acquiring, directly or indirectly, ownership or control of voting shares of any bank, if, after such acquisition, we would own or control more than 5% of its voting stock. However, as a financial holding company, we may commence any new financial activity, except for the acquisition of a savings association, with notice to the Federal Reserve within 30 days after the commencement of the new financial activity.

USA Patriot Act

The USA Patriot Act of 2001 and its related regulations require insured depository institutions, broker-dealers, and certain other financial institutions to have policies, procedures, and controls to detect, prevent, and report money laundering and terrorist financing. The statute and its regulations also provide for information sharing, subject to conditions, between federal law enforcement agencies and financial institutions, as well as among financial institutions, for counter-terrorism purposes. Federal banking regulators are required, when reviewing bank holding company acquisition and bank merger applications, to take into account the effectiveness of the anti-money laundering activities of the applicants.

Customer Privacy and Other Consumer Protections

Pursuant to the Gramm-Leach-Bliley Act, we, like all other financial institutions, are required to:

- provide notice to our customers regarding privacy policies and practices,
- inform our customers regarding the conditions under which their non-public personal information may be disclosed to non-affiliated third parties, and

give our customers an option to prevent disclosure of such information to non-affiliated third parties.

Under the Fair and Accurate Credit Transactions Act of 2003, our customers may also opt out of information sharing between and among us and our affiliates. We are also subject, in connection with our lending and leasing activities, to numerous federal and state laws aimed at protecting consumers, including the Home Mortgage Disclosure Act, the Real Estate Settlement Procedures Act, the Equal Credit Opportunity Act, the Truth in Lending Act, and the Fair Credit Reporting Act.

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Sarbanes-Oxley Act of 2002

The Sarbanes-Oxley Act of 2002 imposed new or revised corporate governance, accounting, and reporting requirements on us and all other companies having securities registered with the SEC. In addition to a requirement that chief executive officers and chief financial officers certify financial statements in writing, the statute imposed requirements affecting, among other matters, the composition and activities of audit committees, disclosures relating to corporate insiders and insider transactions, codes of ethics, and the effectiveness of internal controls over financial reporting.

Item 1A: ***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 commitments based on 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.

In addition to the other information included or incorporated by reference into this report, readers should carefully consider that the following important factors, among others, could materially impact our business, future results of operations, and future cash flows.

(1) Credit Risks:

The allowance for loan losses may prove inadequate or be negatively affected by credit risk exposures.

Our business depends on the creditworthiness of our customers. We periodically review the allowance for loan and lease losses 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 nonperforming assets. There is no certainty that the allowance for loan losses will be adequate over time to cover credit losses in the portfolio because of unanticipated 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 allowance for loan losses is not adequate, our business, financial condition, liquidity, capital, and results of operations could be materially adversely affected.

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 have a significantly adverse affect on 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 2009, with nonaccrual loans and leases (NALs) and nonperforming assets (NPAs) both higher at December 31, 2009, compared with December 31, 2008, and December 31, 2007. It should be noted that there was a 12% decline in NPA s in the 2009 fourth quarter. The allowance for credit losses (ACL) of $1,531.4 million at December 31, 2009, was 4.16% of period-end loans and leases and 80% of period-end NALs.

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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 consumer portfolios, have continued to be negatively affected by the ongoing reduction in real estate values and reduced levels of sales and leasing activities. Our ACL reserving methodology uses individual loan portfolio performance factors based on an analysis of historical charge-off experience and migration patterns as part of the determination of ACL adequacy. Such factors are subject to regular review and may change to reflect updated performance trends and expectations, particularly in times of severe economic stress. 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 determined to not be 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.

A sustained weakness or weakening in business and economic conditions generally or specifically in the markets in which we do business could adversely affect our business and operating results.

Our business could be adversely affected to the extent that weaknesses in business and economic conditions have direct or indirect impacts on us or on our customers and counterparties. These conditions could lead, for example, to one or more of the following:

- A decrease in the demand for loans and other products and services offered by us;
- A decrease in customer savings generally and in the demand for savings and investment products offered by us; and
- An increase in the number of customers and counterparties who become delinquent, file for protection under bankruptcy laws, or default on their loans or other obligations to us.

An increase in the number of delinquencies, bankruptcies or defaults could result in a higher level of nonperforming assets, net charge-offs, provision for credit losses, and valuation adjustments on loans held for sale. The markets we serve are dependent on industrial and manufacturing businesses and thus particularly vulnerable to adverse changes in economic conditions.

Declines in home values and reduced levels of home sales in our markets could continue to adversely affect us.

Like all financial institutions, we are subject to the effects of any economic downturn. There has been a slowdown in the housing market across our geographic footprint, reflecting declining prices and excess inventories of houses to be sold. These developments have had, and further declines may continue to have, a negative effect on our financial conditions and results of operations. At December 31, 2009, we had:

$7.6 billion of home equity loans and lines, representing 21% of total loans and leases.

$4.5 billion in residential real estate loans, representing 12% of total loans and leases. Adjustable-rate mortgages, primarily mortgages that have a fixed rate for the first 3 to 5 years and then adjust annually, comprised 56% of this portfolio.

$0.9 billion of loans to single family home builders. These loans represented 2% of total loans and leases.

$4.9 billion of mortgage-backed securities, including $3.5 billion of Federal Agency mortgage-backed securities, $0.5 billion of private label collateralized mortgage obligations, $0.1 billion of Alt-A mortgage backed securities, and $0.1 billion of pooled trust preferred securities that could be negatively affected by a decline in home values.

$0.3 billion of bank owned life insurance (BOLI) investments primarily in mortgage-backed securities. This investment represents 24% of the total BOLI investment portfolio.

Adverse economic conditions in the automobile manufacturing and related service industries may impact our banking business.

Many of the banking markets we serve are connected, directly or indirectly, to the automobile manufacturing industry. We do not have any direct credit exposure to automobile manufacturers. However, we do have a modest exposure to companies that derive more than 25% of their revenues from contracts with the automobile manufacturing companies. Also, these automobile manufacturers or their suppliers employ many of our consumer customers. The automobile manufacturing industry has experienced significant economic difficulties over the past five years, which, in turn, has adversely impacted a number of related industries that serve the automobile manufacturing industry, including automobile parts suppliers and other indirect businesses. We cannot provide assurance that the economic conditions in the automobile manufacturing and related service industries will improve at any time in the foreseeable future or that adverse economic conditions in these industries will not impact the Bank.

(2) Market Risks:

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.

During 2009, we issued 346.8 million shares of additional common stock through two common stock public offerings, three discretionary equity issuance programs, and conversions of preferred stock into common stock. The issuance of these additional shares of common stock resulted in a 95% increase of outstanding shares of common stock at December 31, 2009, compared with December 31, 2008, and those additional shares were significantly dilutive to existing common shareholders. (See the Capital section located within the Risk Management and Capital section for additional information). As of December 31, 2009, we had 130.2 million of additional authorized common shares available for issuance, and 4.8 million of additional authorized preferred shares available for issuance.

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 subject to market conditions, we may 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.

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 well-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.

The value of certain investment securities is volatile and future declines or other-than-temporary impairments could have a materially adverse affect on our future earnings and regulatory capital.

Continued volatility in the market value for certain of our investment securities, whether caused by changes in market perceptions of credit risk, as reflected in the expected market yield of the security, or actual defaults in the portfolio could result in significant fluctuations in the value of the securities. This could have a material adverse impact on our accumulated other comprehensive income and shareholders equity depending on the direction of the fluctuations. Furthermore, future downgrades or defaults in these securities could result in future classifications as other than temporarily impaired. This could have a material impact on our future earnings, although the impact on shareholders equity will be offset by any amount already included in other comprehensive income for securities where we have recorded temporary impairment.

Changes in interest rates could negatively impact our financial condition and results of operations.

Our results of operations depend substantially on net interest income, which is the difference between interest earned on interest-earning assets (such as investments and loans) and interest paid on interest-bearing liabilities (such as deposits and borrowings). Interest rates are highly sensitive to many factors, including governmental monetary policies and domestic and international economic and political conditions. Conditions such as inflation, recession, unemployment, money supply, and other factors beyond our control may also affect interest rates. If our interest-earning assets mature or reprice more quickly than interest-bearing liabilities in a declining interest rate environment, net interest income could be adversely impacted. Likewise, if interest-bearing liabilities mature or reprice more quickly than interest-earnings assets in a rising interest rate environment, net interest income could be adversely impacted.

Changes in interest rates also can affect the value of loans, securities, and other assets, including retained interests in securitizations, mortgage and non-mortgage servicing rights and assets under management. A portion of our earnings results from transactional income. Examples of transactional income include trust income, brokerage income, gain on sales of loans and other real estate owned. This type of income can vary significantly from quarter-to-quarter and year-to-year based on a number of different factors, including the interest rate environment. An increase in interest rates that adversely affects the ability of borrowers to pay the principal or interest on loans and leases may lead to an increase in nonperforming assets and a reduction of income recognized, which could have a material, adverse effect on our results of operations and cash flows. When we decide to stop accruing interest on a loan, we reverse any accrued but unpaid interest receivable, which decreases interest income. Subsequently, we continue to have a cost to fund the loan, which is reflected as interest expense, without any interest income to offset the associated funding expense. Thus, an increase in the amount of loans on nonaccrual status could have an adverse impact on net interest income.

Although fluctuations in market interest rates are neither completely predictable nor controllable, our Market Risk Committee (MRC) meets periodically to monitor our interest rate sensitivity position and oversee our financial risk management by establishing policies and operating limits. For further discussion, see the Market Risk Interest Rate Risk section in Management s Discussion and Analysis of Financial Condition and Results of Operations. If short-term interest rates remain at their historically low levels for a prolonged period, and assuming longer-term interest rates fall further, we could experience net interest margin compression as our interest-earning assets would continue to reprice downward while our interest-bearing liability rates, especially customer deposit rates, could remain at current levels.

(3) Liquidity Risks:

If the Bank or holding company were unable to borrow funds through access to capital markets, we may not be able to meet the cash flow requirements of our depositors, creditors, and borrowers, or the operating cash needed to fund corporate expansion and other corporate activities.

Liquidity is the ability to meet cash flow needs on a timely basis at a reasonable cost. The liquidity of the Bank is used to make loans and leases and to repay deposit liabilities as they become due or are demanded by customers. Liquidity policies and limits are established by the board of directors, with operating limits set by MRC, based upon the ratio of loans to deposits and percentage of assets funded with non-core or wholesale funding. The Bank s MRC regularly monitors the overall liquidity position of the Bank and the parent company to ensure that various alternative strategies exist to cover unanticipated events that could affect liquidity. MRC also establishes policies and monitors guidelines to diversify the Bank s wholesale funding sources to avoid concentrations in any one market source. Wholesale funding sources include Federal funds purchased, securities sold under repurchase agreements, non-core deposits, and medium- and long-term debt, which includes a domestic bank note program and a Euronote program. The Bank is also a member of the Federal Home Loan Bank of Cincinnati, Ohio (FHLB), which provides funding through advances to members that are collateralized with mortgage-related assets.

We maintain a portfolio of securities that can be used as a secondary source of liquidity. There are other sources of liquidity available to us should they be needed. These sources include the sale or securitization of loans, the ability to acquire additional national market, non-core deposits, issuance of additional collateralized borrowings such as FHLB advances, the issuance of debt securities, and the issuance of preferred or common securities in public or private transactions. The Bank also can borrow from the Federal Reserve s discount window.

Starting in the middle of 2007, there has been significant turmoil and volatility in worldwide financial markets which is, at present, moderating. These conditions have resulted in a disruption in the liquidity of financial markets, and could directly impact us to the extent we need to access capital markets to raise funds to support our business and overall liquidity position. This situation could affect the cost of such funds or our ability to raise such funds. If we were unable to access any of these funding sources when needed, we might be unable to meet customers needs, which could adversely impact our financial condition, results of operations, cash flows, and level of regulatory-qualifying capital. We may, from time to time, consider opportunistically retiring our outstanding securities, including our subordinated debt, trust preferred securities and preferred shares in privately negotiated or open market transactions for cash or common shares. This could adversely affect our liquidity position. For further discussion, see the Liquidity Risk section.

The OCC has imposed dividend payment and other restrictions on the Bank, which could impact our ability to pay dividends to shareholders or repurchase stock. Due to the losses that the Bank incurred in 2009 and 2008, at December 31, 2009, the Bank could not declare and pay dividends to the holding company without regulatory approval.

The OCC is the primary regulatory agency that examines the Bank, its subsidiaries, and their respective activities. Under certain circumstances, including any determination that the activities of the Bank or its subsidiaries constitute an unsafe and unsound banking practice, the OCC has the authority by statute to restrict the Bank s ability to transfer assets, make shareholder distributions, and redeem preferred securities.

Under applicable statutes and regulations, dividends by a national bank may be paid out of current or retained net profits, but a national bank is prohibited from declaring a cash dividend on shares of its common stock out of net profits until the surplus fund equals the amount of capital stock or, if the surplus fund does not equal the amount of capital stock, until certain amounts from net profits are transferred to the surplus fund. Moreover, the prior approval of the OCC is required for the payment of a dividend if the total of all dividends declared by a national bank in any calendar year would exceed the total of its net profits for the year combined with its net profits for the two preceding years, less any required transfers to surplus or a fund for the retirement of any preferred securities.

We do not anticipate that the holding company will receive dividends from the Bank during 2010, as we build the Bank s regulatory capital levels above our already well-capitalized level.

Payment of dividends could also be subject to regulatory limitations if the Bank became under-capitalized for purposes of the OCC prompt corrective action regulations. Under-capitalized is currently defined as having a total risk-based capital ratio of less than 8.0%, a Tier 1 risk-based capital ratio of less than 4.0%, or a core capital, or leverage, ratio of less than 4.0%. If the Bank were unable to pay dividends to the parent company, it could impact our ability to pay dividends to shareholders or repurchase stock. Throughout 2009, the Bank was in compliance with all regulatory capital requirements and considered to be well-capitalized.

For further discussion, see the Parent Company Liquidity section.

(4) Operational Risks:

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.

Recent legislative proposals in Congress could impact how we assess fees on deposit accounts for items and transactions that either overdraw an account or that are returned for nonsufficient funds. It is uncertain

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which, if any, of the changes in these proposals will be adopted. Additionally, on November 12, 2009, the Federal Reserve Board (the Board) issued its final rule under Regulation E regarding overdraft fees, which becomes effective for new accounts on July 1, 2010, and for existing accounts on August 15, 2010. This rule generally prohibits financial institutions from charging overdraft fees for ATM and one-time debit card transactions that overdraw consumer deposit accounts, unless the consumer opts in to having such overdrafts authorized and paid. This rule may be affected by the legislative proposals in Congress regarding overdraft fees. Thus, although the Board s rule will impact the amount of overdraft fees we will be able to charge, we cannot currently predict whether either the Board s rule or the legislative proposals in Congress will have a material and adverse effect on our results of operations.

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 income taxes is complex and requires the use of estimates and judgments. We have two accruals for income taxes: our 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 in our consolidated balance sheet; our deferred federal 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 tax code.

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.

The Company and its subsidiaries file income tax returns in the U.S. federal jurisdiction and various state, city, and foreign jurisdictions. Federal income tax audits have been completed through 2005. In 2009, the IRS began the audit of our consolidated federal income tax returns for the tax years 2006 and 2007. In addition, various state and other jurisdictions remain open to examination for tax years 2000 and forward.

The Internal Revenue Service, State of Ohio, and other 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.

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.

If our regulators deem it appropriate, they can take regulatory actions that could impact our ability to compete for new business, constrain our ability to fund our liquidity needs, and increase the cost of our services.

Huntington and its subsidiaries are subject to the supervision and regulation of various State and Federal regulators, including the Office of the Comptroller of the Currency, the Federal Reserve, the FDIC, SEC, FINRA, and various state regulatory agencies. As such, Huntington is subject to a wide variety of laws and regulations, many of which are discussed in the Regulatory Matters section. As part of their supervisory process, which includes periodic examinations and continuous monitoring, the regulators have the authority to impose restrictions or conditions on our activities and the manner in which we manage the organization. These actions could impact the organization in a variety of ways, including subjecting us to monetary fines, restricting our ability to pay dividends, precluding mergers or acquisitions, limiting our ability to offer certain products or services, or imposing additional capital requirements.

The resolution of significant pending litigation, if unfavorable, could have a material adverse affect on our results of operations for a particular period.

Huntington faces legal risks in its businesses, and the volume of claims and amount of damages and penalties claimed in litigation and regulatory proceedings against financial institutions remain high. Substantial legal liability or significant regulatory action against Huntington could have material adverse financial effects or cause significant reputational harm to Huntington, which in turn could seriously harm Huntington s business prospects. As more fully described in Note 24 of the Notes to Consolidated Financial Statements, certain putative class actions and shareholder derivative actions were filed against Huntington, certain affiliated committees, and / or certain of its current or former officers and directors. At this time, it is not possible for management to assess the probability of an adverse outcome, or reasonably estimate the amount of any potential loss in connection with these lawsuits. Although no assurance can be given, based on information currently available, consultation with counsel, and available insurance coverage, management believes that the eventual outcome of these claims against us will not, individually or in the aggregate, have a material adverse effect on our consolidated financial position or results of operations. However, it is possible that the ultimate resolution of these matters, if unfavorable, may be material to the results of operations for a particular period.

Huntington faces other significant operational risks.

Huntington is exposed to many types of operational risk, including reputational risk, legal and compliance risk, the risk of fraud or theft by employees or outsiders, unauthorized transactions by employees or outsiders, or operational errors by employees, including clerical or record-keeping errors or those resulting from faulty or disabled computer or telecommunications systems. In addition, today s threats to customer information and information systems are complex, more wide spread, continually emerging, and increasing at a rapid pace. Huntington continues to invest in better tools and processes in all key security areas, and monitors these threats with increased rigor and focus.

Negative public opinion can result from Huntington s actual or alleged conduct in any number of activities, including lending practices, corporate governance and acquisitions and from actions taken by government regulators and community organizations in response to those activities. Negative public opinion can adversely affect Huntington s ability to attract and keep customers and can expose it to litigation and regulatory action.

We establish and maintain systems of internal operational controls that provide us with timely and accurate information about our level of operational risk. While not foolproof, these systems have been designed to manage operational risk at appropriate, cost-effective levels. Procedures exist that are designed to ensure that policies relating to conduct, ethics, and business practices are followed. While we continually monitor and improve the system of internal controls, data processing systems, and corporate-wide processes and procedures, there can be no assurance that future losses will not occur.

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Failure to maintain effective internal controls over financial reporting in the future could impair our ability to accurately and timely report its financial results or prevent fraud, resulting in loss of investor confidence and adversely affecting our business and stock price.

Effective internal controls over financial reporting are necessary to provide reliable financial reports and prevent fraud. As a financial holding company, we are subject to regulation that focuses on effective internal controls and procedures. Management continually seeks to improve these controls and procedures.

Management believes that our key internal controls over financial reporting are currently effective; however, such controls and procedures will be modified, supplemented, and changed from time to time as necessitated by our growth and in reaction to external events and developments. While Management will continue to assess our controls and procedures and take immediate action to remediate any future perceived gaps, there can be no guarantee of the effectiveness of these controls and procedures on an on-going basis. Any failure to maintain in the future an effective internal control environment could impact our ability to report its financial results on an accurate and timely basis, which could result in regulatory actions, loss of investor confidence, and adversely impact its business and stock price.

Item 1B: *Unresolved Staff Comments*

None.

Item 2: *Properties*

Our headquarters, as well as the Bank s, are located in the Huntington Center, a thirty-seven-story office building located in Columbus, Ohio. Of the building s total office space available, we lease approximately 40%. The lease term expires in 2015, with nine five-year renewal options for up to 45 years but with no purchase option. The Bank has an indirect minority equity interest of 18.4% in the building.

Our other major properties consist of:

- a thirteen-story and a twelve-story office building, both of which are located adjacent to the Huntington Center;
- a twenty-one story office building, known as the Huntington Building, located in Cleveland, Ohio;
- an eighteen-story office building in Charleston, West Virginia;
- a three-story office building located in Holland, Michigan;
- The Crosswoods building, located in the greater Columbus area;
- a twelve story office building in Youngstown, Ohio
- a ten story office building in Warren, Ohio
- an office complex located in Troy, Michigan; and
- three data processing and operations centers (Easton, Northland, and Parma) located in Ohio and one in Indianapolis.

The office buildings above serve as regional administrative offices occupied predominantly by our Retail and Business Banking and Private Financial Group business segments. The Auto Finance and Dealer Services business segment is located in the Northland operations center.

Of these properties, we own the thirteen-story and twelve-story office buildings, and the Business Service Center in Columbus and the twelve-story office building in Youngstown, Ohio. All of the other major properties are held under long-term leases. In 1998, we entered into a sale/leaseback agreement that included the sale of 59 of our locations. The transaction included a mix of branch banking offices, regional offices, and operational facilities, including certain properties described above, which we will continue to operate under a long-term lease.

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Item 3: ***Legal Proceedings***

Information required by this item is set forth in Note 24 of the Notes to Consolidated Financial Statements.

Item 4: ***Submission of Matters to a Vote of Security Holders***

Not Applicable.

PART II

Item 5: ***Market for Registrant s Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities***

The common stock of Huntington Bancshares Incorporated is traded on the NASDAQ Stock Market under the symbol HBAN . The stock is listed as HuntgBcshr or HuntBanc in most newspapers. As of January 31, 2010, we had 40,155 shareholders of record.

Information regarding the high and low sale prices of our common stock and cash dividends declared on such shares, as required by this item, is set forth in Table 65 entitled Selected Quarterly Income Statement Data . Information regarding restrictions on dividends, as required by this item, is set forth in Item 1 Business-Regulatory Matters-Dividend Restrictions and in Note 25 of the Notes to Consolidated Financial Statements.

As a condition to participate in the TARP, Huntington may not repurchase any additional shares without prior approval from the Department of Treasury. Huntington did not repurchase any shares under the 2006 Repurchase Program for the year ended December 31, 2009. On February 18, 2009, the board of directors terminated the previously authorized program for the repurchase of up to 15 million shares of common stock (the 2006 Repurchase Program).

The line graph below compares the yearly percentage change in cumulative total shareholder return on Huntington common stock and the cumulative total return of the S&P 500 Index and the KBW 50 Bank Index for the period December 31, 2004, through December 31, 2009. The KBW 50 Bank Index is a market capitalization-weighted bank stock index published by Keefe, Bruyette & Woods. The index is composed of the 50 largest banking companies and includes all money-center banks and most major regional banks. An investment of $100 on December 31, 2004, and the reinvestment of all dividends are assumed.

	2004	**2005**	**2006**	**2007**	**2008**	**2009**
HBAN	$ 100	$ 99	$ 104	$ 68	$ 38	$ 19
S&P 500	$ 100	$ 105	$ 121	$ 128	$ 81	$ 102
KBW 50 Bank	$ 100	$ 103	$ 121	$ 94	$ 50	$ 49

HBAN S&P 500 KBW 50 Bank

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Item 6: ***Selected Financial Data***

Table 1 Selected Financial Data (1), (9)

	Year Ended December 31,				
(In thousands, except per share amounts)	**2009**	**2008**	**2007**	**2006**	**2005**
Interest income	**$ 2,238,142**	$ 2,798,322	$ 2,742,963	$ 2,070,519	$ 1,641,765
Interest expense	**813,855**	1,266,631	1,441,451	1,051,342	679,354
Net interest income	**1,424,287**	1,531,691	1,301,512	1,019,177	962,411
Provision for credit losses	**2,074,671**	1,057,463	643,628	65,191	81,299
Net interest income after provision for credit losses	**(650,384)**	474,228	657,884	953,986	881,112
Service charges on deposit accounts	**302,799**	308,053	254,193	185,713	167,834
Automobile operating lease income	**51,810**	39,851	7,810	43,115	133,015
Securities (losses) gains	**(10,249)**	(197,370)	(29,738)	(73,191)	(8,055)
Other noninterest income	**661,284**	556,604	444,338	405,432	339,488
Total noninterest income	**1,005,644**	707,138	676,603	561,069	632,282
Personnel costs	**700,482**	783,546	686,828	541,228	481,658
Automobile operating lease expense	**43,360**	31,282	5,161	31,286	103,850
Other noninterest expense	**3,289,601**	662,546	619,855	428,480	384,312
Total noninterest expense	**4,033,443**	1,477,374	1,311,844	1,000,994	969,820
(Loss) Income before income taxes	**(3,678,183)**	(296,008)	22,643	514,061	543,574
(Benefit) Provision for income taxes	**(584,004)**	(182,202)	(52,526)	52,840	131,483
Net (loss) income	**$ (3,094,179)**	$ (113,806)	$ 75,169	$ 461,221	$ 412,091
Dividends on preferred shares	**174,756**	46,400			
Net (loss) income applicable to common shares	**$ (3,268,935)**	$ (160,206)	$ 75,169	$ 461,221	$ 412,091
Net (loss) income per common share basic	**$ (6.14)**	$ (0.44)	$ 0.25	$ 1.95	$ 1.79
Net (loss) income per common share diluted	**(6.14)**	(0.44)	0.25	1.92	1.77
Cash dividends declared per common share	**0.0400**	0.6625	1.0600	1.0000	0.8450
Balance sheet highlights					
Total assets (period end)	**$ 51,554,665**	$ 54,352,859	$ 54,697,468	$ 35,329,019	$ 32,764,805
Total long-term debt (period end)(2)	**3,802,670**	6,870,705	6,954,909	4,512,618	4,597,437
Total shareholders equity (period end)	**5,336,002**	7,228,906	5,951,091	3,016,029	2,560,736

Average long-term debt(2)	**5,558,001**	7,374,681	5,714,572	4,942,671	5,168,959
Average shareholders equity	**5,787,401**	6,395,690	4,633,465	2,948,367	2,645,379
Average total assets	**52,440,268**	54,921,419	44,711,676	35,111,236	32,639,011

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(In thousands, except per share amounts)	Year Ended December 31, 2009	2008	2007	2006	2005
Key ratios and statistics					
Margin analysis as a% of average earnings assets					
Interest income(3)	**4.88**%	5.90%	7.02%	6.63%	5.65%
Interest expense	**1.77**	2.65	3.66	3.34	2.32
Net interest margin(3)	**3.11**%	3.25%	3.36%	3.29%	3.33%
Return on average total assets	**(5.90)**%	(0.21)%	0.17%	1.31%	1.26%
Return on average total shareholders equity	**(53.5)**	(1.8)	1.6	15.6	15.6
Return on average tangible shareholders equity(4)	**(9.8)**	(2.1)	3.9	19.5	17.4
Efficiency ratio(5)	**55.4**	57.0	62.5	59.4	60.0
Dividend payout ratio	**N.M.**	N.M.	N.M.	52.1	47.7
Average shareholders equity to average assets	**11.04**	11.65	10.36	8.40	8.10
Effective tax rate (benefit)	**(15.9)**	N.M.	N.M.	10.3	24.2
Tangible common equity to tangible assets (period end)(6),(8)	**5.92**	4.04	5.09	6.93	7.20
Tangible equity to tangible assets (period end)(7),(8)	**9.24**	7.72	5.09	6.93	7.20
Tier 1 leverage ratio (period end)	**10.09**	9.82	6.77	8.00	8.34
Tier 1 risk-based capital ratio (period end)	**12.03**	10.72	7.51	8.93	9.13
Total risk-based capital ratio (period end)	**14.41**	13.91	10.85	12.79	12.42
Other data					
Full-time equivalent employees (period end)	**10,272**	10,951	11,925	8,081	7,602
Domestic banking offices (period end)	**611**	613	625	381	344

N.M., not a meaningful value.

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

(2) Includes Federal Home Loan Bank advances, subordinated notes, and other long-term debt.

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

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

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

(6) Tangible common equity (total common equity less goodwill and other intangible assets) divided by tangible assets (total assets less goodwill and other intangible assets). Other intangible assets are net of deferred tax, and calculated assuming a 35% tax rate.

(7) Tangible equity (total equity less goodwill and other intangible assets) divided by tangible assets (total assets less goodwill and other intangible assets). Other intangible assets are net of deferred tax, and calculated assuming a 35% tax rate.

(8) Tangible equity, tangible common equity, and tangible assets are non-GAAP financial measures. Additionally, any ratios utilizing these financial measures are also non-GAAP. These financial measures have been

included as they are considered to be critical metrics with which to analyze and evaluate financial condition and capital strength. Other companies may calculate these financial measures differently.

(9) Performance comparisons are affected by the Sky Financial Group, Inc. acquisition in 2007, and the Unizan Financial Corp. acquisition in 2006.

Item 7: ***Management s Discussion and Analysis of Financial Condition and Results of Operations***

INTRODUCTION

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

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. The MD&A should be read in conjunction with 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.

Results for the Fourth Quarter Provides a discussion of results for the 2009 fourth quarter compared with the 2008 fourth quarter.

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

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Forward-Looking Statements

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

Actual results could differ materially from those contained or implied by such statements for a variety of factors including: (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) extended disruption of vital infrastructure; and (7) 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 s voluntary Capital Purchase Plan or otherwise under the Emergency Economic Stabilization Act of 2008. All forward-looking statements included in this release are based on information available at the time of the release. Huntington assumes no obligation to update any forward-looking statement.

All forward-looking statements speak only as of the date they are made and are based on information available at that time. We assume no obligation to update forward-looking statements to reflect circumstances or events that occur after the date the forward-looking statements were made or to reflect the occurrence of unanticipated events except as required by federal securities laws. As forward-looking statements involve significant risks and uncertainties, caution should be exercised against placing undue reliance on such statements.

Risk Factors

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

Critical Accounting Policies and Use of Significant Estimates

Our financial statements are prepared in accordance with accounting principles generally accepted in the United States (GAAP). The preparation of financial statements in conformity with GAAP requires us to establish critical accounting policies and make accounting estimates, assumptions, and judgments that affect amounts recorded and reported in our financial statements. Note 1 of the Notes to Consolidated Financial Statements lists significant accounting policies we use in the development and presentation of our financial statements. This discussion and analysis, the significant accounting policies, and other financial statement

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disclosures identify and address key variables and other qualitative and quantitative factors necessary for an understanding and evaluation of our company, financial position, results of operations, and cash flows.

An accounting estimate requires assumptions about uncertain matters that could have a material effect on the financial statements if a different amount within a range of estimates were used or if estimates changed from period to period. Estimates are made under facts and circumstances at a point in time, and changes in those facts and circumstances could produce results that differ from when those estimates were made. The most significant accounting estimates and their related application are discussed below. This analysis is included to emphasize that estimates are used in connection with the critical and other accounting policies and to illustrate the potential effect on the financial statements if the actual amount were different from the estimated amount.

Total Allowances for Credit Losses

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

At December 31, 2009, the ACL was $1,531.4 million, or 4.16% of total loans and leases. To illustrate the potential effect on the financial statements of our estimates of the ACL, a 10 basis point increase would have required $36.8 million in additional reserves (funded by additional provision for credit losses), which would have negatively impacted 2009 net loss by approximately $23.9 million, or $0.04 per common share.

