HUNTINGTON BANCSHARES INC/MD
Form 10-Q
October 31, 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 September 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 855,485,376 shares of Registrant s common stock ($0.01 par value) outstanding on September 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
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
CDO	Collateralized Debt Obligations
CDs	Certificates of Deposit
CMO	Collateralized Mortgage Obligations
CRE	Commercial Real Estate
Dodd-Frank Act	Dodd-Frank Wall Street Reform and Consumer Protection Act
EPS	Earnings Per Share
EVE	Economic Value of Equity
FASB	Financial Accounting Standards Board
FDIC	Federal Deposit Insurance Corporation
FHA	Federal Housing Administration
FHLB	Federal Home Loan Bank
FHLMC	Federal Home Loan Mortgage Corporation
FICA	Federal Insurance Contributions Act
FICO	Fair Isaac Corporation
FNMA	Federal National Mortgage Association
FRB	Federal Reserve Bank
FTE	Fully-Taxable Equivalent
FTP	Funds Transfer Pricing
GAAP	Generally Accepted Accounting Principles in the United States of America
HAMP	Home Affordable Modification Program
HARP	Home Affordable Refinance Program
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
MSA	Metropolitan Statistical Area

MSR	Mortgage Servicing Rights
NALs	Nonaccrual Loans
NCO	Net Charge-off
NPAs	Nonperforming Assets
NPR	Notice of Proposed Rulemaking
N.R.	Not relevant. Denominator of calculation is a gain in the current period compared with a loss in the prior period, or vice-versa.
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).
REIT	Real Estate Investment Trust
ROC	Risk Oversight Committee
SAD	Special Assets Division
SBA	Small Business Administration
SEC	Securities and Exchange Commission
SERP	Supplemental Executive Retirement Plan
SRIP	Supplemental Retirement Income Plan
TDR	Troubled Debt Restructured Loan
U.S. 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

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PART I. FINANCIAL INFORMATION

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

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

INTRODUCTION

We are a multi-state diversified regional bank holding company organized under Maryland law in 1966 and headquartered in Columbus, Ohio. Through the Bank, we have 145 years of servicing the financial needs of our customers. Through our subsidiaries, we provide full-service commercial and consumer banking services, mortgage banking services, automobile financing, equipment leasing, investment management, trust services, brokerage services, customized insurance service programs, and other financial products and services. Our over 690 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 Third Quarter Results

For the quarter, we reported net income of $167.8 million, or $0.19 per common share, compared with $152.7 million, or $0.17 per common share, in the prior quarter (*see Table 1*).

Fully-taxable equivalent net interest income was $435.6 million for the quarter, up $0.8 million, or less than 1%, from the prior quarter. The increase reflected the benefit of a $0.3 billion, or 1%, increase in average earning assets, partially offset by a 4 basis point decrease in the fully-taxable equivalent net interest margin to 3.38% from 3.42%. The 4 basis point decrease in the net interest margin reflected the negative impact of a 10 basis point decline in the yield on earning assets, 6 basis points of which were related to the yield on loans. This was partially offset by the benefit of a 6 basis point reduction in total funding costs.

The provision for credit losses increased $0.5 million, or 1%, from the prior quarter. This reflected a $20.9 million, or 25%, increase in NCOs to $105.1 million, or an annualized 1.05% of average total loans and leases, from $84.2 million, or an annualized 0.82%, in the prior quarter. Of this quarter s NCOs, $33.0 million related to regulatory guidance requiring loans discharged under Chapter 7 bankruptcy to be charged down to their collateral value. Approximately 90% of these borrowers continue to make payments as scheduled. Partially offsetting the increase in NCOs was significant improvement in asset quality trends, resulting in lower calculated reserves.

Total noninterest income increased $7.2 million, or 3%, from the prior quarter. This included a $6.3 million, or 16%, increase in mortgage banking income and a $3.8 million increase in securities gains. Gain on sale of loans increased $2.5 million, or 60%, due to the sale of $0.2 billion of automobile loans that we classified as held for sale at the end of the prior quarter. These positive impacts were partially offset by a $4.4 million, or 16%, decrease in other income as the prior quarter included a gain on the sale of affordable housing investments.

Noninterest expense increased $14.0 million, or 3%, from the prior quarter. This included a $4.7 million, or 2%, increase in personnel costs primarily reflecting higher healthcare costs and a $4.4 million increase in the cost associated with early extinguishment of trust preferred securities that were redeemed during the quarter. Noninterest expense included $4.5 million of expense related to the development of infrastructure and systems to support the Federal Reserve CCAR process.

The period-end ACL as a percentage of total loans and leases decreased to 2.09% from 2.28% in the prior quarter. The ACL as a percentage of period end NALs was essentially unchanged, decreasing 3 percentage points to 189%. NALs declined by $29.1 million, or 6%, to $445.0 million, or 1.11% of total loans, during the quarter despite a $63.0 million increase associated with the revised treatment of Chapter 7 bankruptcy consumer loans.

Our Tier 1 common risk-based capital ratio at September 30, 2012, was 10.27%, up from 10.08% at June 30, 2012, and our tangible common equity ratio increased to 8.74% from 8.41% over this same period. The regulatory Tier 1 risk-based capital ratio at September 30, 2012, was 11.87%, down from 11.93%, at June 30, 2012. This decline reflected the capital actions taken throughout the quarter and are discussed below.

Over the quarter, and consistent with planned capital actions, we redeemed $114.3 million of trust preferred securities and repurchased 3.7 million common shares at an average price of $6.68 per share. The weighted average coupon of the remaining $300 million of trust preferred securities is LIBOR + 1.02%. Reinvesting excess capital to grow the business organically remains our first priority. Importantly, through dividends and share repurchases, we have the flexibility, subject to market conditions, to return a meaningful amount of our earnings to the owners of the company.

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 third quarter results clearly showed the continued benefit of the investment we have made over the preceding three years. Adding over 250,000 consumer households, a 27% increase, and 26,000 commercial relationships, or 21% increase, since the first quarter of 2010 has allowed us to grow quarterly total revenue by more than $59 million even with the negative impacts from the low absolute level of interest rates, the flat shape of the yield curve, and the reduction of over $25 million revenue per quarter due to the Durbin amendment and implementation of changes to Regulation E. Not only are we gaining customers, we are selling deeper with 76% of consumer checking account households and 33% of commercial relationships now with 4 or more products or services. Strategic investments have a maximum of two years to break even with many reaching that level in the first year. A portion of our strategic investments remain in the early stages, such as our strategy to build over 180 in-store full service branches. The in-store branches are on target with the estimated aggregate impact to operating income negligible next year and positive in 2014.

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Economy

We continue to see positive trends within our Midwest markets relative to the broader United States. Nevertheless, broad based customer sentiment began to change late in the quarter. Customers have increased concerns, in the near term, regarding the U.S. economy as we approach the election and scheduled impacts of the Budget Control Act of 2011. We are optimistic that once permanent solutions are in place, the strength of the Midwest and the soundness of our strategy will continue to drive growth and improved profitability.

Generally, our footprint large metropolitan statistical areas (MSA) unemployment rates were below the national average as of July 2012. In addition, our footprint states have continued to be strong export states. For the three-month average ending July 2012, exports from our footprint states were 8.5% greater than the same period last year. By comparison, overall U.S. exports were 5.1% higher. Office vacancy rates in our footprint MSAs were above the national vacancy rate in the prior quarter, but have generally remained on declining trends.

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. Recent actions affecting us include 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 NPRs would establish more restrictive capital definitions, higher risk-weightings for certain asset classes, capital buffers and higher minimum capital ratios. The NPRs were in a comment period through October 22, 2012, and are subject to further modification by the Agencies. We are currently evaluating the impact of the NPRs on our regulatory capital ratios. We 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, if the proposed NPRs are adopted as proposed. 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 / Supervisory and Company-Run Stress Test Requirements 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. The capital planning review process included 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 stress test requirement designed to test our capital adequacy throughout times of economic and financial stress.

In October 2012, the Federal Reserve published two final rules with stress testing requirements for certain bank holding companies, state member banks, and savings and loan holding companies. The final rules implement sections 165(i)(1) and (i)(2) of the Dodd-Frank Act that require supervisory and company-run stress tests. The Federal Reserve will begin conducting supervisory stress tests under the final rules in the 2012 fourth quarter for the 19 bank holding companies that participated in the 2009 Supervisory Capital Assessment Program and subsequent Comprehensive Capital Analysis and Reviews. We were not included in this group of 19 bank holding companies.

