HUNTINGTON BANCSHARES INC/MD
Form 10-Q
October 26, 2007

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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, 2007**
Commission File Number **0-2525**
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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer [x] Accelerated filer [ ] Non-accelerated filer [ ]

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 365,898,439 shares of Registrant s common stock ($0.01 par value) outstanding on September 30, 2007.

Huntington Bancshares Incorporated
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Part 1. Financial Information

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

INTRODUCTION

Huntington Bancshares Incorporated (we or our) is a multi-state diversified financial holding company organized under Maryland law in 1966 and headquartered in Columbus, Ohio. Through our subsidiaries, including our bank subsidiary, The Huntington National Bank (the Bank), organized in 1866, we provide full-service commercial and consumer banking services, mortgage banking services, automobile financing, equipment leasing, investment management, trust services, brokerage services, reinsurance of private mortgage insurance, reinsurance of credit life and disability insurance, and other insurance and financial products and services. Our banking offices are located in Ohio, Michigan, Indiana, Pennsylvania, West Virginia, and Kentucky. Selected financial service activities are also conducted in other states including: Dealer Sales offices in Arizona, Florida, Georgia, Nevada, New Jersey, New York, North Carolina, South Carolina, and Tennessee; Private Financial and Capital Markets Group offices in Florida; and Mortgage Banking offices in Maryland and New Jersey. Sky Insurance offers retail and commercial insurance agency services, through offices in Ohio, Pennsylvania, and Indiana. International banking services are available through the headquarters office in Columbus and a limited purpose office located in both the Cayman Islands and Hong Kong.

The following discussion and analysis provides you with information we believe necessary for understanding our financial condition, changes in financial condition, results of operations, and cash flows and should be read in conjunction with the financial statements, notes, and other information contained in this report. The Management s Discussion and Analysis of Financial Condition and Results of Operations (MD&A) appearing in our 2006 Annual Report on Form 10-K (2006 Form 10-K), as updated by the information contained in this report, should be read in conjunction with this discussion and analysis.

Our discussion is divided into key segments:

Introduction - Provides overview comments on important matters including risk factors, acquisitions, and other items. These are essential for understanding our performance and prospects.

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

Risk Management and Capital - Discusses credit, market, liquidity, and operational risks, including how these are managed, as well as performance trends. It also includes a discussion of liquidity policies, how we fund ourselves, 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.

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

Forward-Looking Statements

This report, including MD&A, contains certain forward-looking statements, including certain plans, expectations, goals, and projections, and including statements about the benefits of the merger between Huntington and Sky Financial, which are subject to numerous assumptions, risks, and uncertainties.

Actual results could differ materially from those contained or implied by such statements for a variety of factors including: the expected merger efficiencies and any revenue synergies from the merger may not be fully realized within the expected timeframes; disruption from the merger may make it more difficult to maintain relationships with clients, associates, or suppliers; changes in economic conditions; movements in interest rates; competitive pressures on product pricing and services; success and timing of other business strategies; the nature, extent, and timing of governmental actions and reforms; and extended disruption of vital infrastructure. Additional factors that could cause

results to differ materially

from those described above can be found in our 2006 Annual Report on Form 10-K, and documents subsequently filed with the Securities and Exchange Commission (SEC).

All forward-looking statements speak only as of the date they are made. We assume no obligation to update forward-looking statements to reflect circumstances or events that occur after the date the forward-looking statements were made or to reflect the occurrence of unanticipated events except as required by federal securities laws.

Risk Factors

We, like other financial companies, are subject to a number of risks, many of which are outside of our direct control, though efforts are made to manage those risks while optimizing returns. Among the risks assumed are: (1) credit risk, which is the risk that loan and lease customers or other counter parties will be unable to perform their contractual obligations, (2) market risk, which is the risk that changes in market rates and prices will adversely affect our financial condition or results of operation, (3) liquidity risk, which is the risk that we, or the Bank, will have insufficient cash or access to cash to meet operating needs, and (4) operational risk, which is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. Refer to the Risk Management and Capital section for additional information regarding risk factors. Additionally, more information on risk is set forth under the heading Risk Factors included in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2006, and subsequent filings with the SEC.

Critical Accounting Policies and Use of Significant Estimates

Our financial statements are prepared in accordance with accounting principles generally accepted in the United States (GAAP). The preparation of financial statements in conformity with GAAP requires us to establish critical accounting policies and make accounting estimates, assumptions, and judgments that affect amounts recorded and reported in our financial statements. Note 1 of the Notes to Consolidated Financial Statements included in our 2006 Form 10-K as supplemented by this report lists significant accounting policies we use in the development and presentation of our financial statements. This discussion and analysis, the significant accounting policies, and other financial statement disclosures identify and address key variables and other qualitative and quantitative factors necessary for an understanding and evaluation of our company, financial position, results of operations, and cash flows.