Additionally, in 2007, we established a specific reserve of $115.3 million associated with our loans to Franklin Credit Management Corporation (Franklin). At December 31, 2008, our specific ALLL for Franklin loans increased to $130.0 million. In 2009, as a result of our restructuring of the Franklin relationship, the specific ALLL for Franklin loans was eliminated. *Refer to the Franklin relationship section located within the Risk Management and Capital section for additional discussion regarding the restructuring of the Franklin relationship.*

Fair Value Measurements

The fair value of a financial instrument is defined as the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. We estimate the fair value of a financial instrument using a variety of valuation methods. Where financial instruments are actively traded and have quoted market prices, quoted market prices are used for fair value. We characterize active markets as those where transaction volumes are sufficient to provide objective pricing information, with reasonably narrow bid/ask spreads, and where received quoted prices do not vary widely. When the financial instruments are not actively traded, other observable market inputs, such as quoted prices of securities with similar characteristics, may be used, if available, to determine fair value. Inactive markets are characterized by low transaction volumes, price quotations that vary substantially among market participants, or in which minimal information is released publicly. When observable market prices do not exist,

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we estimate fair value primarily by using cash flow and other financial modeling methods. Our valuation methods consider factors such as liquidity and concentration concerns and, for the derivatives portfolio, counterparty credit risk. Other factors such as model assumptions, market dislocations, and unexpected correlations can affect estimates of fair value. Changes in these underlying factors, assumptions, or estimates in any of these areas could materially impact the amount of revenue or loss recorded.

Assets and liabilities carried at fair value inherently result in a higher degree of financial statement volatility. Assets measured at fair value include investment securities, loans held-for-sale, derivatives, mortgage servicing rights (MSRs), and trading account securities. At December 31, 2009, approximately $9.2 billion of our assets were recorded at fair value. In addition to the above mentioned ongoing fair value measurements, fair value is also the unit of measure for recording business combinations.

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

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

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

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

At the end of each quarter, we assess the valuation hierarchy for each asset or liability measured. From time to time, assets or liabilities may be transferred within hierarchy levels due to changes in availability of observable market inputs to measure fair value at the measurement date.

The table below provides a description and the valuation methodologies used for financial instruments measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy. The fair values measured at each level of the fair value hierarchy, as well as additional discussion regarding fair value measurements, can be found in Note 21 of the Notes to the Consolidated Financial Statements.

Table 2 Fair Value Measurement of Financial Instruments

Financial Instrument(1)	Hierarchy	Valuation methodology
Mortgage loans held-for-sale	Level 2	Mortgage loans held-for-sale are estimated using security prices for similar product types.
Investment Securities & Trading Account Securities(2)	Level 1	Consist of U.S. Treasury and other federal agency securities, and money market mutual funds which generally have quoted prices.
	Level 2	

Consist of U.S. Government and agency mortgage-backed securities and municipal securities for which an active market is not available. Third-party pricing services provide a fair value estimate based upon trades of similar financial instruments.

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Financial Instrument(1)	Hierarchy	Valuation methodology
	Level 3	Consist of asset-backed securities and certain private label CMOs, and residual interest in automobile securitizations, for which fair value is estimated. Assumptions used to determine the fair value of these securities have greater subjectivity due to the lack of observable market transactions. Generally, there are only limited trades of similar instruments and a discounted cash flow approach is used to determine fair value.
Mortgage Servicing Rights (MSRs)(3)	Level 3	MSRs do not trade in an active, open market with readily observable prices. Although sales of MSRs do occur, the precise terms and conditions typically are not readily available. Fair value is based upon the final month-end valuation, which utilizes the month-end curve and prepayment assumptions.
Derivatives(4)	Level 1	Consist of exchange traded options and forward commitments to deliver mortgage-backed securities which have quoted prices.
	Level 2	Consist of basic asset and liability conversion swaps and options, and interest rate caps. These derivative positions are valued using internally developed models that use readily observable market parameters.
	Level 3	Consist primarily of interest rate lock agreements related to mortgage loan commitments. The determinination of fair value includes assumptions related to the likelihood that a commitment will ultimately result in a closed loan, which is a significant unobservable assumption.
Equity Investments(5)	Level 3	Consist of equity investments via equity funds (holding both private and publicly-traded equity securities), directly in companies as a minority interest investor, and directly in companies in conjunction with our mezzanine lending activities. These investments do not have readily observable prices. Fair value is based upon a variety of factors, including but not limited to, current operating performance and future expectations of the particular investment, industry valuations of comparable public companies, and changes in market outlook.

(1) Refer to Notes 1 and 21 of the Notes to the Consolidated Financial Statements for additional information.

(2) Refer to Note 6 of the Notes to the Consolidated Financial Statements for additional information.

(3) Refer to Note 7 of the Notes to the Consolidated Financial Statements for additional information.

(4) Refer to Note 22 of the Notes to the Consolidated Financial Statements for additional information.

(5) Certain equity investments are accounted for under the equity method and, therefore, are not subject to the fair value disclosure requirements.

INVESTMENT SECURITIES

(This section should be read in conjunction with the Investment Securities Portfolio discussion and Note 1 and Note 6 in the Notes to the Consolidated Financial Statements.)

Level 3 Analysis on Certain Securities Portfolios

Our Alt-A, CMO, and pooled-trust-preferred securities portfolios are classified as Level 3, and as such, the significant estimates used to determine the fair value of these securities have greater subjectivity. The Alt-A and CMO securities portfolios are subjected to a monthly review of the projected cash flows, while the cash flows of our pooled-trust-preferred securities portfolio are reviewed quarterly. These reviews are supported

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with analysis from independent third parties, and are used as a basis for impairment analysis. These three segments, and the results of our impairment analysis for each segment, are discussed in further detail below:

Alt-A mortgage-backed / 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 specialist using a discounted cash flow approach and the independent third-party s proprietary pricing model. The model used inputs such as estimated prepayment speeds, losses, recoveries, default rates 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 is probable that all contractual cash flows would not be collected. All securities in these portfolios remained current with respect to interest and principal at December 31, 2009.

Our analysis indicated, as of December 31, 2009, a total of 5 Alt-A mortgage-backed securities and 8 private-label CMO securities could experience a loss of principal in the future. The future expected losses of principal on these other-than-temporarily impaired securities ranged from 0.44% to 86.37% of their par value. These losses were projected to occur beginning anywhere from 7 months to as many as 8 years in the future. We measured the amount of credit impairment on these securities using the cash flows discounted at each security s effective rate. As a result, during the 2009 fourth quarter, we recorded $2.6 million of credit other-than-temporary impairment (OTTI) in our Alt-A mortgage-backed securities portfolio and $3.0 million of credit OTTI in our private-label CMO securities portfolio. In 2009, a total of $12.2 million of credit OTTI was recorded in our Alt-A mortgage-backed securities portfolio, and $6.0 million of credit OTTI was recorded in our private label-CMO securities portfolio. These OTTI adjustments negatively impacted our earnings.

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 security s effective rate. We engaged a third party specialist with direct industry experience in pooled-trust-preferred securities valuations to provide assistance in estimating the fair value and expected cash flows for each security in this portfolio. 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 ASC 820, Fair Value Measurements and Disclosures .

The analysis was completed by evaluating the relevant credit and structural aspects of each pooled-trust-preferred security in the portfolio, including collateral performance projections for each piece of collateral in each security and terms of each security s structure. The credit review included analysis of profitability, credit quality, operating efficiency, leverage, and liquidity using the most recently available financial and regulatory information for each underlying collateral issuer. We also reviewed historical industry default data and current/near term operating conditions. Using the results of our analysis, we estimated appropriate default and recovery probabilities for each piece of collateral and then estimated the expected cash flows for each security. No recoveries were assumed on issuers who are in default. The recovery assumptions on issuers who are deferring interest ranged from 10% to 55% with a cure assumed after the maximum deferral period. As a result of this testing, we believe we will experience a loss of principal or interest on 12 securities; and as such, recorded credit OTTI of $11.4 million for one newly impaired and 11 previously impaired pooled-trust-

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preferred securities in the 2009 fourth quarter. In 2009, $40.8 million of total OTTI was recorded for impairment of the pooled-trust-preferred securities. These OTTI adjustments negatively impacted our earnings.

Please refer to the Investment Securities Portfolio discussion and Note 1 and Note 6 of the Notes to the Consolidated Financial Statements for additional information regarding OTTI.

Certain other assets and liabilities which are not financial instruments also involve fair value measurements. A description of these assets and liabilities, and the methodologies utilized to determine fair value are discussed below:

GOODWILL

Goodwill is tested for impairment annually, as of October 1, using a two-step process that begins with an estimation of the fair value of a reporting unit. Goodwill impairment exists when a reporting unit s carrying value of goodwill exceeds its implied fair value. Goodwill is also tested for impairment on an interim basis, using the same two-step process as the annual testing, if an event occurs or circumstances change between annual tests that would more likely than not reduce the fair value of the reporting unit below its carrying amount. For 2009, we performed interim evaluations of our goodwill balances at each quarter end, as well as our annual goodwill impairment assessment as of October 1.

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. Many peer banks also experienced similar significant 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.

2009 First Quarter Impairment Testing

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.

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. 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 in the 2009 first quarter. The impairment charge was included in noninterest expense and did not affect our regulatory and tangible capital ratios.

Other Interim and Annual Impairment Testing

While we recorded an impairment charge of $4.2 million in the 2009 second quarter 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 remainder of 2009.

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.

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Essentially, Regional Banking has been divided into the new segments of Retail and Business Banking, Commercial Banking, and Commercial Real Estate.

Each of these three new segments is considered a separate reporting unit. The remaining Regional Banking goodwill amount of $314.5 million was reallocated on a relative fair value basis at the end of the 2009 first quarter to Retail and Business Banking, Commercial Banking, and Commercial Real Estate resulting in goodwill balances to those reporting units of $309.5 million, $5.0 million and $0 respectively.

The Step 1 results of the annual impairment test indicated that the PFG and Insurance units passed by a substantial margin. The Retail and Business Banking unit also passed, however, only by a minimal amount. Through analysis, we were confident that had the Retail and Business Banking unit failed Step 1 at October 1, 2009, no additional goodwill impairment would have been recorded. The assumptions and methodologies utilized in the annual assessment were consistent with those used in the first quarter assessment as discussed above. Overall, fair values for the reporting units improved significantly due to improvements in market comparables compared with the 2009 first quarter.

Step 2 was required for only the Commercial Banking reporting unit as it was determined in Step 1 that its carrying value exceeded its fair value. Upon completion of Step 2, we determined that the Commercial Banking goodwill carrying value exceeded its implied fair value of goodwill; therefore, no goodwill impairment was recorded for this unit as of October 1. The most significant Step 2 adjustment was the 20% mark-to-fair-value discount on the loan portfolio.

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 2010 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, however, any such future impairment loss would be limited as the remaining goodwill balance was only $0.4 billion at December 31, 2009.

FRANKLIN LOANS RESTRUCTURING TRANSACTION

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

Franklin is a specialty consumer finance company primarily engaged in servicing performing, reperforming, and nonperforming 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. These loans generally fell outside the underwriting standards of the Federal National Mortgage Association (FNMA or Fannie Mae) and the Federal Home Loan Mortgage Corporation (FHLMC or Freddie Mac), and involve elevated credit risk as a result of the nature or absence of income documentation, limited credit histories, higher levels of consumer debt, and/or past credit difficulties (nonprime loans). 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 83% 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, these 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 ASC 805, Business Combinations , 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 83% ownership right, no goodwill was created from the transaction. The recording of the net deferred tax asset was a bargain purchase under ASC 805, and was recorded as a tax benefit in the 2009 first quarter.

PENSION

Pension plan assets consist of mutual funds and Huntington common stock. Investments are accounted for at cost on the trade date and are reported at fair value. Mutual funds are valued at quoted net asset value (NAV). Huntington common stock is traded on a national securities exchange and is valued at the last reported sales price.

The discount rate and expected return on plan assets used to determine the benefit obligation and pension expense for December 31, 2009, are both assumptions. Any deviation from these assumptions could cause actual results to change.

OTHER REAL ESTATE OWNED (OREO)

OREO property obtained in satisfaction of a loan is recorded at its estimated fair value less anticipated selling costs based upon the property s appraised value at the date of transfer, with any difference between the fair value of the property and the carrying value of the loan charged to the ALLL. Subsequent declines in value are reported as adjustments to the carrying amount, and are charged to noninterest expense. Gains or losses not previously recognized resulting from the sale of OREO are recognized in noninterest expense on the date of sale. At December 31, 2009, OREO totaled $140.1 million, representing a 14% increase compared with $122.5 million at December 31, 2008.

Income Taxes and Deferred Tax Assets

INCOME TAXES

The calculation of our provision for federal income taxes is complex and requires the use of estimates and judgments. We have two accruals for income taxes: Our 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 in our consolidated balance sheet; our deferred federal 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 the federal tax code.

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. *(See Note 19 of the Notes to the Consolidated Financial Statements.)*

DEFERRED TAX ASSETS

At December 31, 2009, we had a net federal deferred tax asset of $480.5 million, and a net state deferred tax asset of $0.8 million. Based on our ability to offset the net deferred tax asset against taxable income in prior carryback years and the level of our forecast of future taxable income, there was no impairment of the deferred tax asset at December 31, 2009. All available evidence, both positive and negative, was considered to determine whether, based on the weight of that evidence, impairment should be recognized. However, our forecast process includes judgmental and quantitative elements that may be subject to significant change. If our forecast of taxable income within the carryback/carryforward periods available under applicable law is not sufficient to cover the amount of net deferred tax assets, such assets may be impaired.

Recent Accounting Pronouncements and Developments

Note 3 to the 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 the adoption of new accounting standards materially affect financial condition, results of operations, or liquidity, the impacts are discussed in the applicable section of this MD&A and the Notes to the Consolidated Financial Statements.

Acquisitions

Sky Financial Group, Inc. (Sky Financial)

The merger with Sky Financial was completed on July 1, 2007. At the time of acquisition, Sky Financial had assets of $16.8 billion, including $13.3 billion of loans, and total deposits of $12.9 billion. The impact of this acquisition was included in our consolidated results for the last six months of 2007. Additionally, in September 2007, Sky Bank and Sky Trust, National Association (Sky Trust), merged into the Bank and systems integration was completed. As a result, performance comparisons between 2008 and 2007 are affected.

As a result of this acquisition, we have a significant loan relationship with Franklin. This relationship is discussed in greater detail in the Commercial Credit and Critical Accounting Policies and Use of Significant Estimates sections of this report.

Unizan Financial Corp. (Unizan)

The merger with Unizan was completed on March 1, 2006. At the time of acquisition, Unizan had assets of $2.5 billion, including $1.6 billion of loans and core deposits of $1.5 billion. The impact of this acquisition was included in our consolidated results for the last ten months of 2006.

Impact Methodology

For both the Sky Financial and Unizan acquisitions, comparisons of the reported results are impacted as follows:

- Increased the absolute level of reported average balance sheet, revenue, expense, and the absolute level of certain credit quality results.

Increased the absolute level of reported noninterest expense items because of costs incurred as part of merger integration activities, most notably employee retention bonuses, outside programming services related to systems conversions, occupancy expenses, and marketing expenses related to customer retention initiatives.

Given the significant impact of the mergers on reported results, we believe that an understanding of the impacts of each merger is necessary to understand better underlying performance trends. When comparing post-merger period results to premerger periods, we use the following terms when discussing financial performance:

- Merger-related refers to amounts and percentage changes representing the impact attributable to the merger.
- Merger costs represent noninterest expenses primarily associated with merger integration activities, including severance expense for key executive personnel.
- Nonmerger-related refers to performance not attributable to the merger, and includes merger efficiencies , which represent noninterest expense reductions realized as a result of the merger.

After completion of our mergers, we combine the acquired companies operations with ours, and do not monitor the subsequent individual results of the acquired companies. As a result, the following methodologies were implemented to estimate the approximate effect of the mergers used to determine merger-related impacts.

BALANCE SHEET ITEMS

Sky Financial

For average loans and leases, as well as total average deposits, Sky Financial s balances as of June 30, 2007, adjusted for purchase accounting adjustments, and transfers of loans to loans held-for-sale, were used in the comparison. To estimate the impact on 2007 average balances, it was assumed that the June 30, 2007, balances, as adjusted, remained constant over time.

Unizan

For average loans and leases, as well as core average deposits, balances as of the acquisition date were pro-rated to the post-merger period being used in the comparison. For example, to estimate the impact on 2006 first quarter average balances, one-third of the closing date balance was used as those balances were in reported results for only one month of the quarter. Quarterly estimated impacts for the 2006 second, third, and fourth quarter results were developed using this same pro-rata methodology. Full-year 2006 estimated results represent the annual average of each quarter s estimate. This methodology assumed acquired balances remained constant over time.

INCOME STATEMENT ITEMS

Sky Financial

Sky Financial s actual results for the first six months of 2007, adjusted for the impact of unusual items and purchase accounting adjustments, were determined. This six-month adjusted amount was multiplied by two to estimate an annual impact. This methodology does not adjust for any market-related changes, or seasonal factors in Sky Financial s 2007 six-month results. Nor does it consider any revenue or expense synergies realized since the merger date. The one exception to this methodology of holding the estimated annual impact constant relates to the amortization of intangibles expense where the amount is known and is therefore used.

Unizan

Unizan s actual full-year 2005 results were used for pro-rating the impact on post-merger periods. For example, to estimate the 2006 first quarter impact of the merger on personnel costs, one-twelfth of Unizan s full-year 2005 personnel costs was used. Full quarter and year-to-date estimated impacts for subsequent periods were developed using this same pro-rata methodology. This results in an approximate impact since the methodology does not adjust for any unusual items or seasonal factors in Unizan s 2005 reported results, or synergies realized since the merger date. The one exception to this methodology relates to the amortization of intangibles expense where the amount is known and is therefore used.

Certain tables and comments contained within our discussion and analysis provide detail of changes to reported results to quantify the estimated impact of the Sky Financial merger using this methodology.

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Table 3 Selected Annual Income Statements (1)

(In thousands, except per share amounts)	2009	Change from 2008 Amount	Change from 2008 Percent	2008	Change from 2007 Amount	Change from 2007 Percent	2007
Interest income	**$ 2,238,142**	**$ (560,180)**	**(20)%**	$ 2,798,322	$ 55,359	2%	$ 2,742,963
Interest expense	**813,855**	**(452,776)**	**(36)**	1,266,631	(174,820)	(12)	1,441,451
Net interest income	**1,424,287**	**(107,404)**	**(7)**	1,531,691	230,179	18	1,301,512
Provision for credit losses	**2,074,671**	**1,017,208**	**96**	1,057,463	413,835	64	643,628
Net interest income after provision for credit losses	**(650,384)**	**(1,124,612)**	**N.M.**	474,228	(183,656)	(28)	657,884
Service charges on deposit accounts	**302,799**	**(5,254)**	**(2)**	308,053	53,860	21	254,193
Brokerage and insurance income	**138,169**	**373**		137,796	45,421	49	92,375
Mortgage banking income	**112,298**	**103,304**	**N.M.**	8,994	(20,810)	(70)	29,804
Trust services	**103,639**	**(22,341)**	**(18)**	125,980	4,562	4	121,418
Electronic banking	**100,151**	**9,884**	**11**	90,267	19,200	27	71,067
Bank owned life insurance income	**54,872**	**96**		54,776	4,921	10	49,855
Automobile operating lease income	**51,810**	**11,959**	**30**	39,851	32,041	N.M.	7,810
Securities (losses) gains	**(10,249)**	**187,121**	**(95)**	(197,370)	(167,632)	N.M.	(29,738)
Other	**152,155**	**13,364**	**10**	138,791	58,972	74	79,819
Total noninterest income	**1,005,644**	**298,506**	**42**	707,138	30,535	5	676,603
Personnel costs	**700,482**	**(83,064)**	**(11)**	783,546	96,718	14	686,828
Outside data processing and other services	**148,095**	**17,869**	**14**	130,226	1,000	1	129,226
Deposit and other insurance expense	**113,830**	**91,393**	**N.M.**	22,437	8,652	63	13,785
Net occupancy	**105,273**	**(3,155)**	**(3)**	108,428	9,055	9	99,373
OREO and foreclosure expense	**93,899**	**60,444**	**N.M.**	33,455	18,270	N.M.	15,185
Equipment	**83,117**	**(10,848)**	**(12)**	93,965	12,483	15	81,482
Professional services	**76,366**	**26,753**	**54**	49,613	12,223	33	37,390

Amortization of intangibles	**68,307**	**(8,587)**	**(11)**	76,894	31,743	70	45,151
Automobile operating lease expense	**43,360**	**12,078**	**39**	31,282	26,121	N.M.	5,161
Marketing	**33,049**	**385**	**1**	32,664	(13,379)	(29)	46,043
Telecommunications	**23,979**	**(1,029)**	**(4)**	25,008	506	2	24,502
Printing and supplies	**15,480**	**(3,390)**	**(18)**	18,870	619	3	18,251
Goodwill impairment	**2,606,944**	**2,606,944**	**N.M.**				
Gain on early extinguishment of debt	**(147,442)**	**(123,900)**	**N.M.**	(23,542)	(15,484)	N.M.	(8,058)
Other	**68,704**	**(25,824)**	**(27)**	94,528	(22,997)	(20)	117,525
Total noninterest expense	**4,033,443**	**2,556,069**	**N.M.**	1,477,374	165,530	13	1,311,844
(Loss) Income before income taxes	**(3,678,183)**	**(3,382,175)**	**N.M.**	(296,008)	(318,651)	N.M.	22,643
(Benefit) provision for income taxes	**(584,004)**	**(401,802)**	**N.M.**	(182,202)	(129,676)	N.M.	(52,526)
Net (Loss) Income	**(3,094,179)**	**(2,980,373)**	**N.M.**	(113,806)	(188,975)	N.M.	75,169
Dividends on preferred shares	**174,756**	**128,356**	**N.M.**	46,400	46,400	N.M.	
Net (loss) income applicable to common shares	**$ (3,268,935)**	**$ (3,108,729)**	**N.M.%**	$ (160,206)	$ (235,375)	N.M.%	$ 75,169
Average common shares basic	**532,802**	**166,647**	**46%**	366,155	65,247	22%	300,908
Average common shares diluted(2)	**532,802**	**166,647**	**46**	366,155	62,700	21	303,455
Per common share:							
Net income basic	**$ (6.14)**	**$ (5.70)**	**N.M.%**	$ (0.44)	$ (0.69)	N.M.%	$ 0.25
Net income diluted	**(6.14)**	**(5.70)**	**N.M.**	(0.44)	(0.69)	N.M.	0.25
Cash dividends declared	**0.0400**	**(0.62)**	**(94)**	0.6625	(0.40)	(38)	1.0600
Revenue - fully-taxable equivalent (FTE)							
Net interest income	**$ 1,424,287**	**$ (107,404)**	**(7)%**	$ 1,531,691	$ 230,179	18%	$ 1,301,512
FTE adjustment	**11,472**	**(8,746)**	**(43)**	20,218	969	5	19,249
Net interest income(3)	**1,435,759**	**(116,150)**	**(7)**	1,551,909	231,148	18	1,320,761
Noninterest income	**1,005,644**	**298,506**	**42**	707,138	30,535	5	676,603
Total revenue(3)	**$ 2,441,403**	**$ 182,356**	**8%**	$ 2,259,047	$ 261,683	13%	$ 1,997,364

N.M., not a meaningful value.

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

(2) For the years ended December 31, 2009, and December 31, 2008, the impact of the convertible preferred stock issued in April of 2008 was excluded from the diluted share calculation. It was excluded because the result would have been higher than basic earnings per common share (anti-dilutive) for the year.

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

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 .

Summary

2009 versus 2008

We reported a net loss of $3,094.2 million in 2009, representing a loss per common share of $6.14. These results compared unfavorably with a net loss of $113.8 million, or $0.44 per common share in 2008. Comparisons with the prior year were significantly impacted by $2,606.9 million of goodwill impairment charges in 2009, the issuance of 346.8 million new shares of common stock, an increase of $128.4 million in dividends on preferred shares, as well as other factors. These factors, including the goodwill impairment, are discussed later in the Significant Items section.

2009 was one of the most challenging years that we, and the entire banking industry, have faced, as we continued to be negatively impacted by the sustained economic weakness in our Midwest markets. The negative impacts were evident in several credit quality measures including increased nonaccrual loans (NALs), net charge-offs (NCOs), and provision for credit losses. Although there have been recent signs that the economic environment is stabilizing, it remains uncertain.

NCOs and provision levels increased substantially compared with 2008. The ACL as a percentage of total loans and leases increased to 4.16% at December 31, 2009, compared with 2.30% at December 31, 2008. At the beginning of 2009, a key objective was to better understand the risks in our credit portfolio in light of an economic outlook that showed increasing weakness. The implementation of enhanced portfolio management processes followed by a series of detailed portfolio reviews throughout the year as the economic environment continued to weaken, permitted us to identify and proactively address the risks in our loan portfolio. In late 2009, because we believed there would still not be any significant economic recovery in 2010, we reviewed our loan loss reserve assumptions. As a result of that review, we substantially strengthened our loan loss reserves during the fourth quarter. Specifically, our fourth quarter provision for credit losses was 43% of our total 2009 provision for credit losses of $2,074.7 million. Our provision for credit losses exceeded net charge-offs ($1,476.6 million) by $598.1 million. Going forward, we expect that the absolute level of the ACL, and the related provision expense, will decline as existing reserves address the continuing losses inherent in our portfolio.

NALs also significantly increased to $1,917.0 million, compared with $1,502.1 million at the prior year-end, reflecting increased NALs in our commercial real estate (CRE) portfolios, particularly the single family home builder and retail properties segments. Commercial and industrial (C&I) NALs also increased significantly, particularly the segments related to businesses that support residential development. In many cases, loans were placed on nonaccrual status even though the loan was less than 30 days past due for both principal and interest payments, reflecting our proactive approach in identifying and classifying emerging problem credits. While NALs, as well as NCOs, are expected to remain higher than historical levels during 2010, we expect that the absolute levels will decline from 2009 levels. There was a 12% decline in nonperforming assets (NPAs) in the 2009 fourth quarter compared with the prior quarter, providing a basis of expectation for lower levels of NPAs and NCOs in 2010 compared with 2009.

At the beginning of 2009, we viewed our highest-risk loan portfolios to be Franklin, as well as the single family home builder and retail properties segments of our CRE portfolio. During 2009, we believe that we have substantially addressed the credit issues within our Franklin portfolio and our single family home builder portfolio segment, and we do not expect any additional material credit impact to these portfolios. However, the CRE portfolio remains stressed, particularly the retail properties segment. We continue to work with the borrowers in this segment to resolve the credit issues.

Another key objective for 2009 was to strengthen our capital position in order to withstand potential future credit losses should the economic environment continue to deteriorate. During 2009, we raised $1.7 billion of capital, including $1.3 billion of common equity. This increase in capital substantially strengthened all of our period-end capital ratios compared with the year-ago period. Our tangible-to-common equity (TCE) ratio increased to 5.92% from 4.04%, and our Tier 1 common equity ratio increased to 6.69% from 5.05%.

Our period-end liquidity position strengthened compared with the end of 2008 as average core deposits grew $2.9 billion, or 9%, thus reducing our reliance on noncore funding. Additionally, we anticipate continued growth in core deposits for 2010. Also, period-end total cash and due from banks was $1.5 billion, compared with $0.8 billion at the end of 2008, and our period-end unpledged investment securities increased $4.1 billion compared with the end of last year. We redeployed a portion of the cash generated from our capital raising actions and our core deposit growth into our investment securities portfolio during the current year. Our preference would be to use this cash to generate higher-margin loans; however, given the continued economic uncertainty, many of our customers, especially businesses, are waiting for further signs of economic recovery before borrowing funds.

Fully-taxable net interest income in 2009 declined $116.2 million, or 7%, compared with 2008. The decline primarily reflected a 14 basis point decline in the net interest margin, as well as a $1.7 billion, or 4%, decline in average earning assets that reflected a $2.3 billion, or 6%, decline in total average loans. We anticipate that the net interest margin will improve during 2010, and we anticipate that loan growth will be flat, or increase slightly, in 2010.

Noninterest income in 2009 increased $298.5 million, or 42%, compared with 2008. This increase consisted of a $187.1 million improvement in securities losses and a $57.3 million improvement in MSR valuation adjustments net of hedging. After adjusting for these items, overall noninterest income performance was mixed for the year. Electronic banking income increased $9.9 million, or 11%, including additional third-party processing fees, however, service charges on deposit accounts declined $5.3 million, or 2%, reflecting lower consumer nonsufficient funds and overdraft fees. We expect that fee income in 2010 will be flat, or decrease slightly, compared with 2009. Although we expect growth in trust services income, as well as brokerage and insurance revenue and capital market fees, that growth could be offset by declines in service charges on deposit accounts revenue related to lower nonsufficient funds and overdraft fees.

Noninterest expense in 2009 increased $2,556.1 million compared with 2008. This increase consisted of 2009 goodwill impairment charges totaling $2,606.9 million, partially offset by additional gains of $123.9 million related to the early extinguishment of debt. After adjusting for these items, noninterest expense increased $73.1 million. Primary contributors to the increase were a $91.4 million increase in deposit and other insurance expense, and a $60.4 million increase in OREO and foreclosure expense, representing higher levels of problem assets, as well as loss mitigation activities. These increases were partially offset by an $83.1 million, or 11%, decline in personnel costs, reflecting a decline in salaries, and lower benefits and commission expense. Full-time equivalent staff declined 6% from the comparable year-ago period. For 2010, expenses will remain well-controlled, but are expected to increase, reflecting investments in growth, and the implementation of key strategic initiatives.

2008 versus 2007

We reported a net loss of $113.8 million in 2008, representing a loss per common share of $0.44. These results compared unfavorably with net income of $75.2 million, or $0.25 per common share, in 2007. Comparisons with the prior year were significantly impacted by a number of factors that are discussed later in the Significant Items section.

During 2008, the primary focus within our industry continued to be credit quality. The economy deteriorated substantially throughout the year in our regions, and continued to put stress on our borrowers.

The largest setback to 2008 performance was the credit quality deterioration of the Franklin relationship that occurred in the 2008 fourth quarter resulting in a negative impact of $454.3 million, or $0.81 per common share. The loan restructuring associated with our relationship with Franklin, completed during the 2007 fourth quarter, continued to perform consistent with the terms of the restructuring agreement through the 2008 third quarter. However, cash flows that we received deteriorated significantly during the 2008 fourth quarter, reflecting a more severe than expected deterioration in the overall economy.

Non-Franklin-related NCOs and provision levels in 2008 increased substantially compared with 2007. During 2008, the non-Franklin-related ACL as a percentage of total loans and leases increased to 2.01% compared with 1.36% at the prior year-end. Non-Franklin-related NALs also significantly increased to $851.9 million, compared with $319.8 million at the prior year-end, reflecting increased NALs in our CRE loans, particularly the single family home builder and retail properties segments, and within our C&I portfolio related to businesses that support residential development.