Huntington will be subject to the Federal Reserve s supervisory stress tests beginning in late 2013, however as in the prior year, we are subject to CapPR and will conduct internal stress testing as part of the completion of our annual Capital Plan. The Federal Reserve is expected to release the scenarios for this year s supervisory and company-run stress tests no later than November 15, 2012. As required by the Dodd-Frank Act, the scenarios will describe hypothetical baseline, adverse, and severely adverse conditions, with paths for key macroeconomic and financial variables. We must submit our Capital Plan to the Federal Reserve no later than January 5, 2013.

In October 2012, the OCC issued its Annual Stress Test final rule. This final rule implements section 165(i) of the Dodd-Frank Act which requires certain companies to conduct annual stress tests pursuant to regulations prescribed by their respective primary financial regulatory agencies. The OCC has stipulated in its final rule that it will consult closely with the Federal Reserve to provide common stress scenarios for use at both the depository institution and holding company levels. The OCC has deferred the requirement for us to complete separate annual stress tests at the bank-level until next year. For additional discussion, please see Updates to Risk Factors within the Additional Disclosures section.

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Expectations

For the next several quarters, average net interest income is expected to be relatively stable from the third quarter s 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 slight downward net interest margin pressure due to the anticipated competitive pressures on loan pricing, as well as reinvestment into lower rate securities, and declining positive impacts from deposit repricing. The C&I portfolio is expected to continue to show growth. Although, given the most recent trend, we are expecting near-term growth to be slower than the strong growth we experienced earlier this year. Our C&I sales pipeline remains robust with much of this reflecting the positive impact from our strategic initiatives, focused OCR sales process, and continued support of middle market and small business lending in the Midwest. We will continue to evaluate the use of automobile loan securitizations to limit total on-balance sheet exposure due to our expectation of continued strong levels of originations. On October 11, 2012, a $1.0 billion automobile loan securitization was completed and resulted in a gain of approximately $17 million. Residential mortgages and home equity loan balances are expected to be relatively stable in response to the proposed capital rules recently released by our regulators. CRE loans likely will experience declines from current levels.

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

Noninterest income, excluding the impact of any automobile loan sales or security gains and any net MSR impact, is expected to be relatively stable at current levels. Continued growth in new customers and increased contribution from increased cross-sell are expected to be offset by a slowdown in mortgage banking activity.

Noninterest expense is expected to modestly increase above the 2012 third quarter level. For the full year, we continue to anticipate positive operating leverage and modest improvement in our expense efficiency ratio. Additional regulatory costs and expenses associated with strategic actions, including the planned opening of over 80 in-store branches this year, are expected to be partially offset by our focus on improving expense efficiencies throughout the company.

Credit quality is expected to experience improvement. The level of provision for credit losses in the first three quarters 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 the provision for credit losses and the uncertain and uneven nature of the economic recovery.

We anticipate the effective tax rate for the 2012 fourth quarter 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)	**Third**	Second	First	Fourth	Third
Interest income	**$ 483,787**	$ 487,544	$ 479,937	$ 485,216	$ 490,996
Interest expense	**53,489**	58,582	62,728	70,191	84,518
Net interest income	**430,298**	428,962	417,209	415,025	406,478
Provision for credit losses	**37,004**	36,520	34,406	45,291	43,586
Net interest income after provision for credit losses	**393,294**	392,442	382,803	369,734	362,892
Service charges on deposit accounts	**67,806**	65,998	60,292	63,324	65,184
Trust services	**29,689**	29,914	30,906	28,775	29,473
Electronic banking	**22,135**	20,514	18,630	18,282	32,901
Mortgage banking income	**44,614**	38,349	46,418	24,098	12,791
Brokerage income	**16,526**	19,025	19,260	18,688	20,349
Insurance income	**17,792**	17,384	18,875	17,906	17,220
Bank owned life insurance income	**14,371**	13,967	13,937	14,271	15,644
Capital markets fees	**11,805**	13,455	9,982	9,811	11,256
Gain on sale of loans	**6,591**	4,131	26,770	2,884	19,097
Automobile operating lease income	**2,146**	2,877	3,775	4,727	5,890
Securities gains (losses)	**4,169**	350	(613)	(3,878)	(1,350)
Other income	**23,423**	27,855	37,088	30,464	30,104
Total noninterest income	**261,067**	253,819	285,320	229,352	258,559
Personnel costs	**247,709**	243,034	243,498	228,101	226,835
Outside data processing and other services	**49,880**	48,149	42,058	53,422	49,602
Net occupancy	**27,599**	25,474	29,079	26,841	26,967
Equipment	**25,950**	24,872	25,545	25,884	22,262
Deposit and other insurance expense	**15,534**	15,731	20,738	18,481	17,492
Marketing	**20,178**	21,365	16,776	16,379	22,251
Professional services	**18,024**	15,458	11,230	16,769	20,281
Amortization of intangibles	**11,431**	11,940	11,531	13,175	13,387
Automobile operating lease expense	**1,619**	2,183	2,854	3,362	4,386
OREO and foreclosure expense	**4,982**	4,106	4,950	5,009	4,668
Loss (Gain) on early extinguishment of debt	**1,782**	(2,580)		(9,697)	
Other expense	**33,615**	34,537	54,417	32,548	30,987
Total noninterest expense	**458,303**	444,269	462,676	430,274	439,118
Income before income taxes	**196,058**	201,992	205,447	168,812	182,333
Provision for income taxes	**28,291**	49,286	52,177	41,954	38,942
Net income	**$ 167,767**	$ 152,706	$ 153,270	$ 126,858	$ 143,391
Dividends on preferred shares	**7,983**	7,984	8,049	7,703	7,703
Net income applicable to common shares	**$ 159,784**	$ 144,722	$ 145,221	$ 119,155	$ 135,688
Average common shares basic	**857,871**	862,261	864,499	864,136	863,911
Average common shares diluted	**863,588**	867,551	869,164	868,156	867,633
Net income per common share basic	**$ 0.19**	$ 0.17	$ 0.17	$ 0.14	$ 0.16
Net income per common share diluted	**0.19**	0.17	0.17	0.14	0.16

Cash dividends declared per common share	**0.04**	0.04	0.04	0.04	0.04
Return on average total assets	**1.19%**	1.10%	1.13%	0.92%	1.05%
Return on average common shareholders equity	**11.9**	11.1	11.4	9.3	10.8
Return on average tangible common shareholders equity (2)	**13.9**	13.1	13.5	11.2	13.0
Net interest margin (3)	**3.38**	3.42	3.40	3.38	3.34
Efficiency ratio (4)	**64.5**	62.8	63.8	64.0	63.5
Effective tax rate	**14.4**	24.4	25.4	24.9	21.4
Revenue FTE					
Net interest income	**$ 430,298**	$ 428,962	$ 417,209	$ 415,025	$ 406,478
FTE adjustment	**5,254**	5,747	3,935	3,479	3,658
Net interest income (3)	**435,552**	434,709	421,144	418,504	410,136
Noninterest income	**261,067**	253,819	285,320	229,352	258,559
Total revenue (3)	**$ 696,619**	$ 688,528	$ 706,464	$ 647,856	$ 668,695

