HUNTINGTON BANCSHARES INC/MD
Form 10-Q
July 30, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF

THE SECURITIES EXCHANGE ACT OF 1934

QUARTERLY PERIOD ENDED June 30, 2012

Commission File Number 1-34073

Huntington Bancshares Incorporated

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

41 South High Street, Columbus, Ohio 43287

Registrant s telephone number (614) 480-8300

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

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

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

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

There were 858,401,176 shares of Registrant s common stock ($0.01 par value) outstanding on June 30, 2012.

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Glossary of Acronyms and Terms

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

2011 Form 10-K	Annual Report on Form 10-K for the year ended December 31, 2011
ABL	Asset Based Lending
ACL	Allowance for Credit Losses
AFCRE	Automobile Finance and Commercial Real Estate
ALCO	Asset & Liability Management Committee
ALLL	Allowance for Loan and Lease Losses
ARM	Adjustable Rate Mortgage
ARRA	American Recovery and Reinvestment Act of 2009
ASC	Accounting Standards Codification
ASU	Accounting Standards Update
ATM	Automated Teller Machine
AULC	Allowance for Unfunded Loan Commitments
AVM	Automated Valuation Methodology
C&I	Commercial and Industrial
CapPR	Capital Plan Review
CCAR	Comprehensive Capital Analysis and Review
CDARS	Certificate of Deposit Account Registry Service
CDO	Collateralized Debt Obligations
CDs	Certificates of Deposit
CFPB	Bureau of Consumer Financial Protection
CMO	Collateralized Mortgage Obligations
CPP	Capital Purchase Program
CRE	Commercial Real Estate
DDA	Demand Deposit Account
DIF	Deposit Insurance Fund
Dodd-Frank Act	Dodd-Frank Wall Street Reform and Consumer Protection Act
EESA	Emergency Economic Stabilization Act of 2008
EPS	Earnings Per Share
ERISA	Employee Retirement Income Security Act
EVE	Economic Value of Equity
FASB	Financial Accounting Standards Board
FDIC	Federal Deposit Insurance Corporation
FDICIA	Federal Deposit Insurance Corporation Improvement Act of 1991
FFIEC	Federal Financial Institutions Examination Council
FHA	Federal Housing Administration
FHFA	Federal Housing Finance Agency
FHLB	Federal Home Loan Bank
FHLMC	Federal Home Loan Mortgage Corporation
FICA	Federal Insurance Contributions Act
FICO	Fair Isaac Corporation
FOMC	Federal Open Market Committee
FNMA	Federal National Mortgage Association
Franklin	Franklin Credit Management Corporation

FRB	Federal Reserve Bank
FSP	Financial Stability Plan
FTE	Fully-Taxable Equivalent
FTP	Funds Transfer Pricing
GAAP	Generally Accepted Accounting Principles in the United States of America
GSIFI	Globally Systemically Important Financial Institution
GSE	Government Sponsored Enterprise
HAMP	Home Affordable Modification Program
HARP	Home Affordable Refinance Program
HASP	Homeowner Affordability and Stability Plan
HCER Act	Health Care and Education Reconciliation Act of 2010
IPO	Initial Public Offering
IRS	Internal Revenue Service
ISE	Interest Sensitive Earnings
LIBOR	London Interbank Offered Rate
LGD	Loss-Given-Default
LTV	Loan to Value
MD&A	Management s Discussion and Analysis of Financial Condition and Results of Operations
MRC	Market Risk Committee
MSA	Metropolitan Statistical Area
MSR	Mortgage Servicing Rights
NALs	Nonaccrual Loans
NAV	Net Asset Value
NCO	Net Charge-off
NPAs	Nonperforming Assets
NPR	Notice of Proposed Rulemaking
NSF / OD	Nonsufficient Funds and Overdraft
OCC	Office of the Comptroller of the Currency
OCI	Other Comprehensive Income (Loss)
OCR	Optimal Customer Relationship
OLEM	Other Loans Especially Mentioned
OREO	Other Real Estate Owned
OTTI	Other-Than-Temporary Impairment
PD	Probability-Of-Default
Plan	Huntington Bancshares Retirement Plan
Problem Loans	Includes nonaccrual loans and leases (Table 17), troubled debt restructured loans (Table 18), accruing loans and leases past due 90 days or more (aging analysis section of Footnote 3), and Criticized commercial loans (credit quality indicators section of Footnote 3).
Reg E	Regulation E of the Electronic Fund Transfer Act
REIT	Real Estate Investment Trust
SAD	Special Assets Division
SBA	Small Business Administration
SEC	Securities and Exchange Commission
SERP	Supplemental Executive Retirement Plan
SIFIs	Systemically Important Financial Institutions
Sky Financial	Sky Financial Group, Inc.
SRIP	Supplemental Retirement Income Plan

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Sky Trust	Sky Bank and Sky Trust, National Association
TAGP	Transaction Account Guarantee Program
TARP	Troubled Asset Relief Program
TARP Capital	Series B Preferred Stock
TCE	Tangible Common Equity
TDR	Troubled Debt Restructured Loan
TLGP	Temporary Liquidity Guarantee Program
Treasury	U.S. Department of the Treasury
UCS	Uniform Classification System
UPB	Unpaid Principal Balance
USDA	U.S. Department of Agriculture
VA	U.S. Department of Veteran Affairs
VIE	Variable Interest Entity
WGH	Wealth Advisors, Government Finance, and Home Lending

PART I. FINANCIAL INFORMATION

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

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

INTRODUCTION

We are a multi-state diversified regional bank holding company organized under Maryland law in 1966 and headquartered in Columbus, Ohio. Through the Bank, we have 145 years of servicing the financial needs of our customers. Through our subsidiaries, we provide full-service commercial and consumer banking services, mortgage banking services, automobile financing, equipment leasing, investment management, trust services, brokerage services, customized insurance service programs, and other financial products and services. Our over 680 banking offices are located in Indiana, Kentucky, Michigan, Ohio, Pennsylvania, and West Virginia. Selected financial services and other activities are also conducted in various other states. International banking services are available through the headquarters office in Columbus, Ohio and a limited purpose office located in the Cayman Islands and another limited purpose office located in Hong Kong. Our foreign banking activities, in total or with any individual country, are not significant.

This MD&A provides information we believe necessary for understanding our financial condition, changes in financial condition, results of operations, and cash flows. The MD&A included in our 2011 Form 10-K should be read in conjunction with this MD&A as this discussion provides only material updates to the 2011 Form 10-K. This MD&A should also be read in conjunction with the financial statements, notes and other information contained in this report.

Our discussion is divided into key segments:

- **Executive Overview** Provides a summary of our current financial performance, and business overview, including our thoughts on the impact of the economy, legislative and regulatory initiatives, and recent industry developments. This section also provides our outlook regarding our expectations for the remainder of 2012.

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

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

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

- **Additional Disclosures** Provides comments on important matters including forward-looking statements, critical accounting policies and use of significant estimates, recent accounting pronouncements and developments, and acquisitions.

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

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EXECUTIVE OVERVIEW

Summary of 2012 Second Quarter Results

For the quarter, we reported net income of $152.7 million, or $0.17 per common share, compared with $153.3 million, or $0.17 per common share, in the prior quarter (*see Table 1*).

Fully-taxable equivalent net interest income was $434.7 million for the quarter, up $13.6 million, or 3%, from the prior quarter. The increase reflected the benefit of a $1.3 billion, or 3% (10% annualized), increase in average earning assets, and a 2 basis point increase in the fully-taxable equivalent net interest margin to 3.42% from 3.40%. The 2 basis point increase in the net interest margin reflected the benefits from the 5 basis point reduction in the cost of total interest bearing liabilities, as well as $0.8 billion, or 7%, growth in average noninterest bearing deposits. However, there was a 3 basis point negative impact from the mix and yield of earning assets and other items. The acquisition of Fidelity Bank at the end of the prior quarter had a positive 2 basis point impact on the net interest margin, and the recent redemption of two trust preferred securities had a 1 basis point positive impact.

The provision for credit losses increased $2.1 million, or 6%, from the prior quarter. The provision for credit losses in the current quarter was $47.7 million lower than NCOs, reflecting continued improvement in credit quality.

Noninterest income decreased $31.5 million, or 11%. This included a $22.6 million decrease in gain on sale of loans as the prior quarter included a $23.0 million gain associated with that quarter s automobile loan securitization. In addition, other income decreased $9.2 million as the prior quarter included an $11.4 million bargain purchase gain associated with the FDIC-assisted acquisition of Dearborn, Michigan-based Fidelity Bank. Mortgage banking income declined $8.1 million as the benefit of the net mortgage servicing rights decreased by $6.8 million. This was partially offset by an increase in service charges on deposit accounts and capital market fees, reflecting the results of our OCR initiative.

Noninterest expense decreased $18.4 million, or 4%. This reflected a $19.9 million reduction in other expense as the prior quarter included a $23.5 million addition to litigation reserves. Deposit and other insurance expense decreased $5.0 million, and net occupancy declined $3.6 million. The positive impacts from these reductions were partially offset by a $6.1 million increase in outside data processing and other services, a $4.6 million seasonal increase in marketing, and a $4.2 million increase in professional services. Of the total noninterest expense, $6.8 million related to the prior quarter s FDIC-assisted acquisition of Fidelity Bank, of which approximately 40% was one-time in nature and mainly impacted outside data processing and other services and professional services. Of note, noninterest expense included four unrelated items that we believe were one-time in nature that, in total, reduced expenses $6.4 million.

The period end ACL as a percentage of total loans and leases decreased to 2.28%, from 2.37%. The ACL as a percentage of period end NALs decreased to 192% from 206%, as NALs increased $6.6 million, or 1%, to $474.2 million, or 1.19% of total loans and leases. Total NCOs for the 2012 second quarter were $84.2 million, or an annualized 0.82% of average total loans and leases, compared to $83.0 million, or an annualized 0.85%, in the prior quarter.

Our Tier 1 common risk-based capital ratio at June 30, 2012, was 10.08%, down from 10.15% at March 31, 2012, and our tangible common equity ratio increased to 8.41% from 8.33% over this same period. The regulatory Tier 1 risk-based capital ratio at June 30, 2012 was 11.93%, down from 12.22%, at March 31, 2012. This decline reflected an increase in risk-weighted assets due to balance sheet and unfunded commitment growth, as well as the capital actions taken throughout the quarter.

Business Overview

General

Our general business objectives are: (1) grow net interest income and fee income, (2) increase cross-sell and share-of-wallet across all business segments, (3) improve efficiency ratio, (4) continue to strengthen risk management, including sustained improvement in credit metrics, and (5) maintain strong capital and liquidity positions.

The second quarter results clearly showed the benefit of 11.6% annualized growth in consumer checking account households and 11.9% annualized growth in commercial relationships, with both electronic banking and service charges on deposits up over 9%. Not only are we gaining customers, we are selling deeper with 76.0% of consumer checking account households and 32.6% commercial relationships now with 4 or more products or services. A portion of our strategic investments remains in the early stages, such as our in-store strategy. In contrast, others have matured and are adding meaningfully to the bottom line, like our customer focused capital markets activities, which posted a record quarter resulting in 35% linked quarter and 58% year-over-year revenue growth.

Economy

We continue to see positive trends within our Midwest footprint. Relative to the broader United States, parts of the Midwest continue to experience lower levels of unemployment, strength in manufacturing, and more stable home prices.

Generally, our footprint large metropolitan statistical areas (MSA) unemployment rates were below the national average as of April 2012. In addition, our footprint states have continued to be strong export states. For the three-month average ending April 2012, exports from our footprint states were 3.2% greater than the same period last year. By comparison, overall U.S. exports were 2.9% higher. Office vacancy rates in our footprint MSAs were above the national vacancy rate in the prior quarter, but have remained on declining trends, with the exception of Cincinnati.

While our footprint has clearly benefited from certain aspects of this recovery, the United States and global economies continue to experience elevated levels of volatility and uncertainty.

Legislative and Regulatory

Regulatory reforms continue to be adopted which impose additional restrictions on current business practices. A recent action affecting us was the Federal Reserve BASEL III proposal and the capital plans rule.