Our year-end regulatory capital levels were strong. Our tangible equity ratio improved 264 basis points to 7.72% compared with the prior year-end, reflecting the benefits of a $0.6 billion preferred stock issuance in the 2008 second quarter and a $1.4 billion preferred stock issuance in the 2008 fourth quarter as a result of our participation in the Troubled Assets Relief Program (TARP) voluntary Capital Purchase Plan. However, our tangible common equity ratio declined 104 basis points compared with the prior year-end, and we believed that it was important that we begin rebuilding our common equity. To that end, we reduced our quarterly common stock dividend to $0.01 per common share, effective with the dividend declared on January 22, 2009. Our period-end liquidity position was sound, as we have conservatively managed our liquidity position at both the parent company and bank levels.

Fully-taxable net interest income in 2008 increased $231.1 million, or 18%, compared with 2007. The prior year reflected only six months of net interest income attributable to the acquisition of Sky Financial compared with twelve months for 2008. The Sky Financial acquisition added $13.3 billion of loans and $12.9 billion of deposits at July 1, 2007. There was good nonmerger-related growth in total average commercial loans, partially offset by a decline in total average residential mortgages reflecting the continued slowdown in the housing market, as well as loan sales. Fully-taxable net interest income in 2008 was negatively impacted by an 11 basis point decline in the net interest margin compared with 2007, primarily due to the interest accrual reversals resulting from loans being placed on nonaccrual status, as well as deposit pricing.

Noninterest income in 2008 increased $30.5 million, or 5%, compared with 2007. Comparisons with the prior year were affected by a $137.4 million increase resulting from the Sky Financial acquisition, partially offset by the $39.2 million net decline in MSR valuation and hedging activity. Other factors contributing to the increase included the positive impact of loan sales, and the gain resulting from the proceeds of the Visa® initial public offering (IPO) in 2008. Performance of the remaining components of noninterest income was generally favorable. Automobile operating lease income, brokerage and insurance income, and electronic banking income increased, however, trust services income declined reflecting the impact of lower market values on asset management revenues.

Expenses were well controlled, with our efficiency ratio improving to 57.0% in 2008 compared with 62.5% in 2007. Noninterest expense in 2008 increased $165.5 million, or 13%, compared with 2007. Comparisons with the prior year were affected by $208.1 million increase resulting from the Sky Financial acquisition, including the impact of restructuring and merger costs. Other factors contributing to the change in noninterest expense included positive impacts associated with the Visa® IPO, early extinguishment of debt, and litigation reserves. Performance of the remaining components of noninterest expense was mixed. OREO and foreclosure expense, as well as professional services expense, increased as the economy continued to weaken. Automobile operating lease expense and deposit and other insurance expense also increased. These increases are partially offset by a decline in personnel expense, as well as other expense categories, due to merger/restructuring efficiencies.

Significant Items

Definition of Significant Items

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

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

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

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

Significant Items Influencing Financial Performance Comparisons

Earnings comparisons among the three years ended December 31, 2009, 2008, and 2007 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 ($4.88 per common share) pretax 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. *Sky Financial Acquisition.* The merger with Sky Financial was completed on July 1, 2007. The impacts of Sky Financial on the 2008 reported results compared with the 2007 reported results are as follows:

Increased the absolute level of reported average balance sheet, revenue, expense, and credit quality results (e.g., NCOs).

Increased reported noninterest expense items as a result of costs incurred as part of merger integration and post-merger restructuring activities, most notably employee retention bonuses, outside programming services related to systems conversions, and marketing expenses related to customer retention initiatives. These net merger costs were $21.8 million ($0.04 per common share) in 2008 and $85.1 million ($0.18 per common share) in 2007.

3. *Franklin Relationship.* Our relationship with Franklin was acquired in the Sky Financial acquisition. On March 31, 2009, we restructured our relationship with Franklin *(see Critical Accounting Policies and Use of Significant Estimates section).* Performance for 2009 included a nonrecurring net tax benefit of $159.9 million ($0.30 per common share) related to this restructuring. 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.

4. *Early Extinguishment of Debt.* The positive impacts relating to the early extinguishment of debt on our reported results were: $147.4 million ($0.18 per common share) in 2009, $23.5 million ($0.04 per common share) in 2008, and $8.1 million ($0.02 per common share) in 2008. These amounts were recorded to noninterest expense.

5. *Preferred Stock Conversion.* During the 2009 first and second quarters, we converted 114,109 and 92,384 shares, respectively, of Series A 8.50% Non-cumulative Perpetual Preferred (Series A Preferred Stock) stock into common stock. As part of these transactions, there was a deemed dividend that did not impact net income, but resulted in a negative impact of $0.11 per common share for 2009. *(See Capital discussion located within the Risk Management and Capital section for additional information.)*

6. *Visa®.* Prior to the Visa® IPO occurring in March 2008, Visa® was owned by its member banks, which included the Bank. In 2009, we sold our investment in Visa® stock. The impacts related to our Visa® stock ownership, and subsequent sale, for 2009, 2008, and 2007 are presented in the following table:

Table 4 Visa® impacts

	2009		2008		2007	
(In millions)	**Earnings**	**EPS**	**Earnings**	**EPS**	**Earnings**	**EPS**
Gain related to sale of Visa® stock(1)	**$ 31.4**	**$ 0.04**	$ 25.1	$ 0.04	$	$
Visa® indemnification liability(2)			17.0	0.03	(24.9)	(0.05)

(1) *Pretax.* Recorded to noninterest income, and represented a gain on the sale of ownership interest in Visa®. As part of the sale of our Visa® stock in 2009, we released $8.2 million, as of June 30, 2009, of the remaining indemnification liability. Concurrently, we established a swap liability associated with the conversion protection provided to the purchasers of the Visa® shares.

(2) *Pretax.* Recorded to noninterest expense, and represented our pro-rata portion of an indemnification liability provided to Visa® by its member banks for various litigation filed against Visa®. Subsequently, in 2008, an escrow account was established by Visa® using a portion of the proceeds received from the IPO. This action resulted in a reversal of a portion of the liability as the escrow account reduced our potential exposure related to the indemnification.

7. *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:

<u>2009</u>

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

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$12.8 million ($0.02 per common share) benefit to provision for income taxes, representing a reduction to the previously established capital loss carry-forward valuation allowance. Of this $12.8 million, $2.7 million related to the value of Visa® shares held.

2008

$20.4 million ($0.06 per common share) benefit to provision for income taxes, representing a reduction to the previously established capital loss carry-forward valuation allowance. Of this $20.4 million, $7.9 million related to the value of Visa® shares held.

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

Table 5 Significant Items Influencing Earnings Performance Comparison (1)

	2009		**2008**		**2007**	
(In thousands)	**After-Tax**	**EPS**	**After-Tax**	**EPS**	**After-Tax**	**EPS**
Net income GAAP	**$ (3,094,179)**		$ (113,806)		$ 75,169	
Earnings per share, after-tax		**$ (6.14)**		$ (0.44)		$ 0.25
Change from prior year $		**(5.70)**		(0.69)		(1.67)
Change from prior year %		**N.M.%**		N.M.%		(87.0)%

Significant Items Favorable (Unfavorable) Impact:	**Earnings(2)**	**EPS(3)**	**Earnings(2)**	**EPS(3)**	**Earnings(2)**	**EPS(3)**
Franklin relationship restructuring(4)	**$ 159,895**	**$ 0.30**	$	$	$	$
Net gain on early extinguishment of debt	**147,442**	**0.18**	23,542	0.04	8,058	0.02
Gain related to sale of Visa® stock	**31,362**	**0.04**	25,087	0.04		
Deferred tax valuation allowance benefit(4)	**12,847**	**0.02**	20,357	0.06		
Goodwill impairment	**(2,606,944)**	**(4.89)**				
FDIC special assessment	**(23,555)**	**(0.03)**				
Preferred stock conversion deemed dividend		**(0.11)**				
Visa® indemnification liability			16,995	0.03	(24,870)	(0.05)
Merger/Restructuring costs			(21,830)	(0.04)	(85,084)	(0.18)

See Significant Factors Influencing Financial Performance

(1) discussion.

(2) Pretax unless otherwise noted.

(3) Based upon the annual average outstanding diluted common shares.

(4) After-tax.

Net Interest Income / Average Balance Sheet
(This section should be read in conjunction with Significant Items 2 and 3.)

Our primary source of revenue is net interest income, which is the difference between interest income from earning assets (primarily loans, direct financing leases, and securities), and interest expense of funding sources (primarily interest-bearing deposits and borrowings). Earning asset balances and related funding, as well as changes in the levels of interest rates, impact net interest income. The difference between the average yield on earning assets and the average rate paid for interest-bearing liabilities is the net interest spread. Noninterest-bearing sources of funds, such as demand deposits and shareholders equity, also support earning assets. The impact of the noninterest-bearing sources of funds, often referred to as free funds, is captured in the net interest margin, which is calculated as net interest income divided by average earning assets. Given the

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free nature of noninterest-bearing sources of funds, the net interest margin is generally higher than the net interest spread. Both the net interest spread and net interest margin are presented on a fully-taxable equivalent basis, which means that tax-free interest income has been adjusted to a pretax equivalent income, assuming a 35% tax rate.

The following table shows changes in fully-taxable equivalent interest income, interest expense, and net interest income due to volume and rate variances for major categories of earning assets and interest-bearing liabilities.

Table 6 Change in Net Interest Income Due to Changes in Average Volume and Interest Rates (1)

	2009 Increase (Decrease) from Previous Year Due to			2008 Increase (Decrease) from Previous Year Due to		
Fully-Taxable Equivalent Basis(2) (In millions)	**Volume**	**Yield/ Rate**	**Total**	**Volume**	**Yield/ Rate**	**Total**
Loans and direct financing leases	**$ (130.2)**	**$ (371.3)**	**$ (501.5)**	$ 504.7	$ (449.6)	$ 55.1
Investment securities	**84.4**	**(86.3)**	**(1.9)**	17.0	(16.2)	0.8
Other earning assets	**(42.1)**	**(23.4)**	**(65.5)**	19.1	(18.7)	0.4
Total interest income from earning assets	**(87.9)**	**(481.0)**	**(568.9)**	540.8	(484.5)	56.3
Deposits	**16.5**	**(274.1)**	**(257.6)**	206.8	(301.5)	(94.7)
Short-term borrowings	**(16.6)**	**(23.3)**	**(39.9)**	5.1	(55.6)	(50.5)
Federal Home Loan Bank advances	**(45.3)**	**(49.6)**	**(94.9)**	49.3	(44.1)	5.2
Subordinated notes and other long-term debt, including capital securities	**9.8**	**(70.1)**	**(60.3)**	22.3	(57.1)	(34.8)
Total interest expense of interest-bearing liabilities	**(35.6)**	**(417.1)**	**(452.7)**	283.5	(458.3)	(174.8)
Net interest income	**$ (52.3)**	**$ (63.9)**	**$ (116.2)**	$ 257.3	$ (26.2)	$ 231.1

(1) The change in interest rates due to both rate and volume has been allocated between the factors in proportion to the relationship of the absolute dollar amounts of the change in each.

(2) Calculated assuming a 35% tax rate.

2009 versus 2008

Fully-taxable equivalent net interest income for 2009 decreased $116.2 million, or 7%, from 2008. This reflected the unfavorable impact of a $1.7 billion, or 4%, decrease in average earning assets, which included a $2.3 billion decrease in average loans and leases. Also contributing to the decline in net interest income was a 14 basis point decline in the fully-taxable net interest margin to 3.11%, primarily due to the unfavorable impact of our stronger liquidity position and an increase in NALs.

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

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

(In millions)	Twelve Months Ended December 31, 2009	Twelve Months Ended December 31, 2008	Change Amount	Change Percent
Loans/Leases				
Commercial and industrial	**$ 13,136**	$ 13,588	$ (452)	(3)%
Commercial real estate	**9,156**	9,732	(576)	(6)
Total commercial	**22,292**	23,320	(1,028)	(4)
Automobile loans and leases	**3,546**	4,527	(981)	(22)
Home equity	**7,590**	7,404	186	3
Residential mortgage	**4,542**	5,018	(476)	(9)
Other consumer	**722**	691	31	4
Total consumer	**16,400**	17,640	(1,240)	(7)
Total loans	**$ 38,692**	$ 40,960	$ (2,268)	(6)%
Deposits				
Demand deposits noninterest-bearing	**$ 6,057**	$ 5,095	$ 962	19%
Demand deposits interest-bearing	**4,816**	4,003	813	20
Money market deposits	**7,216**	6,093	1,123	18
Savings and other domestic time deposits	**4,881**	5,147	(266)	(5)
Core certificates of deposit	**11,944**	11,637	307	3
Total core deposits	**34,914**	31,975	2,939	9
Other deposits	**4,475**	5,861	(1,386)	(24)
Total deposits	**$ 39,389**	$ 37,836	$ 1,553	4%

The $2.3 billion, or 6%, decrease in average total loans and leases primarily reflected:

$1.0 billion, or 4%, decline in average total commercial loans. The decline in average CRE loans reflected our planned efforts to shrink this portfolio through payoffs and paydowns, as well as the impact of charge-offs and the 2009 reclassifications of CRE loans to C&I loans *(see Commercial Credit section)*. The decline in average C&I loans reflected paydowns, the Franklin restructuring, and a reduction in the line-of-credit utilization in our automobile dealer floorplan exposure; partially offset by the 2009 reclassifications.

$1.0 billion, or 22%, decline in average automobile loans and leases due to the 2009 securitization of $1.0 billion of automobile loans, as well as the continued runoff of the automobile lease portfolio.

$0.5 billion, or 9%, decline in residential mortgages reflecting the impact of loan sales, as well as the continued refinance of portfolio loans. The majority of this refinance activity was fixed-rate loans, which we typically sell in the secondary market.

Partially offset by:

$0.2 billion, or 3%, 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.

Total average investment securities increased $1.7 billion, or 38%, as the cash proceeds from core deposit growth and the capital actions initiated during 2009 were deployed. This increase was partially offset by a

$0.9 billion, or 87%, decline in trading account securities due to the reduction in the use of these securities to hedge MSRs.

The $1.6 billion, or 4%, increase in average total deposits reflected:

$2.9 billion, or 9%, growth in total core deposits, primarily reflecting increased sales efforts and initiatives for deposit accounts.

Partially offset by:

$1.4 billion, or 24%, decline in average noncore deposits, reflecting a managed decline in public fund deposits as well as planned efforts to reduce our reliance on noncore funding sources.

2008 versus 2007

Fully-taxable equivalent net interest income for 2008 increased $231.1 million, or 18%, from 2007. This reflected the favorable impact of a $8.4 billion, or 21%, increase in average earning assets, of which $7.8 billion represented an increase in average loans and leases, partially offset by a decrease in the fully-taxable net interest margin of 11 basis points to 3.25%. The increase to average earning assets, and to average loans and leases, was primarily merger-related.

The following table details the estimated merger-related impacts on our reported loans and deposits:

Table 8 Average Loans/Leases and Deposits Estimated Merger-Related Impacts 2008 vs. 2007

	Twelve Months Ended December 31,		Change		Change Attributable to:		
					Merger-	Nonmerger-Related	
(In millions)	2008	2007	Amount	Percent	Related	Amount	Percent(1)
Loans/Leases							
Commercial and industrial	**$ 13,588**	$ 10,636	$ 2,952	27.8%	$ 2,388	$ 564	4.3%
Commercial real estate	**9,732**	6,807	2,925	43.0	1,986	939	10.7
Total commercial	**23,320**	17,443	5,877	33.7	4,374	1,503	6.9
Automobile loans and leases	**4,527**	4,118	409	9.9	216	193	4.5
Home equity	**7,404**	6,173	1,231	19.9	1,193	38	0.5
Residential mortgage	**5,018**	4,939	79	1.6	556	(477)	(8.7)
Other consumer	**691**	529	162	30.6	72	90	15.0
Total consumer	**17,640**	15,759	1,881	11.9	2,037	(156)	(0.9)
Total loans	**$ 40,960**	$ 33,202	$ 7,758	23.4%	$ 6,411	$ 1,347	3.4%
Deposits							
Demand deposits noninterest-bearing	**$ 5,095**	$ 4,438	$ 657	14.8%	$ 915	$ (258)	(4.8)%
	4,003	3,129	874	27.9	730	144	3.7

Demand deposits interest-bearing							
Money market deposits	**6,093**	6,173	(80)	(1.3)	498	(578)	(8.7)
Savings and other domestic time deposits	**5,147**	4,242	905	21.3	1,297	(392)	(7.1)
Core certificates of deposit	**11,637**	8,206	3,431	41.8	2,315	1,116	10.6
Total core deposits	**31,975**	26,188	5,787	22.1	5,755	32	0.1
Other deposits	**5,861**	4,878	983	20.2	672	311	5.6
Total deposits	**$ 37,836**	$ 31,066	$ 6,770	21.8%	$ 6,427	$ 343	0.9%

(1) Calculated as nonmerger-related / (prior period + merger-related).

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

- $1.5 billion, or 7%, growth in average total commercial loans, with growth reflected in both the C&I and CRE portfolios. The growth in CRE loans was primarily to existing borrowers with a focus on traditional income producing property types and was not related to the single family home builder segment. The growth in C&I loans reflected a combination of draws associated with existing commitments, new loans to existing borrowers, and some originations to new high quality borrowers.

Partially offset by:

- $0.2 billion, or 1%, decline in total average consumer loans reflecting a $0.5 billion, or 9%, decline in residential mortgages due to loan sales, as well as the continued slowdown in the housing markets. This decrease was partially offset by a $0.2 billion, or 4%, increase in average automobile loans and leases reflecting higher automobile loan originations, although automobile loan origination volumes have declined throughout 2008 due to the industry wide decline in sales. Automobile lease origination volumes have also declined throughout 2008. During the 2008 fourth quarter, we exited the automobile leasing business.

Average other earning assets increased $0.7 billion, primarily reflecting the increase in average trading account securities. The increase in these assets reflected a change in our strategy to use trading account securities to hedge the change in fair value of our MSRs, however, the practice of hedging the change in fair value of our MSRs using on-balance sheet trading assets ceased at the end of 2008.

The $0.3 billion, or 1%, increase in average total deposits reflected growth in other deposits. These deposits were primarily other domestic time deposits of $250,000 or more reflecting increases in commercial and public fund deposits. Changes from the prior year also reflected customers transferring funds from lower rate to higher rate accounts such as certificates of deposit as short-term rates had fallen.

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Table 9 Consolidated Average Balance Sheet and Net Interest Margin Analysis

	Average Balances						
		Change from 2008			Change from 2007		
Fully-taxable equivalent basis(1) (In millions)	2009	Amount	Percent	2008	Amount	Percent	2007
ASSETS							
Interest-bearing deposits in banks	$ **361**	$ **58**	**19.1%**	$ 303	$ 43	16.5%	$ 260
Trading account securities	**145**	**(945)**	**(86.7)**	1,090	448	69.8	642
Federal funds sold and securities purchased under resale agreement	**10**	**(425)**	**(97.7)**	435	(156)	(26.4)	591
Loans held for sale	**582**	**166**	**39.9**	416	54	14.9	362
Investment securities:							
Taxable	**6,101**	**2,223**	**57.3**	3,878	225	6.2	3,653
Tax-exempt	**214**	**(491)**	**(69.6)**	705	59	9.1	646
Total investment securities	**6,315**	**1,732**	**37.8**	4,583	284	6.6	4,299
Loans and leases:(3)							
Commercial:							
Commercial and industrial	**13,136**	**(452)**	**(3.3)**	13,588	2,952	27.8	10,636
Construction	**1,858**	**(203)**	**(9.8)**	2,061	528	34.4	1,533
Commercial	**7,298**	**(373)**	**(4.9)**	7,671	2,397	45.4	5,274
Commercial real estate	**9,156**	**(576)**	**(5.9)**	9,732	2,925	43.0	6,807
Total commercial	**22,292**	**(1,028)**	**(4.4)**	23,320	5,877	33.7	17,443
Consumer:							
Automobile loans	**3,157**	**(519)**	**(14.1)**	3,676	1,043	39.6	2,633
Automobile leases	**389**	**(462)**	**(54.3)**	851	(634)	(42.7)	1,485
Automobile loans and leases	**3,546**	**(981)**	**(21.7)**	4,527	409	9.9	4,118
Home equity	**7,590**	**186**	**2.5**	7,404	1,231	19.9	6,173
Residential mortgage	**4,542**	**(476)**	**(9.5)**	5,018	79	1.6	4,939
Other loans	**722**	**31**	**4.5**	691	162	30.6	529
Total consumer	**16,400**	**(1,240)**	**(7.0)**	17,640	1,881	11.9	15,759
Total loans and leases	**38,692**	**(2,268)**	**(5.5)**	40,960	7,758	23.4	33,202
Allowance for loan and lease losses	**(956)**	**(261)**	**37.6**	(695)	(313)	81.9	(382)
Net loans and leases	**37,736**	**(2,529)**	**(6.3)**	40,265	7,445	22.7	32,820
Total earning assets	**46,105**	**(1,682)**	**(3.5)**	47,787	8,431	21.4	39,356
Automobile operating lease assets	**218**	**38**	**21.1**	180	163	N.M.	17

Cash and due from banks	**2,132**	**1,174**	**N.M.**	958	28	3.0	930
Intangible assets	**1,402**	**(2,044)**	**(59.3)**	3,446	1,427	70.7	2,019
All other assets	**3,539**	**294**	**9.1**	3,245	473	17.1	2,772
Total Assets	**$ 52,440**	**$ (2,481)**	**(4.5)%**	$ 54,921	$ 10,209	22.8%	$ 44,712
LIABILITIES AND SHAREHOLDERS EQUITY							
Deposits:							
Demand deposits noninterest-bearing	**$ 6,057**	**$ 962**	**18.9%**	$ 5,095	$ 657	14.8%	$ 4,438
Demand deposits interest-bearing	**4,816**	**813**	**20.3**	4,003	874	27.9	3,129
Money market deposits	**7,216**	**1,123**	**18.4**	6,093	(80)	(1.3)	6,173
Savings and other domestic time deposits	**4,881**	**(266)**	**(5.2)**	5,147	905	21.3	4,242
Core certificates of deposit	**11,944**	**307**	**2.6**	11,637	3,431	41.8	8,206
Total core deposits	**34,914**	**2,939**	**9.2**	31,975	5,787	22.1	26,188
Other domestic time deposits of $250,000 or more	**841**	**(802)**	**(48.8)**	1,643	645	64.6	998
Brokered time deposits and negotiable CDs	**3,147**	**(96)**	**(3.0)**	3,243	4	0.1	3,239
Deposits in foreign offices	**487**	**(488)**	**(50.1)**	975	334	52.1	641
Total deposits	**39,389**	**1,553**	**4.1**	37,836	6,770	21.8	31,066
Short-term borrowings	**933**	**(1,441)**	**(60.7)**	2,374	129	5.7	2,245
Federal Home Loan Bank advances	**1,236**	**(2,045)**	**(62.3)**	3,281	1,254	61.9	2,027
Subordinated notes and other long-term debt	**4,321**	**227**	**5.5**	4,094	406	11.0	3,688
Total interest-bearing liabilities	**39,822**	**(2,668)**	**(6.3)**	42,490	7,902	22.8	34,588
All other liabilities	**6,831**	**796**	**13**	6,035	544	10	5,491
Shareholders equity	**5,787**	**(609)**	**(9.5)**	6,396	1,763	38.1	4,633
Total Liabilities and Shareholders Equity	**$ 52,440**	**$ (2,481)**	**(4.5)%**	$ 54,921	$ 10,209	22.8%	$ 44,712

Continued

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Table 9 Consolidated Average Balance Sheet and Net Interest Margin Analysis Continued

Fully-taxable equivalent basis(1) (In millions)	Interest Income / Expense 2009	2008	2007	Average Rate(2) 2009	2008	2007
ASSETS						
Interest-bearing deposits in banks	**$ 1.1**	$ 7.7	$ 12.5	**0.32%**	2.53%	4.80%
Trading account securities	**4.3**	57.5	37.5	**2.99**	5.28	5.84
Federal funds sold and securities purchased under resale agreement	**0.1**	10.7	29.9	**0.13**	2.46	5.05
Loans held for sale	**30.0**	25.0	20.6	**5.15**	6.01	5.69
Investment securities:						
Taxable	**250.0**	217.9	221.9	**4.10**	5.62	6.07
Tax-exempt	**14.2**	48.2	43.4	**6.68**	6.83	6.72
Total investment securities	**264.2**	266.1	265.3	**4.18**	5.81	6.17
Loans and leases:(3)						
Commercial:						
Commercial and industrial	**664.6**	770.2	791.0	**5.06**	5.67	7.44
Commercial real estate						
Construction	**50.8**	104.2	119.4	**2.74**	5.05	7.80
Commercial	**262.3**	430.1	395.8	**3.59**	5.61	7.50
Commercial real estate	**313.1**	534.3	515.2	**3.42**	5.49	7.57
Total commercial	**977.7**	1,304.5	1,306.2	**4.39**	5.59	7.49
Consumer:						
Automobile loans	**228.5**	263.4	188.7	**7.24**	7.17	7.17
Automobile leases	**24.1**	48.1	80.3	**6.18**	5.65	5.41
Automobile loans and leases	**252.6**	311.5	269.0	**7.12**	6.88	6.53
Home equity	**426.2**	475.2	479.8	**5.62**	6.42	7.77
Residential mortgage	**237.4**	292.4	285.9	**5.23**	5.83	5.79
Other loans	**56.1**	68.0	55.5	**7.78**	9.85	10.51
Total consumer	**972.3**	1,147.1	1,090.2	**5.93**	6.50	6.92
Total loans and leases	**1,950.0**	2,451.6	2,396.4	**5.04**	5.99	7.22
Total earning assets	**$ 2,249.7**	$ 2,818.6	$ 2,762.2	**4.88%**	5.90%	7.02%
LIABILITIES AND SHAREHOLDERS EQUITY						
Deposits:						
Demand deposits noninterest-bearing	$	$	$	%	%	%

Demand deposits interest-bearing	**9.5**	22.2	40.3	**0.20**	0.55	1.29
Money market deposits	**83.6**	117.5	232.5	**1.16**	1.93	3.77
Savings and other domestic time deposits	**66.8**	100.3	109.0	**1.37**	1.88	2.40
Core certificates of deposit	**409.4**	495.7	397.7	**3.43**	4.27	4.85
Total core deposits	**569.3**	735.7	779.5	**1.97**	2.73	3.55
Other domestic time deposits of $250,000 or more	**20.8**	62.1	51.0	**2.48**	3.76	5.08
Brokered time deposits and negotiable CDs	**83.1**	118.8	175.4	**2.64**	3.66	5.41
Deposits in foreign offices	**0.9**	15.2	20.5	**0.19**	1.56	3.19
Total deposits	**674.1**	931.8	1,026.4	**2.02**	2.85	3.85
Short-term borrowings	**2.4**	42.3	92.8	**0.25**	1.78	4.13
Federal Home Loan Bank advances	**12.9**	107.8	102.6	**1.04**	3.29	5.06
Subordinated notes and other long-term debt	**124.5**	184.8	219.6	**2.88**	4.51	5.96
Total interest-bearing liabilities	**813.9**	1,266.7	1,441.4	**2.04**	2.98	4.17
Net interest income	**$ 1,435.8**	$ 1,551.9	$ 1,320.8			
Net interest rate spread				**2.84**	2.92	2.85
Impact of noninterest-bearing funds on margin				**0.27**	0.33	0.51
Net Interest Margin				**3.11%**	3.25%	3.36%

N.M., not a meaningful value.

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

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

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

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Provision for Credit Losses

(This section should be read in conjunction with Significant Items 2 and 3 and the Credit Risk section.)

The provision for credit losses is the expense necessary to maintain the ALLL and the 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 provision for credit losses in 2009 was $2,074.7 million, up $1,017.2 million from 2008, and exceeded NCOs by $598.1 million. The increase in 2009 from 2008 primarily reflected the continued economic weakness across all our regions and all our loan portfolios, although our commercial loan portfolios were the most affected.

The provision for credit losses in 2008 was $1,057.5 million, up from $643.6 million in 2007, and reflected $27.2 million of higher provision related to Franklin ($438.0 million in 2008 compared with $410.8 million in 2007). The remaining increase in 2008 from 2007 primarily reflected the continued economic weakness across all our regions and within the single family home builder segment of our CRE portfolio.

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

Table 10 Provision for Credit Losses Franklin-Related Impact

(In millions)	2009	2008	2007
Provision for credit losses			
Franklin	$ **(14.1)**	$ 438.0	$ 410.8
Non-Franklin	**2,088.8**	619.5	232.8
Total	$ **2,074.7**	$ 1,057.5	$ 643.6
Total net charge-offs (recoveries)			
Franklin	$ **115.9**	$ 423.3	$ 308.5
Non-Franklin	**1,360.7**	334.8	169.1
Total	$ **1,476.6**	$ 758.1	$ 477.6
Provision for credit losses in excess of net charge-offs			
Franklin	$ **(130.0)**	$ 14.7	$ 102.3
Non-Franklin	**728.1**	284.8	63.7
Total	$ **598.1**	$ 299.4	$ 166.0

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

The following table reflects noninterest income for the three years ended December 31, 2009:

Table 11 Noninterest Income

	Twelve Months Ended December 31,						
		Change from 2008			Change from 2007		
(In thousands)	2009	Amount	Percent	2008	Amount	Percent	2007
Service charges on deposit accounts	**$ 302,799**	**$ (5,254)**	**(2)%**	$ 308,053	$ 53,860	21%	$ 254,193
Brokerage and insurance income	**138,169**	**373**		137,796	45,421	49	92,375
Mortgage banking income	**112,298**	**103,304**	**N.M.**	8,994	(20,810)	(70)	29,804
Trust services	**103,639**	**(22,341)**	**(18)**	125,980	4,562	4	121,418
Electronic banking	**100,151**	**9,884**	**11**	90,267	19,200	27	71,067
Bank owned life insurance income	**54,872**	**96**		54,776	4,921	10	49,855
Automobile operating lease income	**51,810**	**11,959**	**30**	39,851	32,041	N.M.	7,810
Securities losses	**(10,249)**	**187,121**	**(95)**	(197,370)	(167,632)	N.M.	(29,738)
Other income	**152,155**	**13,364**	**10**	138,791	58,972	74	79,819
Total noninterest income	**$ 1,005,644**	**$ 298,506**	**42%**	$ 707,138	$ 30,535	5%	$ 676,603

N.M., not a meaningful value.