(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)	Nine Months Ended September 30, **2012**	2011	Change Amount	Percent
Interest income	**$ 1,451,268**	$ 1,485,010	$ (33,742)	(2)%
Interest expense	**174,799**	270,865	(96,066)	(35)
Net interest income	**1,276,469**	1,214,145	62,324	5
Provision for credit losses	**107,930**	128,768	(20,838)	(16)
Net interest income after provision for credit losses	**1,168,539**	1,085,377	83,162	8
Service charges on deposit accounts	**194,096**	180,183	13,913	8
Trust services	**90,509**	90,607	(98)	
Electronic banking	**61,279**	93,415	(32,136)	(34)
Mortgage banking income	**129,381**	59,310	70,071	118
Brokerage income	**54,811**	61,679	(6,868)	(11)
Insurance income	**54,051**	51,564	2,487	5
Bank owned life insurance income	**42,275**	48,065	(5,790)	(12)
Capital markets fees	**35,242**	26,729	8,513	32
Gain on sale of loans	**37,492**	29,060	8,432	29
Automobile operating lease income	**8,798**	22,044	(13,246)	(60)
Securities gains (losses)	**3,906**	197	3,709	1,883
Other income	**88,366**	88,418	(52)	
Total noninterest income	**800,206**	751,271	48,935	7
Personnel costs	**734,241**	664,433	69,808	11
Outside data processing and other services	**140,087**	133,773	6,314	5
Net occupancy	**82,152**	82,288	(136)	
Equipment	**76,367**	66,660	9,707	15
Deposit and other insurance expense	**52,003**	59,211	(7,208)	(12)
Marketing	**58,319**	59,248	(929)	(2)
Professional services	**44,712**	53,826	(9,114)	(17)
Amortization of intangibles	**34,902**	40,143	(5,241)	(13)
Automobile operating lease expense	**6,656**	16,656	(10,000)	(60)
OREO and foreclosure expense	**14,038**	12,997	1,041	8
Gain on early extinguishment of debt	**(798)**		(798)	
Other expense	**122,569**	108,991	13,578	12
Total noninterest expense	**1,365,248**	1,298,226	67,022	5
Income before income taxes	**603,497**	538,422	65,075	12
Provision for income taxes	**129,754**	122,667	7,087	6
Net income	**$ 473,743**	$ 415,755	$ 57,988	14%
Dividends declared on preferred shares	**24,016**	23,110	906	4
Net income applicable to common shares	**$ 449,727**	$ 392,645	$ 57,082	15%
Average common shares basic	**861,543**	863,542	(1,999)	%
Average common shares diluted (2)	**866,768**	867,446	(678)	
Per common share				

Net income per common share - basic	**$ 0.52**	$ 0.45	$ 0.07	16%
Net income per common share - diluted	**0.52**	0.45	0.07	16
Cash dividends declared	**0.12**	0.06	0.06	100
Return on average total assets	**1.14%**	1.04%	0.10%	10%
Return on average common shareholders equity	**11.5**	10.9	0.6	6
Return on average tangible common shareholders equity (3)	**13.5**	13.2	0.3	2
Net interest margin (4)	**3.40**	3.39	0.01	
Efficiency ratio (5)	**63.7**	63.6	0.1	
Effective tax rate	**21.5**	22.8	(1.3)	(6)
Revenue FTE				
Net interest income	**$ 1,276,469**	$ 1,214,145	$ 62,324	5%
FTE adjustment	**14,936**	11,437	3,499	31
Net interest income (4)	**1,291,405**	1,225,582	65,823	5
Noninterest income	**800,206**	751,271	48,935	7
Total revenue (4)	**$ 2,091,611**	$ 1,976,853	$ 114,758	6%

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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

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 the 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.

3. **State deferred tax asset valuation allowance adjustment.** During the 2012 third quarter, a valuation allowance of $19.5 million (net of tax) was released for the portion of the deferred tax asset and state net operating loss carryforwards expected to be realized. This resulted in a positive impact of $0.02 per common share for both the quarterly and year-to-date basis. Additional information

can be found in the Provision for Income Taxes section within this MD&A.

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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					
	September 30, 2012		June 30, 2012		September 30, 2011	
(dollar amounts in thousands, except per share amounts)	**After-tax**	**EPS (2)**	After-tax	EPS (2)	After-tax	EPS (2)
Net income	**$ 167,767**		$ 152,706		$ 143,391	
Earnings per share, after-tax		**$ 0.19**		$ 0.17		$ 0.16
Change from prior quarter - $		**0.02**				
Change from prior quarter - %		**12%**		%		%
Change from year-ago - $		**$ 0.03**		$ 0.01		$ 0.06
Change from year-ago - %		**19%**		6%		60%
Significant Items - favorable (unfavorable) impact:	**Earnings (1)**	**EPS (2)**	Earnings (1)	EPS (2)	Earnings (1)	EPS (2)
State deferred tax asset valuation allowance adjustment (2)	**$ 19,513**	**$ 0.02**	$	$	$	$

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

	Nine Months Ended			
	September 30, 2012		September 30, 2011	
(dollar amounts in thousands)	**After-tax**	**EPS (2)**	After-tax	EPS (2)
Net income	**$ 473,743**		$ 415,755	
Earnings per share, after-tax		**$ 0.52**		$ 0.45
Change from a year-ago - $		**0.07**		0.31
Change from a year-ago - %		**16%**		221%
Significant Items favorable (unfavorable) impact:	**Earnings (1)**	**EPS (2)**	Earnings (1)	EPS (2)
State deferred tax asset valuation allowance adjustment (2)	**$ 19,513**	**$ 0.02**	$	$
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.

Net Interest Income / Average Balance Sheet

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

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Table 4 - Consolidated Quarterly Average Balance Sheets

	Average Balances					Change	
	2012			2011		3Q12 vs. 3Q11	
(dollar amounts in millions)	**Third**	Second (2)	First	Fourth	Third	Amount	Percent
Assets:							
Interest-bearing deposits in banks	**$ 82**	$ 124	$ 100	$ 107	$ 164	$ (82)	(50)%
Trading account securities	**66**	54	50	81	92	(26)	(28)
Loans held for sale	**1,829**	410	1,265	316	237	1,592	672
Available-for-sale and other securities:							
Taxable	**8,014**	8,285	8,171	8,065	7,902	112	1
Tax-exempt	**423**	387	404	409	421	2	
Total available-for-sale and other securities	**8,437**	8,672	8,575	8,474	8,323	114	1
Held-to-maturity securities taxable	**796**	611	632	650	665	131	20
Loans and leases: (1)							
Commercial:							
Commercial and industrial	**16,343**	16,094	14,824	14,219	13,664	2,679	20
Commercial real estate:							
Construction	**569**	584	598	533	670	(101)	(15)
Commercial	**5,153**	5,491	5,254	5,425	5,441	(288)	(5)
Commercial real estate	**5,722**	6,075	5,852	5,958	6,111	(389)	(6)
Total commercial	**22,065**	22,169	20,676	20,177	19,775	2,290	12
Consumer:							
Automobile	**4,065**	4,985	4,576	5,639	6,211	(2,146)	(35)
Home equity	**8,369**	8,310	8,234	8,149	8,002	367	5
Residential mortgage	**5,177**	5,253	5,174	5,043	4,788	389	8
Other consumer	**444**	462	485	511	521	(77)	(15)
Total consumer	**18,055**	19,010	18,469	19,342	19,522	(1,467)	(8)
Total loans and leases	**40,120**	41,179	39,145	39,519	39,297	823	2
Allowance for loan and lease losses	**(855)**	(908)	(961)	(1,014)	(1,066)	211	(20)
Net loans and leases	**39,265**	40,271	38,184	38,505	38,231	1,034	3
Total earning assets	**51,330**	51,050	49,767	49,147	48,778	2,552	5
Cash and due from banks	**960**	928	1,012	1,671	1,700	(740)	(44)
Intangible assets	**597**	609	613	625	639	(42)	(7)
All other assets	**4,106**	4,158	4,225	4,221	4,142	(36)	(1)
Total assets	**$ 56,138**	$ 55,837	$ 54,656	$ 54,650	$ 54,193	$ 1,945	4%
Liabilities and Shareholders Equity:							
Deposits:							
Demand deposits - noninterest-bearing	**$ 12,329**	$ 12,064	$ 11,273	$ 10,716	$ 8,719	$ 3,610	41%
Demand deposits - interest-bearing	**5,814**	5,939	5,646	5,570	5,573	241	4
Money market deposits	**14,515**	13,182	13,141	13,594	13,321	1,194	9
Savings and other domestic deposits	**4,975**	4,978	4,817	4,706	4,752	223	5
Core certificates of deposit	**6,131**	6,618	6,510	6,769	7,592	(1,461)	(19)
Total core deposits	**43,764**	42,781	41,387	41,355	39,957	3,807	10

Other domestic time deposits of $250,000 or more	**300**	298	347	405	387	(87)	(22)
Brokered deposits and negotiable CDs	**1,878**	1,421	1,301	1,410	1,533	345	23
Deposits in foreign offices	**356**	357	430	434	401	(45)	(11)
Total deposits	**46,298**	44,857	43,465	43,604	42,278	4,020	10
Short-term borrowings	**1,329**	1,391	1,512	1,728	2,251	(922)	(41)
Federal Home Loan Bank advances	**107**	626	419	29	285	(178)	(62)
Subordinated notes and other long-term debt	**1,638**	2,251	2,652	2,866	3,030	(1,392)	(46)
Total interest-bearing liabilities	**37,043**	37,061	36,775	37,511	39,125	(2,082)	(5)
All other liabilities	**1,035**	1,094	1,116	978	1,017	18	2
Shareholders equity	**5,731**	5,618	5,492	5,445	5,332	399	7
Total liabilities and shareholders equity	**$ 56,138**	$ 55,837	$ 54,656	$ 54,650	$ 54,193	$ 1,945	4%