BASEL III and the Dodd-Frank Act   In June 2012, the FRB, OCC, and FDIC (collectively, the Agencies) each issued Notices of Proposed Rulemaking (NPRs) that would revise and replace the Agencies current capital rules to align with the BASEL III capital standards and meet certain requirements of the Dodd-Frank Act. Certain requirements of the proposed NPRs would establish more restrictive capital definitions, higher risk-weightings for certain asset classes, capital buffers and higher minimum capital ratios. The proposed NPRs are in a comment period through September 7, 2012 and subject to further modification by the Agencies. We are currently evaluating the impact of the proposed NPRs on our regulatory capital ratios and estimate a reduction of approximately 150 basis points to our BASEL I Tier I Common risk-based capital ratio based on our existing balance sheet composition. We anticipate that our capital ratios, on a BASEL III basis, would continue to exceed the well-capitalized minimum requirements. For additional discussion, please see BASEL III and the Dodd-Frank Act section within the Capital section.

Capital Plans Rule / Comprehensive Capital Analysis and Review (CCAR)   In November 2011, the Federal Reserve issued its final rule requiring top-tier U.S. bank holding companies with total consolidated assets of $50 billion or more, including us, to submit to an annual capital planning review process. The capital planning review process includes reviews of our internal capital adequacy assessment process and our plans to make capital distributions, such as dividend payments or stock repurchases, as well as a supervisory stress test designed to test our capital adequacy.

During 2011, we participated in the Federal Reserve s Capital Plan Review (CapPR) process and made our capital plan submission in January 2012. On March 14, 2012, we announced that the Federal Reserve had completed its review of our capital plan submission and did not object to our proposed capital actions. During 2012, we will transition into the Federal Reserve s more rigorous CCAR or equivalent process, which had previously been required of only the largest 19 bank holding companies.

The Federal Reserve s objective with CCAR is to ensure that large, systemically important banking institutions have forward-looking, risk tailored capital planning processes that provide reasonable assurance that they will have sufficient capital to remain going concerns in times of economic and financial distress. We are expected to have two year pro forma plans that illustrate that we will have sufficient capital to operate as usual, under adverse conditions, while still meeting certain regulatory capital thresholds.

Annually, the Federal Reserve will issue detailed instructions outlining the information they are requiring from us, as well as the required timeframes. The instructions will include the Federal Reserve s adverse stress scenario that is required to be used in this exercise and is designed to represent economic conditions that could occur in a prolonged global economic recession. For additional discussion, please see Updates to Risk Factors within the Additional Disclosures section.

Expectations

For the remainder of 2012, average net interest income is expected to show modest improvement from the second quarter level as we anticipate an increase in total loans, excluding the impacts of any future loan securitizations. Those benefits to net interest income are expected to be mostly offset, however, by downward NIM pressure due to the anticipated competitive pressures on loan pricing, as well as lower rate securities through reinvestment, and declining positive impacts from deposit repricing. The C&I portfolio is expected to continue to show meaningful growth. Our sales pipeline remains robust with much of this reflecting the positive impact from strategic initiatives to expand our commercial lending expertise into areas such as specialty banking, asset based lending, and equipment financing. It also reflects our long-standing, continued support of middle market and small business lending. Automobile loan balances are expected to grow from period-end balances. Residential mortgages and home equity loans are expected to be relatively flat as we continue to evaluate the impact of the proposed capital rules recently released by our regulators. CRE loans likely will experience modest levels of declines from current levels.

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Excluding potential future automobile loan securitizations, we anticipate the increase in total loans will modestly outpace growth in total deposits. This reflects our heightened focus on our overall cost of funding and the continued shift towards low- and no-cost demand deposits and money market deposit accounts.

Noninterest income is expected to show a modest increase from the 2012 second quarter level after excluding the impacts of any future automobile loan securitization gains and any net MSR impact. This growth is expected to reflect primarily the continued growth in new customers and increased contribution from key fee income activities including capital markets, treasury management services, and brokerage, as well as the continued positive impact of our cross-sell and product penetration initiatives throughout the company.

Noninterest expense continued to run at levels above our long-term expectations relative to revenue. For the full year, we continue to anticipate positive operating leverage and modest improvement in our expense efficiency ratio. This will likely reflect the benefit of revenue growth as we expect expenses could increase slightly. While we will continue our focus on improving expense efficiencies throughout the company, additional regulatory costs and expenses associated with strategic actions, including the planned opening of over 30 in-store branches, may offset some of the improvements. Credit quality is expected to experience continued improvement. The level of provision for credit losses in the first half of the year was at the low end of our long-term expectation, and we expect some quarterly volatility given the absolute low level of provision and the uncertain and uneven nature of the economic recovery.

We anticipate the effective tax rate for 2012 to approximate 24% to 26%, which includes permanent tax benefits primarily related to tax-exempt income, tax-advantaged investments, and general business credits.

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DISCUSSION OF RESULTS OF OPERATIONS

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

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Table 1 - Selected Quarterly Income Statement Data (1)

	2012		2011		
(dollar amounts in thousands, except per share amounts)	**Second**	First	Fourth	Third	Second
Interest income	**$ 487,544**	$ 479,937	$ 485,216	$ 490,996	$ 492,137
Interest expense	**58,582**	62,728	70,191	84,518	88,800
Net interest income	**428,962**	417,209	415,025	406,478	403,337
Provision for credit losses	**36,520**	34,406	45,291	43,586	35,797
Net interest income after provision for credit losses	**392,442**	382,803	369,734	362,892	367,540
Service charges on deposit accounts	**65,998**	60,292	63,324	65,184	60,675
Trust services	**29,914**	30,906	28,775	29,473	30,392
Electronic banking	**20,514**	18,630	18,282	32,901	31,728
Mortgage banking income	**38,349**	46,418	24,098	12,791	23,835
Brokerage income	**19,025**	19,260	18,688	20,349	20,819
Insurance income	**17,384**	18,875	17,906	17,220	16,399
Bank owned life insurance income	**13,967**	13,937	14,271	15,644	17,602
Capital markets fees	**13,455**	9,982	9,811	11,256	8,537
Gain on sale of loans	**4,131**	26,770	2,884	19,097	2,756
Automobile operating lease income	**2,877**	3,775	4,727	5,890	7,307
Securities gains (losses)	**350**	(613)	(3,878)	(1,350)	1,507
Other income	**27,855**	37,088	30,464	30,104	34,210
Total noninterest income	**253,819**	285,320	229,352	258,559	255,767
Personnel costs	**243,034**	243,498	228,101	226,835	218,570
Outside data processing and other services	**48,149**	42,058	53,422	49,602	43,889
Net occupancy	**25,474**	29,079	26,841	26,967	26,885
Equipment	**24,872**	25,545	25,884	22,262	21,921
Deposit and other insurance expense	**15,731**	20,738	18,481	17,492	23,823
Marketing	**21,365**	16,776	16,379	22,251	20,102
Professional services	**15,458**	11,230	16,769	20,281	20,080
Amortization of intangibles	**11,940**	11,531	13,175	13,387	13,386
Automobile operating lease expense	**2,183**	2,854	3,362	4,386	5,434
OREO and foreclosure expense	**4,106**	4,950	5,009	4,668	4,398
Gain on early extinguishment of debt	**(2,580)**		(9,697)		
Other expense	**34,537**	54,417	32,548	30,987	29,921
Total noninterest expense	**444,269**	462,676	430,274	439,118	428,409
Income before income taxes	**201,992**	205,447	168,812	182,333	194,898
Provision for income taxes	**49,286**	52,177	41,954	38,942	48,980
Net income	**$ 152,706**	$ 153,270	$ 126,858	$ 143,391	$ 145,918
Dividends on preferred shares	**7,984**	8,049	7,703	7,703	7,704
Net income applicable to common shares	**$ 144,722**	$ 145,221	$ 119,155	$ 135,688	$ 138,214
Average common shares basic	**862,261**	864,499	864,136	863,911	863,358
Average common shares diluted	**867,551**	869,164	868,156	867,633	867,469

Net income per common share basic	**$ 0.17**	$ 0.17	$ 0.14	$ 0.16	$ 0.16
Net income per common share diluted	**0.17**	0.17	0.14	0.16	0.16
Cash dividends declared per common share	**0.04**	0.04	0.04	0.04	0.01
Return on average total assets	**1.10 %**	1.13 %	0.92 %	1.05 %	1.11 %
Return on average common shareholders equity	**11.1**	11.4	9.3	10.8	11.6
Return on average tangible common shareholders equity (2)	**13.1**	13.5	11.2	13.0	13.3
Net interest margin (3)	**3.42**	3.40	3.38	3.34	3.40
Efficiency ratio (4)	**62.8**	63.8	64.0	63.5	62.7
Effective tax rate	**24.4**	25.4	24.9	21.4	25.1
Revenue FTE					
Net interest income	**$ 428,962**	$ 417,209	$ 415,025	$ 406,478	$ 403,337
FTE adjustment	**5,747**	3,935	3,479	3,658	3,834
Net interest income (3)	**434,709**	421,144	418,504	410,136	407,171
Noninterest income	**253,819**	285,320	229,352	258,559	255,767
Total revenue (3)	**$ 688,528**	$ 706,464	$ 647,856	$ 668,695	$ 662,938

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

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

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

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

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

(dollar amounts in thousands, except per share amounts)	Six Months Ended June 30, 2012	2011	Change Amount	Percent
Interest income	**$ 967,481**	$ 994,014	$ (26,533)	(3)%
Interest expense	**121,310**	186,347	(65,037)	(35)
Net interest income	**846,171**	807,667	38,504	5
Provision for credit losses	**70,926**	85,182	(14,256)	(17)
Net interest income after provision for credit losses	**775,245**	722,485	52,760	7
Service charges on deposit accounts	**126,290**	114,999	11,291	10
Trust services	**60,820**	61,134	(314)	(1)
Electronic banking	**39,144**	60,514	(21,370)	(35)
Mortgage banking income	**84,767**	46,519	38,248	82
Brokerage income	**38,285**	41,330	(3,045)	(7)
Insurance income	**36,259**	34,344	1,915	6
Bank owned life insurance income	**27,904**	32,421	(4,517)	(14)
Capital markets fees	**23,437**	15,473	7,964	51
Gain on sale of loans	**30,901**	9,963	20,938	210
Automobile operating lease income	**6,652**	16,154	(9,502)	(59)
Securities gains (losses)	**(263)**	1,547	(1,810)	(117)
Other income	**64,943**	58,314	6,629	11
Total noninterest income	**539,139**	492,712	46,427	9
Personnel costs	**486,532**	437,598	48,934	11
Outside data processing and other services	**90,207**	84,171	6,036	7
Net occupancy	**54,553**	55,321	(768)	(1)
Equipment	**50,417**	44,398	6,019	14
Deposit and other insurance expense	**36,469**	41,719	(5,250)	(13)
Marketing	**38,141**	36,997	1,144	3
Professional services	**26,688**	33,545	(6,857)	(20)
Amortization of intangibles	**23,471**	26,756	(3,285)	(12)
Automobile operating lease expense	**5,037**	12,270	(7,233)	(59)
OREO and foreclosure expense	**9,056**	8,329	727	9
Gain on early extinguishment of debt	**(2,580)**		(2,580)	
Other expense	**88,954**	78,004	10,950	14
Total noninterest expense	**906,945**	859,108	47,837	6
Income before income taxes	**407,439**	356,089	51,350	14
Provision for income taxes	**101,463**	83,725	17,738	21
Net income	**$ 305,976**	$ 272,364	$ 33,612	12 %
Dividends declared on preferred shares	**16,033**	15,407	626	4
Net income applicable to common shares	**$ 289,943**	$ 256,957	$ 32,986	13 %
Average common shares basic	**863,380**	863,358	22	%
Average common shares diluted (2)	**868,357**	867,353	1,004	

Per common share				
Net income per common share - basic	**$ 0.34**	$ 0.30	$ 0.04	13 %
Net income per common share - diluted	**0.33**	0.30	0.03	10
Cash dividends declared	**0.08**	0.02	0.06	300
Return on average total assets	**1.11 %**	1.03 %	0.08 %	8 %
Return on average common shareholders equity	**11.3**	11.0	0.3	3
Return on average tangible common shareholders equity (3)	**13.3**	13.4	(0.1)	(1)
Net interest margin (4)	**3.41**	3.41		
Efficiency ratio (5)	**63.3**	63.7	(0.4)	(1)
Effective tax rate	**24.9**	23.5	1.4	6
Revenue FTE				
Net interest income	**$ 846,171**	$ 807,667	$ 38,504	5 %
FTE adjustment	**9,682**	7,779	1,903	24
Net interest income (4)	**855,853**	815,446	40,407	5
Noninterest income	**539,139**	492,712	46,427	9
Total revenue (4)	**$ 1,394,992**	$ 1,308,158	$ 86,834	7 %

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(1) Comparisons for presented periods are impacted by a number of factors. Refer to Significant Items.
(2) For all periods presented, the impact of the preferred stock issued in 2008 and the warrants issued to the U.S. Department of the Treasury in 2008 related to Huntington s participation in the voluntary Capital Purchase Program was excluded from the diluted share calculation because the result was more than basic earnings per common share (anti-dilutive) for the periods. The preferred stock and warrants were repurchased in December 2010 and January 2011, respectively.
(3) Net income excluding expense for amortization of intangibles for the period divided by average tangible common shareholders equity. Average tangible common shareholders equity equals average total common shareholders equity less average intangible assets and goodwill. Expense for amortization of intangibles and average intangible assets are net of deferred tax liability, and calculated assuming a 35% tax rate.
(4) On a fully-taxable equivalent (FTE) basis assuming a 35% tax rate.
(5) Noninterest expense less amortization of intangibles and goodwill impairment divided by the sum of FTE net interest income and noninterest income excluding securities gains (losses).