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The following table details mortgage banking income and the net impact of MSR hedging activity for the three years ended December 31, 2009:

Table 12 Mortgage Banking Income

	Twelve Months Ended December 31,						
		Change from 2008			Change from 2007		
(In thousands)	2009	Amount	Percent	2008	Amount	Percent	2007
Mortgage Banking Income							
Origination and secondary marketing	**$ 94,711**	**$ 57,454**	**N.M.%**	$ 37,257	$ 11,292	44%	$ 25,965
Servicing fees	**48,494**	**2,936**	**6**	45,558	9,546	27	36,012
Amortization of capitalized servicing(1)	**(47,571)**	**(20,937)**	**79**	(26,634)	(6,047)	29	(20,587)
Other mortgage banking income	**23,360**	**6,592**	**39**	16,768	3,570	27	13,198
Sub-total	**118,994**	**46,045**	**63**	72,949	18,361	34	54,588
MSR valuation adjustment(1)	**34,305**	**86,973**	**N.M.**	(52,668)	(36,537)	N.M.	(16,131)
Net trading losses related to MSR hedging	**(41,001)**	**(29,714)**	**N.M.**	(11,287)	(2,634)	30	(8,653)
Total mortgage banking income	**$ 112,298**	**$ 103,304**	**N.M.%**	$ 8,994	$ (20,810)	(70)%	$ 29,804
Mortgage originations	**$ 5,262**	**$ 1,489**	**39%**	$ 3,773	$ 280	8%	$ 3,493
Average trading account securities used to hedge MSRs (in millions)	**70**	**(961)**	**(93)**	1,031	437	74	594
Capitalized mortgage servicing rights(2)	**214,592**	**47,154**	**28**	167,438	(40,456)	(20)	207,894
Total mortgages serviced for others (in millions)(2)	**16,010**	**256**	**2**	15,754	666	4	15,088
MSR% of investor servicing portfolio	**1.34%**	**0.28**	**26%**	1.06%	(0.32)	(23)%	1.38%
Net Impact of MSR Hedging							
MSR valuation adjustment(1)	**$ 34,305**	**$ 86,973**	**N.M.%**	$ (52,668)	$ (36,537)	N.M.%	$ (16,131)

Net trading losses related to MSR hedging	**(41,001)**	**(29,714)**	**N.M.**	(11,287)	(2,634)	30	(8,653)
Net interest income related to MSR hedging	**2,999**	**(30,140)**	**(91)**	33,139	27,342	N.M.	5,797
Net impact of MSR hedging	**$ (3,697)**	**$ 27,119**	**(88)%**	$ (30,816)	$ (11,829)	62%	$ (18,987)

N.M., not a meaningful value.

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

(2) At period end.

2009 versus 2008

As shown in Table 11, noninterest income increased $298.5 million, or 42%, from the year-ago period, primarily reflecting:

$103.3 million increase in mortgage banking income, reflecting a $57.5 million increase in origination and secondary marketing income as loans sales and loan originations were substantially higher, and a $57.3 million improvement in MSR hedging *(see Table 12)*.

$187.1 million, or 95%, improvement in securities losses as 2008 included $197.1 million of OTTI adjustments compared with $59.0 million in 2009.

$12.0 million, or 30%, increase in automobile operating lease income, reflecting a 21% increase in average operating lease balances as lease originations since the 2007 fourth quarter were recorded as operating leases. However, during the 2008 fourth quarter, we exited the automobile leasing business.

$13.4 million, or 10%, increase in other income, reflecting the net impact of a $22.4 million change in the fair value of derivatives that did not qualify for hedge accounting, partially offset by a $4.7 million decline in mezzanine lending income and a $4.1 million decline in customer derivatives income.

$9.9 million, or 11%, increase in electronic banking, reflecting increased transaction volumes and additional third-party processing fees.

Partially offset by:

$22.3 million, or 18%, decline 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.

2008 versus 2007

Noninterest income increased $30.5 million, or 5%, from the year-ago period.

Table 13 Noninterest Income Estimated Merger-Related Impact 2008 vs. 2007

	Tweleve Months Ended December 31,		**Change**		**Change attributable to:**		
						Other	
(In thousands)	**2008**	**2007**	**Amount**	**Percent**	**Merger-Related**	**Amount**	**Percent(1)**
Service charges on deposit accounts	$ **308,053**	$ 254,193	$ 53,860	21%	$ 48,220	$ 5,640	2%
Brokerage and insurance income	**137,796**	92,375	45,421	49	34,122	11,299	9
Mortgage banking income	**8,994**	29,804	(20,810)	(70)	12,512	(33,322)	(79)
Trust services	**125,980**	121,418	4,562	4	14,018	(9,456)	(7)
Electronic banking	**90,267**	71,067	19,200	27	11,600	7,600	9

Bank owned life insurance income	**54,776**	49,855	4,921	10	3,614	1,307	2
Automobile operating lease income	**39,851**	7,810	32,041	410		32,041	N.M.
Securities losses	**(197,370)**	(29,738)	(167,632)	564	566	(168,198)	N.M.
Other income	**138,791**	79,819	58,972	74	12,780	46,192	50
Total noninterest income	**$ 707,138**	$ 676,603	$ 30,535	5%	$ 137,432	$ (106,897)	(13)%

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(1) Calculated as other / (prior period + merger-related)

The $30.5 million, or 5%, increase from 2007 reflected $137.4 million of merger-related impacts. Nonmerger-related noninterest income declined $106.9 million, reflecting:

$168.2 million negative impact relating to securities losses, primarily reflecting OTTI adjustments in 2008 of $197.1 million, compared with $43.1 million of OTTI adjustments in 2007.

$33.3 million, or 79%, decline in mortgage banking income primarily reflecting the negative impact in MSR valuation, net of hedging.

$9.5 million, or 7%, decline in trust services income reflecting the impact of lower market values on asset management revenues.

Partially offset by:

$46.2 million, or 50%, increase in other noninterest income, primarily reflecting: (a) $26.8 million positive impact on losses on loan sales, (b) $25.1 million gain in 2008 resulting from the proceeds of the Visa® IPO, and (c) $14.1 million improvement in equity investment losses. These positive impacts were partially offset by: (a) $7.3 million of interest rate swap losses in 2008, (b) $7.1 million decline in customer derivatives revenue, and (c) $5.9 million venture capital loss in 2008.

$32.0 million increase in automobile operating lease income as all leases originated since the 2007 fourth quarter were recorded as operating leases. During the 2008 fourth quarter, we exited the automobile leasing business.

$11.3 million, or 9%, increase in brokerage and insurance income reflecting growth in annuity sales and the 2007 fourth quarter acquisition of an insurance company.

$7.6 million, or 9%, increase in electronic banking income reflecting increased debit card transaction volumes.

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Noninterest Expense

(This section should be read in conjunction with Significant Items 1, 2, 3, 4, 6, and 7.)

The following table reflects noninterest expense for the three years ended December 31, 2009:

Table 14 Noninterest Expense

	Twelve Months Ended December 31,						
		Change from 2008			Change from 2007		
(In thousands)	**2009**	**Amount**	**Percent**	**2008**	**Amount**	**Percent**	**2007**
Personnel costs	**$ 700,482**	**$ (83,064)**	**(11)%**	$ 783,546	$ 96,718	14%	$ 686,828
Outside data processing and other services	**148,095**	**17,869**	**14**	130,226	1,000	1	129,226
Deposit and other insurance expense	**113,830**	**91,393**	**N.M.**	22,437	8,652	63	13,785
Net occupancy	**105,273**	**(3,155)**	**(3)**	108,428	9,055	9	99,373
OREO and foreclosure expense	**93,899**	**60,444**	**N.M.**	33,455	18,270	N.M.	15,185
Equipment	**83,117**	**(10,848)**	**(12)**	93,965	12,483	15	81,482
Professional services	**76,366**	**26,753**	**54**	49,613	12,223	33	37,390
Amortization of intangibles	**68,307**	**(8,587)**	**(11)**	76,894	31,743	70	45,151
Automobile operating lease expense	**43,360**	**12,078**	**39**	31,282	26,121	N.M.	5,161
Marketing	**33,049**	**385**	**1**	32,664	(13,379)	(29)	46,043
Telecommunications	**23,979**	**(1,029)**	**(4)**	25,008	506	2	24,502
Printing and supplies	**15,480**	**(3,390)**	**(18)**	18,870	619	3	18,251
Goodwill impairment	**2,606,944**	**2,606,944**	**N.M.**				
Gain on early extinguishment of debt	**(147,442)**	**(123,900)**	**N.M.**	(23,542)	(15,484)	N.M.	(8,058)
Other	**68,704**	**(25,824)**	**(27)**	94,528	(22,997)	(20)	117,525
Total noninterest expense	**$ 4,033,443**	**$ 2,556,069**	**N.M.%**	$ 1,477,374	$ 165,530	13%	$ 1,311,844

N.M., not a meaningful value.

2009 versus 2008

As shown in the above table, noninterest expense increased $2,556.1 million from the year-ago period, and primarily 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).*

$91.4 million increase in deposit and other insurance expense. This increase was comprised of two components: (a) $23.6 million FDIC special assessment during the 2009 second quarter, and (b) $67.8 million increase related to our 2008 FDIC assessments being significantly reduced by a nonrecurring deposit assessment credit provided by the FDIC that was depleted during the 2008 fourth

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quarter. This deposit insurance credit offset substantially all of our assessment in 2008. Higher levels of deposits also contributed to the increase.

$60.4 million increase in OREO and foreclosure expense, reflecting higher levels of problem assets, as well as loss mitigation activities.

$26.8 million, or 54%, increase in professional services, reflecting higher consulting and collection-related expenses.

$17.9 million, or 14%, increase in outside data processing and other services, primarily reflecting portfolio servicing fees paid to Franklin resulting from the 2009 first quarter restructuring of this relationship.

$12.1 million, or 39%, increase in automobile operating lease expense, primarily reflecting a 21% increase in average operating leases. However, as previously discussed, we exited the automobile leasing business during the 2008 fourth quarter.

Partially offset by:

$123.9 million positive impact related to gains on early extinguishment of debt.

$83.1 million, or 11%, decline in personnel expense, reflecting a decline in salaries, and lower benefits and commission expense. Full-time equivalent staff declined 6% from the comparable year-ago period.

$25.8 million, or 27%, decline in other noninterest expense primarily reflecting lower automobile lease residual value expense as used vehicle prices improved.

$10.8 million, or 12%, decline in equipment costs, reflecting lower depreciation costs, as well as lower repair and maintenance costs.

2008 versus 2007

Noninterest expense increased $165.5 million, or 13%, from 2007.

Table 15 Noninterest Expense Estimated Merger-Related Impact 2008 vs. 2007

	Tweleve Months Ended December 31,		Change		Change attributable to:			
					Merger-	Merger	Other	
(In thousands)	2008	2007	Amount	Percent	Related	Restructuring	$	%(1)
Personnel costs	$ **783,546**	$ 686,828	$ 96,718	14%	$ 136,500	$ (17,633)	$ (22,149)	(3)%
Outside data processing and other services	**130,226**	129,226	1,000	1	24,524	(16,017)	(7,507)	(5)
Deposit and other insurance expense	**22,437**	13,785	8,652	63	808		7,844	54
Net occupancy	**108,428**	99,373	9,055	9	20,368	(6,487)	(4,826)	(4)
	33,455	15,185	18,270	N.M.	2,592		15,678	88

OREO and foreclosure expense								
Equipment	**93,965**	81,482	12,483	15	9,598	942	1,943	2
Professional services	**49,613**	37,390	12,223	33	5,414	(6,399)	13,208	36
Amortization of intangibles	**76,894**	45,151	31,743	70	32,962		(1,219)	(2)
Automobile operating lease expense	**31,282**	5,161	26,121	N.M.			26,121	N.M.
Marketing	**32,664**	46,043	(13,379)	(29)	8,722	(13,410)	(8,691)	(21)
Telecommunications	**25,008**	24,502	506	2	4,448	(550)	(3,392)	(12)
Printing and supplies	**18,870**	18,251	619	3	2,748	(1,433)	(696)	(4)
Gain on early extinguishment of debt	**(23,542)**	(8,058)	(15,484)	N.M.			(15,484)	N.M.
Other expense	**94,528**	117,525	(22,997)	(20)	22,696	(2,267)	(43,426)	(31)
Total noninterest expense	**$ 1,477,374**	$ 1,311,844	$ 165,530	13%	$ 271,380	$ (63,254)	$ (42,596)	(3)%

(1) Calculated as other / (prior period + merger-related)

As shown in the table above, $271.4 million of the $165.5 million increase in noninterest expense pertained to merger-related expenses, partially offset by $63.3 million of lower merger/restructuring costs. After adjusting for these merger-related impacts, noninterest expense declined $42.6 million, reflecting:

$43.4 million decline in other noninterest expense, primarily reflecting: (a) $41.9 million positive impact related to the recording of an indemnification liability in 2007, and partial reversal in 2008, regarding various litigations filed against Visa®, (b) the positive impact of no material increases to litigation reserves in 2008, compared with $10.8 million of such increases in 2007. These positive impacts were partially offset by a $4.0 million charge-off of a receivable in 2008.

$22.1 million, or 3%, decline in personnel expense reflecting the benefit of merger and restructuring efficiencies.

$15.5 million positive impact relating to gains on early extinguishment of debt.

$8.7 million, or 21%, decline in marketing expense.

$7.6 million, or 6%, decline in outside data processing and other services reflecting merger efficiencies.

Partially offset by:

$26.1 million increase in automobile operating lease expense as all leases originated since the 2007 fourth quarter were recorded as operating leases. During the 2008 fourth quarter, we exited the automobile leasing business.

$15.7 million increase in OREO and foreclosure expense, reflecting higher levels of problem assets.

$13.2 million, or 36%, increase in professional services, reflecting increased legal and collection costs.

Provision for Income Taxes
(This section should be read in conjunction with Significant Items 1, 2, 3 and 7.)

The provision for income taxes was a benefit of $584.0 million for 2009 compared with a benefit of $182.2 million in 2008 and a benefit of $52.5 million in 2007. The tax benefit in all years includes the benefits from tax-exempt income, tax-advantaged investments and general business credits. The tax benefit in 2009 was impacted by the pretax loss combined with the favorable impacts of the Franklin restructuring *(see Franklin Loans Restructuring Transaction discussion located within the Critical Accounting Policies and Use of Significant Estimates for additional information)* and the reduction of the capital loss valuation reserve, offset by the nondeductible portion of the goodwill impairment *(see Goodwill discussion located within the Critical Accounting Policies and Use of Significant Estimates for additional information and Note 19 to the Notes to the Financial Statements).*

During 2008, the Internal Revenue Service (IRS) completed the audit of our consolidated federal income tax returns for tax years 2004 and 2005. In 2009, the IRS began the audit of our consolidated federal income tax returns for tax years 2006 and 2007. In addition, we are subject to ongoing tax examinations in various state and local jurisdictions. Both the IRS and state tax officials have proposed adjustments to our previously filed tax returns. We believe that our tax positions related to such proposed adjustments are correct and supported by applicable statutes, regulations, and judicial authority, and intend to vigorously defend them. It is possible 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 assurance 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.

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. Credit risk is the risk of loss due to adverse changes in the borrower s ability to meet its financial obligations under agreed upon terms. Market risk represents the risk of loss due to changes in the market value of assets and liabilities due to changes in interest rates, exchange rates, and equity prices. Liquidity risk arises from the possibility that funds may not be available to satisfy current or future obligations resulting from external macro market issues, investor perception of financial strength, and events unrelated to the company such as war, terrorism, or financial institution market specific issues. Operational risk arises from the inherent day-to-day operations of the company that could result in losses due to human error, inadequate or failed internal systems and controls, and external events.

We follow a formal policy to identify, measure, and document the key risks facing the company. The policy outlines how those identified risks can be controlled or mitigated and how we monitor the controls to ensure that they are effective. Our chief risk officer is responsible for ensuring that appropriate systems of controls are in place for managing and monitoring risk across the company. Potential risk concerns are shared with the board of directors, as appropriate. Our internal audit department performs ongoing independent reviews of the risk management process and ensures the adequacy of documentation. The results of these reviews are reported regularly to the audit committee of the board of directors.

Some of the more significant processes used to manage and control credit, market, liquidity, and operational risks are described in the following paragraphs.

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. We are subject to credit risk in our lending, trading, and investment activities. The nature and degree of credit risk is a function of the types of transactions, the structure of those transactions, and the parties involved. 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.

The maximum level of credit exposure to individual commercial borrowers is limited by policy guidelines based on each borrower or related group of borrowers. All authority to grant commitments is delegated through the independent credit administration function and is monitored and regularly updated. Concentration risk is managed via limits on loan type, geography, industry, and loan quality factors. We continue to focus predominantly on extending credit to retail and commercial customers with existing or expandable relationships within our primary banking markets. We continue to add new borrowers that meet our targeted risk and profitability profile.

The checks and balances in the credit process and the independence of the credit administration and risk management functions are designed to appropriately assess the level of credit risk being accepted, facilitate the early recognition of credit problems when they do occur, and to provide for effective problem asset management and resolution.

Credit Exposure Mix

As shown in the following table, at December 31, 2009, commercial loans totaled $20.6 billion, and represented 56% of our total credit exposure. Our commercial loan portfolio is diversified along product type,

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size, and geography within our footprint, and is comprised of the following *(see Commercial Credit discussion)*:

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

Commercial real estate (CRE) loans CRE loans consist of loans for income producing real estate properties and real estate developers. We mitigate our risk on these loans by requiring collateral values that exceed the loan amount and underwriting the loan with 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 or residential property for which repayment will be generated by the sale or permanent financing of the property. Our construction CRE portfolio primarily consists of retail, residential (land, single family, condominiums), office, and warehouse product types. Generally, these loans are for construction projects that have been presold, preleased, or otherwise have secured permanent financing, as well as loans to real estate companies that have significant equity invested in each project. These loans are generally underwritten and managed by a specialized real estate group that actively monitors the construction phase and manages the loan disbursements according to the predetermined construction schedule.

Total consumer loans were $16.2 billion at December 31, 2009, and represented 44% of our total credit exposure. The consumer portfolio was diversified among home equity loans, residential mortgages, and automobile loans and leases *(see Consumer Credit discussion).*

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

Residential mortgages Residential mortgage loans represent loans to consumers for the purchase or refinance of a residence. These loans are generally financed over a 15- to 30- year term, and in most cases, are extended to borrowers to finance their primary residence. 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 and lease 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 exited the automobile leasing business during the 2008 fourth quarter.

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Table 16 Loan and Lease Portfolio Composition

					At December 31,					
n millions)	**2009**		**2008**		**2007**		**2006**		**2005**	
ommercial(1)										
ommercial and dustrial	**$ 12,888**	**35%**	**$** 12,891	31%	$ 11,939	30%	$ 7,850	30%	$ 6,809	28%
ranklin			650	2	1,187	3				
onstruction	**1,469**	**4**	2,080	5	1,962	5	1,229	5	1,538	6
ommercial	**6,220**	**17**	8,018	19	7,221	18	3,275	13	2,498	10
otal commercial real tate	**7,689**	**21**	10,098	24	9,183	23	4,504	18	4,036	16
otal commercial	**20,577**	**56**	23,639	57	22,309	56	12,354	48	10,845	44
onsumer:										
utomobile loans	**3,144**	**9**	3,901	9	3,114	8	2,126	8	1,985	8
utomobile leases	**246**	**1**	563	1	1,180	3	1,769	7	2,289	9
ome equity	**7,563**	**20**	7,557	18	7,290	18	4,927	19	4,763	19
esidential mortgage	**4,510**	**12**	4,761	12	5,447	14	4,549	17	4,193	17
ther loans	**751**	**1**	671	2	715	1	428	1	397	2
otal consumer	**16,214**	**43**	17,453	42	17,746	44	13,799	52	13,627	55
otal loans and rect financing ases	**36,791**	**99**	41,092	99	40,055	100	26,153	100	24,472	99
utomobile operating ase assets	**193**	**1**	243	1	68		28		189	1
otal credit xposure	**$ 36,984**	**100%**	$ 41,335	100%	$ 40,123	100%	$ 26,181	100%	$ 24,661	100%
otal automobile xposure(2)	**$ 3,583**	**10%**	$ 4,707	11%	$ 4,362	11%	$ 3,923	15%	$ 4,463	18%

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

(2) Total automobile loans and leases, operating lease assets, and securitized loans.

Commercial Credit

2009 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 portfolio segments, our CRE portfolio s two highest risk segments. We initiated a review of 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 throughout the remainder of 2009. 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 $13.2 billion of total commercial loans, and $18.8 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 for the foreseeable future.

Our activity in the 2009 third quarter represented a continuation of the portfolio management processes established in the first two quarters of 2009. We continue to fully assess our criticized loans over $500,000 on a monthly basis, and have maintained the discipline associated with the ongoing noncriticized review process established in the 2009 second quarter. 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.

In the 2009 fourth quarter, we finalized an initiative to segregate our CRE portfolio into core and noncore components. This distinction is based on borrower characteristics, relationship profitability, and location of the projects. Those designated as core relationships will be supported and grown in the coming years. Those borrowers designated as noncore will be managed effectively, with a goal of significantly reducing the exposure. Opportunities to expand some of these noncore relationships to a level of profitability may arise, resulting in a reclassification to a core designation. Additional information regarding the designation can be found in the Core and Noncore Portfolios section located within the Commercial Real Estate section.

Also, during the 2009 fourth quarter, we conducted a review of our ACL practices and methodologies. We experienced increasing charge-offs throughout 2009, and continued to see increases in criticized and classified loans, although increases in the second half of 2009 were at a slower rate compared with the first half of 2009. The level of criticized loans, one indicator of possible future losses, reached its highest point in the 2009 fourth quarter. Even though there were declines in both the inflow and absolute level of NALs, the inflow of $495 million remained significant. Based on these asset quality trends, along with the unstable and fragile economy particularly in our Midwest markets, as well as continued elevated quarterly charge-offs, the ACL was substantially increased. Much of our concern relates to our CRE portfolio and, to a lesser degree, our C&I portfolio. Regarding our CRE portfolio, higher vacancy rates, lower rents, and falling property values are of significant concern. Loss in the event of default on many classes of CRE properties has increased substantially throughout 2009 and is expected to continue into 2010. C&I borrowers have been suffering from the weak economy for several consecutive years, and many borrowers no longer have sufficient capital to withstand protracted stress and, as a result, may not be able to comply with the original terms of their credit agreements.

Lastly, 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 General Motors. The more recent announcement regarding the Saturn dealerships also has had no impact on our view of the portfolio. *(See Automobile Industry section located within the Commercial and Industrial Portfolio section for additional information.)*

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 for the foreseeable future, we anticipate some level of additional negative credit migration. 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 is diversified by C&I and CRE loans as shown in the following table:

Table 17 Commercial & Industrial and Commercial Real Estate Loan and Lease Detail

	At December 31,				
(In millions)	**2009**	2008	2007	2006	2005
Commercial and industrial loans	**$ 11,326**	$ 10,902	$ 10,249	$ 6,632	$ 5,723
Franklin		650	1,187		
Dealer floor plan loans	**679**	960	795	631	615
Equipment direct financing leases	**883**	1,029	895	587	471
Commercial and industrial loans and leases	**12,888**	13,541	13,126	7,850	6,809
Commercial real estate loans	**7,689**	10,098	9,183	4,504	4,036
Total commercial loans and leases	**$ 20,577**	$ 23,639	$ 22,309	$ 12,354	$ 10,845

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. While these are the primary factors considered, there are a number of other factors that may be considered in the decision process. There are two processes for approving credit risk exposures. The first, and more prevalent approach, involves individual approval of exposures. Credit officers that understand each local region and are experienced in the industries and loan structures of the requested credit exposure, make credit extension decisions. All credit exposures greater than $5 million are approved by a senior loan committee, led by our chief credit officer. The second involves a centralized loan approval process for the standard products and structures utilized in small business banking. In this centralized decision environment, where the above primary factors are the basis for approval, certain individuals who understand each local region make credit-extension decisions to preserve our local decision-making focus. In addition to disciplined, consistent, and judgmental factors, a sophisticated credit scoring process is used as a primary evaluation tool in the determination of approving an exposure.

In commercial lending, ongoing credit management is dependent on the type and nature of the loan. We monitor all significant exposures on a periodic basis. All commercial credit extensions are assigned internal risk ratings reflecting the borrower s probability-of-default and loss-given-default. This two-dimensional rating methodology, which results in 192 individual loan grades, provides granularity in the portfolio management process. The probability-of-default is rated on a scale of 1-12 and is applied at the borrower level. The loss-given-default is rated on a 1-16 scale and is applied based on the type of credit extension and the underlying collateral. The internal risk ratings are assessed and updated with each periodic monitoring event. There is also extensive macro portfolio management analysis on an ongoing basis. 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 and Retail Properties discussions). We continually review and adjust our risk rating criteria based on actual experience. The continuous analysis and review process results in a determination of an appropriate ALLL amount for our commercial loan portfolio.

In addition to the initial credit analysis initiated during the approval process, the credit review group performs analyses to provide an independent review and assessment of the quality and/or exposure of the loan. This group is part of our Risk Management area, and reviews individual loans and credit processes and conducts a portfolio review for each of the regions on a 15-month cycle. The loan review group validates the internal risk ratings on approximately 60% of the portfolio exposure each calendar year. Similarly, to provide consistent oversight, a centralized portfolio management team monitors and reports on the performance of the small business banking loans.

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

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

Our commercial loan portfolio, including CRE loans, is diversified by customer size, as well as throughout our geographic footprint. Certain segments of our commercial loan portfolio are discussed in further detail below:

COMMERCIAL REAL ESTATE (CRE) PORTFOLIO

As shown in the following table, CRE loans totaled $7.7 billion and represented 21% of our total loan exposure at December 31, 2009.

Table 18 Commercial Real Estate Loans by Property Type and Property Location

	At December 31, 2009									
millions)	**Ohio**	**Michigan**	**Pennsylvania**	**Indiana**	**Kentucky**	**Florida**	**West Virginia**	**Other**	**Total Amount**	**%**
tail properties	$ 866	$ 208	$ 161	$ 213	$ 8	$ 69	$ 48	$ 542	**$ 2,115**	**28**
lti family	810	132	97	77	37	6	75	135	**1,369**	**18**
fice	576	197	113	55	24	23	59	69	**1,116**	**14**
lustrial and rehouse	431	199	35	93	14	41	9	110	**932**	**12**
gle family me builders	528	78	48	24	22	84	19	54	**857**	**11**
nes to real ate companies	487	69	36	28	5	1	9	3	**638**	**8**
tel	146	56	23	31			42	75	**373**	**5**
alth care	49	56	14						**119**	**2**
w land and er land uses	50	27	5	6	6	5	2	32	**133**	**2**
her	28	4	2	1	1			1	**37**	
tal	$ 3,971	$ 1,026	$ 534	$ 528	$ 117	$ 229	$ 263	$ 1,021	**$ 7,689**	**100**
of total rtfolio	52%	13%	7%	7%	2%	3%	3%	13%	**100%**	
t charge-offs	$ 320.6	$ 129.5	$ 7.1	$ 24.0	$ 5.5	$ 79.1	$ 8.1	$ 108.8	**$ 682.7**	
t charge-offs nualized %	6.78%	10.60%	1.12%	3.82%	3.98%	28.98%	2.58%	8.95%	**7.46%**	
naccrual loans	$ 463.0	$ 123.8	$ 42.8	$ 37.5	$ 12.1	$ 45.5	$ 18.2	$ 192.9	**$ 935.8**	
of portfolio	12%	12%	8%	7%	10%	20%	7%	19%	**12%**	

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CRE loan credit quality data regarding NCOs, NALs, and accruing loans past due 90 days or more by industry classification code for 2009 and 2008 are presented in the following table:

Table 19 Commercial Real Estate Loans Credit Quality Data by Property Type

	Year Ended December 31,				At December 31,	
	2009		2008		2009	2008
	Net Charge-Offs				Nonaccrual Loans	
(In millions)	Amount	Percentage	Amount	Percentage	Amount	
Retail properties	**$ 250.3**	**10.51%**	$ 7.0	0.38%	**$ 253.6**	$ 78.3
Single family home builder	**212.3**	**18.71**	35.0	2.87	**262.4**	200.4
Office	**29.9**	**2.49**	1.7	0.15	**87.3**	19.9
Multi family	**77.1**	**5.15**	9.5	0.84	**129.0**	42.9
Industrial and warehouse	**53.9**	**4.93**	2.3	0.24	**120.8**	20.4
Lines to real estate companies	**43.2**	**4.68**	4.6	0.46	**22.7**	26.3
Raw land and other land uses	**12.6**	**5.38**	5.1	0.34	**42.4**	33.5
Health care			1.0	0.27	**0.7**	6.2
Hotel	**2.7**	**0.71**			**10.9**	0.8
Other	**0.8**	**1.68**	2.5	0.97	**6.1**	17.0
Total	**$ 682.7**	**7.46%**	$ 68.7	0.71%	**$ 935.8**	$ 445.7

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 obtained in conjunction with all originations and renewals, and on an as needed basis, in compliance with regulatory requirements. Given the stressed environment for some loan types, we have initiated 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 these actions indicated that additional stress is likely due to the current economic conditions. Property values are updated using appraisals on a regular basis to ensure that appropriate decisions regarding the 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 retail sales and home-price depreciation trends for the segments are embedded in our performance expectations, and lease-up and absorption scenarios are assessed. We anticipate the current stress within this portfolio will continue for the foreseeable future, resulting in elevated charge-offs, NALs, and ALLL levels.

During 2009, portfolio reviews resulted in reclassifications of certain CRE loans to C&I loans. These net reclassifications totaled $1.4 billion, and were primarily associated with: (a) loans to businesses secured by the real estate and buildings that house their operations as these owner-occupied loans secured by real estate were underwritten based on the cash flow of the business, and (b) healthcare entities and colleges and universities. We believe that loans underwritten based on cash flow from operations should be considered as commercial loans secured by real estate, rather than the CRE portfolio which is real estate project oriented.

Within the CRE portfolio, the single family home builder and retail properties segments continued to be stressed throughout 2009 as a result of the continued decline in the housing markets and general economic conditions. As previously mentioned above, these segments were considered to be the highest risk segments in 2009 within our CRE portfolio, and are discussed further below.

Single Family Home Builders

At December 31, 2009 we had $857 million of CRE loans to single family home builders. Such loans represented 2% of total loans and leases. Of this portfolio segment, 67% were to finance projects currently under construction, 15% to finance land under development, and 18% to finance land held for development. The $857 million represented a $732 million, or 46%, 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 no new originations in this portfolio segment in 2009, increased property sale activity, and substantial charge-offs. The increased sale activity was evident throughout 2009. Based on the portfolio management processes, including charge-off activity, over the past 30 months, we believe that we have substantially addressed the credit issues in this portfolio. We do not expect any future significant credit impact from this portfolio segment.

Retail Properties

Our portfolio of CRE loans secured by retail properties totaled $2,115 million, or approximately 6% of total loans and leases, at December 31, 2009. Loans within this portfolio segment declined $150 million, or 7%, from December 31, 2008. Credit approval in this portfolio segment is generally dependent on pre-leasing requirements, and net operating income from the project must cover debt service by specified percentages when the loan is fully funded.