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

(2) The acquisition of Fidelity Bank on March 30, 2012, contributed to the increase in average loans and deposits

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Table 5 - Consolidated Quarterly Net Interest Margin Analysis

Fully-taxable equivalent basis (1)	Average Rates (2)				
	2012			2011	
	Third	Second	First	Fourth	Third
Assets					
Interest-bearing deposits in banks	**0.21%**	0.31%	0.05%	0.06%	0.04%
Trading account securities	**1.07**	1.64	1.65	0.97	1.41
Loans held for sale	**3.18**	3.46	3.80	3.96	4.46
Available-for-sale and other securities:					
Taxable	**2.29**	2.33	2.39	2.37	2.43
Tax-exempt	**4.15**	4.23	4.17	4.22	4.17
Total available-for-sale and other securities	**2.39**	2.41	2.47	2.46	2.52
Held-to-maturity securities taxable	**2.81**	2.97	2.98	2.99	3.04
Loans and leases: (3)					
Commercial:					
Commercial and industrial	**3.90**	3.99	4.01	4.01	4.13
Commercial real estate:					
Construction	**3.84**	3.66	3.85	4.78	3.87
Commercial	**3.85**	3.93	3.82	3.91	3.91
Commercial real estate	**3.85**	3.89	3.82	3.99	3.91
Total commercial	**3.89**	3.97	3.96	4.01	4.06
Consumer:					
Automobile	**4.87**	4.68	4.87	4.80	4.89
Home equity	**4.27**	4.30	4.30	4.41	4.45
Residential mortgage	**4.02**	4.14	4.17	4.30	4.47
Other consumer	**7.16**	7.42	7.47	7.32	7.57
Total consumer	**4.40**	4.43	4.49	4.57	4.68
Total loans and leases	**4.12**	4.18	4.21	4.28	4.37
Total earning assets	**3.79%**	3.89%	3.91%	3.95%	4.02%
Liabilities					
Deposits:					
Demand deposits - noninterest-bearing	**%**	%	%	%	%
Demand deposits - interest-bearing	**0.07**	0.07	0.06	0.08	0.10
Money market deposits	**0.33**	0.30	0.26	0.32	0.41
Savings and other domestic deposits	**0.37**	0.39	0.45	0.52	0.69
Core certificates of deposit	**1.25**	1.38	1.60	1.69	1.95
Total core deposits	**0.47**	0.50	0.54	0.61	0.77
Other domestic time deposits of $250,000 or more	**0.68**	0.66	0.68	0.78	0.93
Brokered deposits and negotiable CDs	**0.71**	0.75	0.79	0.77	0.77
Deposits in foreign offices	**0.18**	0.19	0.18	0.19	0.26
Total deposits	**0.48**	0.51	0.55	0.61	0.77
Short-term borrowings	**0.16**	0.16	0.16	0.18	0.16
Federal Home Loan Bank advances	**0.50**	0.21	0.21	2.09	0.32

Subordinated notes and other long-term debt	**2.91**	2.83	2.74	2.56	2.43
Total interest-bearing liabilities	**0.58%**	0.63%	0.68%	0.74%	0.86%
Net interest rate spread	**3.15%**	3.18%	3.15%	3.15%	3.11%
Impact of noninterest-bearing funds on margin	**0.22**	0.25	0.25	0.23	0.22
Net interest margin	**3.38%**	3.42%	3.40%	3.38%	3.34%

(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

(dollar amounts in millions)	Third Quarter **2012**	Third Quarter 2011	Second Quarter 2012	3Q12 vs 3Q11 Amount	3Q12 vs 3Q11 Percent	3Q12 vs 2Q12 Amount	3Q12 vs 2Q12 Percent
Loans/Leases:							
Commercial and industrial	**$ 16,343**	$ 13,664	$ 16,094	$ 2,679	20%	$ 249	2%
Commercial real estate	**5,722**	6,111	6,075	(389)	(6)	(353)	(6)
Total commercial	**22,065**	19,775	22,169	2,290	12	(104)	(0)
Automobile	**4,065**	6,211	4,985	(2,146)	(35)	(920)	(18)
Home equity	**8,369**	8,002	8,310	367	5	59	1
Residential mortgage	**5,177**	4,788	5,253	389	8	(76)	(1)
Other loans	**444**	521	462	(77)	(15)	(18)	(4)
Total consumer	**18,055**	19,522	19,010	(1,467)	(8)	(955)	(5)
Total loans and leases	**$ 40,120**	$ 39,297	$ 41,179	$ 823	2%	$ (1,059)	(3)%
Deposits:							
Demand deposits noninterest-bearing	**$ 12,329**	$ 8,719	$ 12,064	$ 3,610	41%	$ 265	2%
Demand deposits interest-bearing	**5,814**	5,573	5,939	241	4	(125)	(2)
Total demand deposits	**18,143**	14,292	18,003	3,851	27	140	1
Money market deposits	**14,515**	13,321	13,182	1,194	9	1,333	10
Savings and other domestic time deposits	**4,975**	4,752	4,978	223	5	(3)	(0)
Core certificates of deposit	**6,131**	7,592	6,618	(1,461)	(19)	(487)	(7)
Total core deposits	**43,764**	39,957	42,781	3,807	10	983	2
Other deposits	**2,534**	2,321	2,076	213	9	458	22
Total deposits	**$ 46,298**	$ 42,278	$ 44,857	$ 4,020	10%	$ 1,441	3%

2012 Third Quarter versus 2011 Third Quarter

Fully-taxable equivalent net interest income increased $25.4 million, or 6%, from the year-ago quarter. This reflected a $2.6 billion, or 5%, increase in average total earning assets and a 4 basis point increase in the FTE net interest margin. The increase in average earning assets reflected:

- $0.8 billion, or 2%, increase in average total loans and leases.

- $1.6 billion, 672%, increase in average loans held for sale, primarily reflecting a $1.3 billion reclassification to loans held for sale in the 2012 second quarter for a securitization that was completed in October 2012.

The 4 basis point increase in the FTE net interest margin reflected the positive impact from the reduction in the cost of average total interest-bearing liabilities, partially offset by a negative impact from lower earning asset yields.

The $0.8 billion, or 2%, 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 growth across multiple business lines including middle market and equipment finance.

Partially offset by:

$2.1 billion, or 35%, decrease in the average automobile portfolio. This reflected the impact of our program of securitization and sale of such loans. Specifically, securitizations of $1.0 billion in the 2011 third quarter and $1.3 billion in the 2012 first quarter, as well as the reclassification to loans held for sale of $1.3 billion in the 2012 second quarter in preparation for a securitization that was completed in October 2012.

The $4.0 billion, or 10%, increase in average total deposits from the year-ago quarter reflected:

$3.8 billion, or 10%, growth in average total core deposits. The drivers of this change were a $3.6 billion, or 41%, growth in average noninterest-bearing demand deposits and more modest growth in money market deposits, partially offset by $1.5 billion, or 19%, decline in average core certificates of deposit.

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2012 Third Quarter versus 2012 Second Quarter

Fully-taxable equivalent net interest income increased $0.8 million, or less than 1%, from the 2012 second quarter. This reflected the benefit of a $0.3 billion, or 1%, increase in average earning assets partially offset by a 4 basis point decrease in the FTE net interest margin to 3.38%. The increase in average earnings assets reflected a $1.4 billion increase in average loans held for sale and a $0.2 billion increase in average C&I, partially offset by the $0.9 billion decrease in average automobile loans, reflecting the prior quarter s reclassification of $1.3 billion of automobile loans into held for sale, and a $0.4 billion decrease in CRE loans. The primary items impacting the decrease in the net interest margin were:

- 6 basis point reduction related to the impact of the extended low rate environment on asset yields and mix.
- 4 basis point reduction related to balance sheet management changes.

Partially offset by:

- 6 basis point increase from the reduction in deposit rates and improvement in deposit mix.