Significant Items

Definition of Significant Items

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

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

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

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

Significant Items Influencing Financial Performance Comparisons

There were not any Significant Items for the current quarter. Earnings comparisons were impacted by the Significant Items summarized below.

1. **Litigation Reserve.** $23.5 million and $17.0 million of additions to litigation reserves were recorded as other noninterest expense in the first quarter of 2012 and 2011, respectively. This resulted in a negative impact of $0.02 per common share in 2012 and $0.01 per common share in 2011 for both quarterly and year-to-date basis.
2. **Bargain Purchase Gain.** During the 2012 first quarter, an $11.4 million bargain purchase gain associated with the FDIC-assisted Fidelity Bank acquisition was recorded in noninterest income. This resulted in a positive impact of $0.01 per common share for both the quarterly and year-to-date basis.

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

Table 3 - Significant Items Influencing Earnings Performance Comparison

	Three Months Ended					
	June 30, 2012		March 31, 2012		June 30, 2011	
(dollar amounts in thousands, except per share amounts)	**After-tax**	**EPS (2)**	After-tax	EPS (2)	After-tax	EPS (2)
Net income GAAP	**$ 152,706**		$ 153,270		$ 145,918	
Earnings per share, after tax		**$ 0.17**		$ 0.17		$ 0.16
Change from prior quarter $				0.03		0.02
Change from prior quarter %		**%**		21 %		14 %
Change from year-ago $		**$ 0.01**		$ 0.03		$ 0.13
Change from year-ago %		**6 %**		21 %		433 %
Significant Items favorable (unfavorable) impact:	**Earnings (1)**	**EPS (2)**	Earnings (1)	EPS (2)	Earnings (1)	EPS (2)
Bargain purchase gain	**$**	**$**	$ 11,409	$ 0.01	$	$
Litigation reserves addition			(23,500)	(0.02)		

	Six Months Ended			
	June 30, 2012		June 30, 2011	
(dollar amounts in thousands)	**After-tax**	**EPS (2)**	After-tax	EPS (2)
Net income	**$ 305,976**		$ 272,364	
Earnings per share, after tax		**$ 0.33**		$ 0.30
Change from a year-ago $		**0.03**		0.26
Change from a year-ago %		**10 %**		650 %
Significant Items favorable (unfavorable) impact:	**Earnings (1)**	**EPS (2)**	Earnings (1)	EPS (2)
Bargain purchase gain	**$ 11,409**	**$ 0.01**	$	$
Litigation reserves addition	**(23,500)**	**(0.02)**	(17,028)	(0.01)

(1) Pretax unless otherwise noted.
(2) After-tax.

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Net Interest Income / Average Balance Sheet

The following tables detail the change in our average balance sheet and the net interest margin:

Table 4 - Consolidated Quarterly Average Balance Sheets

	Average Balances				
	2012		2011		
(dollar amounts in millions)	**Second**	First	Fourth	Third	Second
Assets					
Interest-bearing deposits in banks	**$ 124**	$ 100	$ 107	$ 164	$ 131
Trading account securities	**54**	50	81	92	112
Federal funds sold and securities purchased under resale agreement					21
Loans held for sale	**410**	1,265	316	237	181
Available-for-sale and other securities:					
Taxable	**8,285**	8,171	8,065	7,902	8,428
Tax-exempt	**387**	404	409	421	436
Total available-for-sale and other securities	**8,672**	8,575	8,474	8,323	8,864
Held-to-maturity securities taxable	**611**	632	650	665	174
Loans and leases: (1)					
Commercial:					
Commercial and industrial	**16,094**	14,824	14,219	13,664	13,370
Commercial real estate:					
Construction	**584**	598	533	670	554
Commercial	**5,491**	5,254	5,425	5,441	5,679
Commercial real estate	**6,075**	5,852	5,958	6,111	6,233
Total commercial	**22,169**	20,676	20,177	19,775	19,603
Consumer:					
Automobile	**4,985**	4,576	5,639	6,211	5,954
Home equity	**8,310**	8,234	8,149	8,002	7,874
Residential mortgage	**5,253**	5,174	5,043	4,788	4,566
Other consumer	**462**	485	511	521	538
Total consumer	**19,010**	18,469	19,342	19,522	18,932
Total loans and leases	**41,179**	39,145	39,519	39,297	38,535
Allowance for loan and lease losses	**(908)**	(961)	(1,014)	(1,066)	(1,128)
Net loans and leases	**40,271**	38,184	38,505	38,231	37,407
Total earning assets	**51,050**	49,767	49,147	48,778	48,018
Cash and due from banks	**928**	1,012	1,671	1,700	1,068
Intangible assets	**609**	613	625	639	652
All other assets	**4,158**	4,225	4,221	4,142	4,160
Total assets	**$ 55,837**	$ 54,656	$ 54,650	$ 54,193	$ 52,770
Liabilities and Shareholders Equity					

Deposits:					
Demand deposits noninterest-bearing	**$ 12,064**	$ 11,273	$ 10,716	$ 8,719	$ 7,806
Demand deposits interest-bearing	**5,939**	5,646	5,570	5,573	5,565
Money market deposits	**13,182**	13,141	13,594	13,321	12,879
Savings and other domestic deposits	**4,978**	4,817	4,706	4,752	4,778
Core certificates of deposit	**6,618**	6,510	6,769	7,592	8,079
Total core deposits	**42,781**	41,387	41,355	39,957	39,107
Other domestic time deposits of $250,000 or more	**298**	347	405	387	467
Brokered deposits and negotiable CDs	**1,421**	1,301	1,410	1,533	1,333
Deposits in foreign offices	**357**	430	434	401	347
Total deposits	**44,857**	43,465	43,604	42,278	41,254
Short-term borrowings	**1,391**	1,512	1,728	2,251	2,112
Federal Home Loan Bank advances	**626**	419	29	285	97
Subordinated notes and other long-term debt	**2,251**	2,652	2,866	3,030	3,249
Total interest-bearing liabilities	**37,061**	36,775	37,511	39,125	38,906
All other liabilities	**1,094**	1,116	978	1,017	913
Shareholders equity	**5,618**	5,492	5,445	5,332	5,145
Total liabilities and shareholders equity	**$ 55,837**	$ 54,656	$ 54,650	$ 54,193	$ 52,770

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

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Table 5 - Consolidated Quarterly Net Interest Margin Analysis

	Average Rates (2)				
	2012		2011		
Fully-taxable equivalent basis (1)	**Second**	First	Fourth	Third	Second
Assets					
Interest-bearing deposits in banks	**0.31 %**	0.05 %	0.06 %	0.04 %	0.22 %
Trading account securities	**1.64**	1.65	0.97	1.41	1.59
Federal funds sold and securities purchased under resale agreement					0.09
Loans held for sale	**3.46**	3.80	3.96	4.46	4.97
Available-for-sale and other securities:					
Taxable	**2.33**	2.39	2.37	2.43	2.59
Tax-exempt	**4.23**	4.17	4.22	4.17	4.02
Total available-for-sale and other securities	**2.41**	2.47	2.46	2.52	2.66
Held-to-maturity securities taxable	**2.97**	2.98	2.99	3.04	2.96
Loans and leases: (3)					
Commercial:					
Commercial and industrial	**3.99**	4.01	4.01	4.13	4.31
Commercial real estate:					
Construction	**3.66**	3.85	4.78	3.87	3.37
Commercial	**3.93**	3.82	3.91	3.91	3.90
Commercial real estate	**3.89**	3.82	3.99	3.91	3.84
Total commercial	**3.97**	3.96	4.01	4.06	4.16
Consumer:					
Automobile	**4.68**	4.87	4.80	4.89	5.06
Home equity	**4.30**	4.30	4.41	4.45	4.49
Residential mortgage	**4.14**	4.17	4.30	4.47	4.62
Other consumer	**7.42**	7.47	7.32	7.57	7.76
Total consumer	**4.43**	4.49	4.57	4.68	4.79
Total loans and leases	**4.18**	4.21	4.28	4.37	4.47
Total earning assets	**3.89 %**	3.91 %	3.95 %	4.02 %	4.14 %
Liabilities					
Deposits:					
Demand deposits noninterest-bearing	**%**	%	%	%	%
Demand deposits interest-bearing	**0.07**	0.06	0.08	0.10	0.09
Money market deposits	**0.30**	0.26	0.32	0.41	0.40
Savings and other domestic deposits	**0.39**	0.45	0.52	0.69	0.74
Core certificates of deposit	**1.38**	1.60	1.69	1.95	2.04
Total core deposits	**0.50**	0.54	0.61	0.77	0.82
Other domestic time deposits of $250,000 or more	**0.66**	0.68	0.78	0.93	1.01
Brokered deposits and negotiable CDs	**0.75**	0.79	0.77	0.77	0.89
Deposits in foreign offices	**0.19**	0.18	0.19	0.26	0.26
Total deposits	**0.51**	0.55	0.61	0.77	0.82
Short-term borrowings	**0.16**	0.16	0.18	0.16	0.16
Federal Home Loan Bank advances	**0.21**	0.21	2.09	0.32	0.88

Subordinated notes and other long-term debt	**2.83**	2.74	2.56	2.43	2.39
Total interest-bearing liabilities	**0.63 %**	0.68 %	0.74 %	0.86 %	0.91 %
Net interest rate spread	**3.18 %**	3.15 %	3.15 %	3.11 %	3.19 %
Impact of noninterest-bearing funds on margin	**0.25**	0.25	0.23	0.22	0.21
Net interest margin	**3.42 %**	3.40 %	3.38 %	3.34 %	3.40 %

(1) FTE yields are calculated assuming a 35% tax rate.
(2) Loan and lease and deposit average rates include impact of applicable derivatives, non-deferrable fees, and amortized deferred fees.
(3) For purposes of this analysis, NALs are reflected in the average balances of loans.