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

Core and Noncore portfolios

Each CRE loan is classified as either core or noncore. We segmented the CRE portfolio into these designations in order to provide more clarity around our portfolio management strategies and to provide additional clarity for our investors. A CRE loan is generally considered core when the borrower is an experienced, well-capitalized developer in our Midwest footprint, and has either an established meaningful relationship or the prospective of establishing one, that generates an acceptable return on capital. The core CRE portfolio was $4.0 billion at December 31, 2009, representing 52% of total CRE loans. Personal guarantees support approximately 95% of this portfolio. Based on the extensive project level assessment process, including forward-looking collateral valuations, we are comfortable with the credit quality of the core portfolio at this time.

A CRE loan is generally considered noncore based on a lack of a substantive relationship outside of the credit product, with no immediate prospects for improvement. The noncore CRE portfolio totaled $3.7 billion

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at December 31, 2009, representing 48% of total CRE loans. Personal guarantees support approximately 96% of this portfolio, with over 99% representing secured debt. This segment has only approximately $155 million of future funding requirements. Nevertheless, it is within the noncore segment where most of the credit quality challenges exist. For example, $932.0 million, or 26%, of related outstandings, are classified as NALs. The Special Assets Division (SAD) administers $1.8 billion, or 50%, of total noncore CRE loans. It is expected that we will exit the majority of noncore CRE relationships over time. This would reflect normal repayments, possible sales should economically attractive opportunities arise, or the reclassification as a core CRE relationship if it expands to meet the core requirements.

The table below provides the segregation of the CRE portfolio into core and noncore segments as of December 31, 2009.

Table 20 Core Commercial Real Estate Loans by Property Type and Property Location

	At December 31, 2009									
(In millions)	Ohio	Michigan	Pennsylvania	Indiana	Kentucky	Florida	West Virginia	Other	Total Amount	%
Core portfolio:										
Retail properties	$ 488	$ 95	$ 90	$ 91	$ 3	$ 42	$ 40	$ 369	**$ 1,218**	**16%**
Multi family	265	87	52	31	8		42	65	**550**	**7**
Office	342	102	74	33	12	8	40	43	**654**	**8**
Industrial and warehouse	280	65	17	48	3	3	8	90	**514**	**7**
Single family home builders	125	37	9	5		36	9	4	**225**	**3**
Lines to real estate companies	358	57	25	22	4	1	7	1	**475**	**6**
Hotel	78	36	13	21			35	70	**253**	**3**
Health care	28	33	13						**74**	**1**
Raw land and other land uses	17	23	3	1	1	2	2	7	**56**	**1**
Other	12	3	2	1	1				**19**	
Total core portfolio	1,993	538	298	253	32	92	183	649	**4,038**	**52**
Total noncore portfolio	1,978	488	236	275	85	137	80	372	**3,651**	**48**
Total	$ 3,971	$ 1,026	$ 534	$ 528	$ 117	$ 229	$ 263	$ 1,021	**$ 7,689**	**100%**

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

Table 21 Commercial Real Estate Core vs. Noncore portfolios

		At December 31, 2009					
(In millions)		Ending Balance	Prior NCOs	ACL $	ACL %	Credit Mark(1)	Nonaccrual Loans
Core Total		$ 4,038	$	$ 168	4.16%	4.16%	$ 3.8
Noncore	Special Assets Division(2)	1,809	511	410	22.66	39.70	861.0
Noncore	Other	1,842	26	186	10.10	11.35	71.0
Noncore Total		3,651	537	596	16.32	27.05	932.0
Commercial Real Estate Total		**$ 7,689**	**$ 537**	**$ 764**	**9.94%**	**15.82%**	**$ 935.8**

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

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

As shown in the above table, substantial reserves for the noncore portfolio have been established. At December 31, 2009, the ACL of related total loans and leases for the noncore portfolio was 16.32%. We believe segregating the noncore CRE from core CRE improves our ability to understanding the nature, performance prospects, and problem resolution opportunities of this segment, thus allowing us to continue to deal proactively with future credit issues.

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

COMMERCIAL AND INDUSTRIAL (C&I) PORTFOLIO

The C&I portfolio is comprised of loans to businesses where the source of repayment is associated with the 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. For loans secured by real estate, appropriate appraisals are obtained at origination, and updated on an as needed basis, in compliance with regulatory requirements.

There were no outstanding commercial loans that would be considered 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.

C&I borrowers have been challenged by the weak economy for consecutive years, and some borrowers may no longer have sufficient capital to withstand the protracted stress and, as a result, may not be able to comply with the original terms of their credit agreements. We continue to focus ongoing attention on the portfolio management process to proactively identify borrowers that may be facing financial difficulty.

To the extent C&I loans are secured by real estate collateral, appropriate appraisals are obtained at origination, and updated on an as needed basis, in compliance with regulatory requirements.

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As shown in the following table, C&I loans totaled $12.9 billion at December 31, 2009.

Table 22 Commercial and Industrial Loans and Leases by Industry Classification

	At December 31, 2009			
	Commitments		Loans Outstanding	
(In millions of dollars)	Amount	Percent	Amount	Percent
Industry Classification:				
Services	$ 5,152	28%	$ 3,899	30%
Manufacturing	3,411	18	2,202	17
Finance, insurance, and real estate	2,814	15	2,353	18
Retail trade auto dealers	1,566	8	900	7
Retail trade other than auto dealers	1,365	7	917	7
Contractors and construction	942	5	463	4
Transportation, communications, and utilities	1,229	7	749	6
Wholesale trade	1,271	7	689	5
Agriculture and forestry	263	1	192	2
Energy	589	3	409	3
Public administration	90	1	87	1
Other	30		28	
Total	$ 18,722	100%	$ 12,888	100%

C&I loan credit quality data regarding NCOs and NALs by industry classification for 2009 and 2008 are presented in the table below:

Table 23 Commercial and Industrial Credit Quality Data by Industry Classification

	Year Ended December 31,				At December 31,	
	2009		2008		2009	2008
	Net Charge-Offs				Nonaccrual Loans	
(In millions)	Amount	Percentage	Amount	Percentage	Amount	
Industry Classification:						
Services	**$ 95.1**	**2.49%**	$ 18.6	0.57%	**$ 163.9**	$ 73.9
Finance, insurance, and real estate	**46.6**	**2.02**	13.5	0.75	**98.0**	46.6
Manufacturing	**99.8**	**4.62**	16.4	0.73	**136.8**	67.5
Retail trade auto dealers	**1.4**	**0.16**	2.2	0.20	**3.0**	6.2
Retail trade other than auto dealers	**49.7**	**5.53**	23.1	2.66	**58.5**	28.6
Contractors and construction	**20.2**	**4.47**	10.7	1.87	**41.6**	13.5
Transportation, communications, and utilities	**19.8**	**2.69**	4.5	0.67	**30.6**	11.4
Wholesale trade	**32.3**	**4.78**	12.3	1.24	**29.5**	19.6

Agriculture and forestry	**1.4**	**0.74**	0.7	0.32	**5.1**	2.3
Franklin	**114.5**	**22.85**	423.3	39.01		650.2
Energy	**5.0**	**1.25**	0.1	0.02	**10.7**	9.6
Public administration	**1.5**	**1.75**	0.5	0.42	**0.1**	0.6
Other	**0.2**	**0.83**	0.3	0.06	**0.6**	2.7
Total	**$ 487.6**	**3.71%**	$ 526.2	3.87%	**$ 578.4**	$ 932.6

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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 since December 31, 2009. 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.

Table 24 Automotive Industry Exposure (1)

	December 31,					
	2009			2008		
(In millions)	Loans Outstanding	% of Total Loans	Total Exposure	Loans Outstanding	% of Total Loans	Total Exposure
Suppliers:						
Domestic	**$ 163.3**		**$ 260.7**	$ 182.4		$ 330.9
Foreign	**23.9**		**71.8**	32.7		45.7
Total suppliers	**187.2**	**0.51%**	**332.5**	215.1	0.52%	376.6
Dealer:						
Floor plan domestic	**388.0**		**692.1**	552.6		746.8
Floor plan foreign	**283.0**		**554.6**	408.1		544.1
Other	**373.0**		**530.0**	345.7		464.0
Total dealer	**1,044.0**	**2.84**	**1,776.7**	1,306.4	3.18	1,754.9
Total automotive	**$ 1,231.2**	**3.35%**	**$ 2,109.2**	$ 1,521.5	3.70%	$ 2,131.5

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

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. While we continue to believe that this industry represents a high degree of risk, the primary impact to automobile industry suppliers has likely already occurred, given the substantial adjustments to production in 2008 and 2009. 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, although 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 the table above, at December 31, 2009, our total direct exposure to the automotive supplier segment was $332.5 million, of which $187.2 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 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 December 31, 2009, compared with December 31, 2008, reflected reduced dealership inventory, in part as a result of the successful 2009 Cash for Clunkers program.

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. We do not anticipate any material dealer-related losses in the portfolio despite numerous dealership closings during 2009. Our dealer selection criteria, with a focus on multi-dealership groups has proven itself in this environment.

FRANKLIN RELATIONSHIP

(This section should be read in conjunction with Significant Item 3 and the Franklin Loans Restructuring Transaction discussion located within the Critical Accounting Policies and Use of Significant Estimates section.)

As a result of the March 31, 2009, restructuring, on a consolidated basis, the $650.2 million nonaccrual commercial loan to Franklin at December 31, 2008, was no longer reported. Instead, we reported 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 commercial 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 of December 31, 2009, the balances had reduced to $443.9 million and $23.8 million, respectively. There is not a specific ALLL for the Franklin portfolio.

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

Table 25 Franklin-related Loan and OREO Balances

	2009			
(In millions)	**December 31,**	**September 30,**	**June 30,**	**March 31,**
Total accruing loans	$ 129.2	$ 126.7	$ 127.4	$ 127.5
Total nonaccrual loans	314.7	338.5	344.6	366.1
Total Loans	443.9	465.2	472.0	493.6
OREO	23.8	31.0	43.6	79.6
Total Franklin loans and OREO	$ 467.7	$ 496.2	$ 515.6	$ 573.2

The changes in the Franklin-related balances since the restructuring have been consistent with our expectations based on the restructuring agreement. Collection strategies were designed to generate cash flow with the intention of reducing our exposure associated with these loans.

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. Consumer credit decisions are generally made in a centralized environment utilizing decision models. However, certain individuals who understand each local region have the authority to make credit extension decisions to preserve our local decision-making focus. Each credit extension is assigned a specific probability-of-default and loss-given-default. The probability-of-default is generally based on the borrower s most recent credit bureau score (FICO), which we update quarterly, while the loss-given-default is related to the type of collateral and the LTV ratio associated with the credit extension.

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In consumer lending, credit risk is managed from a loan type and vintage performance analysis. All portfolio segments are continuously monitored for changes in delinquency trends and other asset quality indicators. 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. The independent risk management group has a consumer process review component to ensure the effectiveness and efficiency of the consumer credit processes.

Collection action is initiated on an as needed basis through a centrally managed collection and recovery function. The collection group employs a series of collection methodologies designed to maintain a high level of effectiveness while maximizing efficiency. In addition to the retained consumer loan portfolio, the collection group is responsible for collection activity on all sold and securitized consumer loans and leases. *Please refer to the Nonperforming Assets discussion for further information regarding the placement of consumer loans on nonaccrual status and the charging off of balances to the ALLL.*

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 continued economic weaknesses in our markets, the home equity and residential mortgage portfolios are particularly noteworthy, and are discussed in greater detail below:

Table 26 Selected Home Equity and Residential Mortgage Portfolio Data

	Home Equity Loans		**Home Equity Lines-of-Credit**		**Residential Mortgages**	
	12/31/09	**12/31/08**	**12/31/09**	**12/31/08**	**12/31/09**	**12/31/08**
Ending balance (in millions)	**$ 2,616**	$ 3,116	**$ 4,946**	$ 4,440	**$ 4,510**	$ 4,761
Portfolio weighted average LTV ratio(1)	**71%**	70%	**77%**	78%	**76%**	76%
Portfolio weighted average FICO(2)	**716**	725	**723**	720	**698**	707

	Year Ended December 31, 2009		
	Home Equity Loans	**Home Equity Lines-of-Credit**	**Residential Mortgages**
Originations (in millions)	$ 201	$ 1,498	$ 520
Origination weighted average LTV ratio(1)	61%	74%	79%
Origination weighted average FICO(2)	754	765	745

(1) 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.

(2) 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.

HOME EQUITY PORTFOLIO

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

We believe we have granted credit conservatively within this portfolio. We have not originated stated income home equity loans or lines-of-credit that allow negative amortization. Also, we have not originated home equity loans or lines-of-credit with an LTV ratio at origination greater than 100%, except for infrequent situations with high quality borrowers. However, recent declines in housing prices have likely eliminated a portion of the collateral for this portfolio as some loans with an original LTV ratio of less than 100% currently have an LTV ratio above 100%. At December 31, 2009, 43% of our home equity loan portfolio, and 27% of our home equity line-of-credit portfolio were secured by a first-mortgage lien on the property. The risk profile is substantially improved when we hold a first-mortgage lien position. In 2009, over 40% of our home equity portfolio originations (both loans and lines-of-credit) were loans where the loan was secured by a first-mortgage lien.

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

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 2009 and 2008 by Fannie Mae and 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 manage the risk profile of this portfolio. We focus production primarily within our banking footprint or to existing customers.

RESIDENTIAL MORTGAGES

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

All residential mortgage loans are originated based on a full appraisal during the credit underwriting process. Additionally, we supplement our underwriting with a third party fraud detection system to limit our exposure to flipping , and outright fraudulent transactions. We update values, as we believe appropriate, and in compliance with applicable regulations, for loans identified as higher risk, based on performance indicators to facilitate our workout and loss mitigation functions.

During 2009, we sold $44.8 million of underperforming mortgage loans, resulting in a reduction in residential mortgage NALs. We will continue to evaluate this type of transaction in future periods based on market conditions.

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 56% of our total residential mortgage loan portfolio at December 31, 2009. At December 31, 2009, ARM loans that were expected to have rates reset totaled $888.5 million for 2010, and $477.7 million for 2011. 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 reunderwritten based on the borrower s ability to repay the loan.

We had $363.3 million of Alt-A mortgage loans in the residential mortgage loan portfolio at December 31, 2009, 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 December 31, 2009, borrowers for Alt-A mortgages had an average current FICO score of 662 and the loans had an average LTV ratio of 87%, compared with 671 and 88%, respectively, at

December 31, 2008. Total Alt-A NCOs were $21.3 million, or an annualized 5.25%, in 2009, compared with $9.4 million, or an annualized 1.91%, in 2008. As with the entire residential mortgage portfolio, the increase in NCOs reflected, among other actions, a more conservative position on the timing of loss recognition and the sale of underperforming mortgage loans in 2009. At December 31, 2009, $17.7 million of the ALLL was allocated to the Alt-A mortgage portfolio, representing 4.87% of period-end related loans and leases. 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 $576.7 million of residential real estate loans at December 31, 2009, compared with $691.9 million 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 December 31, 2009, borrowers for interest-only loans had an average current FICO score of 718 and the loans had an average LTV ratio of 77%, compared with 724 and 78%, respectively, at December 31, 2008. Total interest-only NCOs were $11.3 million, or an annualized 1.79% in 2009, compared with $1.6 million, or an annualized 0.21%, in 2008. As with the entire residential mortgage portfolio, the increase in NCOs reflected, among other actions, a more conservative position on the timing of loss recognition, and the sale of underperforming mortgage loans in 2009. At December 31, 2009, $7.5 million of the ALLL was allocated to the interest-only loan portfolio, representing 1.30% of period-end related loans and leases.

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.

<u>*AUTOMOTIVE INDUSTRY IMPACTS ON CONSUMER LOAN PORTFOLIO*</u>

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. We continue to monitor the potential impact on our geographic regions in the event of significant production changes or plant closings in our markets and, 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 consistently focused on borrowers with high credit scores and lower LTVs, 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 December 31, 2009, if a counterparty defaulted, did not exceed $17 million for any individual counterparty.

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Credit Quality

We believe the most meaningful way to assess overall credit quality performance for 2009 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 2009 was negatively impacted by the sustained economic weakness in our Midwest markets, although there were signs of stabilization late in the year. In addition, we initiated certain actions in 2009 with regard to loss recognition on our residential mortgage portfolio that we believe will increase the flexibility in working the loans toward a more timely resolution. We anticipate a challenging full-year in 2010 with regards to credit quality, but believe that 2009 was the peak in terms of NPA levels, as well as for credit losses and the related increase in the ACL.

NONACCRUAL LOANS (NALs) AND NONPERFORMING ASSETS (NPAs)

(This section should be read in conjunction with Significant Items 2 and 3 and the Franklin Loans Restructuring Transaction discussion located with the Critical Accounting Policies and Use of Significant Estimates section.)

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. Residential mortgage loans are placed on nonaccrual status at 180 days, and a charge-off is recorded when the loan has been foreclosed and the loan balance exceeds the fair value of the collateral. A home equity loan is placed on nonaccrual status at 120 days, and a charge-off is recorded when it is determined that there is not sufficient equity in the loan to cover our position. 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.

Accruing restructured loans (ARLs) consists of accruing loans that have been reunderwritten, modified, or restructured when borrowers are experiencing payment difficulties. Generally, prior to restructuring, these loans have not reached a status to be considered as NALs. These loan restructurings are one component of the loss mitigation process, and are made to increase the likelihood of the borrower s ability to repay the loan. Modifications to these loans include, but are not limited to, changes to any of the following: interest rate, maturity, principal, payment amount, or a combination of each.

Table 27 reflects period-end NALs and NPAs detail for each of the last five years, and Table 28 reflects period-end ARLs and past due loans and leases detail for each of the last five years. Table 29 details the Franklin-related impacts to NALs and NPAs for 2009 and 2008. Prior to 2008, there were no Franklin-related NALs or NPAs.

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Table 27 Nonaccrual Loans (NALs) and Nonperforming Assets (NPAs)

(In thousands)	At December 31, 2009	2008	2007	2006	2005
Nonaccrual loans and leases (NALs)					
Commercial and industrial(1)	**$ 578,414**	$ 932,648	$ 87,679	$ 58,393	$ 55,273
Commercial real estate	**935,812**	445,717	148,467	37,947	18,309
Alt-A mortgages	**11,362**	21,286	15,478	10,830	6,924
Interest-only mortgages	**7,445**	12,221	3,167	2,207	239
Franklin residential mortgages	**299,670**				
Other residential mortgages	**44,153**	65,444	40,912	19,490	10,450
Total residential mortgages(1)	**362,630**	98,951	59,557	32,527	17,613
Home equity	**40,122**	24,831	24,068	15,266	10,720
Total nonaccrual loans and leases	**1,916,978**	1,502,147	319,771	144,133	101,915
Other real estate owned (OREO), net					
Residential(2)	**71,427**	63,058	60,804	47,898	14,214
Commercial	**68,717**	59,440	14,467	1,589	1,026
Total other real estate, net	**140,144**	122,498	75,271	49,487	15,240
Impaired loans held for sale(3)	**969**	12,001	73,481		
Other NPAs(4)			4,379		
Total nonperforming assets (NPAs)	**$ 2,058,091**	$ 1,636,646	$ 472,902	$ 193,620	$ 117,155
NALs as a % of total loans and leases	**5.21%**	3.66%	0.80%	0.55%	0.42%
NPA ratio(5)	**5.57**	3.97	1.18	0.74	0.48
Nonperforming Franklin loans(1)					
Commercial	**$**	$ 650,225	$	$	$
Residential mortgage	**299,670**				
OREO	**23,826**				
Home equity	**15,004**				
Total Nonperforming Franklin loans	**$ 338,500**	$ 650,225	$	$	$

(1)

Franklin loans were reported as commercial accruing restructured loans at December 31, 2007. At December 31, 2008, Franklin loans were reported as nonaccrual commercial and industrial loans. At December 31, 2009, nonaccrual Franklin loans were reported as residential mortgage loans, home equity loans, and OREO, reflecting the 2009 first quarter restructuring.

(2) Beginning in 2006, OREO includes balances of loans in foreclosure that are serviced for others and, which are fully guaranteed by the U.S. Government, that were reported in 90 day past due loans and leases in prior periods.

(3) Represents 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.

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

(5) NPAs 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 28 Accruing Past Due Loans and Leases and Accruing Restructured Loans

	At December 31,				
(In thousands)	2009	2008	2007	2006	2005
Accruing loans and leases past due 90 days or more					
Commercial and industrial	$	$ 10,889	$ 10,474	$ 170	$ 3,322
Commercial real estate		59,425	25,064	1,711	
Residential mortgage (excluding loans guaranteed by the U.S. government	**78,915**	71,553	67,391	35,555	33,738
Home equity	**53,343**	29,039	24,086	13,423	8,297
Other loans and leases	**13,400**	18,039	13,962	6,650	10,407
Total, excl. loans guaranteed by the U.S. government	**145,658**	188,945	140,977	57,509	55,764
Add: loans guaranteed by the U.S. government	**101,616**	82,576	51,174	31,308	32,689
Total accruing loans and leases past due 90 days or more, including loans guaranteed by the U.S. government	**$ 247,274**	$ 271,521	$ 192,151	$ 88,817	$ 88,453
Excluding loans guaranteed by the U.S. government, as a percent of total loans and leases	**0.40%**	0.46%	0.35%	0.22%	0.23%
Guaranteed by the U.S. government, as a percent of total loans and leases	**0.28**	0.20	0.13	0.12	0.13
Including loans guaranteed by the U.S. government, as a percent of total loans and leases	**0.68**	0.66	0.48	0.34	0.36
Accruing restructured loans					
Commercial(1)	**$ 157,049**	$ 185,333	$ 1,187,368	$	$
Alt-A mortgages	**57,278**	32,336	10,085	579	
Interest-only mortgages	**7,890**	7,183	110		
Other residential mortgages	**154,471**	43,338	21,810	6,917	
Total residential mortgages	**219,639**	82,857	32,005	7,496	
Other	**52,871**	41,094			
Total accruing restructured loans	**$ 429,559**	$ 309,284	$ 1,219,373	$ 7,496	$

(1) Franklin loans were reported as commercial accruing restructured loans at December 31, 2007. At December 31, 2008, Franklin loans were reported as nonaccrual commercial and industrial loans. At December 31, 2009,

nonaccrual Franklin loans were reported as residential mortgage loans, home equity loans, and OREO; reflecting the 2009 first quarter restructuring.

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Table 29 NALs/NPAs Franklin-Related Impact

(In millions)	December 31, 2009	December 31, 2008
Nonaccrual loans		
Franklin	**$ 314.7**	$ 650.2
Non-Franklin	**1,602.3**	851.9
Total	**$ 1,917.0**	$ 1,502.1
Total loans and leases		
Franklin	**$ 443.9**	$ 650.2
Non-Franklin	**36,346.8**	40,441.8
Total	**$ 36,790.7**	$ 41,092.0
NAL ratio		
Total	**5.21%**	3.66%
Non-Franklin	**4.41**	2.11

(In millions)	December 31, 2009	December 31, 2008
Nonperforming assets		
Franklin	**$ 338.5**	$ 650.2
Non-Franklin	**1,719.6**	986.4
Total	**$ 2,058.1**	$ 1,636.6
Total loans and leases	**$ 36,790.7**	$ 41,092.0
Total other real estate, net	**140.1**	122.5
Impaired loans held for sale	**1.0**	12.0
Total	**36,931.8**	41,226.5
Franklin	**338.5**	650.2
Non-Franklin	**$ 36,593.3**	$ 40,576.3
NPA ratio		
Total	**5.57%**	3.97%
Non-Franklin	**4.72**	2.43

During 2009, and because we believe that there will be no meaningful economic recovery for the foreseeable future, we took a more conservative approach in identifying and classifying emerging problem credits. In many cases, commercial loans were placed on nonaccrual status even though the loan was less than 30 days past due for both principal and interest payments. Of the $1,514.2 million of CRE and C&I-related NALs at December 31, 2009, $530.1 million, or 35%, represented loans that were less than 30 days past due. We believe the decisions increase our options for working these loans toward timelier resolution. It is important to note that although there was an increase in NALs from December 31, 2008, to December 31, 2009, there was a substantial decline in the 2009 fourth quarter.

NPAs, which include NALs, were $2,058.1 million at December 31, 2009, and represented 5.57% of related assets. This compared with $1,636.6 million, or 3.97%, at December 31, 2008. The $421.4 million increase reflected:

$414.8 million increase to NALs, discussed below.

$17.6 million increase to OREO. This reflected an increase of $79.6 million in OREO assets recorded as part of the 2009 first quarter Franklin restructuring. Subsequently, Franklin-related OREO assets declined $55.8 million, reflecting the active marketing and selling of Franklin-related OREO properties during 2009. The non-Franklin-related decline also reflected the same active marketing and selling of our OREO properties.

Partially offset by:

$11.0 million decrease in impaired loans held-for-sale, primarily reflecting loan sales and payments.

NALs were $1,917.0 million at December 31, 2009, compared with $1,502.1 million at December 31, 2008. The increase of $414.8 million primarily reflected:

$490.1 million increase in CRE NALs, reflecting the continued decline in the housing market and stress on retail sales, as the majority of the increase was associated with the retail and single family home builder segments. The stress of the lower retail sales and downward pressure on rents given the economic conditions, have adversely affected retail projects.

$263.7 million increase in residential mortgage NALs. This reflected a net increase of $299.7 million related to the 2009 first quarter Franklin restructuring, partially offset by declines due to the more conservative position regarding the timing of loss recognition, active loss mitigation, as well as the sale of residential mortgage NALs during 2009. Our efforts to proactively address existing issues with loss mitigation and loan modification transactions have helped to reduce the inflow of new residential mortgage NALs. All residential mortgage NALs have been written down to current value less selling costs.

$15.3 million increase in home equity NALs, primarily reflecting the loans recorded as part of the 2009 first quarter Franklin restructuring. As with residential mortgages, all home equity NALs have been written down to current value less selling costs.

Partially offset by:

$354.2 million decrease in C&I NALs. This reflected a reduction of $650.2 million related to the 2009 first quarter Franklin restructuring, partially offset by an increase of $296.0 million in non-Franklin related NALs, reflecting the economic conditions of our markets. In general, the C&I loans experiencing the most stress are those supporting the housing and construction segments, and to a lesser degree, the automobile suppliers and restaurant segments.

The over 90-day delinquent, but still accruing, ratio excluding loans guaranteed by the U.S. Government, was 0.40% at December 31, 2009, representing a 6 basis points decrease compared with December 31, 2008. On this same basis, the over 90-day delinquency ratio for total consumer loans was 0.90% at December 31, 2009, representing a 22 basis point increase compared with December 31, 2008.

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

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

Table 30 Nonperforming Asset Activity

	At December 31,				
(In thousands)	**2009**	**2008**	**2007**	**2006**	**2005**
Nonperforming assets, beginning of year	**$ 1,636,646**	$ 472,902	$ 193,620	$ 117,155	$ 108,568
New nonperforming assets	**2,767,295**	1,082,063	468,056	222,043	171,150
Franklin impact, net(1)	**(311,726)**	650,225			
Acquired nonperforming assets			144,492	33,843	
Returns to accruing status	**(215,336)**	(42,161)	(24,952)	(43,999)	(7,547)
Loan and lease losses	**(1,148,135)**	(202,249)	(120,959)	(45,648)	(38,198)
OREO losses	**(62,665)**	(19,582)	(5,795)	(543)	(621)
Payments	**(497,076)**	(194,692)	(86,093)	(59,469)	(64,861)
Sales	**(110,912)**	(109,860)	(95,467)	(29,762)	(51,336)
Nonperforming assets, end of year	**$ 2,058,091**	$ 1,636,646	$ 472,902	$ 193,620	$ 117,155

(1) The activity above excludes the 2007 impact of the placement of the loans to Franklin on nonaccrual status and their return to accrual status upon the restructuring of these loans. At 2007 year-end, the loans to Franklin were not included in the nonperforming assets total. At 2008 year-end, the loans to Franklin were reported as nonaccrual commercial and industrial loans. At 2009 year-end, nonaccrual Franklin loans were reported as residential mortgage loans, home equity loans, and OREO. The 2009 impact primarily reflects loan and lease losses, as well as payments.

ALLOWANCES FOR CREDIT LOSSES (ACL)

(This section should be read in conjunction with Significant Item 3, Critical Accounting Policies and Use of Significant Estimates , and Note 1 of the Notes to the Consolidated Financial Statements.)

We maintain two reserves, both of which are available to absorb credit losses: the ALLL and the AULC. When summed together, these reserves comprise the total ACL. Our credit administration group is responsible for developing methodology assumptions and estimates, as well as determining the adequacy of the ACL. The ALLL represents the estimate of probable losses inherent in the loan portfolio at the balance sheet date. Additions to the ALLL result from recording provision expense for loan losses or recoveries, while reductions reflect charge-offs, net of recoveries, or the sale of loans. The AULC is determined by applying the transaction reserve process, which is described in Note 1 of the Notes to the Consolidated Financial Statements, to the unfunded portion of the portfolio adjusted by an applicable funding expectation.

As shown in the following tables below, the ALLL increased to $1,482.5 million at December 31, 2009, compared with $900.2 million at December 31, 2008. Expressed as a percent of period-end loans and leases, the ALLL ratio increased to 4.03% at December 31, 2009, compared with 2.19% at December 31, 2008.

The $582.3 million increase in the ALLL primarily reflected an increase in specific reserves associated with impaired loans, and an increase associated with risk-grade migration, predominantly in the commercial portfolio. The increase is also a result of a change in estimate resulting from the 2009 fourth quarter review of our ACL practices and assumptions, consisting of:

Approximately $200 million increase in the judgmental component.

Approximately $200 million allocated primarily to the CRE portfolio addressing the severity of CRE loss-given-default percentages and a longer term view of the loss emergence time period.

Approximately $50 million from updating the consumer reserve factors to include the current delinquency status.

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Partially offset by:

$130 million of previously established Franklin specific reserves utilized to absorb related NCOs due to the 2009 first quarter Franklin restructuring (*see Franklin Loan Restructuring Transaction discussion located within the Critical Accounting Policies and Use of Significant Estimates section).*

On a combined basis, the ACL as a percent of total loans and leases at December 31, 2009, was 4.16% compared with 2.30% at December 31, 2008. Like the ALLL, the Franklin restructuring impacted the change in the ACL from December 31, 2008.

The table below reflects how our ACL was allocated among our various loan categories during the past five years:

Table 31 Allocation of Allowances for Credit Losses (1)

					At December 31,					
ousands)	**2009**		2008		2007		2006		2005	
nercial										
nercial and rial	**$ 492,205**	**35%**	$ 412,201	33%	$ 295,555	33%	$ 117,481	30%	$ 116,016	
nercial real	**751,875**	**21**	322,681	25	172,998	23	72,272	17	67,670	
commercial	**1,244,080**	**56**	734,882	58	468,553	56	189,753	47	183,686	
umer										
nobile loans and	**57,951**	**9**	44,712	11	28,635	11	28,400	15	33,870	
equity	**102,039**	**21**	63,538	18	45,957	18	32,572	19	30,245	
ential mortgage	**55,903**	**12**	44,463	12	20,746	14	13,349	17	13,172	
loans	**22,506**	**2**	12,632	1	14,551	1	7,994	2	7,374	
consumer	**238,399**	**44**	165,345	42	109,889	44	82,315	53	84,661	
ALLL	**1,482,479**	**100%**	900,227	100%	578,442	100%	272,068	100%	268,347	1
C	**48,879**		44,139		66,528		40,161		36,957	
ACL	**$ 1,531,358**		$ 944,366		$ 644,970		$ 312,229		$ 305,304	

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

Table 32 reflects activity in the ALLL and ACL for each of the last five years. Table 33 displays the Franklin-related impacts to the ALLL and ACL for 2009, 2008, and 2007. Prior to 2007, there were not any Franklin-related impacts to either the ALLL or ACL.