The $1.1 billion, or 3%, decrease in average total loans and leases from the 2012 second quarter reflected:

- $0.9 billion, or 18%, decrease in average automobile loans. The decline reflected the reclassification of $1.3 billion of automobile loans to loans held for sale at the end of the prior quarter in preparation of a securitization that was completed in October 2012. Automobile loan originations continued to be strong during the 2012 third quarter, exceeding $1.0 billion.
- $0.4 billion, or 6%, decrease in average CRE loans, primarily reflecting the continued runoff of the noncore CRE portfolio, as well as a reduction in the core portfolio due to lower levels of new loan production.

Partially offset by:

- $0.2 billion, or 2%, growth in average C&I loans. This reflected the continued growth across multiple business lines including middle market and equipment finance, although there was a relative slowing of growth late in the quarter as borrowers expressed increased concerns, in the near term, around the U.S. economy.

The $1.0 billion, or 2%, increase in average total core deposits from the 2012 second quarter reflected:

- $1.3 billion, or 10%, increase in average money market deposits.
- $0.3 billion, or 2%, increase in average noninterest-bearing demand deposits reflecting an improved deposit mix as a result of growing total number of households and consumer checking accounts.

Partially offset by:

- $0.5 billion, or 7%, decrease in average core certificates of deposit primarily reflecting the continued focus on reducing the overall cost of deposits.

Noncore funding sources displayed a significant mix shift due to the decision to replace maturing FHLB advances with brokered deposits, reflecting the following changes from the prior quarter:

$0.5 billion, or 32%, increase in average brokered deposits and negotiable CDs.

$0.5 billion, or 83%, decrease in average FHLB advances.

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

	YTD Average Balances				YTD Average Rates (2)	
Fully-taxable equivalent basis (1)	Nine Months Ended September 30,		Change		Nine Months Ended September 30,	
(dollar amounts in millions)	**2012**	2011	Amount	Percent	**2012**	2011
Assets:						
Interest-bearing deposits in banks	**$ 102**	$ 141	$ (39)	(28)%	**0.20%**	0.12%
Trading account securities	**57**	116	(59)	(51)	**1.42**	1.46
Federal funds sold and securities purchased under resale agreement		7	(7)	(100)	**0.29**	0.09
Loans held for sale	**1,170**	279	891	319	**3.43**	4.39
Available-for-sale and other securities:						
Taxable	**8,156**	8,475	(319)	(4)	**2.34**	2.52
Tax-exempt	**405**	434	(29)	(7)	**4.18**	4.30
Total available-for-sale and other securities	**8,561**	8,909	(348)	(4)	**2.42**	2.61
Held-to-maturity securities taxable	**680**	282	398	141	**2.91**	3.00
Loans and leases: (3)						
Commercial:						
Commercial and industrial	**15,756**	13,387	2,369	18	**3.97**	4.33
Commercial real estate:						
Construction	**584**	612	(28)	(5)	**3.78**	3.55
Commercial	**5,299**	5,676	(377)	(7)	**3.87**	3.91
Commercial real estate	**5,883**	6,288	(405)	(6)	**3.86**	3.88
Total commercial	**21,639**	19,675	1,964	10	**3.94**	4.19
Consumer:						
Automobile	**4,540**	5,958	(1,418)	(24)	**4.80**	5.05
Home equity	**8,305**	7,869	436	6	**4.29**	4.49
Residential mortgage	**5,201**	4,607	594	13	**4.11**	4.61
Other consumer	**463**	539	(76)	(14)	**7.35**	7.73
Total consumer	**18,509**	18,973	(464)	(2)	**4.44**	4.79
Total loans and leases	**40,148**	38,648	1,500	4	**4.17**	4.48
Allowance for loan and lease losses	**(908)**	(1,141)	233	(20)		
Net loans and leases	**39,240**	37,507	1,733	5		
Total earning assets	**50,718**	48,382	2,336	5	**3.86%**	4.14%
Cash and due from banks	**967**	1,358	(391)	(29)		
Intangible assets	**606**	652	(46)	(7)		
All other assets	**4,163**	4,196	(33)	(1)		
Total assets	**$ 55,546**	$ 53,447	$ 2,099	4%		
Liabilities and Shareholders Equity:						
Deposits:						

Demand deposits noninterest-bearing	**$ 11,890**	$ 7,958	$ 3,932	49%	**%**	%
Demand deposits interest-bearing	**5,800**	5,499	301	5	**0.07**	0.10
Money market deposits	**13,616**	13,230	386	3	**0.30**	0.44
Savings and other domestic deposits	**4,924**	4,744	180	4	**0.40**	0.75
Core certificates of deposit	**6,418**	8,017	(1,599)	(20)	**1.41**	2.02
Total core deposits	**42,648**	39,448	3,200	8	**0.50**	0.83
Other domestic time deposits of $250,000 or more	**315**	486	(171)	(35)	**0.67**	1.02
Brokered deposits and negotiable CDs	**1,535**	1,426	109	8	**0.74**	0.92
Deposits in foreign offices	**381**	374	7	2	**0.18**	0.24
Total deposits	**44,879**	41,734	3,145	8	**0.51**	0.83
Short-term borrowings	**1,410**	2,166	(756)	(35)	**0.16**	0.17
Federal Home Loan Bank advances	**383**	138	245	178	**0.24**	0.64
Subordinated notes and other long-term debt	**2,179**	3,266	(1,087)	(33)	**2.81**	2.38
Total interest-bearing liabilities	**36,961**	39,346	(2,385)	(6)	**0.63**	0.92
All other liabilities	**1,081**	975	106	11		
Shareholders equity	**5,614**	5,168	446	9		
Total liabilities and shareholders equity	**$ 55,546**	$ 53,447	$ 2,099	4%		
Net interest rate spread					**3.16**	3.17
Impact of noninterest-bearing funds on margin					**0.24**	0.22
Net interest margin					**3.40%**	3.39%

(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 Nine Months versus 2011 First Nine Months

Fully-taxable equivalent net interest income for the first nine-month period of 2012 increased $65.8 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 increased to 3.40% from 3.39%. The increase in average earning assets reflected a combination of factors including:

- $1.5 billion, or 4%, increase in average total loans and leases.
- $0.9 billion, or 319%, increase in average loans held for sale, primarily reflecting reclassifications to loans held for sale in preparation for expected automobile securitizations.
- $0.4 billion, or 141%, increase in average held-to-maturity securities.

Partially offset by:

- $0.3 billion, or 4%, 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 Nine Months vs. 2011 First Nine Months

	Nine Months Ended September 30,		Change	
(dollar amounts in millions)	**2012 (1)**	2011	Amount	Percent
Loans/Leases:				
Commercial and industrial	**$ 15,756**	$ 13,387	$ 2,369	18%
Commercial real estate	**5,883**	6,288	(405)	(6)
Total commercial	**21,639**	19,675	1,964	10
Automobile	**4,540**	5,958	(1,418)	(24)
Home equity	**8,305**	7,869	436	6
Residential mortgage	**5,201**	4,607	594	13
Other consumer	**463**	539	(76)	(14)
Total consumer	**18,509**	18,973	(464)	(2)
Total loans and leases	**$ 40,148**	$ 38,648	$ 1,500	4%
Deposits:				
Demand deposits noninterest-bearing	**$ 11,890**	$ 7,958	$ 3,932	49%
Demand deposits interest-bearing	**5,800**	5,499	301	5
Total demand deposits	**17,690**	13,457	4,233	31
Money market deposits	**13,616**	13,230	386	3
Savings and other domestic deposits	**4,924**	4,744	180	4
Core certificates of deposit	**6,418**	8,017	(1,599)	(20)

Total core deposits	**42,648**	39,448	3,200	8
Other deposits	**2,231**	2,286	(55)	(2)
Total deposits	**$ 44,879**	$ 41,734	$ 3,145	8%

(1) The acquisition of Fidelity Bank on March 30, 2012, contributed to the increase in average loans and deposits.

The $1.5 billion, or 4%, increase in average total loans and leases primarily reflected:

$2.4 billion, or 18%, increase in the average C&I portfolio, primarily reflecting a combination of factors, including growth across multiple business lines including middle market and equipment finance as well as the impact of the Fidelity acquisition in March 2012.

$0.6 billion, or 13%, increase in the average residential mortgage portfolio, primarily reflecting a 31% increase in originations, as well as a lower percentage of mortgages sold in the secondary market.

- $0.4 billion, or 6%, increase in the average home equity portfolio with 75% of new originations in 2012 in a first-lien position.

Partially offset by:

- $1.4 billion, or 24%, decline in the average automobile portfolio. This reflected the impact of our continued program of the securitization and sale of such loans. Specifically, securitizations of $1.0 billion in the 2011 third quarter and $1.3 billion in the 2012 first quarter, as well as the reclassification to loans held for sale of $1.3 billion in the 2012 second quarter in preparation for a securitization that was completed in October 2012.