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Table 6 - Average Loans/Leases and Deposits

	Second Quarter		First Quarter	2Q12 vs 2Q11		2Q12 vs 1Q12	
(dollar amounts in millions)	**2012**	2011	2012	Amount	Percent	Amount	Percent
Loans/Leases:							
Commercial and industrial	**$ 16,094**	$ 13,370	$ 14,824	$ 2,724	20%	$ 1,270	9%
Commercial real estate	**6,075**	6,233	5,852	(158)	(3)	223	4
Total commercial	**22,169**	19,603	20,676	2,566	13	1,493	7
Automobile	**4,985**	5,954	4,576	(969)	(16)	409	9
Home equity	**8,310**	7,874	8,234	436	6	76	1
Residential mortgage	**5,253**	4,566	5,174	687	15	79	2
Other loans	**462**	538	485	(76)	(14)	(23)	(5)
Total consumer	**19,010**	18,932	18,469	78		541	3
Total loans and leases	**$ 41,179**	$ 38,535	$ 39,145	$ 2,644	7%	$ 2,034	5%
Deposits:							
Demand deposits noninterest-bearing	**$ 12,064**	$ 7,806	$ 11,273	$ 4,258	55%	$ 791	7%
Demand deposits interest-bearing	**5,939**	5,565	5,646	374	7	293	5
Total demand deposits	**18,003**	13,371	16,919	4,632	35	1,084	6
Money market deposits	**13,182**	12,879	13,141	303	2	41	
Savings and other domestic time deposits	**4,978**	4,778	4,817	200	4	161	3
Core certificates of deposit	**6,618**	8,079	6,510	(1,461)	(18)	108	2
Total core deposits	**42,781**	39,107	41,387	3,674	9	1,394	3
Other deposits	**2,076**	2,147	2,078	(71)	(3)	(2)	(0)
Total deposits	**$ 44,857**	$ 41,254	$ 43,465	$ 3,603	9%	$ 1,392	3%

2012 Second Quarter versus 2011 Second Quarter

Fully-taxable equivalent net interest income increased $27.5 million, or 7%, from the year-ago quarter. This reflected a $3.0 billion, or 6%, increase in average total earning assets and a 2 basis point increase in the FTE net interest margin. The increase in average earning assets reflected:

- $2.6 billion, or 7%, increase in average total loans and leases.
- $0.4 billion, or 251%, increase in average held-to-maturity securities.
- $0.2 billion, 127%, increase in average loans held for sale.

Partially offset by:

- $0.2 billion, or 2%, decrease in average total available-for-sale and other securities.

The 2 basis point increase in the FTE net interest margin reflected the 28 basis point positive impact from the reduction in the cost of average total interest-bearing liabilities, partially offset by a 25 basis point negative impact from lower earning asset yields and a shift to lower-yield, higher quality credits and other items.

The $2.6 billion, or 7%, increase in average total loans and leases primarily reflected:

- $2.7 billion, or 20%, growth in the average C&I portfolio primarily reflecting a combination of factors, including the benefits from our strategic initiatives focusing on equipment finance and large corporate. In addition, we continued to see strong growth in more traditional middle-market and business banking loans. This growth was evident despite line utilization rates that remained well below historical norms.

- $0.7 billion, or 15%, increase in average residential mortgages reflecting a purposeful decision to sell a lower percentage of mortgages during the second half of 2011.

- $0.4 billion, or 6%, increase in average home equity loans with over 70% of new originations in 2012 in a first lien position.

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Partially offset by:

- $1.0 billion, or 16%, decrease in the average automobile portfolio. This reflected the impact of our continued program of the securitization and sale of such loans. Specifically, $1.0 billion in the 2011 third quarter and $1.3 billion in the 2012 first quarter. While not impacting averages, $1.3 billion of automobile loans was reclassified to loans held for sale at the end of the current quarter in preparation for an expected securitization in the second half of 2012.

The $3.6 billion, or 9%, increase in average total deposits from the year-ago quarter reflected:

- $3.7 billion, or 9%, growth in average total core deposits. The drivers of this change were a $4.6 billion, or 35%, growth in average total demand deposits and more modest growth in both money market deposits and savings and other domestic deposits, partially offset by $1.5 billion, or 18%, decline in average core certificates of deposit.

2012 Second Quarter versus 2012 First Quarter

Fully-taxable equivalent net interest income increased $13.6 million, or 3%, from the 2012 first quarter. This reflected the combined positive impacts of a $1.3 billion, or 3%, increase in average earning assets and a 2 basis point increase in the FTE net interest margin. The increase in average earnings assets reflected a $2.0 billion, or 5%, increase in average total loans and leases, partially offset by a $0.8 billion decline in average loans held for sale, reflecting last quarter s $1.3 billion automobile loan securitization and sale. The primary item impacting the increase in the FTE net interest margin was:

- 5 basis point positive impact from the reduction in the cost of average total interest bearing liabilities, as well as 7% growth in average noninterest bearing deposits.

Partially offset by:

- 3 basis point negative impact from lower earning asset yields and a shift to lower-yield, higher quality credits and other items.

The acquisition of Fidelity Bank at the end of the prior quarter had a 2 basis point positive impact to the FTE net interest margin, and the current quarter s redemption of two issuances of trust preferred securities had a 1 basis point positive impact.

The $2.0 billion, or 5%, increase in average total loans and leases from the 2012 first quarter reflected:

- $1.3 billion, or 9%, growth in average total C&I loans. This reflected the continued elevated level of activity from multiple business lines including middle market and equipment finance, as well as the full quarter impact of the Fidelity Bank related loans.

- $0.4 billion, or 9%, growth in average automobile loans. Automobile loan originations were more than $1.1 billion. At the end of the quarter, $1.3 billion of automobile loans were reclassified to loans held for sale in preparation of a securitization in the second half of 2012.

- $0.2 billion, or 4%, growth in average CRE loans. This reflected the full quarter impact of the Fidelity Bank related loans partially offset by continued runoff of the noncore portfolio.

The $1.4 billion, or 3%, increase in average total deposits from the 2012 first quarter reflected:

$1.1 billion, or 6%, increase in average total demand deposits.

$0.2 billion, or 3%, increase in average savings and other domestic time deposits.

$0.1 billion, or 2%, increase in core certificates of deposit.

The acquisition of Fidelity Bank at the end of the prior quarter contributed $0.5 billion to average total loans and $0.7 billion to average total deposits in the current quarter.

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Table 7 - Consolidated YTD Average Balance Sheets and Net Interest Margin Analysis

Fully-taxable equivalent basis (1) (dollar amounts in millions)	YTD Average Balances Six Months Ended June 30, **2012**	2011	Change Amount	Percent	YTD Average Rates (2) Six Months Ended June 30, **2012**	2011
Assets						
Interest-bearing deposits in banks	**$ 112**	$ 130	$ (18)	(14)%	**0.19 %**	0.17%
Trading account securities	**52**	128	(76)	(59)	**1.65**	1.47
Federal funds sold and securities purchased under resale agreement		11	(11)	(100)	**0.29**	0.09
Loans held for sale	**837**	300	537	179	**3.71**	4.36
Available-for-sale and other securities:						
Taxable	**8,228**	8,766	(538)	(6)	**2.36**	2.56
Tax-exempt	**396**	441	(45)	(10)	**4.20**	4.37
Total available-for-sale and other securities	**8,624**	9,207	(583)	(6)	**2.44**	2.65
Held-to-maturity securities taxable	**622**	87	535	615	**2.98**	2.95
Loans and leases: (3)						
Commercial:						
Commercial and industrial	**15,458**	13,246	2,212	17	**4.00**	4.44
Commercial real estate:						
Construction	**591**	582	9	2	**3.76**	3.37
Commercial	**5,373**	5,795	(422)	(7)	**3.88**	3.91
Commercial real estate	**5,964**	6,377	(413)	(6)	**3.87**	3.86
Total commercial	**21,422**	19,623	1,799	9	**3.96**	4.25
Consumer:						
Automobile	**4,781**	5,829	(1,048)	(18)	**4.77**	5.14
Home equity	**8,272**	7,801	471	6	**4.30**	4.51
Residential mortgage	**5,214**	4,516	698	15	**4.15**	4.69
Other consumer	**473**	548	(75)	(14)	**7.44**	7.80
Total consumer	**18,740**	18,694	46		**4.46**	4.85
Total loans and leases	**40,162**	38,317	1,845	5	**4.20**	4.54
Allowance for loan and lease losses	**(934)**	(1,179)	245	(21)		
Net loans and leases	**39,228**	37,138	2,090	6		
Total earning assets	**50,409**	48,180	2,229	5	**3.90%**	4.19%
Cash and due from banks	**970**	1,183	(213)	(18)		
Intangible assets	**611**	659	(48)	(7)		
All other assets	**4,191**	4,224	(33)	(1)		
Total assets	**$ 55,247**	$ 53,067	$ 2,180	4 %		
Liabilities and Shareholders Equity						
Deposits:						
Demand deposits noninterest-bearing	**$ 11,668**	$ 7,571	$ 4,097	54%	**%**	%

Demand deposits interest-bearing	**5,792**	5,462	330	6	**0.06**	0.09
Money market deposits	**13,162**	13,184	(22)		**0.28**	0.45
Savings and other domestic deposits	**4,898**	4,740	158	3	**0.42**	0.78
Core certificates of deposit	**6,564**	8,234	(1,670)	(20)	**1.49**	2.05
Total core deposits	**42,084**	39,191	2,893	7	**0.52**	0.86
Other domestic time deposits of $250,000 or more	**323**	536	(213)	(40)	**0.67**	1.05
Brokered deposits and negotiable CDs	**1,361**	1,372	(11)	(1)	**0.77**	1.00
Deposits in foreign offices	**393**	360	33	9	**0.19**	0.23
Total deposits	**44,161**	41,459	2,702	7	**0.53**	0.86
Short-term borrowings	**1,451**	2,123	(672)	(32)	**0.16**	0.17
Federal Home Loan Bank advances	**523**	63	460	730	**0.21**	1.36
Subordinated notes and other long-term debt	**2,452**	3,386	(934)	(28)	**2.78**	2.36
Total interest-bearing liabilities	**36,919**	39,460	(2,541)	(6)	**0.66**	0.95
All other liabilities	**1,105**	952	153	16		
Shareholders equity	**5,555**	5,084	471	9		
Total liabilities and shareholders equity	**$ 55,247**	$ 53,067	$ 2,180	4%		
Net interest rate spread					**3.16**	3.20
Impact of noninterest-bearing funds on margin					**0.25**	0.21
Net interest margin					**3.41%**	3.41%

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(1) FTE yields are calculated assuming a 35% tax rate.
(2) Loan, lease, and deposit average rates include the impact of applicable derivatives, non-deferrable fees, and amortized deferred fees.
(3) For purposes of this analysis, nonaccrual loans are reflected in the average balances of loans.

2012 First Six Months versus 2011 First Six Months

Fully-taxable equivalent net interest income for the first six-month period of 2012 increased $40.4 million, or 5%, from the comparable year-ago period. This reflected the benefit of a 5% increase in average total earning assets. The fully-taxable equivalent net interest margin was unchanged at 3.41%. The increase in average earning assets reflected a combination of factors including:

$1.8 billion, or 5%, increase in average total loans and leases.

$0.5 billion, or 179%, increase in average loans held for sale.

$0.5 billion, or 615%, increase in average held-to-maturity securities.

Partially offset by:

$0.6 billion, or 6%, decline in average total available-for-sale and other securities.

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

Table 8 - Average Loans/Leases and Deposits - 2012 First Six Months vs. 2011 First Six Months

	Six Months Ended June 30,		Change	
(dollar amounts in millions)	**2012**	2011	Amount	Percent
Loans/Leases:				
Commercial and industrial	**$ 15,458**	$ 13,246	$ 2,212	17 %
Commercial real estate	**5,964**	6,377	(413)	(6)
Total commercial	**21,422**	19,623	1,799	9
Automobile	**4,781**	5,829	(1,048)	(18)
Home equity	**8,272**	7,801	471	6
Residential mortgage	**5,214**	4,516	698	15
Other consumer	**473**	548	(75)	(14)
Total consumer	**18,740**	18,694	46	
Total loans and leases	**$ 40,162**	$ 38,317	$ 1,845	5 %
Deposits:				
Demand deposits noninterest-bearing	**$ 11,668**	$ 7,571	$ 4,097	54 %
Demand deposits interest-bearing	**5,792**	5,462	330	6
Total demand deposits	**17,460**	13,033	4,427	34
Money market deposits	**13,162**	13,184	(22)	
Savings and other domestic deposits	**4,898**	4,740	158	3
Core certificates of deposit	**6,564**	8,234	(1,670)	(20)

Total core deposits	**42,084**	39,191	2,893	7
Other deposits	**2,077**	2,268	(191)	(8)
Total deposits	**$ 44,161**	$ 41,459	$ 2,702	7 %

The $1.8 billion, or 5%, increase in average total loans and leases primarily reflected:

$2.2 billion, or 17%, increase in the average C&I portfolio, primarily reflecting a combination of factors, including the benefits from our strategic initiatives focusing on equipment finance and large corporate. In addition, we continued to see strong growth in more traditional middle-market and business banking loans. This growth was evident despite line utilization rates that remained well below historical norms.