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Table 32 Summary of ACL and Related Statistics

(In thousands)	Year Ended December 31, 2009	2008	2007	2006	2005
Allowance for loan and lease losses, beginning of year	**$ 900,227**	$ 578,442	$ 272,068	$ 268,347	$ 271,211
Acquired allowance for loan and lease losses			188,128	23,785	
Loan and lease charge-offs					
Commercial:					
Franklin	**(114,465)**	(423,269)	(308,496)		
Other commercial and industrial	**(410,797)**	(115,165)	(50,961)	(33,244)	(37,731)
Commercial and industrial	**(525,262)**	(538,434)	(359,457)	(33,244)	(37,731)
Construction	**(196,148)**	(6,631)	(11,902)	(4,156)	(534)
Commercial	**(500,534)**	(65,565)	(29,152)	(4,393)	(5,534)
Commercial real estate	**(696,682)**	(72,196)	(41,054)	(8,549)	(6,068)
Total commercial	**(1,221,944)**	(610,630)	(400,511)	(41,793)	(43,799)
Consumer:					
Automobile loans	**(64,742)**	(56,217)	(28,607)	(20,262)	(25,780)
Automobile leases	**(11,399)**	(15,891)	(12,634)	(13,527)	(12,966)
Automobile loans and leases	**(76,141)**	(72,108)	(41,241)	(33,789)	(38,746)
Home equity	**(110,400)**	(70,457)	(37,221)	(24,950)	(20,129)
Residential mortgage	**(111,899)**	(23,012)	(12,196)	(4,767)	(2,561)
Other loans	**(40,993)**	(30,123)	(26,773)	(14,393)	(10,613)
Total consumer	**(339,433)**	(195,700)	(117,431)	(77,899)	(72,049)
Total charge-offs	**(1,561,378)**	(806,330)	(517,942)	(119,692)	(115,848)
Recoveries of loan and lease charge-offs					
Commercial:					
Other commercial and industrial	**37,656**	12,269	13,617	12,376	12,731
Commercial and industrial	**37,656**	12,269	13,617	12,376	12,731
Construction	**3,442**	5	48	602	399
Commercial	**10,509**	3,451	1,902	1,163	1,095
Commercial real estate	**13,951**	3,456	1,950	1,765	1,494

Total commercial	**51,607**	15,725	15,567	14,141	14,225
Consumer:					
Automobile loans	**17,030**	14,989	11,422	11,932	13,792
Automobile leases	**2,779**	2,554	2,127	3,082	1,302
Automobile loans and leases	**19,809**	17,543	13,549	15,014	15,094
Home equity	**4,224**	2,901	2,795	3,096	2,510
Residential mortgage	**1,697**	1,765	825	262	229
Other loans	**7,454**	10,329	7,575	4,803	3,733
Total consumer	**33,184**	32,538	24,744	23,175	21,566
Total recoveries	**84,791**	48,263	40,311	37,316	35,791

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(In thousands)	Year Ended December 31, 2009	2008	2007	2006	2005
Net loan and lease charge-offs	**(1,476,587)**	(758,067)	(477,631)	(82,376)	(80,057)
Provision for loan and lease losses	**2,069,931**	1,067,789	628,802	62,312	83,782
Economic reserve transfer		12,063			(6,253)
Allowance for assets sold and securitized	**(9,188)**				(336)
Allowance for loans transferred to held for sale	**(1,904)**		(32,925)		
Allowance for loan and lease losses, end of year	**1,482,479**	900,227	578,442	272,068	268,347
AULC, beginning of year	**44,139**	66,528	40,161	36,957	33,187
Acquired AULC			11,541	325	
Provision for (Reduction in) unfunded loan commitments and letters of credit losses	**4,740**	(10,326)	14,826	2,879	(2,483)
Economic reserve transfer		(12,063)			6,253
AULC, end of year	**48,879**	44,139	66,528	40,161	36,957
Allowance for credit losses, end of year	**$ 1,531,358**	$ 944,366	$ 644,970	$ 312,229	$ 305,304
ALLL as a % of total period end loans and leases	**4.03%**	2.19%	1.44%	1.04%	1.10%
AULC as a % of total period end loans and leases	**0.13**	0.11	0.17	0.15	0.15
ACL as a % of total period end loans and leases	**4.16%**	2.30%	1.61%	1.19%	1.25%

Table 33 ALLL/ACL Franklin-Related Impact

(In millions)	December 31, 2009	2008	2007
Allowance for loan and lease losses			
Franklin	**$**	$ 130.0	$ 115.3
Non-Franklin	**1,482.5**	770.2	463.1

Total	**$**	**1,482.5**	$	900.2	$	578.4
Allowance for credit losses						
Franklin	**$**		$	130.0	$	115.3
Non-Franklin		**1,531.4**		814.4		529.7
Total	**$**	**1,531.4**	$	944.4	$	645.0
Total loans and leases						
Franklin	**$**	**443.9**	$	650.2	$	1,187.0
Non-Franklin		**36,346.8**		40,441.8		38,868.0
Total	**$**	**36,790.7**	$	41,092.0	$	40,055.0

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(In millions)	December 31, 2009	2008	2007
ALLL as % of total loans and leases			
Franklin	%	19.99%	9.71%
Non-Franklin	**4.08**	1.90	1.19
ACL as % of total loans and leases			
Total	**4.16%**	2.30%	1.61%
Non-Franklin	**4.21**	2.01	1.36
Nonaccrual loans			
Franklin	**$ 314.7**	$ 650.2	$
Non-Franklin	**1,602.3**	851.9	319.8
Total	**$ 1,917.0**	$ 1,502.1	$ 319.8
ALLL as % of NALs			
Total	**77%**	60%	181%
Non-Franklin	**93**	90	145
ACL as % of NALs			
Total	**80%**	63%	202%
Non-Franklin	**96**	96	166

The following table provides additional detail regarding the ACL coverage ratio for NALs.

Table 34 ACL/NAL Coverage Ratios Analysis

(In thousands)	At December 31, 2009 Franklin	Other	Total
Nonaccrual Loans (NALs)	$ 314,674	$ 1,602,304	$ 1,916,978
Allowance for Credit Losses (ACL)	NA(1)	1,531,358	1,531,358
ACL as a % of NALs (coverage ratio)		96%	80%

(1) Not applicable. Franklin loans were acquired at fair value on March 31, 2009. Under guidance provided by the FASB regarding acquired impaired loans, a nonaccretable discount was recorded to reduce the carrying value of the loans to the amount of future cash flows we expect to receive.

We believe that the total ACL/NAL coverage ratio of 80% at December 31, 2009, represented an appropriate level of reserves for the remaining risk in the portfolio. The Franklin NAL balance of $314.7 million does not have reserves assigned as those loans were written down to fair value as a part of the restructuring agreement on March 31, 2009, and we do not expect any significant additional charge-offs. *(See Franklin Loan Restructuring Transaction discussion located within the Critical Accounting Policies and Use of Significant Estimates section.)*

As we believe that the coverage ratios are used to gauge coverage of potential future losses, not including these balances provides a more accurate measure of our ACL level relative to NALs. After adjusting for the Franklin portfolio, our December 31, 2009, ACL/NAL ratio was 96%.

NET CHARGE-OFFS

(This section should be read in conjunction with Significant Items 2 and 3.)

Table 35 reflects NCO detail for each of the last five years. Table 36 displays the Franklin-related impacts for 2009, 2008, and 2007. Prior to 2007, there were not any Franklin-related NCO impacts.

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Table 35 Net Loan and Lease Charge-offs

(In thousands)	Year Ended December 31, 2009	2008	2007	2006	2005
Net charge-offs by loan and lease type					
Commercial:					
Commercial and industrial	**$ 487,606**	$ 526,165	$ 345,840	$ 20,868	$ 25,000
Construction	**192,706**	6,626	11,854	3,553	135
Commercial	**490,025**	62,114	27,250	3,230	4,439
Commercial real estate	**682,731**	68,740	39,104	6,783	4,574
Total commercial	**1,170,337**	594,905	384,944	27,651	29,574
Consumer:					
Automobile loans	**47,712**	41,228	17,185	8,330	11,988
Automobile leases	**8,620**	13,337	10,507	10,445	11,664
Automobile loans and leases	**56,332**	54,565	27,692	18,775	23,652
Home equity	**106,176**	67,556	34,426	21,854	17,619
Residential mortgage	**110,202**	21,247	11,371	4,505	2,332
Other loans	**33,540**	19,794	19,198	9,591	6,880
Total consumer	**306,250**	163,162	92,687	54,725	50,483
Total net charge-offs	**$ 1,476,587**	$ 758,067	$ 477,631	$ 82,376	$ 80,057
Net charge-offs annualized percentages					
Commercial:					
Commercial and industrial	**3.71%**	3.87%	3.25%	0.28%	0.41%
Construction	**10.37**	0.32	0.77	0.28	0.01
Commercial	**6.71**	0.81	0.52	0.10	0.16
Commercial real estate	**7.46**	0.71	0.57	0.15	0.10
Total commercial	**5.25**	2.55	2.21	0.23	0.28
Consumer:					
Automobile loans	**1.51**	1.12	0.65	0.40	0.59
Automobile leases	**2.22**	1.57	0.71	0.51	0.48
Automobile loans and leases	**1.59**	1.21	0.67	0.46	0.53
Home equity	**1.40**	0.91	0.56	0.44	0.37
Residential mortgage	**2.43**	0.42	0.23	0.10	0.06

Other loans	**4.65**	2.86	3.63	2.18	1.79
Total consumer	**1.87**	0.92	0.59	0.39	0.37
Net charge-offs as a % of average loans	**3.82%**	1.85%	1.44%	0.32%	0.33%

(1) 2007 includes charge-offs totaling $397.0 million associated with the Franklin restructuring. These charge-offs were reduced by the unamortized discount associated with the loans, and by other amounts received by Franklin totalling $88.5 million, resulting in net charge-offs totaling $308.5 million.

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Table 36 NCOs Franklin-Related Impact

	December 31, 2009	2008	2007
(In millions)			
Commercial and industrial net charge-offs (recoveries)			
Franklin	**$ 114.5**	$ 423.3	$ 308.5
Non-Franklin	**373.1**	102.9	37.3
Total	**$ 487.6**	$ 526.2	$ 345.8
Commercial and industrial average loan balances			
Franklin	**$ 157.1**	$ 1,127.0	$ 760.5
Non-Franklin	**12,978.7**	12,461.0	9,875.5
Total	**$ 13,135.8**	$ 13,588.0	$ 10,636.0
Commercial and industrial net charge-offs annualized percentages			
Total	**3.71%**	3.87%	3.25%
Non-Franklin	**2.87**	0.83	0.38

	December 31, 2009	2008	2007
(In millions)			
Total net charge-offs (recoveries)			
Franklin	**$ 115.9**	$ 423.3	$ 308.5
Non-Franklin	**1,360.7**	334.8	169.1
Total	**$ 1,476.6**	$ 758.1	$ 477.6
Total average loan balances			
Franklin	**$ 510.8**	$ 1,127.0	$ 760.5
Non-Franklin	**38,180.8**	39,832.8	32,441.5
Total	**$ 38,691.6**	$ 40,959.8	$ 33,202.0
Total net charge-offs annualized percentages			
Total	**3.82%**	1.85%	1.44%
Non-Franklin	**3.56**	0.84	0.52

Total NCOs during 2009 were $1,476.6 million, or an annualized 3.82% of average related balances compared with $758.1 million, or annualized 1.85% of average related balances in 2008. After adjusting for NCOs relating to the Franklin relationship of $115.9 million in 2009, and $423.3 million in 2008, total NCOs during 2009 were

$1,360.7 million and $334.8 million in 2008. We anticipate a challenging full-year in 2010 with regards to credit quality, resulting in elevated NCOs across all of our loan and lease portfolios compared with normalized levels. We believe that 2009 represented the peak for credit losses in this cycle.

Total commercial NCOs during 2009 were $1,170.3 million, or an annualized 5.25% of average related balances, compared with $594.9 million, or an annualized 2.55% in 2008. 2009 included Franklin relationship-related NCOs of $114.5 million, and 2008 included Franklin relationship-related NCOs of $423.3 million. Non-Franklin-related commercial NCOs in 2009 were $1,055.9 million and $171.6 million in 2008.

The non-Franklin-related increase of $270.2 million in C&I NCOs reflected the continued economic weakness in our regions and our focused proactive approach to loss recognition in 2009. The increase was spread across our footprint, with no industry concentrations that were inconsistent with our industry exposure levels.

The $614.0 million increase in CRE NCOs was primarily centered in the single family home builder and the retail portfolios. These two segments of the CRE portfolio were the primary drivers of the overall portfolio performance in 2009. The impact was spread across our footprint, and included significant charge-offs associated with our relatively small out-of-market portfolio. We continued our ongoing portfolio management efforts, including obtaining updated appraisals on properties and assessing a project status within the context of market environment expectations. Historically, the single family homebuilder portfolio and retail portfolios have been the highest risk segments. Based on our portfolio management processes, including charge-off activity over the past two and one half years, we believe the credit issues in the single family homebuilder portfolio have been addressed. The retail property portfolio remains more susceptible to the ongoing market disruption, but we also believe that the combination of prior charge-offs and existing reserve balances positions us well to make effective credit decisions in the future.

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

Total consumer NCOs during 2009 were $306.3 million, or an annualized 1.87%, compared with $163.2 million, or an annualized 0.92%, in 2008. The increases were spread across all consumer loan portfolios, but particularly in the residential mortgage portfolio.

Automobile loan and lease NCOs in 2009 increased $1.8 million, or 3%, compared with 2008. The performance of the portfolio relative to NCOs reflected the positive impact of increasing used-vehicle prices, offset by the continued economic weakness in our markets. Performance of this portfolio on both an absolute and relative basis continued to be consistent with our views regarding the underlying quality of the portfolio. The 2009 level of delinquencies have improved compared with 2008 levels, further supporting our view of flat-to-improved performance going forward.

The NCO performance of our home equity portfolio continued to be impacted by lower housing prices, and the general weak market conditions. While 2009 NCOs were higher compared with prior years, there continued to be a declining trend throughout 2009 in the early-stage delinquency level in the home equity line-of-credit portfolio, supporting our longer-term positive view for home equity portfolio performance. Also contributing to the NCO performance of our home equity portfolio was a significant increase in loss mitigation activity and short sales. We continue to believe that our more proactive loss mitigation strategies are in our best interest, as well as that of our customers. Although NCOs have increased over the course of 2009, given the market conditions, performance remained within expectations.

The increase in our residential mortgage NCOs compared with the prior year, reflected the continued negative impacts resulting from the general weak economic conditions and housing-related pressures. The increased NCOs were a direct result of our continued emphasis on loss mitigation strategies, an increased number of short sales, and a more conservative position regarding the timing of loss recognition. Specifically, in 2009, we sold $44.8 million of underperforming loans that resulted in $17.6 million of NCOs, and we adjusted the timing of loss recognition that resulted in an additional $32.0 million of NCOs. We continued to see some positive trends in early-stage delinquencies, indicating that even with the economic stress on our borrowers, losses are expected to remain manageable.

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INVESTMENT SECURITIES PORTFOLIO

(This section should be read in conjunction with the Critical Accounting Policies and Use of Significant Estimates discussion, and Notes 1 and 6 of the Notes to the Consolidated Financial Statements.)

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

Our investment securities portfolio is comprised of various financial instruments. At December 31, 2009, our investment securities portfolio totaled $8.6 billion. The composition and maturity of the portfolio is presented on the following two tables.

Table 37 Investment Securities Portfolio Summary at Fair Value

	At December 31,		
(In thousands)	**2009**	**2008**	**2007**
U.S. Treasury	**$ 99,154**	$ 11,157	$ 556
Federal agencies	**6,467,499**	2,231,821	1,744,216
Other	**2,021,261**	2,141,479	2,755,399
Total investment securities	**$ 8,587,914**	$ 4,384,457	$ 4,500,171
Duration in years(1)	**2.4**	5.2	3.2

(1) The average duration assumes a market driven pre-payment rate on securities subject to pre-payment.

Table 38 Investment Securities Portfolio Composition and Maturity

	At December 31, 2009		
(amounts in thousands)	**Amortized Cost**	**Fair Value**	**Yield(1)**
U.S. Treasury			
Under 1 year	$	$	%
1-5 years	99,735	99,154	1.15
6-10 years			
Over 10 years			
Total U.S. Treasury	99,735	99,154	1.15

Federal agencies mortgage backed securities			
Mortgage backed securities			
Under 1 year			
1-5 years			
6-10 years	692,119	688,420	3.94
Over 10 years	2,752,317	2,791,688	3.65
Total mortgage-backed Federal agencies	3,444,436	3,480,108	3.70

	At December 31, 2009		
	Amortized Cost	Fair Value	Yield(1)
(amounts in thousands)			
Temporary Liquidity Guarantee Program (TLGP) securities			
Under 1 year			
1-5 years	258,672	260,388	1.61
6-10 years			
Over 10 years			
Total TLGP securities	258,672	260,388	1.61
Other agencies			
Under 1 year	159,988	162,518	1.74
1-5 years	2,556,213	2,555,782	1.70
6-10 years	8,614	8,703	3.87
Over 10 years			
Total other Federal agencies	2,724,815	2,727,003	1.71
Total U.S. Government backed agencies	6,427,923	6,467,499	2.78
Municipal securities			
Under 1 year			
1-5 years	6,050	6,123	6.53
6-10 years	54,445	58,037	5.82
Over 10 years	57,952	60,625	7.69
Total municipal securities	118,447	124,785	6.76
Private label CMO			
Under 1 year			
1-5 years			
6-10 years			
Over 10 years	534,377	477,319	5.34
Total private label CMO	534,377	477,319	5.34
Asset backed securities			
Under 1 year			
1-5 years	352,850	353,114	1.77
6-10 years	256,783	262,826	4.98
Over 10 years	518,841	364,376	2.46
Total asset-backed securities	1,128,474	980,316	2.78
Other			

Under 1 year	2,250	2,250	3.50
1-5 years	4,656	4,798	3.52
6-10 years	1,104	1,166	10.81
Non-marketable equity securities	376,640	376,640	4.80
Marketable equity securities	54,482	53,987	3.70
Total other	439,132	438,841	5.24
Total investment securities	$ 8,748,088	$ 8,587,914	3.10%

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(1) Weighted average yields were calculated using amortized cost on a fully-taxable equivalent basis, assuming a 35% tax rate.

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

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

Because the available for sale securities portfolio is recorded at fair value, the conclusion as to whether an investment decline is other-than-temporarily impaired, does not significantly impact our equity position as the amount of temporary adjustment has already been reflected in accumulated other comprehensive income/loss. A recovery in the value of an other-than-temporarily impaired security is recorded as additional interest income over the remaining life of the security.

Given the continued disruption in the financial markets, we may be required to recognize additional credit OTTI losses in future periods with respect to our available for sale investment securities portfolio. The amount and timing of any additional credit OTTI will depend on the decline in the underlying cash flows of the securities. If our intent regarding the decision to hold temporarily impaired securities changes in future periods, we may be required to record noncredit OTTI, which will negatively impact our earnings.

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

Our three highest risk segments of our investment portfolio are the Alt-A mortgage backed, pooled-trust-preferred, and private-label CMO portfolios. The Alt-A mortgage backed securities and pooled-trust-preferred securities are located within the asset-backed securities portfolio. The performance of the underlying securities in each of these segments continues to reflect the economic environment. Each of these securities in these three segments is subjected to a rigorous review of their projected cash flows. These reviews are supported with analysis from independent third parties. *(See the Investment Securities section located within the Critical Accounting Policies and Use of Significant Estimates section for additional information).*

The following table presents the credit ratings for our Alt-A, pooled-trust-preferred, and private label CMO securities as of December 31, 2009:

Table 39 Credit Ratings of Selected Investment Securities (1)

	Amortized		Average Credit Rating of Fair Value Amount				
		Fair		AA		BBB	
	Cost	Value	AAA	+/−	A +/−	+/−	<BBB−
(In millions)							
Private label CMO securities	$ 534.4	$ 477.3	$ 39.0	$ 21.6	$ 35.6	$ 92.1	$ 289.0
Alt-A mortgage-backed securities	136.1	116.9	23.1	26.9			66.9
Pooled-trust-preferred securities	241.8	106.1		24.4		29.2	52.5

Total at December 31, 2009	**$ 912.3**	**$ 700.3**	**$ 62.1**	**$ 72.9**	**$ 35.6**	**$ 121.3**	**$ 408.4**
Total at December 31, 2008	$ 1,327.4	$ 987.5	$ 390.6	$ 84.4	$ 174.1	$ 49.7	$ 288.7

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

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

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In an effort to lower the risk profile of the Alt-A portfolio, we sold $214.9 million (book value) of our Alt-A securities during 2009, resulting in a net securities gain of $3.4 million. These sold securities were some of the lower rated securities that we owned.

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

Table 40 Trust Preferred Securities Data

December 31, 2009

Deal Name (Dollar amounts in thousands)	Par Value	Book Value	Fair Value	Unrealized Gain/(Loss)	Lowest Credit Rating(2)	# of Issuers Currently Performing/ Remaining(3)	Actual Deferrals and Defaults as a % of Original Collateral	Expected Defaults as a% of Remaining Performing Collateral	Excess Subordination(4)
Alesco II(1)	$ 40,219	$ 31,580	$ 9,838	$ (21,742)	CC	33/43	23%	19%	%
Alesco IV(1)	20,246	11,899	2,962	(8,937)	CC	38/53	29	29	
ICONS	20,000	20,000	11,980	(8,020)	BBB	29/30	3	13	56
I-Pre TSL II	36,916	36,811	24,474	(12,337)	AA	29/29		15	72
MM Comm II(1)	24,544	23,457	17,171	(6,286)	BBB	5/8	5	8	
MM Comm III(1)	11,930	11,398	5,769	(5,629)	B	8/12	5	42	
Pre TSL IX(1)	5,000	4,194	1,625	(2,569)	CC	37/49	25	26	
Pre TSL X(1)	17,150	11,648	3,358	(8,290)	CC	39/57	36	33	
Pre TSL XI(1)	25,000	24,155	9,820	(14,335)	CC	51/65	20	22	
Pre TSL XIII(1)	27,530	23,623	8,688	(14,935)	CC	55/65	17	24	
Reg Diversified(1)	25,500	7,499	589	(6,910)	D	32/45	30	29	
Soloso(1)	12,500	4,486	628	(3,858)	C	52/70	18	27	
Tropic III	31,000	31,000	9,188	(21,812)	CCC-	31/45	28	27	19
Total	$ 297,535	$ 241,750	$ 106,091	$ (135,660)					

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

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

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

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

Market Risk

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

Interest Rate Risk

OVERVIEW

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

Our board of directors establishes broad policy limits with respect to interest rate risk. Our Market Risk Committee (MRC), formerly the Management Risk Committee, establishes specific operating guidelines within the parameters of the board of directors policies. In general, we seek to minimize the impact of changing interest rates on net interest income and the economic values of assets and liabilities. Our MRC regularly monitors the level of interest rate risk sensitivity to ensure compliance with board of directors approved risk limits.

Interest rate risk management is an active process that encompasses monitoring loan and deposit flows complemented by investment and funding activities. Effective management of interest rate risk begins with understanding the dynamic characteristics of assets and liabilities and determining the appropriate interest rate risk posture given business segment forecasts, management objectives, market expectations, and policy constraints.

Asset sensitive position refers to an increase in short-term interest rates that is expected to generate higher net interest income as rates earned on our interest-earning assets would reprice upward more quickly than rates paid on our interest-bearing liabilities. Conversely, liability sensitive position refers to an increase in short-term interest rates that is expected to generate lower net interest income as rates paid on our interest-bearing liabilities would reprice upward more quickly than rates earned on our interest-earning assets.

INCOME SIMULATION AND ECONOMIC VALUE ANALYSIS

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

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

The baseline scenario for income simulation analysis, with which all other scenarios are compared, is based on market interest rates implied by the prevailing yield curve as of the period end. Alternative interest rate scenarios are then compared with the baseline scenario. These alternative interest rate scenarios include parallel rate shifts on both a gradual and immediate basis, movements in interest rates that alter the shape of the yield curve (e.g., flatter or steeper yield curve), and current interest rates remaining unchanged for the entire measurement period. Scenarios are also developed to measure short-term repricing risks, such as the impact of LIBOR-based interest rates rising or falling faster than the prime rate.

The simulations for evaluating short-term interest rate risk exposure are scenarios that model gradual +/−100 and +/−200 basis point parallel shifts in market interest rates over the next 12-month period beyond the interest rate change implied by the current yield curve. We assumed that market interest rates would not fall below 0% over the next 12-month period for the scenarios that used the -100 and -200 basis point parallel shift in market interest rates. The table below shows the results of the scenarios as of December 31, 2009, and December 31, 2008. All of the positions were within the board of directors policy limits.

Table 41 Net Interest Income at Risk

	Net Interest Income at Risk (%)			
Basis point change scenario	−200	−100	+100	+200
Board policy limits	−4.0%	−2.0%	−2.0%	−4.0%
December 31, 2009	**−0.3%**	**+0.2%**	**−0.1%**	**−0.4%**
December 31, 2008	−0.3%	−0.9%	+0.6%	+1.1%

The net interest income at risk reported as of December 31, 2009 for the +200 basis points scenario shows a change to a slight near-term liability sensitive position compared with December 31, 2008. Net interest income at risk reflects actions taken by management to improve the liquidity position of the balance sheet and improvements made in modeling assumptions regarding deposit pricing. The primary factors contributing to the change include:

- 3.1% incremental liability sensitivity reflecting the net impact of the execution of $7.0 billion receive fixed interest rates swaps during 2009, partially offset by $2.9 billion receive fixed interest rates swap maturities and early terminations, to offset the impact of actual and anticipated reductions in fixed-rate assets.

- 1.7% incremental asset sensitivity reflecting the decrease in floating rate debt and an increase in deposits and net free funds.

- 1.2% incremental liability sensitivity reflecting the purchase of securities to maintain a higher liquidity position.

- 1.3% incremental asset sensitivity reflecting the sale of municipal securities, the securitization and sale of automobile loans, and the sale of residential mortgage loans, slightly offset by an increase in other securities.

- 0.9% incremental liability sensitivity reflecting an update to deposit pricing models.

- 0.7% incremental asset sensitivity reflecting the anticipated slow down in fixed-rate loan originations due to customer preferences for variable-rate loans.

The primary simulations for EVE at risk assume immediate +/−100 and +/−200 basis point parallel shifts in market interest rates beyond the interest rate change implied by the current yield curve. The table below outlines the December 31, 2009, results compared with December 31, 2008. All of the positions were within the board of directors policy limits.

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Table 42 Economic Value of Equity at Risk

	Economic Value of Equity at Risk (%)			
Basis point change scenario	−200	−100	+100	+200
Board policy limits	−12.0%	−5.0%	−5.0%	−12.0%
December 31, 2009	**+0.8%**	**+2.7%**	**−3.7%**	**−9.1%**
December 31, 2008	−3.4%	−1.0%	−2.6%	−7.2%

The EVE at risk reported as of December 31, 2009 for the +200 basis points scenario shows a change to a higher long-term liability sensitive position compared with December 31, 2008, reflecting actions taken by management to improve the capital and liquidity position of the balance sheet, and improvements made in modeling assumptions regarding deposit pricing and mortgage asset prepayments. The primary factors contributing to the change include:

2.7% incremental liability sensitivity reflecting the purchase of securities to maintain a higher liquidity position.

2.8% incremental liability sensitivity reflecting the execution of $7.0 billion receive fixed interest rates swaps during 2009, partially offset by $2.9 billion receive fixed interest rates swap maturities and early terminations, to offset the impact of actual and anticipated reductions in fixed-rate assets.

2.5% incremental asset sensitivity reflecting the sale of municipal securities, the securitization of indirect auto loans, and the sale of residential mortgage loans, slightly offset by an increase in other securities.

1.2% incremental asset sensitivity reflecting the improvements made in modeling assumptions regarding deposit pricing, mortgage asset prepayments, and implied forward yield curves.

The remainder of the change in EVE at risk for the +200 basis points scenario was primarily related to a change in market rates throughout the year as longer-term interest rates implied by the current yield curve increased resulting in incremental liability sensitivity.

MORTGAGE SERVICING RIGHTS (MSRs)

(This section should be read in conjunction with Note 7 of the Notes to the Consolidated Financial Statements.)

At December 31, 2009, we had a total of $214.6 million of capitalized MSRs representing the right to service $16.0 billion in mortgage loans. Of this $214.6 million, $176.4 million was recorded using the fair value method, and $38.2 million was recorded using the amortization method. If we actively engage in hedging, the MSR asset is carried at fair value. If we do not actively engage in hedging, the MSR asset is adjusted using the amortization method, and is carried at the lower of cost or market value.

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

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

Price Risk

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

EQUITY INVESTMENT PORTFOLIOS

In reviewing our equity investment portfolio, we consider general economic and market conditions, including industries in which private equity merchant banking and community development investments are made, and adverse changes affecting the availability of capital. We determine any impairment based on all of the information available at the time of the assessment. New information or economic developments in the future could result in the recognition of additional impairment.

Investment decisions that incorporate credit risk require the approval of the independent credit administration function. The degree of initial due diligence and subsequent review is a function of the type, size, and collateral of the investment. Performance is monitored on a regular basis, and reported to the MRC.

From time to time, we invest in various investments with equity risk. Such investments include investment funds that buy and sell publicly traded securities, investment funds that hold securities of private companies, direct equity or venture capital investments in companies (public and private), and direct equity or venture capital interests in private companies in connection with our mezzanine lending activities. These investments are included in accrued income and other assets on our consolidated balance sheet. At December 31, 2009, we had a total of $34.5 million of such investments, down from $44.7 million at December 31, 2008. Net gains related to these equity investments totaled $0.7 million in 2009, compared with net losses of $9.0 million in 2008. The 2008 losses reflected a $5.9 million venture capital loss, and $4.5 million of losses on public equity funds that bought and sold primarily publicly traded securities. These investments were primarily in funds that focused on the financial services sector that, during 2008, performed worse than the broad equity market. In 2009, we sold these public equity fund investments.