- $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 $3.1 billion, or 8%, increase in average total deposits reflected:

- $3.9 billion, or 49%, increase in noninterest-bearing demand deposits reflecting an improved deposit mix as a result of growing total number of households and consumer checking accounts as well as our treasury management and OCR focus on growing commercial demand deposits.

Partially offset by:

- $1.6 billion, or 20%, decline in core certificates of deposits, primarily reflecting our continued focus on reducing our overall costs 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 third quarter increased $0.5 million, or 1%, from the prior quarter to $37.0 million from $36.5 million, however declined $6.6 million, or 15%, from the year-ago quarter. On a year-to-date basis, provision for credit losses for the first nine-month period of 2012 declined $20.8 million, or 16%, compared to year-ago period. The current quarter s provision for credit losses was $68.1 million less than total NCOs and the provision for credit losses for the first nine-month period of 2012 was $164.4 million less than total NCOs. *(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		3Q12 vs 3Q11		3Q12 vs 2Q12	
(dollar amounts in thousands)	**Third**	Second	First	Fourth	Third	Amount	Percent	Amount	Percent
Service charges on deposit accounts	**$ 67,806**	$ 65,998	$ 60,292	$ 63,324	$ 65,184	$ 2,622	4%	$ 1,808	3%
Trust services	**29,689**	29,914	30,906	28,775	29,473	216	1	(225)	(1)
Electronic banking	**22,135**	20,514	18,630	18,282	32,901	(10,766)	(33)	1,621	8
Mortgage banking income	**44,614**	38,349	46,418	24,098	12,791	31,823	249	6,265	16
Brokerage income	**16,526**	19,025	19,260	18,688	20,349	(3,823)	(19)	(2,499)	(13)
Insurance income	**17,792**	17,384	18,875	17,906	17,220	572	3	408	2
Bank owned life insurance income	**14,371**	13,967	13,937	14,271	15,644	(1,273)	(8)	404	3
Capital markets fees	**11,805**	13,455	9,982	9,811	11,256	549	5	(1,650)	(12)
Gain on sale of loans	**6,591**	4,131	26,770	2,884	19,097	(12,506)	(65)	2,460	60
Automobile operating lease income	**2,146**	2,877	3,775	4,727	5,890	(3,744)	(64)	(731)	(25)
Securities gains (losses)	**4,169**	350	(613)	(3,878)	(1,350)	5,519	N.R.	3,819	1,091
Other income	**23,423**	27,855	37,088	30,464	30,104	(6,681)	(22)	(4,432)	(16)
Total noninterest income	**$ 261,067**	$ 253,819	$ 285,320	$ 229,352	$ 258,559	$ 2,508	1%	$ 7,248	3%

2012 Third Quarter versus 2011 Third Quarter

The $2.5 million, or 1%, increase in total noninterest income from the year-ago quarter reflected:

- $31.8 million, or 249%, increase in mortgage banking income. This primarily reflected a $25.2 million increase in origination and secondary marketing income. Additionally, we recorded a $4.1 million net trading loss related to MSR hedging in the current quarter compared to a net trading loss related to MSR hedging of $9.2 million in the year-ago quarter.

$5.5 million increase in securities gains.

$2.6 million, or 4%, increase in service charges on deposits, due to continued strong customer growth.

Partially offset by:

$12.5 million, or 65%, decrease in gain on sale of loans, as the year ago quarter included a $15.5 million automobile loan securitization gain.

$10.8 million, or 33%, decrease in electronic banking income related to implementing the lower debit card interchange fee structure mandated in the Durbin Amendment of the Dodd-Frank Act.

$6.7 million, or 22%, decrease in other income, primarily related to the reimbursement of third party costs in the year-ago quarter.

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$3.8 million, or 19%, decline in brokerage income primarily related to reduced sales of market-linked CDs given lower market interest rates.

$3.7 million, or 64%, decline in automobile operating lease income, reflecting the impact of a declining portfolio as a result of having exited that business in 2008.

2012 Third Quarter versus 2012 Second Quarter

The $7.2 million, or 3%, increase in total noninterest income from the prior quarter reflected:

$6.3 million, or 16%, increase in mortgage banking income. This primarily reflected a $10.7 million increase in origination and secondary marketing income. This increase was partially offset by as we recorded a $4.1 million net trading loss related to MSR hedging in the current quarter compared to a net trading gain related to MSR hedging of $0.8 million in the prior quarter.

$3.8 million increase in securities gains. Certain securities designated as available-for-sale were sold, and the proceeds from those sales were reinvested into the held-to-maturity portfolio. At quarter end, $1.6 billion, or 17%, of the investment portfolio was designated as held-to-maturity.

$2.5 million, or 60%, increase in gain on sale of loans, which included a $1.9 million gain on the sale of automobile loans in the current quarter.

Partially offset by:

$4.4 million decrease in other income, as the prior quarter included a gain on the sale of affordable housing investments.

2012 First Nine Months versus 2011 First Nine Months

Noninterest income for the first nine-month period of 2012 increased $48.9 million, or 7%, from the comparable year-ago period.

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

	Nine Months Ended September 30,		Change	
(dollar amounts in thousands)	**2012**	2011	Amount	Percent
Service charges on deposit accounts	**$ 194,096**	$ 180,183	$ 13,913	8%
Trust services	**90,509**	90,607	(98)	
Electronic banking	**61,279**	93,415	(32,136)	(34)
Mortgage banking income	**129,381**	59,310	70,071	118
Brokerage income	**54,811**	61,679	(6,868)	(11)
Insurance income	**54,051**	51,564	2,487	5
Bank owned life insurance income	**42,275**	48,065	(5,790)	(12)
Capital markets fees	**35,242**	26,729	8,513	32
Gain on sale of loans	**37,492**	29,060	8,432	29
Automobile operating lease income	**8,798**	22,044	(13,246)	(60)
Securities gains (losses)	**3,906**	197	3,709	1,883
Other income	**88,366**	88,418	(52)	
Total noninterest income	**$ 800,206**	$ 751,271	$ 48,935	7 %

The $48.9 million, or 7%, increase in total noninterest income reflected:

$70.1 million, or 118%, increase in mortgage banking income. This primarily reflected a $55.4 million increase in origination and secondary marketing income as originations increased 31% from the year-ago period. Additionally, we recorded a $4.4 million net trading gain related to MSR hedging in the first nine-month period of 2012 compared to net trading loss related to MSR hedging of $7.9 million in the year-ago period.

$13.9 million, or 8%, increase in service charges of deposit account, due to continued strong customer growth.

$8.5 million, or 32%, increase in capital market fees, primarily reflecting strong customer demand for derivatives and other risk management products.

$8.4 million, or 29%, increase in gain on sale of loans, as the current year-to-date period included gains totaling $24.9 million from automobile loan securitizations and sales, partially offset by a $15.5 million automobile securitization gain in the year-ago period.

Partially offset by:

$32.1 million, or 34%, 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.

$13.2 million, or 60%, decline in automobile operating lease expense primarily reflecting the impact of a declining portfolio as a result of having exited that business in 2008.

Other income was little changed. The current year-to-date period included an $11.4 million bargain purchase gain associated with the FDIC-assisted Fidelity Bank acquisition, almost entirely offset by the reimbursement of third party costs and larger gains on the sale of SBA loans in the year-ago period.