$0.7 billion, or 15%, increase in the average residential mortgage portfolio, primarily reflecting a purposeful decision to sell a lower percentage of mortgages in the secondary market during the second half of 2011.

$0.5 billion, or 6%, increase in the average home equity portfolio with over 70% of new originations in 2012 in a first-lien position.

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Partially offset by:

- $1.0 billion, or 18%, decline in the average automobile portfolio. This reflected the impact of our continued program of the securitization and sale of such loans. Specifically, $1.0 billion in the 2011 third quarter and $1.3 billion in the 2012 first quarter.

- $0.4 billion, or 6%, decline in the average CRE portfolio, primarily reflecting the continued execution of our plan to reduce the total CRE exposure, primarily in the noncore CRE portfolio. Declines were partially offset by additions to the core CRE portfolio associated with the FDIC-assisted acquisition of Fidelity Bank.

The $2.7 billion, or 7%, increase in average total deposits reflected:

- $4.4 billion, or 34%, increase in demand deposits reflecting an improved deposit mix as a result of growing total number of consumer checking account households as well as our treasury management and OCR focus on growing commercial demand deposits.

Partially offset by:

- $1.7 billion, or 20%, decline in core certificates of deposits.

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Provision for Credit Losses

(This section should be read in conjunction with the Credit Risk section.)

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

The provision for credit losses for the 2012 second quarter was $36.5 million, an increase of $2.1 million, or 6%, from the prior quarter, and $0.7 million, or 2%, from the year-ago quarter. The current quarter s provision for credit losses was $47.7 million less than total NCOs and the provision for credit losses for the first six-month period of 2012 was $96.3 million less than total NCOs. The level of provision for credit losses in the first half of 2012 was at the lower end of our long-term expectation. Some quarter-to-quarter volatility is expected given the absolute low level of the provision for credit losses and the uncertain and uneven nature of the economic recovery. *(See Credit Quality discussion).*

Noninterest Income

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

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

Table 9 - Noninterest Income

	2012			2011		2Q12 vs 2Q11		2Q12 vs 1Q12	
(dollar amounts in thousands)	**Second**	First	Fourth	Third	Second	Amount	Percent	Amount	Percent
Service charges on deposit accounts	**$ 65,998**	$ 60,292	$ 63,324	$ 65,184	$ 60,675	$ 5,323	9 %	$ 5,706	9 %
Trust services	**29,914**	30,906	28,775	29,473	30,392	(478)	(2)	(992)	(3)
Electronic banking	**20,514**	18,630	18,282	32,901	31,728	(11,214)	(35)	1,884	10
Mortgage banking income	**38,349**	46,418	24,098	12,791	23,835	14,514	61	(8,069)	(17)
Brokerage income	**19,025**	19,260	18,688	20,349	20,819	(1,794)	(9)	(235)	(1)
Insurance income	**17,384**	18,875	17,906	17,220	16,399	985	6	(1,491)	(8)
Bank owned life insurance income	**13,967**	13,937	14,271	15,644	17,602	(3,635)	(21)	30	
Capital markets fees	**13,455**	9,982	9,811	11,256	8,537	4,918	58	3,473	35
Gain on sale of loans	**4,131**	26,770	2,884	19,097	2,756	1,375	50	(22,639)	(85)
Automobile operating lease income	**2,877**	3,775	4,727	5,890	7,307	(4,430)	(61)	(898)	(24)
Securities gains (losses)	**350**	(613)	(3,878)	(1,350)	1,507	(1,157)	(77)	963	(157)
Other income	**27,855**	37,088	30,464	30,104	34,210	(6,355)	(19)	(9,233)	(25)
Total noninterest income	**$ 253,819**	$ 285,320	$ 229,352	$ 258,559	$ 255,767	$ (1,948)	(1)%	$ (31,501)	(11)%

2012 Second Quarter versus 2011 Second Quarter

The $1.9 million, or 1%, decrease in total noninterest income from the year-ago quarter reflected:

$11.2 million, or 35%, decline in electronic banking income related to implementing the lower debit card interchange fee structure mandated in the Durbin Amendment of the Dodd-Frank Act.

$6.4 million, or 19%, decrease in other income, as the prior year-ago quarter reflected an increased value in a loan servicing asset.

$4.4 million, or 61%, decline in automobile operating lease income, reflecting the impact of a declining portfolio as a result of having exited that business in 2008.

$3.6 million, or 21%, decline in bank owned life insurance income.

Partially offset by:

$14.5 million, or 61%, increase in mortgage banking income. This primarily reflected an $18.7 million increase in origination and secondary marketing income. Also impacting the year-over-year comparison was a $0.8 million net MSR hedging gain in the current quarter compared to a net MSR hedging gain of $4.7 million in the year-ago quarter.

$5.3 million, or 9%, increase in service charges on deposits, primarily reflecting continued strong customer growth.

$4.9 million, or 58%, increase in capital markets fees reflecting strong customer demand for interest rate protection and other risk management products.

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2012 Second Quarter versus 2012 First Quarter

The $31.5 million, or 11%, decrease in total noninterest income from the prior quarter reflected:

- $22.6 million, or 85%, decline in gain on sale of loans, as the previous quarter included a $23.0 million automobile loan securitization gain.

- $9.2 million, or 25%, decline in other income, reflecting the prior quarter s $11.4 million bargain purchase gain associated with the FDIC-assisted Fidelity Bank acquisition.

- $8.1 million, or 17%, decline in mortgage banking income. This primarily reflected a $6.8 million decline in net MSR hedging gains, and a $1.1 million decline in origination and secondary marketing income.

Partially offset by:

- $5.7 million, or 9%, increase in service charges on deposit accounts, reflecting continued growth in consumer households and business relationships.

- $3.5 million, or 35%, increase in capital market fees, primarily reflecting strong customer demand for interest rate protection and other risk management products.

2012 First Six Months versus 2011 First Six Months

Noninterest income for the first six-month period of 2012 increased $46.4 million, or 9%, from the comparable year-ago period.

Table 10 - Noninterest Income - 2012 First Six Months vs. 2011 First Six Months

	Six Months Ended June 30,		Change	
(dollar amounts in thousands)	**2012**	2011	Amount	Percent
Service charges on deposit accounts	**$ 126,290**	$ 114,999	$ 11,291	10 %
Trust services	**60,820**	61,134	(314)	(1)
Electronic banking	**39,144**	60,514	(21,370)	(35)
Mortgage banking income	**84,767**	46,519	38,248	82
Brokerage income	**38,285**	41,330	(3,045)	(7)
Insurance income	**36,259**	34,344	1,915	6
Bank owned life insurance income	**27,904**	32,421	(4,517)	(14)
Capital markets fees	**23,437**	15,473	7,964	51
Gain on sale of loans	**30,901**	9,963	20,938	210
Automobile operating lease income	**6,652**	16,154	(9,502)	(59)
Securities gains (losses)	**(263)**	1,547	(1,810)	(117)
Other income	**64,943**	58,314	6,629	11
Total noninterest income	**$ 539,139**	$ 492,712	$ 46,427	9 %

The $46.4 million, or 9%, increase in total noninterest income reflected:

$38.2 million, or 82%, increase in mortgage banking income. This primarily reflected a $30.2 million increase in origination and secondary marketing income as originations increased 33% from the year-ago period, and a $7.2 million increase in MSR net hedging income.

$20.9 million, or 210%, increase in gain on sale of loans, as the current year-to-date period included a $23.0 million automobile loan securitization gain.

$11.3 million, or 10%, increase in service charges of deposit account, primarily reflecting continued strong customer growth.

$8.0 million, or 51%, increase in capital market fees, primarily reflecting strong customer demand for derivatives and other risk management products.

$6.6 million, or 11%, increase in other income, primarily reflecting the $11.4 million bargain purchase gain in the current year-to-date period associated with the FDIC-assisted Fidelity Bank acquisition, partially offset by the impacts related to an increased value in a loan servicing asset.

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Partially offset by:

$21.4 million, or 35%, decline in electronic banking income, primarily reflecting the implementation of the lower debit card interchange fee structure mandated in the Durbin Amendment of the Dodd-Frank Act.

$9.5 million, or 59%, decline in automobile operating lease expense primarily reflecting the impact of a declining portfolio as a result of having exited that business in 2008.

Noninterest Expense

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

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

Table 11 - Noninterest Expense

	2012		2011			2Q12 vs 2Q11		2Q12 vs 1Q12	
(dollar amounts in thousands)	**Second**	First	Fourth	Third	Second	Amount	Percent	Amount	Percent
Personnel costs	**$ 243,034**	$ 243,498	$ 228,101	$ 226,835	$ 218,570	$ 24,464	11 %	$ (464)	(0)%
Outside data processing and other services	**48,149**	42,058	53,422	49,602	43,889	4,260	10	6,091	14
Net occupancy	**25,474**	29,079	26,841	26,967	26,885	(1,411)	(5)	(3,605)	(12)
Equipment	**24,872**	25,545	25,884	22,262	21,921	2,951	13	(673)	(3)
Deposit and other insurance expense	**15,731**	20,738	18,481	17,492	23,823	(8,092)	(34)	(5,007)	(24)
Marketing	**21,365**	16,776	16,379	22,251	20,102	1,263	6	4,589	27
Professional services	**15,458**	11,230	16,769	20,281	20,080	(4,622)	(23)	4,228	38
Amortization of intangibles	**11,940**	11,531	13,175	13,387	13,386	(1,446)	(11)	409	4
Automobile operating lease expense	**2,183**	2,854	3,362	4,386	5,434	(3,251)	(60)	(671)	(24)
OREO and foreclosure expense	**4,106**	4,950	5,009	4,668	4,398	(292)	(7)	(844)	(17)
Gain on early extinguishment of debt	**(2,580)**		(9,697)			(2,580)		(2,580)	
Other expense	**34,537**	54,417	32,548	30,987	29,921	4,616	15	(19,880)	(37)
Total noninterest expense	**$ 444,269**	$ 462,676	$ 430,274	$ 439,118	$ 428,409	$ 15,860	4 %	$ (18,407)	(4)%
Number of employees (full-time equivalent), at period-end	**11,417**	11,166	11,245	11,473	11,457	(40)	(0)	251	2

2012 Second Quarter versus 2011 Second Quarter

The $15.9 million, or 4%, increase in total noninterest expense from the year-ago quarter reflected:

$24.5 million, or 11%, increase in personnel costs, which primarily reflected increased salaries and benefits, including an increase in commissions and incentive compensation expense primarily due to improved performance metrics and results.

$4.6 million, or 15%, increase in other expense, reflecting a $3.1 million increase in the provision for the mortgage representations and warranties reserve.

$4.3 million, or 10%, increase in outside data processing and other services, primarily reflecting the implementation of strategic initiatives.

$3.0 million, or 13%, increase in equipment expense reflecting the impact of depreciation from technology investments.

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Partially offset by:

- $8.1 million, or 34%, decline in deposit and other insurance expense reflecting lower insurance premiums.

- $4.6 million, or 23%, decline in professional services reflecting lower legal related expenses.

- $3.3 million, or 60%, decline in automobile operating lease expense as the portfolio continued its planned runoff as we exited that business in 2008.

2012 Second Quarter versus 2012 First Quarter

The $18.4 million, or 4%, decrease in total noninterest expense from the prior quarter reflected:

- $19.9 million, or 37%, decrease in other expense, as the prior quarter included a $23.5 million addition to litigation reserves.