Liquidity Risk

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

The overall objective of liquidity risk management is to ensure that we can obtain cost-effective funding to meet current and future obligations, as well as maintain sufficient levels of on-hand liquidity, under both normal business as usual and unanticipated, stressed circumstances. The Risk Management Committee was appointed by the HBI Board Risk Committee to oversee liquidity risk management and establish policies and limits, based upon analyses of the ratio of loans to deposits, liquid asset coverage ratios, the percentage of assets funded with noncore or wholesale funding, net cash capital, liquid assets, and emergency borrowing capacity. In addition, operating guidelines are established to ensure that bank loans included in the Retail and Business Banking, Commercial Banking, Commercial Real Estate, and PFG business segments are funded with core deposits. These operating guidelines also ensure diversification of noncore funding by type, source, and maturity and provide sufficient liquidity to cover 100% of wholesale funds maturing within a six-month period. A contingency funding plan is in place, which includes forecasted sources and uses of funds under various scenarios in order to prepare for unexpected liquidity shortages, including the implications of any credit rating changes and/or other trigger events related to financial ratios, deposit fluctuations, debt issuance capacity, stock performance, or negative news related to us or the banking industry. Liquidity risk is reviewed

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monthly for the Bank and the parent company, as well as its subsidiaries. In addition, liquidity working groups meet regularly to identify and monitor liquidity positions, provide policy guidance, review funding strategies, and oversee adherence to, and the maintenance of, the contingency funding plan(s). A Contingency Funding Working Group monitors daily cash flow trends, branch activity, unfunded commitments, significant transactions, and parent company subsidiary sources and uses of funds in order to identify areas of concern, and establish specific funding strategies. This group works closely with the Risk Management Committee and the HBI Communication Team in order to identify issues that may require a more proactive communication plan to shareholders, employees, and customers regarding specific events or issues that could have an impact on our liquidity position.

In the normal course of business, in order to better manage liquidity risk, we perform stress tests to determine the effect that a potential downgrade in our credit ratings or other market disruptions could have on liquidity over various time periods. These credit ratings, which are presented in Table 47, have a direct impact on our cost of funds and ability to raise funds under normal, as well as adverse, circumstances. The results of these stress tests indicate that sufficient sources of funds are available to meet our financial obligations and fund our operations for a 12-month period. The stress test scenarios include testing to determine the impact of an interruption to our access to the national markets for funding, significant run-off in core deposits and liquidity triggers inherent in other financial agreements. To compensate for the effect of these assumed liquidity pressures, we consider alternative sources of liquidity over different time periods to project how funding needs would be managed. The specific alternatives for enhancing liquidity include generating client deposits, securitizing or selling loans, selling or maturing of securities, and extending the level or maturity of wholesale borrowings.

Most credit markets in which we participate and rely upon as sources of funding have been significantly disrupted and highly volatile since mid-2007. Reflecting concern about the stability of the financial markets generally, many lenders reduced, and in some cases, ceased unsecured funding to borrowers, including other financial institutions. Since that time, as a means of maintaining adequate liquidity, we, like many other financial institutions, have relied more heavily on the liquidity and stability present in the secured credit markets since access to unsecured term debt has been restricted. Throughout this period, we continued to extend maturities ensuring that we maintained adequate liquidity in the event the crisis became prolonged. In addition to managing our maturities, we strengthened our overall liquidity position by significantly reducing our noncore funds and wholesale borrowings, and increasing our overall level of liquid assets. Shifting from the net purchasing of overnight federal funds to an excess reserve position at the end of the 2009 first quarter, as well as significantly increasing the level of free securities, has significantly improved our on-hand liquidity. However, we are part of a financial system, and a systemic lack of available credit, a lack of confidence in the financial sector, and increased volatility in the financial markets could materially and adversely affect our liquidity position.

Bank Liquidity and Sources of Liquidity

Our primary sources of funding for the Bank are retail and commercial core deposits. As of December 31, 2009, these core deposits, of which our Retail and Business Banking business segment provided 77%, funded 73% of total assets. At December 31, 2009, total core deposits represented 92% of total deposits, an increase from 86% at the prior year-end.

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

Core deposits may increase our need for liquidity as certificates of deposit mature or are withdrawn before maturity and as nonmaturity deposits, such as checking and savings account balances, are withdrawn. Specifically, if the FDIC permits the Transaction Account Guarantee Program (TAGP) to expire as scheduled on June 30, 2010, customers may elect to reduce their deposits with us in an effort to maintain deposit

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insurance coverage. The TAGP is a voluntary program provided by the FDIC as part of its TLGP. Under the program, all noninterest-bearing transaction accounts are fully guaranteed by the FDIC for the customer s entire account balance. This program provides our customers with additional deposit insurance coverage, and is in addition to and separate from the $250,000 coverage available under the FDIC s general deposit insurance rules. At December 31, 2009, noninterest-bearing transaction account balances exceeding $250,000 totaled $2.5 billion, and represented the amount of noninterest-bearing transaction customer deposits that would not have been FDIC insured without the additional coverage provided by the TAGP.

As referenced in the above paragraph, the FDIC establishes a coverage limit, generally $250,000 currently, for interest-bearing deposit balances. To provide our customers deposit insurance above the established $250,000, we have joined the Certificate of Deposit Account Registry Service (CDARS), a program that allows customers to invest up to $50 million in certificates of deposit through one participating financial institution, with the entire amount covered by FDIC insurance. At December 31, 2009, we had $529.4 million of CDARS deposit balances.

Demand deposit overdrafts that have been reclassified as loan balances were $40.4 million and $17.1 million at December 31, 2009 and 2008, respectively.

Domestic time deposits of $250,000 or more, brokered deposits and negotiable CDs totaled $2.7 billion at the end of 2009 and $4.7 billion at the end of 2008. The contractual maturities of these deposits at December 31, 2009 were as follows: $1.0 billion in three months or less, $0.5 billion in three months through six months, $0.8 billion in six months through twelve months, and $0.4 billion after twelve months.

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

Table 43 Deposit Composition

	At December 31,									
In millions)	**2009**		**2008**		**2007**		**2006**		**2005**	
By Type										
Demand deposits noninterest-bearing	**$ 6,907**	**17%**	$ 5,477	14%	$ 5,138	14%	$ 3,616	14%	$ 3,390	15%
Demand deposits interest-bearing	**5,890**	**15**	4,083	11	4,049	11	2,389	10	2,016	9
Money market deposits	**9,485**	**23**	5,182	14	6,643	18	5,362	21	5,364	24
Savings and other domestic time deposits	**4,652**	**11**	4,930	13	5,282	14	3,101	12	3,178	14
Core certificates of deposit	**10,453**	**26**	12,856	34	10,851	29	5,430	22	4,024	18
Total core deposits	**37,387**	**92**	32,528	86	31,963	86	19,898	79	17,972	80
Other domestic time deposits of $250,000 or more	**652**	**2**	1,328	3	1,676	4	1,012	4	767	3
	2,098	**5**	3,354	9	3,377	9	3,346	13	3,200	14

3rokered deposits ind negotiable CDs															
Deposits in foreign offices		**357**	**1**		733	2		727	1		792	4		471	3
Total deposits	**$**	**40,494**	**100%**	$	37,943	100%	$	37,743	100%	$	25,048	100%	$	22,410	100%
Total core deposits:															
Commercial	**$**	**11,368**	**30%**	$	7,971	25%	$	9,018	28%	$	6,063	30%	$	5,352	30%
Personal		**26,019**	**70**		24,557	75		22,945	72		13,835	70		12,620	70
Total core deposits	**$**	**37,387**	**100%**	$	32,528	100%	**$**	31,963	100%	**$**	19,898	100%	**$**	17,972	100%

In 2009, we reduced our dependence on noncore funds (total average liabilities less average core deposits and average accrued expenses and other liabilities) to 21% of total average assets, down from 28% in 2008. However, to the extent that we are unable to obtain sufficient liquidity through core deposits, we may meet

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our liquidity needs through sources of wholesale funding. These sources include other domestic time deposits of $250,000 or more, brokered deposits and negotiable CDs, deposits in foreign offices, short-term borrowings, FHLB advances, other long-term debt, and subordinated notes. At December 31, 2009, total wholesale funding was $7.8 billion, a decrease from $13.8 billion at December 31, 2008. The $7.8 billion portfolio at December 31, 2009, had a weighted average maturity of 4.5 years. Various strategies *(described below)*, as well as growth in core deposits, reduced our reliance on wholesale borrowings.

During 2009, we initiated various strategies with the intent of further strengthening our liquidity position, as well as reducing the size of our balance sheet to, among other objectives, provide additional support to our TCE ratio *(see Capital discussion)*. Our actions taken during 2009 resulted in: (a) $4.1 billion increase in our unpledged investment securities, (b) $0.7 billion increase in available cash and due from banks, (c) $1.0 billion automobile loan securitization, (d) $0.6 billion sale of municipal securities, (e) $0.6 billion debt issuance as part of the TLGP, and (f) $0.2 billion mortgage loan sale. Any proceeds from these actions were used primarily to pay down wholesale borrowings.

In addition to these actions, core deposits grew $4.9 billion during 2009. This increase reduced our reliance upon noncore funding sources. In addition, our loan-to-deposit ratio improved to 91% at December 31, 2009, compared with 108% at December 31, 2008.

In late 2009, we redeemed $370.8 million aggregate principle amount of certain subordinated notes issued previously by the Bank. This capital at the Bank was replaced with an intercompany subordinated note from the parent company in the amount of $400 million with a term of 15 years. A pretax gain of $73.6 million was recorded reflecting the difference between the carrying value of the notes and the purchase price of the debt, net of expenses and associated interest rate swaps. This transaction increased the quantity and quality of the Bank s capital, and did not have a material impact on our liquidity position.

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

Table 44 Federal Reserve and FHLB-Cincinnati Borrowing Capacity

	December 31,	
(In billions)	**2009**	**2008**
Loans and Securities Pledged:		
Federal Reserve Bank	**$ 8.5**	$ 8.4
FHLB-Cincinnati	**8.0**	9.2
Total loans and securities pledged	**$ 16.5**	$ 17.6
Total unused borrowing capacity at Federal Reserve Bank and FHLB-Cincinnati	**$ 7.9**	$ 8.7

As part of a periodic review conducted by the Federal Reserve, our discount window and TAF borrowing capacity was reduced during 2009. The reduction was based on the lowering of the specific percentages of pledged amounts available for borrowing.

We can also obtain funding through other methods including: (a) purchasing federal funds *(see Table 45 below)*, (b) selling securities under repurchase agreements *(see Table 45 below)*, (c) the sale or maturity of investment securities, (d) the sale or securitization of loans, (e) the sale of national market certificates of deposit, (f) the relatively shorter-term structure of our commercial loans *(see Table 46 below)* and automobile loans, and (g) the issuance of common and preferred stock.

At December 31, 2009, we believe that the Bank had sufficient liquidity to meet its cash flow obligations for the foreseeable future.

Table 45 Federal Funds Purchased and Repurchase Agreements

	At December 31,				
(In millions)	2009	2008	2007	2006	2005
Balance at year-end	**$ 851**	$ 1,389	$ 2,706	$ 1,632	$ 1,820
Weighted average interest rate at year-end	**0.20%**	0.44%	3.54%	4.25%	3.46%
Maximum amount outstanding at month-end during the year	**$ 1,395**	$ 3,607	$ 2,961	$ 2,366	$ 1,820
Average amount outstanding during the year	**945**	2,485	2,295	1,822	1,319
Weighted average interest rate during the year	**0.21%**	1.75%	4.14%	4.02%	2.41%

Table 46 Maturity Schedule of Commercial Loans

	December 31, 2009				
(In millions)	One Year or Less	One to Five Years	After Five Years	Total	Percent of Total
Commercial and industrial	$ 4,729	$ 6,053	$ 2,106	**$ 12,888**	**63%**
Commercial real estate construction	850	597	22	**1,469**	**7**
Commercial real estate commercial	2,390	2,827	1,003	**6,220**	**30**
Total	**$ 7,969**	**$ 9,477**	**$ 3,131**	**$ 20,577**	**100%**
Variable interest rates	$ 7,528	$ 7,701	$ 2,685	**$ 17,914**	**87%**
Fixed interest rates	441	1,776	446	**2,663**	**13**
Total	**$ 7,969**	**$ 9,477**	**$ 3,131**	**$ 20,577**	**100%**
Percent of total	**39%**	**46%**	**15%**	**100%**	

At December 31, 2009, the fair value of our portfolio of investment securities totaled $8.6 billion, of which $2.8 billion was pledged to secure public and trust deposits, interest rate swap agreements, U.S. Treasury demand notes, and securities sold under repurchase agreements. The composition and maturity of these securities were presented in Table 38.

Parent Company Liquidity

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

At December 31, 2009, the parent company had $1.4 billion in cash or cash equivalents, compared with $1.1 billion at December 31, 2008. The following actions taken during 2009 affected the parent company s liquidity position: (a) the issuance of 213.0 million shares of new common stock through two common stock offerings resulting in aggregate gross proceeds of $796.8 million; (b) the completion of three separate discretionary equity issuance programs, which allowed us to take advantage of market opportunities to issue an additional 92.7 million shares of common stock worth $338.9 million; (c) two contributions of $250.0 million and one contribution of $400.0 million, or $900.0 million total, of additional capital made by the parent company to the Bank, which increased the Bank s regulatory capital levels above its already well-capitalized levels; and (d) the redemption of a portion of our junior subordinated debt at a total cost of $96.2 million. A portion of the cash proceeds received from the common stock issuances were used to purchase investment securities.

Based on the current dividend of $0.01 per common share, cash demands required for common stock dividends are estimated to be approximately $7.2 million per quarter. We recognize the importance of the dividend to our shareholders. While our overall capital and liquidity positions are strong, extreme economic market deterioration and the changing regulatory environment drove the difficult but prudent decision to reduce the dividend during the 2009 first quarter to $0.01 per common share. This proactive measure contributed to growth in capital and the strengthening of our balance sheet. Table 65 provides additional detail regarding quarterly dividends declared per common share.

During 2008, we issued an aggregate $569 million of Series A Non-cumulative Perpetual Convertible Preferred Stock. The Series A Preferred Stock will pay, as declared by our board of directors, dividends in cash at a rate of 8.50% per annum, payable quarterly *(see Note 16 of the Notes to Consolidated Financial Statements).* During the 2009 first and second quarters, we entered into agreements with various institutional investors exchanging shares of our common stock for shares of the Series A Preferred Stock held by them *(see Capital/Capital Adequacy discussion)*. In the aggregate, these exchanges are anticipated to reduce our total dividend cash requirements (common, Series A Preferred Stock, and Series B Preferred Stock) by an estimated $4.0 million per quarter. Considering these exchanges and the current dividend, cash demands required for Series A Preferred Stock are estimated to be approximately $7.7 million per quarter.

Also during 2008, we received $1.4 billion of equity capital by issuing 1.4 million shares of Series B Preferred Stock to the U.S. Department of Treasury as a result of our participation in the TARP voluntary CPP. The Series B Preferred Stock will pay cumulative dividends at a rate of 5% per year for the first five years and 9% per year thereafter, resulting in quarterly cash demands of approximately $18 million through 2012, and $32 million thereafter *(see Note 16 of the Notes to the Consolidated Financial Statements for additional information regarding the Series B Preferred Stock issuance).*

Based on a regulatory dividend limitation, the Bank could not have declared and paid a dividend to the parent company at December 31, 2009, without regulatory approval. We do not anticipate that the Bank will request regulatory approval to pay dividends in the near future as we continue to build Bank regulatory capital above our already well-capitalized level. To help meet any additional liquidity needs, we have an open-ended, automatic shelf registration statement filed and effective with the SEC, which permits us to issue an unspecified amount of debt or equity securities.

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

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

Credit Ratings

Credit ratings provided by the three major credit rating agencies are an important component of our liquidity profile. Among other factors, the credit ratings are based on financial strength, credit quality and concentrations in the loan portfolio, the level and volatility of earnings, capital adequacy, the quality of management, the liquidity of the balance sheet, the availability of a significant base of core deposits, and our ability to access a broad array of wholesale funding sources. Adverse changes in these factors could result in a negative change in credit ratings and impact our ability to raise funds at a reasonable cost in the capital markets. In addition, certain financial on- and off-balance sheet arrangements contain credit rating triggers that could increase funding needs if a negative rating change occurs. Other arrangements that could be impacted by credit rating changes include, but are not limited to, letter of credit commitments for marketable securities, interest rate swap collateral agreements, and certain asset securitization transactions contain credit rating provisions or could otherwise be impacted by credit rating changes.

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The most recent credit ratings for the parent company and the Bank are as follows:

Table 47 Credit Ratings

	December 31, 2009			
	Senior Unsecured Notes	Subordinated Notes	Short-Term	Outlook
Huntington Bancshares Incorporated				
Moody s Investor Service	Baa2	Baa3	P-2	Negative
Standard and Poor s	BB+	BB	B	Negative
Fitch Ratings	BBB	BBB-	F2	Negative
The Huntington National Bank				
Moody s Investor Service	Baa1	Baa2	P-2	Negative
Standard and Poor s	BBB-	BB+	A-3	Negative
Fitch Ratings	BBB+	BBB	F2	Negative

During 2009, all three rating agencies lowered their credit ratings for both the parent company and the Bank. The credit ratings to senior unsecured notes, subordinated notes, and short-term debt were changed. The above table reflects these changes. During the 2009 third quarter, Fitch Ratings reaffirmed the ratings given to both the parent company and the Bank. The FHLB uses the Bank s credit rating in its calculation of borrowing capacity. As a result of these credit rating changes, the FHLB reduced our borrowing capacity by $370 million during the 2009 first quarter.

A security rating is not a recommendation to buy, sell, or hold securities, is subject to revision or withdrawal at any time by the assigning rating organization, and should be evaluated independently of any other rating.

Off-Balance Sheet Arrangements

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

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

Through our credit process, we monitor the credit risks of outstanding standby letters of credit. When it is probable that a standby letter of credit will be drawn and not repaid in full, losses are recognized in the provision for credit losses. At December 31, 2009, we had $0.6 billion of standby letters of credit outstanding, of which 60% were collateralized. Included in this $0.6 billion total are letters of credit issued by the Bank that support securities that were issued by our customers and remarketed by The Huntington Investment Company (HIC), our broker-dealer subsidiary. Due to the credit rating changes in 2009 noted above, and pursuant to the letters of credit issued by the Bank, the Bank repurchased substantially all of these securities, net of payments and maturities, during 2009. As a result of these repurchases, only $32.3 million of these standby letters of credit remained outstanding at December 31, 2009.

We enter into forward contracts relating to the mortgage banking business to hedge the exposures we have from commitments to extend new residential mortgage loans to our customers and from our held-for-sale mortgage loans. At December 31, 2009 and

December 31, 2008, we had commitments to sell residential real estate loans of $662.9 million and $759.4 million, respectively. These contracts mature in less than one year.

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During the 2009 first quarter, we transferred $1.0 billion automobile loans and leases to a trust in a securitization transaction. The securitization qualified for sale accounting under ASC 860. We retained $210.9 million of the related securities and recorded a $47.1 million retained residual interest as a result of the transaction. Subsequent to the transaction, we sold $78.4 million of these securities in the 2009 second quarter. These amounts were recorded as investment securities on our balance sheet. We also recorded a $5.9 million loss in other noninterest income on our income statement and recorded a $19.5 million servicing asset in accrued income and other assets associated with this transaction. In 2009, amended guidance was issued by FASB with respect to this type of transaction. With our adoption of this amended guidance in 2009, the trust was consolidated on January 1, 2010. *(See Note 3 of the Notes to the Financial Statements for additional details.)*

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

Table 48 Contractual Obligations(1)

	December 31, 2009				
(In millions)	One Year or Less	1 to 3 Years	3 to 5 Years	More Than 5 Years	Total
Deposits without a stated maturity	$ 25,603	$	$	$	**$ 25,603**
Certificates of deposit and other time deposits	11,131	3,441	274	45	**14,891**
Federal Home Loan Bank advances	142	5	14	8	**169**
Short-term borrowings	876				**876**
Other long-term debt	231	902	91	1,145	**2,369**
Subordinated notes	84	65	183	932	**1,264**
Operating lease obligations	45	84	73	156	**358**
Purchase commitments	101	78	24	11	**214**

(1) Amounts do not include associated interest payments.

Operational Risk

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

Risk Management manages the risk for the company through processes that assess the overall level of risk on a regular basis and identifies specific risks and the steps being taken to mitigate them. To mitigate operational and compliance risks, we have established a senior management level Operational Risk Committee, headed by the chief operational risk officer, and a senior management level Legal, Regulatory, and Compliance Committee, headed by the director of corporate compliance. The responsibilities of these committees, among other things, include establishing and maintaining management information systems to monitor material risks and to identify potential concerns, risks, or trends that may have a significant impact and develop recommendations to address the identified issues. Both of these committees report any significant findings and recommendations to the executive level Risk Management Committee, headed by the chief risk officer. Additionally, potential concerns may be escalated to the Risk Committee of the board of directors, as appropriate.

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

Capital/Capital Adequacy

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

Capital is managed both at the Bank and on a consolidated basis. Capital levels are maintained based on regulatory capital requirements and the economic capital required to support credit, market, liquidity, and operational risks inherent in our business, and to provide the flexibility needed for future growth and new business opportunities. Shareholders equity totaled $5.3 billion at December 31, 2009. This represented a decrease compared with $7.2 billion at December 31, 2008, primarily reflecting the negative impact of the $2.6 billion goodwill impairment charge, partially offset by the issuance of 305.7 million new shares of common stock, through two common stock offerings and three discretionary equity issuance programs, worth $1.1 billion, and the exchange of a portion of our Series A Preferred Stock for 41.1 million shares of our common stock worth $0.2 billion *(see Tier 1 Common Equity section below).*

Tier 1 Common Equity

During 2009, a key priority was to strengthen our capital position in order to withstand potential future credit losses should the economic environment continue to deteriorate. 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. The SCAP results determined that a Tier 1 common capital risk based ratio of at least 4.0% would be needed. A total of 10 of the 19 bank holding companies were directed to increase their capital levels to meet this 4.0% threshold.

While we were not one of these 19 institutions required by the Federal Reserve to conduct a forward-looking capital assessment, or stress test , we believed it important that we have an equivalent relative amount of capital to meet the official SCAP threshold of a 4% Tier 1 common capital risk-based ratio. As such, in May of 2009, we conducted an internal analysis designed to emulate the SCAP more adverse economic scenario based on December 31, 2008, portfolio balances as modeled by the Federal Reserve. As a result of that analysis, we disclosed on May 20, 2009, that we estimated $675 million of Tier 1 common equity was needed in addition to that already obtained through that date. By June 30, 2009, substantially all of that capital had been obtained. On September 17, 2009, we announced the completion of a third discretionary equity issuance program that raised a net $146.9 million of common equity, thus exceeding the remaining capital needed indicated by our internal SCAP analysis.

On that same date (September 17, 2009), we announced a new $350 million common stock offering as favorable market conditions and investor interest presented an opportunity to continue to build common equity efficiently to the long-term benefit of our shareholders. On September 19, 2009, we announced the completion of this common stock offering, which resulted in a net $440.4 million issuance of common equity. This capital, over and above that indicated by our internal SCAP analysis, increases our flexibility to repurchase debt and improve our overall funding. Further, it provides additional capacity to pursue growth of our core businesses, which includes supporting organic asset and deposit growth. This capital also provides us with sufficient capital to withstand a stressed economic scenario, allows us to take advantage of initiatives identified through our strategic planning effort currently underway, and significantly enhances our ability to eventually repay our $1.4 billion of TARP capital.

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The following table summarizes the primary activity during 2009 to increase Tier 1 common equity:

Table 49 Tier 1 Common Equity Activity

(In millions)	Common Stock Shares	Common Stock Amount	Other Retained Earnings	Total
Franklin restructuring		$	$ 159.9	**$ 159.9**
Conversion of preferred stock	24.6	114.1		**114.1**
Other(1)			47.1	**47.1**
Total 2009 First Quarter	24.6	114.1	207.0	**321.1**
Discretionary equity issuance #1	38.5	117.6		**117.6**
Discretionary equity issuance #2	18.5	74.4		**74.4**
Conversion of preferred stock	16.5	92.3		**92.3**
Common stock offering	103.5	356.4		**356.4**
Gain on cash tender offer of certain trust preferred securities			43.8	**43.8**
Gain related to Visa stock			20.4	**20.4**
Total 2009 Second Quarter	177.0	640.7	64.2	**704.9**
Discretionary equity issuance #3	35.7	146.9		**146.9**
Common stock offering	109.5	440.4		**440.4**
Total 2009 Third Quarter	145.2	587.3		**587.3**
Gain on early extinguishment of debt			47.9	**47.9**
Total 2009 Fourth Quarter			47.9	**47.9**
Total 2009	346.8	$ 1,342.1	$ 319.1	**$ 1,661.2**

(1) Primarily represents improvement in other comprehensive income.

As shown in the table above, these actions increased our Tier 1 common equity by $1.7 billion during 2009. While we may continue to seek opportunities to further strengthen our capital position, we believe that we have sufficient capital to withstand a severe economic scenario similar to that used by the Federal Reserve in its modeling of capital adequacy for the 19 large bank holding companies where stress tests were conducted.

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

Table 50 Capital Adequacy

(In millions)	December 31, 2009	2008	2007	2006	2005
Consolidated capital calculations:					
Shareholders common equity	**$ 3,648**	$ 5,351	$ 5,951	$ 3,016	$ 2,561
Shareholders preferred equity	**1,688**	1,878			
Total shareholders equity	**5,336**	7,229	5,951	3,016	2,561
Goodwill	**(444)**	(3,055)	(3,059)	(571)	(213)
Intangible assets	**(289)**	(357)	(428)	(59)	(5)
Intangible asset deferred tax liability(1)	**101**	125	150	21	2
Total tangible equity(2)	**4,704**	3,942	2,614	2,407	2,345
Shareholders preferred equity	**(1,688)**	(1,878)			
Total tangible common equity(2)	**$ 3,016**	$ 2,064	$ 2,614	$ 2,407	$ 2,345
Total assets	**$ 51,555**	$ 54,353	$ 54,697	$ 35,329	$ 32,765
Goodwill	**(444)**	(3,055)	(3,059)	(571)	(213)
Other intangible assets	**(289)**	(357)	(428)	(59)	(5)
Intangible asset deferred tax liability(1)	**101**	125	150	21	2
Total tangible assets(2)	**$ 50,923**	$ 51,066	$ 51,360	$ 34,720	$ 32,549
Tier 1 equity	**$ 5,201**	$ 5,036	$ 3,460	$ 2,784	$ 2,701
Shareholders preferred equity	**(1,688)**	(1,878)			
Trust preferred securities	**(570)**	(736)	(785)	(320)	(300)
REIT preferred stock	**(50)**	(50)	(50)	(50)	(50)
Tier 1 common equity(2)	**$ 2,893**	$ 2,372	$ 2,625	$ 2,414	$ 2,351
Risk-weighted assets (RWA) Consolidated	**$ 43,248**	$ 46,994	$ 46,044	$ 31,155	$ 29,599
Bank	**43,149**	46,477	45,731	30,779	29,243
Tier 1 common equity/RWA ratio(2),(3)	**6.69%**	5.05%	5.70%	7.75%	7.94%
Tangible equity/tangible asset ratio(2)	**9.24**	7.72	5.09	6.93	7.20
Tangible common equity/tangible asset ratio(2)	**5.92**	4.04	5.09	6.93	7.20

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

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

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

As shown in the above table, our consolidated TCE ratio was 5.92% at December 31, 2009, an increase from 4.04% at December 31, 2008. The 188 basis point increase from December 31, 2008, primarily reflected the $796.8 million aggregate of new common stock offering issuances, the $206.4 million conversion of

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Series A Preferred Stock to common stock, as well as the reducing of our balance sheet through the securitizing of automobile loans, and the selling of a portion of our municipal securities portfolio, as well as mortgage loans.

Regulatory Capital

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

Regulatory capital primarily consists of Tier 1 capital and Tier 2 capital. The sum of Tier 1 capital and Tier 2 capital equals our total risk-based capital. The following table reflects changes and activity to the various components utilized in the calculation our consolidated Tier 1, Tier 2, and total risk-based capital amounts during 2009.

Table 51 Regulatory Capital Activity

(In millions)	Shareholder Common Equity(1)	Preferred Equity	Qualifying Core Capital(2)	Disallowed Goodwill & Intangible Assets	Disallowed Other Adjustments (net)	Tier 1 Capital
Balance at December 31, 2008	$ 5,676.2	$ 1,877.7	$ 787.9	$ (3,286.8)	$ (19.4)	**$ 5,035.6**
Cumulative effect accounting changes	3.5					**3.5**
Earnings	(3,094.2)					**(3,094.2)**
Changes to disallowed adjustments				2,654.6		**2,654.6**
Dividends	(124.7)					**(124.7)**
Issuance of common stock	1,145.8					**1,145.8**
Conversion of preferred stock	206.4	(206.4)				
Amortization of preferred discount	(16.0)	16.0				
Redemption of junior subordinated debt			(166.3)			**(166.3)**
Disallowance of deferred tax assets					(260.1)	**(260.1)**
Change in minority interest			(1.1)			**(1.1)**
Other	7.9	0.2				**8.1**
Balance at December 31, 2009	$ 3,804.9	$ 1,687.5	$ 620.5	$ (632.2)	$ (279.5)	**$ 5,201.2**

	Qualifying ACL	Qualifying Subordinated Debt	Tier 2 Capital	Tier 1 Capital (from above)	Total Risk-Based Capital
Balance at December 31, 2008	$ 591.8	$ 907.2	**$ 1,499.0**	**$ 5,035.6**	**$ 6,534.6**
Change in qualifying subordinated debt		(434.0)	**(434.0)**		**(434.0)**
Change in qualifying ACL	(35.5)		**(35.5)**		**(35.5)**
Changes to Tier 1 Capital (see above)				**165.6**	**165.6**
Balance at December 31, 2009	$ 556.3	$ 473.2	**$ 1,029.5**	**$ 5,201.2**	**$ 6,230.7**

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

(2) Includes minority interest.

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

Table 52 Regulatory Capital Ratios

		At December 31,				
		2009	**2008**	**2007**	**2006**	**2005**
Total risk-weighted assets	Consolidated	**$ 43,248**	$ 46,994	$ 46,044	$ 31,155	$ 29,599
(in millions)	Bank	**43,149**	46,477	45,731	30,779	29,243
Tier 1 leverage ratio(1)	Consolidated	**10.09%**	9.82%	6.77%	8.00%	8.34%
	Bank	**5.59**	5.99	5.99	5.81	6.21
Tier 1 risk-based capital ratio(1)	Consolidated	**12.03**	10.72	7.51	8.93	9.13
	Bank	**6.66**	6.44	6.64	6.47	6.82
Total risk-based capital ratio(1)	Consolidated	**14.41**	13.91	10.85	12.79	12.42
	Bank	**11.08**	10.71	10.17	10.44	10.56

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

At December 31, 2009, the parent company had Tier 1 and Total risk-based capital in excess of the minimum level required to be considered well-capitalized of $2.6 billion and $1.9 billion, respectively.