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		3Q12 vs 3Q11		3Q12 vs 2Q12	
(dollar amounts in thousands)	**Third**	Second	First	Fourth	Third	Amount	Percent	Amount	Percent
Personnel costs	**$ 247,709**	$ 243,034	$ 243,498	$ 228,101	$ 226,835	$ 20,874	9%	$ 4,675	2%
Outside data processing and other services	**49,880**	48,149	42,058	53,422	49,602	278	1	1,731	4
Net occupancy	**27,599**	25,474	29,079	26,841	26,967	632	2	2,125	8
Equipment	**25,950**	24,872	25,545	25,884	22,262	3,688	17	1,078	4
Deposit and other insurance expense	**15,534**	15,731	20,738	18,481	17,492	(1,958)	(11)	(197)	(1)
Marketing	**20,178**	21,365	16,776	16,379	22,251	(2,073)	(9)	(1,187)	(6)
Professional services	**18,024**	15,458	11,230	16,769	20,281	(2,257)	(11)	2,566	17
Amortization of intangibles	**11,431**	11,940	11,531	13,175	13,387	(1,956)	(15)	(509)	(4)
Automobile operating lease expense	**1,619**	2,183	2,854	3,362	4,386	(2,767)	(63)	(564)	(26)
OREO and foreclosure expense	**4,982**	4,106	4,950	5,009	4,668	314	7	876	21
Loss (Gain) on early extinguishment of debt	**1,782**	(2,580)		(9,697)		1,782		4,362	N.R.
Other expense	**33,615**	34,537	54,417	32,548	30,987	2,628	8	(922)	(3)
Total noninterest expense	**$ 458,303**	$ 444,269	$ 462,676	$ 430,274	$ 439,118	$ 19,185	4%	$ 14,034	3%

Number of employees (full-time equivalent), at period-end	**11,731**	11,417	11,166	11,245	11,473	258	2%	314	3%

2012 Third Quarter versus 2011 Third Quarter

The $19.2 million, or 4%, increase in total noninterest expense from the year-ago quarter reflected:

$20.9 million, or 9%, increase in personnel costs reflecting an increase in the number of full-time equivalent employees as well as increased salaries and benefits.

$3.7 million, or 17%, increase in equipment expense reflecting the impact of depreciation from our in-store branch expansions and other technology investments.

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Partially offset by:

$2.8 million, or 63%, decline in automobile operating lease expense as the portfolio continued its planned runoff as we exited that business in 2008.

2012 Third Quarter versus 2012 Second Quarter

The $14.0 million, or 3%, increase in total noninterest expense from the prior quarter reflected:

$4.7 million, or 2%, increase in personnel costs, primarily reflecting higher healthcare costs.

$4.5 million total increase across several noninterest expense categories related to the development of infrastructure and systems to support the Federal Reserve CCAR process.

$4.4 million increase in the cost of extinguishment of debt related to a loss on trust preferred securities redemption in the current quarter compared with a gain in the prior quarter.

2012 First Nine Months versus 2011 First Nine Months

Noninterest expense for the first nine-month period of 2012 increased $67.0 million, or 5%, from the comparable year-ago period.

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

	Nine Months Ended September 30,		Change	
(dollar amounts in thousands)	**2012**	2011	Amount	Percent
Personnel costs	**$ 734,241**	$ 664,433	$ 69,808	11%
Outside data processing and other services	**140,087**	133,773	6,314	5
Net occupancy	**82,152**	82,288	(136)	
Equipment	**76,367**	66,660	9,707	15
Deposit and other insurance expense	**52,003**	59,211	(7,208)	(12)
Marketing	**58,319**	59,248	(929)	(2)
Professional services	**44,712**	53,826	(9,114)	(17)
Amortization of intangibles	**34,902**	40,143	(5,241)	(13)
Automobile operating lease expense	**6,656**	16,656	(10,000)	(60)
OREO and foreclosure expense	**14,038**	12,997	1,041	8
Gain on early extinguishment of debt	**(798)**		(798)	
Other expense	**122,569**	108,991	13,578	12
Total noninterest expense	**$ 1,365,248**	$ 1,298,226	$ 67,022	5%
Number of employees (full-time equivalent), at period-end	**11,731**	11,473	258	2%

The $67.0 million, or 5%, increase in total noninterest expense reflected:

$69.8 million, or 11%, increase in personnel costs, primarily reflecting an increase in bonuses, commissions, and full-time equivalent employees, as well as increased salaries and benefits.

- $13.6 million, or 12%, increase in other expense, primarily reflecting higher litigation reserves and an increase in the provision for mortgage representations and warranties.

- $9.7 million, or 15%, increase in equipment, primarily reflecting the impact of depreciation from our in-store branch expansions and other technology investments.

Partially offset by:

- $10.0 million, or 60%, decline in automobile operating lease expense, primarily reflecting the impact of a declining portfolio as a result of having exited that business in 2008.

- $9.1 million, or 17%, decline in professional services, primarily reflecting lower legal-related expenses.

- $7.2 million, or 12%, decline in deposit and other insurance expense.

Provision for Income Taxes

The provision for income taxes in the 2012 third quarter was $28.3 million. This compared with a provision for income taxes of $49.3 million in the 2012 second quarter and $38.9 million in the 2011 third quarter. All three quarters included the benefits from tax-exempt income, tax-advantaged investments, and general business credits. In prior periods, we established a full valuation allowance against state deferred tax assets and state net operating loss carryforwards based on the uncertainty of forecasted state taxable income expected in applicable jurisdictions in order to utilize the state deferred tax asset and net operating loss carryforwards. Based on current analysis of both positive and negative evidence and projected forecasted state taxable income, we believe that it is more likely than not that a portion of the state deferred tax asset and state net operating loss carryforwards will be realized. As a result of this analysis, a $19.5 million reduction in the 2012 third quarter provision for income taxes was recorded. At September 30, 2012, a state valuation allowance of $62.7 million remains for certain net operating loss carryforwards that are not expected to be realized within the carryforward periods.

At September 30, 2012, we had a net deferred tax asset of $201.5 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 September 30, 2012. As of September 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.

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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, Risk Oversight 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 September 30, 2012, our loans and leases totaled $40.3 billion, representing a $1.3 billion, or 3%, increase compared to $38.9 billion at December 31, 2011, primarily reflecting growth in the C&I portfolio, partially offset by declines in the automobile portfolio as a result of our securitization program and the CRE portfolio reflecting the continued runoff in the noncore portfolio. The C&I loan increase 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 related to automobile securitizations *(see Automobile Portfolio discussion),* partially offset by continued strong originations.

At September 30, 2012, commercial loans and leases totaled $22.0 billion, and represented 54% 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. Our Equipment Finance area is targeting larger equipment financings in the manufacturing sector in addition to our core products, while appropriately managing the level of residual risk incurred as a result of the leasing activity.

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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 $18.3 billion at September 30, 2012, and represented 46% 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 September 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 nine-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 September 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)	**September 30,**		June 30,		March 31,		December 31,		September 30,	
Commercial:[2]										
Commercial and industrial	**$ 16,478**	**41%**	$ 16,322	41%	$ 15,838	39%	$ 14,699	38%	$ 13,939	36%
Commercial real estate:										
Construction	**541**	**1**	591	1	597	1	580	1	520	1
Commercial	**4,956**	**12**	5,317	13	5,443	13	5,246	13	5,414	14
Total commercial real estate	**5,497**	**13**	5,908	14	6,040	14	5,826	14	5,934	15
Total commercial	**21,975**	**54**	22,230	55	21,878	53	20,525	52	19,873	51
Consumer:										
Automobile	**4,276**	**11**	3,808	10	4,787	12	4,458	11	5,558	14
Home equity	**8,381**	**21**	8,344	21	8,261	20	8,215	21	8,079	21
Residential mortgage	**5,192**	**13**	5,123	13	5,284	13	5,228	13	4,986	13
Other consumer	**436**	**1**	454	1	469	2	498	3	516	1
Total consumer	**18,285**	**46**	17,729	45	18,801	47	18,399	48	19,139	49
Total loans and leases	**$ 40,260**	**100%**	$ 39,959	100%	$ 40,679	100%	$ 38,924	100%	$ 39,012	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)	**September 30,**		June 30,		March 31,		December 31,		September 30,	
Secured loans:										
Real estate commercial	**$ 9,278**	**23%**	$ 9,398	23%	$ 9,326	24%	$ 9,557	25%	$ 9,554	24%
Real estate consumer	**13,573**	**33**	13,467	33	13,470	34	13,444	35	13,065	33
Vehicles	**6,096**	**15**	5,650	14	6,623	16	6,021	16	6,898	18
Receivables/Inventory	**5,046**	**13**	5,026	13	4,749	12	4,450	12	4,297	11
Machinery/Equipment	**2,639**	**7**	2,759	7	2,536	6	1,994	5	1,864	5
Securities/Deposits	**717**	**2**	789	2	733	2	800	2	805	2
Other	**1,110**	**3**	1,043	3	983	2	1,018	1	1,103	3
Total secured loans and leases	**38,459**	**96**	38,132	95	38,420	96	$ 37,284	96%	37,586	96

Unsecured loans and leases	**1,801**	**4**	1,827	5	1,738	4	1,640	4	1,426	4
Total loans and leases	**$ 40,260**	**100%**	$ 39,959	100%	$ 40,158	100%	38,924	100%	$ 39,012	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. We utilize a centralized preview and senior loan approval committee, led by our chief credit officer. The risk rating *(see next paragraph)* and complexity of the credit determines the threshold for approval of the senior loan committee with a minimum credit exposure of $10.0 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.