- $5.0 million, or 24%, decline in deposit and other insurance, reflecting adjustments to insurance premiums.

- $3.6 million, or 12%, decline in net occupancy expense, primarily reflecting seasonally lower utility and building service expense.

Partially offset by:

- $6.1 million, or 14%, increase in outside data processing and other services, partially reflecting the conversion and integration of Fidelity Bank and the implementation of strategic initiatives.

- $4.6 million, or 27%, increase in seasonal marketing expense.

- $4.2 million, or 38%, increase in professional services, partially reflecting the conversion and integration of Fidelity Bank and increased consulting related expenses.

2012 First Six Months versus 2011 First Six Months

Noninterest expense for the first six-month period of 2012 increased $47.8 million, or 6%, from the comparable year-ago period.

Table 12 - Noninterest Expense - 2012 First Six Months vs. 2011 First Six Months

	Six Months Ended June 30,		Change	
(dollar amounts in thousands)	**2012**	2011	Amount	Percent
Personnel costs	**$ 486,532**	$ 437,598	$ 48,934	11 %
Outside data processing and other services	**90,207**	84,171	6,036	7
Net occupancy	**54,553**	55,321	(768)	(1)
Equipment	**50,417**	44,398	6,019	14

Deposit and other insurance expense	**36,469**	41,719	(5,250)	(13)
Marketing	**38,141**	36,997	1,144	3
Professional services	**26,688**	33,545	(6,857)	(20)
Amortization of intangibles	**23,471**	26,756	(3,285)	(12)
Automobile operating lease expense	**5,037**	12,270	(7,233)	(59)
OREO and foreclosure expense	**9,056**	8,329	727	9
Gain on early extinguishment of debt	**(2,580)**		(2,580)	
Other expense	**88,954**	78,004	10,950	14
Total noninterest expense	**$ 906,945**	$ 859,108	$ 47,837	6 %
Number of employees (full-time equivalent), at period-end	**11,417**	11,457	(40)	%

The $47.8 million, or 6%, increase in total noninterest expense reflected:

- $48.9 million, or 11%, increase in personnel costs, primarily reflecting increased salaries and benefits, including an increase in commissions and incentive compensation expense due to improved performance metrics and results.
- $11.0 million, or 14%, increase in other expense, primarily reflecting an addition to litigation reserves and an increase in the provision for the mortgage representations and warranties reserve.
- $6.0 million, or 14%, increase in equipment, primarily reflecting the impact of depreciation from technology investments.
- $6.0 million, or 7%, increase in outside data processing and other services, primarily reflecting the conversion and integration of Fidelity Bank and the implementation of strategic initiatives.

Partially offset by:

- $7.2 million, or 59%, decline in automobile operating lease expense, primarily reflecting the impact of a declining portfolio as a result of having exited that business in 2008.
- $6.9 million, or 20%, decline in professional services, primarily reflecting lower legal-related expenses.
- $5.3 million, or 13%, decline in deposit and other insurance expense, primarily reflecting adjustments to insurance premiums.

Provision for Income Taxes

The provision for income taxes in the 2012 second quarter was $49.3 million. This compared with a provision for income taxes of $52.2 million in the 2012 first quarter and $49.0 million in the 2011 second quarter. All three quarters included the benefits from tax-exempt income, tax-advantaged investments, and general business credits. At June 30, 2012, we had a net deferred tax asset of $232.4 million. Based on both positive and negative evidence and our level of forecasted future taxable income, there was no impairment to the deferred tax asset at June 30, 2012. As of June 30, 2012, there is no disallowed deferred tax asset for regulatory capital purposes compared to $39.1 million at December 31, 2011.

We file income tax returns with the IRS and various state, city, and foreign jurisdictions. Federal income tax audits have been completed for tax years through 2007. We have appealed certain proposed adjustments resulting from the IRS examination of our 2006 and 2007 tax returns. We believe our positions related to such proposed adjustments are correct and supported by applicable statutes, regulations, and judicial authority, and intend to vigorously defend them. In 2011, we entered into discussions with the Appeals Division of the IRS. It is possible the ultimate resolution of the proposed adjustments, if unfavorable, may be material to the results of operations in the period it occurs. Nevertheless, although no assurances can be given, we believe the resolution of these examinations will not, individually or in the aggregate, have a material adverse impact on our consolidated financial position. In the 2011 third quarter, the IRS began its examination of our 2008 and 2009 consolidated federal income tax returns. Various state and other jurisdictions remain open to examination, including Kentucky, Indiana, Michigan, Pennsylvania, West Virginia, and Illinois.

RISK MANAGEMENT AND CAPITAL

Risk awareness, identification and assessment, reporting, and active management are key elements in overall risk management. We manage risk to an aggregate moderate-to-low risk profile through a control framework and by monitoring and responding to identified potential risks. Controls include, among others, effective segregation of duties, access, authorization and reconciliation procedures, as well as staff education and a disciplined assessment process.

We identify primary risks, and the sources of those risks, within each business unit. We utilize Risk and Control Self-Assessments (RCSA) to identify exposure risks. Through this RCSA process, we continually assess the effectiveness of controls associated with the identified risks, regularly monitor risk profiles and material exposure to losses, and identify stress events and scenarios to which we may be exposed. 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 Risk Management Committee and the board of directors, as appropriate. Our internal audit department performs on-going 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 and board of directors.

We believe that our primary risk exposures are credit, market, liquidity, operational, and compliance oriented. More information on risk can be found in the Risk Factors section included in Item 1A of our 2011 Form 10-K and subsequent filings with the SEC. Additionally, the MD&A included in our 2011 Form 10-K should be read in conjunction with this MD&A as this discussion provides only material updates to the 2011 Form 10-K. Our definition, philosophy, and approach to risk management have not materially changed from the discussion presented in the 2011 Form 10-K.

Credit Risk

Credit risk is the risk of financial loss if a counterparty is not able to meet the agreed upon terms of the financial obligation. The majority of our credit risk is associated with lending activities, as the acceptance and management of credit risk is central to profitable lending. We also have significant credit risk associated with our available-for-sale and other investment and held-to-maturity securities portfolios *(see Note 4 and Note 5 of the Notes to the Unaudited Condensed Consolidated Financial Statements)*. We engage with other financial counterparties for a variety of purposes including investing, asset and liability management, mortgage banking, and for trading activities. While there is credit risk associated with derivative activity, we believe this exposure is minimal. The significant change in the economic conditions and the resulting changes in borrower behavior over the past several years resulted in our continuing focus on the identification, monitoring, and managing of our credit risk. In addition to the traditional credit risk mitigation strategies of credit policies and processes, market risk management activities, and portfolio diversification, we use additional quantitative measurement capabilities utilizing external data sources, enhanced use of modeling technology, and internal stress testing processes. Our portfolio management resources demonstrate our commitment to maintaining an aggregate moderate-to-low risk profile. In our efforts to continue to identify risk mitigation techniques, we have focused on product design features, origination policies, and treatment strategies for delinquent or stressed borrowers.

Loan and Lease Credit Exposure Mix

At June 30, 2012, our loans and leases totaled $40.0 billion, representing a $1.0 billion, or 3%, increase compared to $38.9 billion at December 31, 2011, primarily reflecting growth in the C&I portfolio, partially offset by a decline in the automobile portfolio as a result of our securitization program. The C&I loan growth included the impacts related to a continuation of the growth in high quality loans originated over recent quarters and the purchase of a portfolio of high quality municipal equipment leases. The decline in the automobile portfolio reflected the transfer of automobile loans to loans held for sale in the 2012 second quarter related to an automobile securitization planned for second half of 2012 *(see Automobile Portfolio discussion).*

At June 30, 2012, commercial loans and leases totaled $22.2 billion, and represented 55% of our total credit exposure. Our commercial portfolio is diversified along product type, customer size, and geography within our footprint, and is comprised of the following (*see Commercial Credit discussion)*:

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

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

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

Total consumer loans and leases were $17.7 billion at June 30, 2012, and represented 45% of our total loan and lease credit exposure. The consumer portfolio is primarily comprised of automobile, home equity loans and lines-of-credit, and residential mortgages *(see Consumer Credit discussion)*.

Automobile Automobile loans are primarily comprised of loans made through automotive dealerships and include exposure in selected states outside of our primary banking markets. No state outside of our primary banking markets represented more than 5% of our total automobile portfolio at June 30, 2012. We have successfully implemented a loan securitization strategy to maintain our established portfolio concentration limits.

Home equity Home equity lending includes both home equity loans and lines-of-credit. This type of lending, which is secured by a first-lien or junior-lien on the borrower s residence, allows customers to borrow against the equity in their home. Given the current low interest rate environment, many borrowers have utilized the line-of-credit home equity product as the primary source of financing their home versus residential mortgages. As a result, the proportion of the home equity portfolio secured by a first-lien has increased significantly over the past three years, positively impacting the portfolio s risk profile. The portfolio s credit risk profile is substantially reduced when we hold a first-lien position. During the first six-month period of 2012, 75% of our home equity portfolio originations were secured by a first-lien. The first-lien position, combined with continued high average FICO scores, significantly reduces the PD associated with these loans. The combination provides a strong base when assessing the expected future performance of this portfolio. Real estate market values at the time of origination directly affect the amount of credit extended and, in the event of default, subsequent changes in these values impact the severity of losses. We actively manage the extension of credit and the amount of credit extended through a combination of criteria including financial position, debt-to-income policies, and LTV policy limits.

Residential mortgage Residential mortgage loans represent loans to consumers for the purchase or refinance of a residence. These loans are generally financed over a 15-year to 30-year term, and in most cases, are extended to borrowers to finance their primary residence. Generally, our practice is to sell a significant portion of our fixed-rate originations in the secondary market. As such, at June 30, 2012, 51% of our total residential mortgage portfolio were ARMs. These ARMs primarily consist of a fixed-rate of interest for the first 3 to 5 years, and then adjust annually. We are subject to repurchase risk associated with residential mortgage loans sold in the secondary market. An appropriate level of reserve for representations and warranties related to residential mortgage loans sold has been established to address the repurchase risk inherent in the portfolio *(see Operational Risk section).*

Other consumer Primarily consists of consumer loans not secured by real estate, including personal unsecured loans.

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The table below provides the composition of our total loan and lease portfolio:

Table 13 - Loan and Lease Portfolio Composition (1)

	2012				2011					
(dollar amounts in millions)	**June 30,**		March 31,		December 31,		September 30,		June 30,	
Commercial:[2]										
Commercial and industrial	**$ 16,322**	**41 %**	$ 15,838	39 %	$ 14,699	38 %	$ 13,939	36 %	$ 13,544	34 %
Commercial real estate:										
Construction	**591**	**1**	597	1	580	1	520	1	591	2
Commercial	**5,317**	**13**	5,443	13	5,246	13	5,414	14	5,573	14
Total commercial real estate	**5,908**	**14**	6,040	14	5,826	14	5,934	15	6,164	16
Total commercial	**22,230**	**55**	21,878	53	20,525	52	19,873	51	19,708	50
Consumer:										
Automobile	**3,808**	**10**	4,787	12	4,458	11	5,558	14	6,190	16
Home equity	**8,344**	**21**	8,261	20	8,215	21	8,079	21	7,952	20
Residential mortgage	**5,123**	**13**	5,284	13	5,228	13	4,986	13	4,751	12
Other consumer	**454**	**1**	469	2	498	3	516	1	525	2
Total consumer	**17,729**	**45**	18,801	47	18,399	48	19,139	49	19,418	50
Total loans and leases	**$ 39,959**	**100 %**	$ 40,679	100 %	$ 38,924	100 %	$ 39,012	100 %	$ 39,126	100 %

(1) Loans acquired in the FDIC-assisted acquisition of Fidelity Bank are reflected in the above table effective March 31, 2012.
(2) As defined by regulatory guidance, there were no commercial loans outstanding that would be considered a concentration of lending to a particular industry or group of industries.

As shown the table above, we have larger exposures associated with C&I and the home equity portfolios. We have an established process to measure and address concentration exposure to certain portfolio segments, project types, and industries.