Our risk-weighted capital ratios improved during 2009 compared with the prior year. The primary driver of these improvements was the $1.3 billion of net proceeds from the three discretionary equity issuance programs, conversions from preferred stock to common stock, and the common stock public offering completed in 2009. Additionally, risk-weighted assets declined during the 2009, as both loans outstanding and unfunded loan commitments decreased. These improvements were slightly offset by an increase in the amount of our net deferred tax asset that was disallowed for regulatory capital purposes. Regulations require that we deduct from our Tier 1 capital any amount that we cannot demonstrate the ability to recover within the next 12 months. This adjustment to regulatory capital has no impact on our assessment of the realizability of our net deferred tax asset.

In late 2009, we redeemed $370.8 million aggregate principal amount of certain subordinated notes issued previously by the Bank. This capital at the Bank was replaced with an intercompany subordinated note from the parent company in the amount of $400 million with a term of 15 years. A pretax gain of $73.6 million was recorded reflecting the difference between the carrying value of the notes and the purchase price of the debt, net of expenses and associated interest rate swaps. On a consolidated basis, this transaction reduced our Tier 2 capital by $354.9 million and increased our Tier 1 capital by $47.9 million, which included gain on the extinguishment of debt net of fees and associated interest rate swaps.

The Bank s risk-weighted assets declined compared with December 31, 2008, as both loans outstanding and unfunded loan commitments decreased. At December 31, 2009, the Bank had Tier 1 and Total risk-based capital in excess of the minimum level required to be considered well-capitalized of $0.3 billion and $0.5 billion, respectively.

Preferred Stock/TARP

In 2008, we issued an aggregate $569 million of Series A Preferred Stock. The Series A Preferred Stock is nonvoting and may be convertible at any time, at the option of the holder, into 83.668 shares of our common stock. Shares of Series A Preferred Stock held by investors is not a component of Tier 1 common equity. As previously discussed *(see Tier 1 Common Equity section)*, we entered into agreements with

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various institutional investors exchanging 41.1 million shares of our common stock for 0.2 million shares of the Series A Preferred Stock held by them during 2009. These transactions increased common equity by $206.4 million, while preferred equity decreased by the same amount.

During 2008, we received $1.4 billion of equity capital by issuing 1.4 million shares of Series B Preferred Stock to the U.S. Department of Treasury, and a ten-year warrant to purchase up to 23.6 million shares of our common stock, par value $0.01 per share, at an exercise price of $8.90 per share. The proceeds received were allocated to the preferred stock and additional paid-in-capital. The resulting discount on the preferred stock will be amortized, resulting in additional dilution to our earnings per share. The Series B Preferred Stock is not a component of Tier 1 common equity. *(See Note 16 of the Notes to the Consolidated Financial Statements for additional information regarding the Series B Preferred Stock issuance).*

Other Capital Matters

To accelerate the building of capital, we reduced our quarterly common stock dividend to $0.01 per common share, effective with the dividend paid April 1, 2009.

On February 18, 2009, our 2006 Repurchase Program was terminated. Additionally, as a condition to participate in the TARP, we may not repurchase any shares without prior approval from the Department of Treasury. No shares were repurchased during 2009.

As shown in the Table 65, our book value per share declined to $5.10 per share at December 31, 2009, from $14.62 per share at December 31, 2008. This decline reflected the net loss applicable to common shares in 2009, which included a $2.6 billion impairment of our goodwill *(see the Goodwill discussion located within the Critical Accounting Policies and Use of Significant Estimates section)*. Our tangible book value per share, which excludes goodwill and other intangible assets from equity, declined to $4.21 per share at December 31, 2009, from $5.64 at December 31, 2008. This decline was significantly less, on both an absolute and relative basis, compared with the decline in book value per share, as the size of the net loss applicable to common shares reflected the goodwill impairment in 2009 and had no impact to tangible equity. Tangible book value per share also declined as a result of the issuance of 305.7 million common shares in 2009, through two common stock offerings and three discretionary equity issuance programs, at an average net proceeds of $3.71 per share.

BUSINESS SEGMENT DISCUSSION

Overview

This section reviews financial performance from a business segment perspective and should be read in conjunction with the Discussion of Results of Operations, Note 27 of the Notes to Consolidated Financial Statements, and other sections for a full understanding of our consolidated financial performance.

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

Funds Transfer Pricing

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

In 2009, a comprehensive review of our FTP methodology resulted in changes to various assumptions, including liquidity premiums. FTP rates charged to business segments holding commercial loans, and credited to segments holding indeterminate maturity and time deposits, were impacted most. Business segment financial performance for 2009 reflect the methodology changes, however, financial performance for 2008 was not restated to reflect these changes as the changes for that year were not material. The impact of this methodology change to 2009 financial performance was a $291.1 million increase in the net interest margin for Treasury/Other compared with results under the previous methodology, and an aggregate decrease to the net interest margin of the other five business segments by the same amount. As a result of this change, business segment performance for net interest income comparisons between 2009 and 2008 are affected.

Fee Sharing

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

Expense Allocation

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

The management accounting process used to develop the business segment reporting utilized various estimates and allocation methodologies to measure the performance of the business segments. Expenses are allocated to business segments using a two-phase approach. The first phase consists of measuring and assigning unit costs (activity-based costs) to activities incident to product origination and servicing. These activity-based costs are then extended, based on volumes, with the resulting amount allocated to business segments which own the related products. The second phase consists of the allocation of overhead costs to all five business segments from Treasury/Other. During 2009, we implemented a full-allocation methodology, where all Treasury/Other expenses, except those related to servicing Franklin assets, reported Significant Items (excluding the goodwill impairment), and a small residual of other unallocated expenses, are allocated to the other five business segments. Prior to this implementation, only certain expenses were allocated to the five business segments. Business segment financial performance for 2009 reflect the implementation, however, financial performance for 2008 was not restated due to impracticability. As a result of this change, business segment performance comparisons for noninterest expense between 2009 and 2008 are affected.

Treasury/Other

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

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

Net Income by Business Segment

We reported a net loss of $3,094.2 million during 2009. This compared with a net loss of $113.8 million during 2008. The segregation of net income by business segment for 2009 and 2008 is presented in the following table:

	Year Ended December 31,		
(In thousands)	**2009**	**2008**	**2007**
Retail and Business Banking	**$ (22,871)**	$ 226,917	$ 215,039
Commercial Banking	**(130,189)**	104,362	129,521
Commercial Real Estate	**(618,220)**	(20,561)	(6,427)
AFDS	**(955)**	10,681	46,930
PFG	**(5,485)**	46,236	33,862
Treasury/Other	**257,359**	(481,441)	(343,756)
Unallocated goodwill impairment(1)	**(2,573,818)**		
Total net (loss) income	**$ (3,094,179)**	$ (113,806)	$ 75,169

(1) Represents the 2009 first quarter impairment charge, net of tax, associated with the former Regional Banking business segment. The allocation of this charge to the newly created business segments is not practical. See the Goodwill section located in Critical Accounting Policies and Use of Significant Estimates section for additional information.

Average Loans/Leases and Deposits by Business Segment

The segregation of total average loans and leases and total average deposits by business segment for the year ended December 31, 2009, is presented in the following table:

(In millions)	**Regional and Business Banking**	**Commercial Banking**	**Commercial Real Estate**	**AFDS**	**PFG**	**Treasury/ Other**	**TOTAL**
Average Loans/Leases							
Commercial and industrial	$ 3,059	$ 7,094	$ 770	$ 1,096	$ 963	$ 154	**$ 13,136**

Commercial real estate	751	756	7,460	34	155		**9,156**
Total commercial	3,810	7,850	8,230	1,130	1,118	154	**22,292**
Automobile loans and leases	1			3,545			**3,546**
Home equity	6,829	48			663	50	**7,590**
Residential mortgage	3,601	3	2	1	630	305	**4,542**
Other consumer	507	7		177	31		**722**
Total consumer	10,938	58	2	3,723	1,324	355	**16,400**
Total loans	$ 14,748	$ 7,908	$ 8,232	$ 4,853	$ 2,442	$ 509	**$ 38,692**

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(In millions)	Regional and Business Banking	Commercial Banking	Commercial Real Estate	AFDS	PFG	Treasury/ Other	TOTAL
Average Deposits							
Demand deposits noninterest-bearing	$ 3,361	$ 1,975	$ 241	$ 69	$ 324	$ 87	**$ 6,057**
Demand deposits interest-bearing	3,604	733	37		441	1	**4,816**
Money market deposits	4,455	1,345	175	5	1,235	1	**7,216**
Savings and other domestic time deposits	4,597	217	1		66		**4,881**
Core certificates of deposit	11,550	49	6		339		**11,944**
Total core deposits	27,567	4,319	460	74	2,405	89	**34,914**
Other deposits	360	1,717	34	7	115	2,242	**4,475**
Total deposits	$ 27,927	$ 6,036	$ 494	$ 81	$ 2,520	$ 2,331	**$ 39,389**

Retail and Business Banking

(This section should be read in conjunction with Significant Items 1 and 2.)

Objectives, Strategies, and Priorities

Our Retail and Business Banking segment provides traditional banking products and services to consumer and small business customers located in our 11 operating regions within the six states of Ohio, Michigan, Pennsylvania, Indiana, West Virginia, and Kentucky. It provides these services through a banking network of over 600 branches, and approximately 1,300 ATMs, along with internet and telephone banking channels. It also provides certain services on a limited basis outside of these six states, such as mortgage banking. Retail products and services include home equity loans and lines-of-credit, first mortgage loans, direct installment loans, small business loans, personal and business deposit products, treasury management products, as well as sales of investment and insurance services. At December 31, 2009, Retail and Business Banking accounted for 39% and 71% of consolidated loans and leases and deposits, respectively.

The Retail and Business Banking strategy is to focus on building a deeper relationship with our customers by providing an exceptional service experience. This focus on service involves continued investments in state-of-the-art platform technology in our branches, award-winning retail and business websites for our customers, extensive development of employees, and internal processes that empower our local bankers to serve our customers.

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Table 55 Key Performance Indicators for Retail and Business Banking

(In thousands unless otherwise noted)	2009	2008	Change from 2008 Amount	Change from 2008 Percent	2007
Net interest income	**$ 882,026**	$ 941,807	$ (59,781)	(6)%	$ 710,154
Provision for credit losses	**526,399**	219,348	307,051	N.M.	48,373
Noninterest income	**511,298**	405,654	105,644	26	363,990
Noninterest expense	**902,111**	779,010	123,101	16	694,942
(Benefit) Provision for income taxes	**(12,315)**	122,186	(134,501)	N.M.	115,790
Net (loss) income	**$ (22,871)**	$ 226,917	$ (249,788)	N.M.%	$ 215,039
Total average assets (in millions)	**$ 16,901**	$ 17,645	$ (744)	(4)%	$ 15,112
Total average loans/leases (in millions)	**14,748**	15,713	(965)	(6)	13,581
Total average deposits (in millions)	**27,927**	26,268	1,659	6	20,284
Net interest margin	**3.15%**	3.61%	(0.46)%	(13)	3.39
Net charge-offs (NCOs)	**$ 389,840**	$ 145,788	$ 244,052	N.M.	$ 87,829
NCOs as a% of average loans and leases	**2.64%**	0.93%	1.71%	N.M.	0.65
Return on average equity	**(1.8)**	21.9	(23.7)	N.M.	27.9
Retail banking # DDA households (eop)	**921,695**	896,412	25,283	3	896,567
Retail banking # new relationships 90-day cross-sell (eop)	**3.05**	2.20	0.85	39	2.57
Business banking # business DDA relationships (eop)	**113,009**	107,241	5,768	5	103,765
Business banking # new relationships 90-day cross-sell (eop)	**1.90**	2.03	(0.13)	(6)	2.27
Mortgage banking closed loan volume (in millions)	**$ 5,262**	$ 3,773	$ 1,489	39%	$ 3,493

eop End of Period.

N.M., not a meaningful value.

2009 versus 2008

Retail and Business Banking reported a net loss of $22.9 million in 2009, compared with net income of $226.9 million in 2008.

The most notable factor contributing to this $249.8 million decrease was a $307.1 million increase to the provision for credit losses, reflecting: (a) the continued economic weaknesses in our markets, (b) an increase of commercial reserves resulting from credit actions taken during 2009 *(see 2009 Commercial Loan Portfolio Review and Actions* *section located within the Commercial Credit section for additional information),* and (c) a $244.1 million increase in NCOs. Our consumer loan NCOs increased $123.9 million, primarily reflecting: (a) the sale of underperforming mortgage loans that were written down to their fair value prior to sale, (b) a more conservative position regarding the timing of loss recognition in our residential mortgage portfolio, and (c) the higher unemployment rate, particularly in our Michigan and northern Ohio markets. The overall economic slowdown also impacted our commercial loan portfolio NCO performance as NCOs increased $120.2 million. The impact to net income resulting from the increase in the provision for credit losses was partially offset by a $134.5 million reduction in provision for income taxes expense reflecting the net loss during 2009.

Net interest income decreased $59.8 million, or 6%, primarily reflecting a 46 basis point decline in net interest margin. The net interest margin decline primarily reflected the previously discussed FTP methodology change. Other factors contributing to the decline in net interest margin included a reduction in loan net interest income, resulting from significant declines in interest rates, and a $30.1 million reduction related to MSR hedging. Partially offsetting these decreases were: (a) lower market interest rates, (b) $1.6 billion increase in average consumer deposit balances, (c) decreases in our funding costs for nonearning assets, and (d) an increase in allocated equity, resulting in a higher funding credit.

The $1.0 billion decline in total average loans and leases reflected $0.7 billion decrease in average residential mortgages, resulting from the impact of loan sales. Although mortgage originations increased 39%, the majority of our fixed-rate originations were sold in the secondary market, as is our practice. The $0.4 billion decrease in average commercial loans, primarily reflected: (a) substantially higher commercial loan NCOs, and (b) lower loan origination production when compared with 2008, particularly in our CRE portfolio reflecting our planned efforts to shrink this portfolio.

Average total deposits increased $1.7 billion, or 6%, primarily reflecting increased sales efforts throughout 2009, particularly in our money market deposit products, as deposit growth has been a strategic priority for us for the year. Additionally, the number of DDA households increased 3%, primarily reflecting the same sales efforts. Period-end balances for total core deposits increased in 10 of our 11 regions.

Noninterest income increased $105.6 million, or 26%, primarily reflecting a $102.5 million increase in mortgage banking income. The increase to mortgage banking income primarily reflected a $57.5 million increase in origination and secondary marketing fees as a result of a 39% increase in mortgage originations, as well as a $57.3 million improvement of MSR valuation, net of hedging. Additionally, electronic banking income increased $9.8 million, primarily reflecting an increased number of deposit accounts and transaction volumes, as well as additional third-party processing fees. These increases were partially offset by an $11.1 million decline in service charges on deposit accounts, primarily reflecting lower consumer nonsufficient funds and overdraft fees, partially offset by higher commercial service charges. During the current economic environment, customers have improved the management of their deposit balances, thus resulting in fewer overdraft instances.

Noninterest expense increased $123.1 million. This increase reflected a $41.7 million increase in deposit and other insurance expense as the comparable year-ago period s expense was substantially offset by an FDIC insurance assessment credit that has since been fully utilized, and a $19.3 million increase in OREO and foreclosure expense, as a result of higher levels of problem assets, as well as loss mitigation activities. Additionally, indirect allocated expenses increased $92.4 million as a result of the previously discussed changes in our process for allocating corporate overhead. These increases were partially offset by a $26.2 million decrease in personnel expense resulting from a 7% reduction average full-time equivalent employees, as well as a reduction in, or elimination of, incentive plan payouts. Also, several other expense categories, such as printing and supplies expense and travel expense, declined as a result of the implementation of expense reduction initiatives.

2008 vs. 2007

Retail and Business Banking reported net income of $226.9 million in 2008, compared with net income of $215.0 million in 2007. The $11.9 million increase was driven by the net positive impact of the Sky Financial acquisition on July 1, 2007. The acquisition increased net interest income, noninterest income, noninterest expense, average total loans and average total deposits from the prior year. The positive impact of the Sky Financial acquisition was partially offset by a $171.0 million increase in provision for credit losses. This increase was largely due to a $58.0 million increase in NCOs, and a $129 million increase in NALs compared with the prior year-end. The increase in both NCOs and NALs reflected the impact of the overall weakened economy across all of our regions.

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Commercial Banking

Objectives, Strategies, and Priorities

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

The Commercial Banking strategy is to focus on building a deeper relationship with our customers by providing an exceptional service experience. This focus on service requires continued investments in technology for our product offerings, websites for our customers, extensive development of employees, and internal processes that empower our local bankers to serve our customers better.

Table 56 Key Performance Indicators for Commercial Banking

			Change from 2008		
(In thousands unless otherwise noted)	**2009**	**2008**	**Amount**	**Percent**	**2007**
Net interest income	**$ 209,376**	$ 313,353	$ (103,977)	(33)%	$ 245,690
Provision for credit losses	**359,233**	102,143	257,090	N.M.	(5,352)
Noninterest income	**92,986**	96,676	(3,690)	(4)	81,873
Noninterest expense	**143,420**	147,329	(3,909)	(3)	133,652
(Benefit) Provision for income taxes	**(70,102)**	56,195	(126,297)	N.M.	69,742
Net (loss) income	**$ (130,189)**	$ 104,362	$ (234,551)	N.M.%	$ 129,521
Total average assets (in millions)	**$ 8,273**	$ 8,595	$ (322)	(4)%	$ 7,355
Total average loans/leases (in millions)	**7,908**	8,089	(181)	(2)	6,846
Total average deposits (in millions)	**6,036**	6,124	(88)	(1)	5,362
Net interest margin	**2.66%**	3.79%	(1.13)%	(30)	3.49%
Net charge-offs (NCOs)	**$ 262,850**	$ 76,629	$ 186,221	N.M.	$ 9,648
NCOs as a % of average loans and leases	**3.32%**	0.95%	2.37%	N.M.	0.14%
Return on average equity	**(16.7)**	13.6	(30.3)	N.M.	23.5

N.M., not a meaningful value.

2009 vs. 2008

Commercial Banking reported a net loss of $130.2 million in 2009, compared with net income of $104.4 million in 2008. The decline reflected a $257.1 million increase to the provision for credit losses. This increase to the provision for credit losses reflected: (a) the continued economic weaknesses in our markets, (b) an increase of commercial reserves resulting from credit actions taken during 2009 *(see 2009 Commercial Loan Portfolio Review and Actions section located within the Commercial Credit section for additional information),* and (c) $186.2 million increase in NCOs, again reflecting the continued impact of the economic conditions on our commercial borrowers. As NALs have continued to grow, we built our loan loss reserves. NALs increased $150 million, reflecting our more conservative approach in identifying and classifying emerging problem credits. In many cases, commercial loans were placed on nonaccrual status even though the loan was less than 30 days past due for both principal and interest payments. The impact to net income resulting from the increase in the provision for credit losses was partially offset by a $126.3 million reduction in provision for income taxes expense reflecting the net loss during 2009. Although we expect our commercial portfolio will remain under pressure, we believe that the risks in our loan portfolios are manageable.

Net interest income decreased $104.0 million, or 33%, primarily reflecting a 113 basis point decline in net interest margin, and a $0.2 billion decline in average earning assets, partially offset by a $0.9 billion decline in average interest-bearing liabilities. The net interest margin decline primarily reflected the previously discussed FTP methodology change. Other factors contributing to the decline in net interest margin included a reduction in loan net interest income, resulting from significant declines in interest rates and lower average total loans, as well as a $150 million increase in NALs.

The decline in average earning assets primarily reflected a $0.2 billion decline in total average loans and leases, and included a $0.5 billion decrease in average CRE loans, partially offset by a $0.3 billion increase in total average C&I loans. These changes reflected the impact of reclassifications in 2009 of CRE loans to C&I loans, as well as the impact of substantially higher charge-offs in 2009, the Franklin restructuring, and lower loan origination production compared with 2008 reflecting, in part, our planned efforts to shrink the CRE portfolio.

Total average interest-bearing liabilities declined $0.9 billion, and included a $1.0 billion decline in noncore deposits and other sweep product balances. This decline reflected a $0.5 billion decline in public fund deposit balances resulting from a managed decline in this product. Also, throughout 2009, a migration of money-market account, time deposit, and other sweep product balances into demand deposit accounts occurred due to lower market rates and the increased FDIC insurance coverage provided to demand deposit accounts.

Noninterest income decreased $3.7 million, or 4%, primarily reflecting: (a) $5.7 million decrease in derivative income due to a decline in demand for interest rate swap products, (b) $1.6 million decrease in derivative trading income, (c) $1.3 million decrease in international and foreign exchange income, (d) $1.2 million decrease in loan syndication fee income, (e) $1.1 million decrease in mezzanine income, and (f) $2.7 million decline in operating lease income as lease originations were recorded as direct finance leases rather than operating leases effective with the 2009 second quarter. These decreases were partially offset by: (a) $5.5 million increase in loan commitment fee income reflecting higher unfunded commitment loan fees, and (b) $4.2 million increase in service charges on deposit accounts, reflecting pricing initiatives implemented during the first half of 2009.

Noninterest expense declined $3.9 million, and reflected: (a) $9.4 million decrease in personnel expense resulting from a reduction in average full-time equivalent employees, as well as significantly reduced incentive payouts, partially offset by a decrease in deferred salary expense due to decreased loan production; (b) $3.2 million decrease in overhead allocation as a result of the previously discussed changes in our process for allocating corporate overhead; (c) $3.2 million reduction in travel, business development and marketing as a result of the implementation of several expense reduction initiatives; and (d) $2.5 million decrease in operating lease expense reflecting the change in accounting for lease originations effective with the 2009 second quarter as described above. These decreases were partially offset by a $8.3 million increase in deposit and other insurance expense as a result of the comparable year-ago period s expense was offset by an FDIC insurance assessment credit that has since been fully utilized, and a $4.8 million increase in OREO and foreclosure expense, as a result of higher levels of problem assets, as well as loss mitigation activities.

2008 vs. 2007

Commercial Banking reported net income of $104.4 million in 2008, compared with net income of $129.5 million in 2007. The $25.2 million decline included a $107.5 million increase in provision for credit losses. This increase was largely due to a $67.0 million increase in NCOs, and a $115 million increase in NALs compared with the prior year-end. The increase in both NCOs and NALs reflected the overall economic weakness across our regions. The increase to provision for credit losses was partially offset by the net positive impact of the Sky Financial acquisition on July 1, 2007. The acquisition increased net interest income, noninterest income, noninterest expense, average total loans and average total deposits from the prior year.

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Commercial Real Estate

Objectives, Strategies, and Priorities

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

The Commercial Real Estate strategy is to focus on building a deeper relationship with top-tier developers within our geographic footprint. Our local expertise of the customers, market, and products, gives us a competitive advantage and supports revenue growth in our footprint. Our strategy is to continue to expand the relationships of our current customer base and to attract new, profitable business with top-tier developers in our footprint.

Table 57 Key Performance Indicators for Commercial Real Estate

			Change from 2008		
(In thousands unless otherwise noted)	**2009**	**2008**	**Amount**	**Percent**	**2007**
Net interest income	**$ 134,190**	$ 202,178	$ (67,988)	(34)%	$ 147,884
Provision for credit losses	**1,050,554**	215,548	835,006	N.M.	145,134
Noninterest income	**1,613**	13,288	(11,675)	(88)	11,675
Noninterest expense	**36,357**	31,550	4,807	15	24,313
(Benefit) Provision for income taxes	**(332,888)**	(11,071)	(321,817)	N.M.	(3,461)
Net (loss) income	**$ (618,220)**	$ (20,561)	$ (597,659)	N.M.%	$ (6,427)
Total average assets (in millions)	**$ 8,103**	$ 7,880	$ 223	3%	$ 4,944
Total average loans/leases (in millions)	**8,232**	7,899	333	4	4,890
Total average deposits (in millions)	**494**	550	(56)	(10)	541
Net interest margin	**1.63%**	2.57%	(0.94)%	(37)	3.03%
Net charge-offs (NCOs)	**$ 610,752**	$ 46,884	$ 563,868	N.M.	$ 40,881
NCOs as a % of average loans and leases	**7.42%**	0.59%	6.83%	N.M.	0.84%
Return on average equity	**N.M.**	(4.7)			(2.2)

N.M., not a meaningful value.

2009 vs. 2008

Commercial Real Estate reported a net loss of $618.2 million in 2009, compared with a net loss of $20.6 million in 2008. The decline primarily reflected a $835.0 million increase to the provision for credit losses reflecting: (a) the continued economic weaknesses in our markets, (b) an increase of commercial reserves resulting from credit actions taken during 2009 *(see 2009 Commercial Loan Portfolio Review and Actions section located within the Commercial Credit section for additional information),* and (c) a $563.9 million increase in NCOs, again reflecting the continued impact of the economic conditions on our commercial borrowers. As NALs continued to grow, we built our loan loss reserves. NALs increased $583 million, reflecting our more conservative approach in identifying and classifying emerging problem credits. In many cases, commercial loans were placed on nonaccrual status even though the loan was less than 30 days past due for both principal and interest payments. The impact to net income resulting from the increase in the provision for credit losses was partially offset by a $321.8 million reduction in provision for income taxes expense reflecting the net loss during 2009. Although we expect our CRE portfolio will remain under pressure, we believe that the risks in our loan portfolios are manageable.

Net interest income decreased $68.0 million, or 34%, reflecting a 94 basis point decrease in net interest margin, partially offset by a $0.3 billion, or 4%, increase in average earning assets. The net interest margin decline primarily reflected the previously discussed FTP methodology change. Other factors contributing to the decline in net interest margin included a reduction in loan net interest income, resulting from significant declines in interest rates, as well as a significant increase in NALs, which increased to $994.2 million at December 31, 2009.

The $0.3 billion increase in total average earning assets reflected a $0.3 billion increase in total average commercial loans reflecting significant growth in this portfolio throughout 2008 as quarterly average balances grew $1.2 billion, or 16%, between the 2008 first quarter and the 2009 first quarter. However, since the 2009 first quarter, average balances have decreased $0.5 billion, or 6%, reflecting our planned efforts to shrink the CRE portfolio.

Noninterest income decreased $11.7 million, or 88%, primarily reflecting: (a) $5.1 million decrease in derivative income due to a decline in demand for interest rate swap products, (b) $4.3 million decrease in mezzanine lending income, resulting from lower participation gains, and (c) $2.3 million increase in interest rate swap losses.

Noninterest expense increased $4.8 million, or 15%, reflecting: (a) $5.0 million increase in allocated overhead as a result of the previously discussed changes in our process for allocating corporate overhead, and (b) $4.8 million increase in OREO and foreclosure expense, as a result of higher levels of problem assets, as well as loss mitigation activities. These increases were partially offset by: (a) $2.5 million decrease in personnel expense resulting from a 6% reduction in full-time equivalent employees, and (b) $2.4 million decrease in fees and commissions related to the reduced mezzanine lending activity mentioned above. In addition, various other expense categories declined as a result of the implementation of several expense reduction initiatives, specifically travel and business development expenses.

2008 vs. 2007

Commercial Real Estate Banking reported a net loss of $20.6 million in 2008, compared with a net loss of $6.4 million in 2007. The $14.2 million decline included a $70.4 million increase in provision for credit losses reflecting a $6.0 million increase in NCOs, and a $280 million increase in NALs compared with the prior year-end. The increase in NCOs and NALs reflected the overall economic weakness across our regions, and was centered in the single family home builder industry. The increase to provision for credit losses was partially offset by the net positive impact of the Sky Financial acquisition on July 1, 2007. The acquisition increased net interest income, noninterest income, noninterest expense, average total loans and average total deposits from the prior year.

Auto Finance and Dealer Services (AFDS)

(This section should be read in conjunction with the Automotive Industry discussion located within the Commercial Credit section.)

Objectives, Strategies, and Priorities

Our AFDS business segment provides a variety of banking products and services to approximately 2,200 automotive dealerships within our primary banking markets. During the first quarter of 2009, AFDS discontinued lending activities in Arizona, Florida, Tennessee, Texas, and Virginia. Also, all lease origination activities were discontinued during the 2008 fourth quarter. AFDS finances the purchase of automobiles by customers at the automotive dealerships; finances dealerships new and used vehicle inventories, land, buildings, and other real estate owned by the dealership; finances dealership working capital needs; and provides other banking services to the automotive dealerships and their owners. Competition from the financing divisions of automobile manufacturers and from other financial institutions is intense. AFDS

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production opportunities are directly impacted by the general automotive sales business, including programs initiated by manufacturers to enhance and increase sales directly. We have been in this line of business for over 50 years.

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

Table 58 Key Performance Indicators for Auto Finance and Dealer Services (AFDS)

			Change from 2008		
(In thousands unless otherwise noted)	2009	2008	Amount	Percent	2007
Net interest income	**$ 141,989**	$ 149,236	$ (7,247)	(5)%	$ 138,786
Provision for credit losses	**91,342**	69,143	22,199	32	30,745
Noninterest income	**61,003**	59,497	1,506	3	41,594
Noninterest expense	**113,119**	123,158	(10,039)	(8)	77,435
(Benefit) Provision for income taxes	**(514)**	5,751	(6,265)	N.M.	25,270
Net (loss) income	**$ (955)**	$ 10,681	$ (11,636)	N.M.%	$ 46,930
Total average assets (in millions)	**$ 5,217**	$ 5,731	$ (514)	(9)%	$ 5,132
Total average loans/leases (in millions)	**4,853**	5,871	(1,018)	(17)	5,209
Net interest margin	**2.73%**	2.49%	0.24%	10	2.61%
Net charge-offs (NCOs)	**$ 59,497**	$ 57,398	$ 2,099	4	$ 29,282
NCOs as a % of average loans and leases	**1.23%**	0.98%	0.25%	26	0.56%
Return on average equity	**(0.4)**	5.1	(5.5)	N.M.	25.9
Automobile loans production (in millions)	**$ 1,590**	$ 2,213	$ (623)	(28)	$ 1,911

2009 vs. 2008

AFDS reported a net loss of $1.0 million in 2009, compared with net income of $10.7 million in 2008. This $11.6 million decline reflected a $22.2 million increase to the provision for credit losses due to reserve building necessary due to the continued economic and automobile industry-related weaknesses, as well as a $2.1 million increase in NCOs that also reflected the continued economic weaknesses in our markets. Although total NCOs increased from the comparable year-ago period, automobile loan and lease NCOs in the second-half of 2009 declined 26%, compared with the first-half of 2009. Also, delinquency levels have improved from the year-ago period. At December 31, 2009, the ALLL as a percentage of total loans and leases increased to 1.77% compared with 0.84% at December 31, 2008. Performance of this portfolio on both an absolute and relative basis continues to be consistent with our views regarding the underlying quality of the portfolio and we expect flat-to-improved performance going forward.

Net interest income decreased $7.2 million, or 5%, to $142.0 million, reflecting a $1.0 billion decrease in average loans and leases. The decrease in average loans and leases reflected: (a) the sale of $1.0 billion of automobile loans at the end of March 2009; (b) continued run-off in the automobile lease portfolio; and (c) lower loan originations, primarily from exited markets. Total loan originations wer