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 some C&I borrowers have been challenged by the continued weakness in the economy, problem loans have trended downward, reflecting a combination of proactive risk identification and effective workout strategies implemented by our SAD. Nevertheless, some borrowers may no longer have sufficient capital to withstand the extended stress and 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. 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.

In 2010, we segregated our CRE portfolio into core and noncore segments. We believe segregating noncore CRE from core CRE improved 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. We have not subsequently added any CRE loans to the noncore portfolio.

In 2010, a CRE loan was generally considered core when the borrower was an experienced, well-capitalized developer in our Midwest footprint, and had either an established meaningful relationship with us that generated an acceptable return on capital or demonstrated the prospect of becoming one. The core CRE portfolio was $3.9 billion at September 30, 2012, representing 71% of total CRE loans. The performance of the core portfolio has 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. Nonetheless, we do not anticipate an elevated level of problem loans in the core portfolio.

A CRE loan was 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 $1.6 billion at September 30, 2012, and represented 29% of total CRE loans. Of the loans in the noncore portfolio at September 30, 2012, 71% were categorized as Pass, 95% had guarantors, 99% were secured, and 92% were located within our geographic footprint. However, it is within the noncore portfolio where most of the credit quality challenges exist. For example, $0.1 billion, or 7%, of related outstanding balances, are classified as NALs. SAD administered $0.7 billion, or 43%, of total noncore CRE loans at September 30, 2012. We expect to exit the majority of noncore CRE relationships over time through normal repayments and refinancings, possible sales, 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

	September 30, 2012					
(dollar amounts in millions)	Ending Balance	Prior NCOs	ACL $	ACL %	Credit Mark (2)	Nonaccrual Loans
Total core (1)	**$ 3,891**	**$ 18**	**$ 95**	**2.44%**	**2.89%**	**$ 39**
Noncore SAD (3)	**694**	**163**	**129**	**18.59**	**34.07**	**108**
Noncore Other	**912**	**20**	**61**	**6.69**	**8.69**	**2**
Total noncore	**1,606**	**183**	**190**	**11.83**	**20.85**	**110**
Total commercial real estate	**$ 5,497**	**$ 201**	**$ 285**	**5.18%**	**8.53%**	**$ 149**
	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.

As shown in the above table, the ending balance of the CRE portfolio at September 30, 2012, declined $0.3 billion, or 6%, compared with December 31, 2011. Of this decline, 74% occurred in the noncore segment, 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 the current market conditions.

Also, as shown above, substantial reserves for the noncore portfolio have been established. At September 30, 2012, the ACL related to the noncore portfolio was 11.83%. 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 34.07% 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.

Effective with the 2012 third quarter, we identified certain loans within the consumer portfolio that met the definition of collateral dependent as defined by regulatory guidance as the borrowers had not reaffirmed their debt discharged in a Chapter 7 bankruptcy filing. The bankruptcy court s discharge of the borrower s debt is considered a concession when the discharged debt is not reaffirmed, and as such, the loans were classified as TDRs, placed on nonaccrual status, and written down to collateral value, less anticipated selling costs. Previously, we recorded the charge-off when the loan reached 60-days past due and did not classify these loans as TDRs. Many of these loans were current, with many borrowers having paid according to the contractual terms for several years. This change increased NCOs by $33.0 million, NALs by $63.0 million, and TDRs by $71.0 million across the automobile, residential mortgage, and home equity portfolios. We continue to evaluate the appropriate accounting treatment of subsequent customer payments on these Chapter 7 bankruptcy NALs.

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. Also, in the 2012 second quarter, $1.3 billion of automobile loans were transferred to loans held for sale, in anticipation of another automobile loan securitization that was completed in October 2012. Additional information regarding these securitization transactions is located in Note 6 of the Notes to Unaudited Condensed Consolidated Financial Statements.

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 appropriate solutions for their specific circumstances.

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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)	**09/30/12**	12/31/11	**09/30/12**	12/31/11	**09/30/12**	12/31/11
Ending balance	**$ 4,214**	$ 3,815	**$ 4,167**	$ 4,400	**$ 5,192**	$ 5,228
Portfolio weighted average LTV ratio(1)	**71%**	71%	**81%**	81%	**77%**	77%
Portfolio weighted average FICO score(2)	**751**	749	**735**	734	**737**	731

	Home Equity				Residential Mortgage (3)	
	Secured by first-lien		Secured by junior-lien			
	Nine Months Ended September 30,					
	2012	2011	**2012**	2011	**2012**	2011
Originations	**$ 1,302**	$ 1,392	**$ 446**	$ 630	**$ 818**	$ 1,102
Origination weighted average LTV ratio(1)	**72%**	71%	**80%**	82%	**84%**	84%
Origination weighted average FICO score(2)	**771**	768	**758**	759	**754**	758

(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 September 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 nine-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 concentration of first-lien position loans, provides a high degree of confidence regarding the performance of the 2009-2012 originations.

Within the home equity line-of-credit portfolio, the standard product is a 10-year interest-only draw period with a 20-year fully amortizing term at the end of the draw period. Prior to 2007, the standard product was a 10-year draw period with a balloon payment. 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.

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, 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. Effective in the 2012 third quarter, we no longer originate junior-lien loans with an LTV greater than 90%.

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 with a property inspection 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.

We continue to identify situations 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.

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, we believe it is likely that there will be a payment shock to the borrower at the end of the interest-only draw period. 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 on 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 September 30, 2012, 51% of our total residential mortgage loan portfolio had adjustable rates. At September 30, 2012, ARM loans that were expected to have rates reset totaled $1.7 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 nine-month period ended September 30, 2012, we closed $659 million in HARP residential mortgages and $16 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 third quarter, reflected overall continued improvement. NALs declined 6% to $445.0 million compared to the prior quarter, despite the impact of $63.0 million of NAL additions as a result of Chapter 7 bankruptcy loans. NCOs increased compared to the prior quarter solely as a result of the $33.0 impact of NCOs related to Chapter 7 bankruptcy loans. Commercial criticized and commercial classified loans declined significantly reflecting the continued improvement in the commercial portfolio. The ACL to total loans ratio declined to 2.09% and our ACL coverage ratios remained at appropriate levels. Our ACL as a percentage of NPAs remained strong at 189%.

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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. However, when a borrower with discharged non-reaffirmed debt in a Chapter 7 bankruptcy is identified and the loan is determined to be collateral dependent, the consumer loan is placed on nonaccrual status.

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)	**September 30,**	June 30,	March 31,	December 31,	September 30,
Nonaccrual loans and leases:					
Commercial and industrial	**$ 109,452**	$ 133,678	$ 142,492	$ 201,846	$ 209,632
Commercial real estate	**148,986**	219,417	205,105	229,889	257,086
Automobile	**11,814**				
Residential mortgage	**123,140**	75,048	74,114	68,658	61,129
Home equity	**51,654**	46,023	45,847	40,687	37,156
Total nonaccrual loans and leases(1)	**445,046**	474,166	467,558	541,080	565,003
Other real estate owned, net					
Residential(2)	**23,640**	21,499	31,850	20,330	18,588
Commercial	**30,566**	17,109	16,897	18,094	19,418
Total other real estate owned, net	**54,206**	38,608	48,747	38,424	38,006
Other nonperforming assets(3)	**10,476**	10,476	10,772	10,772	10,972
Total nonperforming assets	**$ 509,728**	$ 523,250	$ 527,077	$ 590,276	$ 613,981
Nonaccrual loans as a % of total loans and leases	**1.11%**	1.19%	1.15%	1.39%	1.45%
Nonperforming assets ratio(4)	**1.26**	1.31	1.29	1.51	1.57

(1) September 30, 2012, includes $63.0 million Chapter 7 bankruptcy NALs.
(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 $13.5 million, or 3%, decline in NPAs compared with June 30, 2012, primarily reflected:

- $70.4 million, or 32%, decline in CRE NALs, reflecting both NCO activity and problem credit resolutions, including borrower payments and payoffs partially resulting from successful workout strategies implemented by our SAD. Additionally, one relatively large-dollar NAL was transferred to OREO during the current quarter. 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.

- $24.2 million, or 18%, decline in C&I NALs, reflecting problem credit resolutions, including payoffs