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

Table 14 - Loan and Lease Portfolio by Collateral Type (1)

	2012				2011					
(dollar amounts in millions)	**June 30,**		March 31,		December 31,		September 30,		June 30,	
Secured loans:										
Real estate commercial	**$ 9,398**	**23 %**	$ 9,326	24 %	$ 9,557	25 %	$ 9,554	24 %	$ 9,781	25 %
Real estate consumer	**13,467**	**33**	13,470	34	13,444	35	13,065	33	12,703	32
Vehicles	**5,650**	**14**	6,623	16	6,021	16	6,898	18	7,594	19
Receivables/Inventory	**5,026**	**13**	4,749	12	4,450	12	4,297	11	4,171	11
Machinery/Equipment	**2,759**	**7**	2,536	6	1,994	5	1,864	5	1,784	5
Securities/Deposits	**789**	**2**	733	2	800	2	805	2	802	2
Other	**1,043**	**3**	983	2	1,018	1	1,103	3	1,095	3
Total secured loans and leases	**38,132**	**95**	38,420	96	$ 37,284	96 %	37,586	96	37,930	97
Unsecured loans and leases	**1,827**	**5**	1,738	4	1,640	4	1,426	4	1,196	3

Total loans and leases	**$ 39,959**	**100 %**	$ 40,158	100 %	38,924	100 %	$ 39,012	100 %	$ 39,126	100 %

(1) Loans acquired in the FDIC-assisted acquisition of Fidelity Bank are reflected in the above table effective June 30, 2012.

Commercial Credit

The primary factors considered in commercial credit approvals are the financial strength of the borrower, assessment of the borrower s management capabilities, cash flows from operations, industry sector trends, type and sufficiency of collateral, 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. For all loans exceeding $5.0 million, we utilize a centralized senior loan committee, led by our chief credit officer for approvals of commercial credit. The risk rating *(see next paragraph)* of the credit determines the threshold for approval of the senior loan committee with a minimum credit exposure of $5.0 million. For loans not requiring senior loan committee approval, with the exception of small business loans, credit officers who understand each local region and are experienced in the industries and loan structures of the requested credit exposure are involved in all loan decisions and have the primary credit authority. For small business loans, we utilize a centralized loan approval process for standard products and structures. In this centralized decision environment, certain individuals who understand each local region may make credit-extension decisions to preserve our commitment to the communities we operate in. In addition to disciplined and consistent judgmental factors, a sophisticated credit scoring process is used as a primary evaluation tool in the determination of approving a loan within the centralized loan approval process.

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In commercial lending, on-going credit management is dependent on the type and nature of the loan. We monitor all significant exposures on an on-going basis. All commercial credit extensions are assigned internal risk ratings reflecting the borrower s PD and LGD (severity of loss). This two-dimensional rating methodology provides granularity in the portfolio management process. The PD is rated and applied at the borrower level. The LGD is rated and applied based on the specific type of credit extension and the quality and lien position associated with the underlying collateral. The internal risk ratings are assessed at origination and updated at each periodic monitoring event. There is also extensive macro portfolio management analysis on an on-going basis. We continually review and adjust our risk-rating criteria based on actual experience, which provides us with the current risk level in the portfolio and is the basis for determining an appropriate ALLL amount for the commercial portfolio. A centralized portfolio management team monitors and reports on the performance of the entire commercial portfolio, including small business loans, to provide consistent oversight.

In addition to the initial credit analysis conducted during the approval process, our Credit Review group performs testing to provide an independent review and assessment of the quality and / or risk of new loan originations. This group is part of our Risk Management area, and conducts portfolio reviews on a risk-based cycle to evaluate individual loans, validate risk ratings, as well as test the consistency of credit processes.

Our standardized loan grading system considers many components that directly correlate to loan quality and likelihood of repayment, one of which is guarantor support. On an annual basis, or more frequently if warranted, we consider, among other things, the guarantor s reputation and creditworthiness, along with various key financial metrics such as liquidity and net worth, assuming such information is available. Our assessment of the guarantor s credit strength, or lack thereof, is reflected in our risk ratings for such loans, which is directly tied to, and an integral component of, our ALLL methodology. When a loan goes to impaired status, viable guarantor support is considered in the determination of the recognition of a loan loss.

If our assessment of the guarantor s credit strength yields an inherent capacity to perform, we will seek repayment from the guarantor as part of the collection process and have done so successfully. However, we do not formally track the repayment success from guarantors.

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

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

C&I PORTFOLIO

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

There were no commercial loan segments considered an industry or geographic concentration of lending. Currently, higher-risk segments of the C&I portfolio include loans to borrowers supporting the home building industry, contractors, and transportation. We manage the risks inherent in this portfolio through origination policies, a defined loan concentration policy with established limits, on-going loan level reviews and portfolio level reviews, recourse requirements, and continuous portfolio risk management activities. Our origination policies for this portfolio include loan product-type specific policies such as LTV and debt service coverage ratios, as applicable.

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

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CRE PORTFOLIO

We manage the risks inherent in this portfolio specific to CRE lending, focusing on the quality of the developer, and the specifics associated with each project. Generally, we: (1) limit our loans to 80% of the appraised value of the commercial real estate at origination, (2) require net operating cash flows to be 125% of required interest and principal payments, and (3) if the commercial real estate is nonowner occupied, require that at least 50% of the space of the project be preleased. Additionally, we established a limit to our CRE exposure of no more than the amount of Tier 1 risk-based capital plus the ACL. We have been actively reducing our CRE exposure during the past several years, and our CRE exposure met this established limit at June 30, 2012. We actively monitor both geographic and project-type concentrations and performance metrics of all CRE loan types, with a focus on higher-risk classes. Both macro-level and loan-level stress-test scenarios based on existing and forecast market conditions are part of the on-going portfolio management process for the CRE portfolio.

Each CRE loan is classified as either core or noncore. We believe segregating the noncore CRE from core CRE improves our ability to understand the nature, performance prospects, and problem resolution opportunities of these segments, thus allowing us to continue to deal proactively with any emerging credit issues.

A CRE loan is generally considered core when the borrower is an experienced, well-capitalized developer in our Midwest footprint, and has either an established meaningful relationship with us that generates an acceptable return on capital or demonstrates the prospect of becoming one. The core CRE portfolio was $4.2 billion at June 30, 2012, representing 71% of total CRE loans. The performance of the core portfolio met our expectations based on the consistency of the asset quality metrics within the portfolio. Based on our extensive project level assessment process, including forward-looking collateral valuations, we continue to believe the credit quality of the core portfolio is stable. Loans are not reclassified between the core and noncore segments based on performance, and as such, we do not anticipate an elevated level of problem loans in the core portfolio.

A CRE loan is generally considered noncore based on the lack of a substantive relationship outside of the loan product, with no immediate prospects for meeting the core relationship criteria. The noncore CRE portfolio declined from $1.8 billion at December 31, 2011, to $1.7 billion at June 30, 2012, and represented 29% of total CRE loans. Of the loans in the noncore portfolio at June 30, 2012, 68% were categorized as Pass, 95% had guarantors, 99% were secured, and 93% were located within our geographic footprint. However, it is within the noncore portfolio where most of the credit quality challenges exist. For example, $0.2 billion, or 10%, of related outstanding balances, are classified as NALs. SAD administered $0.7 billion, or 41%, of total noncore CRE loans at June 30, 2012. We expect to exit the majority of noncore CRE relationships over time through normal repayments and refinancings, possible sales should economically attractive opportunities arise, or the reclassification to a core CRE relationship if it expands to meet the core criteria.

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

Table 15 - Commercial Real Estate - Core vs. Noncore Portfolios

	June 30, 2012					
(dollar amounts in millions)	**Ending Balance**	**Prior NCOs**	**ACL $**	**ACL %**	**Credit Mark (2)**	**Nonaccrual Loans**
Total core (1)	**$ 4,207**	**$ 16**	**$ 108**	**2.57 %**	**2.94 %**	**$ 42**
Noncore SAD (3)	**694**	**191**	**142**	**20.46**	**37.63**	**169**
Noncore Other	**1,007**	**34**	**61**	**6.06**	**9.13**	**9**
Total noncore	**1,701**	**225**	**203**	**11.93**	**22.22**	**178**
Total commercial real estate	**$ 5,908**	**$ 241**	**$ 311**	**5.26 %**	**8.98 %**	**$ 220**
	December 31, 2011					
Total core	$ 3,978	$ 25	$ 125	3.14 %	3.75 %	$ 26
Noncore SAD (3)	735	253	182	24.76	44.03	195
Noncore Other	1,113	17	88	7.91	9.29	9
Total noncore	1,848	270	270	14.61	25.50	204

Total commercial real estate	$ 5,826	$	295	$ 395	6.78 %	11.27 %	$	230

(1) Includes loans acquired in the FDIC-assisted acquisition of Fidelity Bank. The acquired loans were recorded at fair value with no associated ACL.
(2) Calculated as (Prior NCOs + ACL $) / (Ending Balance + Prior NCOs).
(3) Noncore loans managed by SAD, the area responsible for managing loans and relationships designated as Classified Loans.

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As shown in the above table, the ending balance of the CRE portfolio at June 30, 2012, increased slightly compared with December 31, 2011, as a result of the Fidelity acquisition. However, the noncore portfolio declined 8% compared to December 31, 2011, and was a result of payoffs and NCOs as we actively focus on the noncore portfolio to reduce our overall CRE exposure. This reduction demonstrates our continued commitment to achieving a materially lower risk profile in the CRE portfolio, consistent with our overall objective of maintaining an aggregate moderate-to-low risk profile. We will continue to support our core developer customers as appropriate, however, we do not believe that significant additional CRE activity is appropriate given our current exposure in CRE lending and the current economic conditions.

Also, as shown above, substantial reserves for the noncore portfolio have been established. At June 30, 2012, the ACL related to the noncore portfolio was 11.93%. The combination of the existing ACL and prior NCOs represents the total credit actions taken on each segment of the portfolio. From this data, we calculate a credit mark that provides a consistent measurement of the cumulative credit actions taken against a specific portfolio segment. The 37.63% credit mark associated with the SAD-managed noncore portfolio is an indicator of the proactive portfolio management strategy employed for this portfolio.

Consumer Credit

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

AUTOMOBILE PORTFOLIO

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

We have continued to consistently execute our value proposition and take advantage of available market opportunities. Importantly, we have maintained our high credit quality standard while growing the portfolio. We have developed and implemented a loan securitization strategy to ensure we remain within our established portfolio concentration limits.

During the 2012 first quarter, we transferred automobile loans totaling $1.3 billion to a trust in a securitization transaction. The securitization and resulting sale of all underlying securities qualified for sale accounting. As a result of this transaction, we recognized a $23.0 million gain on sale which is reflected in other noninterest income and recorded a $19.9 million servicing asset which is reflected in accrued income and other assets. Also, in the 2012 second quarter, $1.3 billion of automobile loans were transferred to loans held for sale, reflecting an automobile loan securitization planned for the second half of 2012.

RESIDENTIAL REAL ESTATE SECURED PORTFOLIOS

The properties securing our residential mortgage and home equity portfolios are primarily located within our geographic footprint. The continued stress on home prices has caused the performance in these portfolios to remain weaker than historical levels. The residential-secured portfolio originations continue to be of high quality, with the majority of the negative credit impact coming from loans originated in 2006 and earlier. We continue to evaluate all of our policies and processes associated with managing these portfolios. Our loss mitigation and foreclosure activities are consolidated in one location under common management. This structure allows us to focus on effectively helping our customers with the appropriate solution for their specific circumstances.

Table 16 - Selected Home Equity and Residential Mortgage Portfolio Data

	Home Equity				Residential Mortgage	
	Secured by first-lien		Secured by junior-lien			
(dollar amounts in millions)	**06/30/12**	12/31/11	**06/30/12**	12/31/11	**06/30/12**	12/31/11
Ending balance	**$ 4,151**	$ 3,815	**$ 4,193**	$ 4,400	**$ 5,123**	$ 5,228
Portfolio weighted average LTV ratio[(1)]	**71%**	71%	**81%**	81%	**77%**	77%

Portfolio weighted average FICO score[(2)]	**751**	749	**733**	734	**737**	731

	Home Equity				Residential Mortgage (3)	
	Secured by first-lien		Secured by junior-lien			
	Six Months Ended June 30,					
	2012	2011	**2012**	2011	**2012**	2011
Originations	**$ 886**	$ 918	**$ 302**	$ 435	**$ 532**	$ 751
Origination weighted average LTV ratio(1)	**72%**	71%	**82%**	82%	**84%**	84%
Origination weighted average FICO score(2)	**771**	768	**759**	758	**754**	757

(1) The LTV ratios for home equity loans and home equity lines-of-credit are cumulative and reflect the balance of any senior loans. LTV ratios reflect collateral values at the time of loan origination.
(2) Portfolio weighted average FICO scores reflect currently updated customer credit scores whereas origination weighted average FICO scores reflect the customer credit scores at the time of loan origination.
(3) Represents only owned-portfolio originations.

Home Equity Portfolio

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

At June 30, 2012, 50% of our home equity portfolio was secured by first-lien mortgages. The credit risk profile is substantially reduced when we hold a first-lien position. During the first six-month period of 2012, 75% of our home equity portfolio originations were secured by a first-lien mortgage. We focus on high quality borrowers primarily located within our footprint. The majority of our home equity line-of-credit borrowers consistently pay more than the minimum payment required in any given month. Additionally, since we focus on developing complete relationships with our customers, many of our home equity borrowers are utilizing other products and services. The combination of high quality borrowers as measured by financial condition and FICO score, as well as the lien position, provide a high degree of confidence regarding the performance of the 2009-2011 originations.

Within the home equity line-of-credit portfolio, the standard product is a 10-year interest-only draw period with a balloon payment and represents a majority of the line-of-credit portfolio at June 30, 2012. As previously discussed, a significant portion of recent originations are secured by first-liens on the underlying property as high quality borrowers take advantage of the low variable-rates available with a line-of-credit. If the current 30-year fixed-rate declines substantially from its already low level, we would anticipate some portion of these first-lien line-of-credit borrowers to refinance to a more traditional residential mortgage at a fixed-rate.

We believe we have underwritten credit conservatively within this portfolio. We have not originated home equity loans or lines-of-credit with an LTV at origination greater than 100%, except for infrequent situations with high quality borrowers. However, continued declines in housing prices have decreased the value of the collateral for this portfolio and have caused a portion of the portfolio to have an LTV greater than 100%. These higher LTV ratios are directly correlated with borrower payment patterns and are a focus of our Loss Mitigation and Home Saver groups.

We obtain a property valuation for every loan or line-of-credit as part of the origination process, and the valuation is reviewed by a real estate professional in conjunction with the credit underwriting process. The type of property valuation obtained is based on a series of credit parameters, and ranges from an AVM to a complete walkthrough appraisal. While we believe an AVM estimate is an appropriate valuation source for a portion of our home equity lending activities, we continue to re-evaluate all of our policies on an on-going basis with the intent of ensuring complete independence in the requesting and reviewing of real estate valuations associated with loan decisions. We update values as appropriate, and in compliance with applicable regulations, for loans identified as higher risk. Loans are identified as higher risk based on performance indicators and the updated values are utilized to facilitate our portfolio management processes, as well as our workout and loss mitigation functions.

We continue to make origination policy adjustments based on our assessment of an appropriate risk profile and industry actions, as well as the recently issued Basel III NPRs *(see Capital section).* In addition to origination policy adjustments, we take actions, as necessary, to manage the risk profile of this portfolio. We believe our Credit Risk Management systems allow for effective portfolio analysis and segmentation to identify the highest risk exposures in the portfolio. Our disclosures regarding lien position, FICO distribution, and geographical distribution are examples of segmentation analysis.

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An emerging trend has been identified where borrowers make a purposeful financial decision to stop making required payments on the junior-lien loan, and in some cases, the first-lien loan. This strategic default scenario is generally associated with borrowers that have very limited or no history of delinquency. These accounts also tend to migrate quickly from a current status to charge-off without the historical stops at each delinquency stage. The resulting increase in the relative speed of the migration from current status to charge-off represents a negative impact to the longer term performance of the portfolio. Although the collateral value assessment is an important component of the overall credit risk analysis, there are very few instances of available equity in junior-lien default situations. In response to this trend and the potential negative impacts to the portfolio, we have established at least a 98% LGD for junior-lien loans, which at June 30, 2012, comprised 50% of our home equity portfolio.

Further, in January 2012, regulatory guidance was published addressing specific risks and required actions associated with junior-lien loans. As a result of this guidance, effective with the 2012 first quarter, any junior-lien loan associated with a nonaccruing first-lien loan is also placed on nonaccrual status. This action resulted in an increase in home equity NALs of $8.7 million in the 2012 first quarter. Also contained in the regulatory guidance was an item associated with maturing HELOCs. Even in situations where the product contains an amortization period at the conclusion of the draw period, there will likely be a payment shock to the borrower. This is a risk embedded in the portfolio that we address with proactive contact strategies beginning 180 days prior to maturity. In certain circumstances, our Home Savers team is able to provide payment and structure relief to borrowers experiencing significant financial hardship associated with the payment adjustment.

Residential Mortgage Portfolio

We focus on higher quality borrowers and underwrite all applications centrally. We do not originate residential mortgages that allow negative amortization or allow the borrower multiple payment options. We will continue to evaluate the impact of the recently issued Basel III NPRs to our residential mortgage origination policies.

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

At June 30, 2012, 51% of our total residential mortgage loan portfolio had adjustable rates. At June 30, 2012, ARM loans that were expected to have rates reset totaled $1.8 billion through 2015. These loans scheduled to reset are primarily associated with loans originated subsequent to 2007, and as such, are not subject to the most significant declines in underlying property value. Given the quality of our borrowers, the relatively low current interest rates, and the results of our continued analysis (including possible impacts of changes in 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. Given the relatively low current interest rates, many fixed-rate products currently offer a better interest rate to our ARM borrowers.

Several government programs continued to impact the residential mortgage portfolio, including various refinance programs such as HAMP and HARP, which positively affected the availability of credit for the industry. We utilize these programs to enhance our existing strategies of working closely with our customers. During the first six-month period of 2012, we closed $257 million in HARP residential mortgages and $4 million in HAMP residential mortgages. The HARP residential mortgage loans are considered current and are either part of our residential mortgage portfolio or serviced for others. The HAMP refinancings are associated with residential mortgages that are serviced for others.

Credit Quality

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

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

Credit quality performance in the 2012 second quarter reflected overall continued improvement despite the inclusion of the acquired Fidelity portfolio. NCOs increased slightly compared to the prior quarter and declined substantially from the year-ago quarter. NPAs declined 1% compared to the prior quarter. Although commercial Criticized loans increased compared to the prior quarter as a result of the Fidelity acquisition, the overall portfolio excluding the acquired Fidelity loans continued to improve. The ACL to total loans ratio declined to 2.28% and our ACL coverage ratios remained at appropriate levels. Our ACL as a percentage of NPAs remained strong at 174%.

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NPAs, NALs, AND TDRs

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

NPAs and NALs

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

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

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

Table 17 - Nonaccrual Loans and Leases and Nonperforming Assets

	2012			2011	
(dollar amounts in thousands)	**June 30,**	March 31,	December 31,	September 30,	June 30,
Nonaccrual loans and leases:					
Commercial and industrial	**$ 133,678**	$ 142,492	$ 201,846	$ 209,632	$ 229,327
Commercial real estate	**219,417**	205,105	229,889	257,086	291,500
Residential mortgage	**75,048**	74,114	68,658	61,129	59,853
Home equity	**46,023**	45,847	40,687	37,156	33,545
Total nonaccrual loans and leases(1)	**474,166**	467,558	541,080	565,003	614,225
Other real estate owned, net					
Residential(2)	**21,499**	31,850	20,330	18,588	20,803
Commercial	**17,109**	16,897	18,094	19,418	17,909
Total other real estate owned, net	**38,608**	48,747	38,424	38,006	38,712
Other nonperforming assets(3)	**10,476**	10,772	10,772	10,972	
Total nonperforming assets	**$ 523,250**	$ 527,077	$ 590,276	$ 613,981	$ 652,937
Nonaccrual loans as a % of total loans and leases	**1.19 %**	1.15 %	1.39 %	1.45 %	1.57 %
Nonperforming assets ratio(4)	**1.31**	1.29	1.51	1.57	1.67

(1) All loans acquired as part of the FDIC-assisted Fidelity Bank acquisition accrue interest as performing loans or as purchased impaired loans in accordance with ASC 310-30; therefore, none of the acquired loans were reported as nonaccrual at March 31, 2012 and June 30, 2012.

(2) Residential real estate owned acquired in the FDIC-assisted Fidelity Bank acquisition are reflected in the above table effective March 31, 2012.

(3) Other nonperforming assets represent an investment security backed by a municipal bond.

(4) This ratio is calculated as nonperforming assets divided by the sum of loans and leases, other nonperforming assets, and net other real estate.

The $3.8 million, or 1%, decline in NPAs compared with March 31, 2012, primarily reflected:

- $10.1 million, or 21%, decline in OREO, primarily reflecting significant sale activity during the current quarter. The increase in the 2012 first quarter primarily resulted from OREO properties acquired in the Fidelity Bank acquisition.

- $8.8 million, or 6%, decline in C&I NALs, reflecting both NCO activity and problem credit resolutions, including payoffs. The decline was associated with loans throughout our footprint, with no specific industry concentration.

Partially offset by:

- $14.3 million, or 7%, increase in CRE NALs, reflecting a small number of higher-dollar amount loans. Although we anticipate some degree of quarter-to-quarter volatility in our NAL levels, we expect that the overall trend will continue to be lower.

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

Compared with December 31, 2011, NPAs decreased $67.0 million, or 11%, primarily reflecting:

- $68.2 million, or 34%, decline in C&I NALs, reflecting both NCO activity and problem credit resolutions, including payoffs. The decline was associated with loans throughout our footprint, with no specific industry concentration.

- $10.5 million, or 5%, decline in CRE NALs, reflecting both NCO activity and problem credit resolutions, including borrower payments and payoffs, partially offset by a small number of relatively higher-dollar loans placed on nonaccrual status during the current quarter.

Partially offset by:

- $6.4 million, or 9%, increase in residential mortgage NALs, reflecting the sustained weak economic conditions and the decline of residential real estate property values. The NAL balances have been written down to net realizable value, less anticipated selling costs, which substantially limits any significant future risk of additional loss on these loans.

- $5.3 million, or 13%, increase in home equity NALs, also reflecting our implementation of regulatory guidance issued in the 2012 first quarter *(see ACL section).* This action resulted in an increase in home equity NALs of $8.7 million in the 2012 first quarter.

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TDR Loans

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

TDRs are modified loans in which a concession is provided to a borrower experiencing financial difficulties. TDRs can be classified as either accrual or nonaccrual loans. Nonaccrual TDRs are included in NALs whereas accruing TDRs are excluded from NALs, as it is probable that all contractual principal and interest due under the restructured terms will be collected. TDRs primarily reflect our loss mitigation efforts to proactively work with borrowers having difficulty making their payments.

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

Table 18 - Accruing and Nonaccruing Troubled Debt Restructured Loans

	2012		2011		
(dollar amounts in thousands)	**June 30,**	March 31, (1)	December 31,	September 30,	June 30,
Troubled debt restructured loans accruing:					
Commercial and industrial	**$ 57,008**	$ 53,795	$ 54,007	$ 77,509	$ 62,272
Commercial real estate	**202,190**	231,923	249,968	244,089	177,854
Automobile	**34,460**	35,521	36,573	37,371	29,059
Home equity	**66,997**	59,270	52,224	47,712	37,067
Residential mortgage	**298,967**	294,836	309,678	304,365	313,772
Other consumer	**3,038**	4,233	6,108	4,513	8,910
Total troubled debt restructured loans accruing	**662,660**	679,578	708,558	715,559	628,934
Troubled debt restructured loans nonaccruing:					
Commercial and industrial	**35,535**	26,886	48,553		