An accounting estimate requires assumptions about uncertain matters that could have a material effect on the financial statements if a different amount within a range of estimates were used or if estimates changed from period to period. Readers of this report should understand that estimates are made under facts and circumstances at a point in time, and changes in those facts and circumstances could produce actual results that differ from when those estimates were made.

Acquisition of Sky Financial

The merger with Sky Financial Group Inc. (Sky Financial) was completed on July 1, 2007. At the time of acquisition, Sky Financial had assets of $16.8 billion, including $13.3 billion of loans, and total deposits of $12.9 billion. Sky Financial results were fully included in our consolidated results for the full 2007 third quarter, and will impact all quarters thereafter. Additionally, during the 2007 third quarter, Sky Bank and Sky Trust, National Association (Sky Trust), merged into the Bank and systems integration was completed. As a result, performance comparisons of 2007 third quarter and 2007 nine-month performance to prior periods are affected as Sky Financial results were not included in the prior periods. Comparisons of the 2007 third quarter and 2007 nine-month performance compared with prior periods are impacted as follows:

- Increased the absolute level of reported average balance sheet, revenue, expense, and the absolute level of certain credit quality results (e.g., amount of net charge-offs).

- Increased the absolute level of reported non-interest expense items because of costs incurred as part of merger integration activities, most notably employee retention bonuses, outside programming services related to systems conversions, occupancy expenses, and marketing expenses related to customer retention initiatives. These net merger costs were $32.3 million in the 2007 third quarter.

Given the significant impact of the merger on reported 2007 results, we believe that an understanding of the impacts of the merger is necessary to understand better underlying performance trends. When comparing post-merger

period results to premerger periods, we use the following terms when discussing financial performance:

Merger related refers to amounts and percentage changes representing the impact attributable to the merger.

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Merger costs represent non-interest expenses primarily associated with merger integration activities.

Non-merger related refers to performance not attributable to the merger and include:

Merger efficiencies , which represent non-interest expense reductions realized as a result of the merger.

The following methodology has been implemented to estimate the approximate effect of the Sky Financial merger used to determine merger-related impacts.

Balance Sheet Items

For loans and leases, as well as total deposits, Sky Financial s balances as of June 30, 2007, adjusted for purchase accounting adjustments, and transfers of loans to loans held-for-sale, are used in the comparison. To estimate the impact on 2007 third quarter average balances, it was assumed that the June 30, 2007 balances, as adjusted, remained constant throughout the 2007 third quarter and will remain constant in all subsequent periods.

Income Statement Items

For income statement line items, Sky Financial s actual results for the first six months of 2007, adjusted for the impact of unusual items and purchase accounting adjustments, were determined. This six-month adjusted amount was divided by two to estimate a quarterly amount. This results in an approximate quarterly impact, as the methodology does not adjust for any unusual items, market related changes, or seasonal factors in Sky Financial s 2007 six-month results. Nor does it consider any revenue or expense synergies realized since the merger date. This same estimated amount will also be used in all subsequent quarterly reporting periods. The one exception to this methodology of holding the estimated quarterly impact constant relates to the amortization of intangibles expense where the amount is known and is therefore used.

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

DISCUSSION OF RESULTS OF OPERATIONS

This section provides a review of financial performance from a consolidated perspective. It also includes a Significant Items Influencing Financial Performance Comparisons section that summarizes key issues important for a complete understanding of performance trends. Key consolidated balance sheet and income statement trends are discussed in this section. 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 Lines of Business Discussion.

Summary

We reported 2007 third quarter net income of $138.2 million and earnings per common share of $0.38. These results compared favorably to net income of $80.5 million and earnings per common share of $0.34 in the 2007 second quarter, but declined from net income of $157.4 million and earnings per common share of $0.65 in the third quarter of 2006. Our year-to-date net income was $314.4 million, or $1.12 per common share, down from net income of $373.5 million, or $1.56 per common share, in the comparable year-ago period. Additionally, comparisons with the prior year are impacted by the benefits for income taxes and balance sheet restructuring charges in the comparable year-ago period. Period-to-period comparisons are significantly impacted by the Sky Financial acquisition, which closed on July 1, 2007. The acquisition solidified our position in Ohio, greatly expanded our presence in the Indianapolis market, and established western Pennsylvania as a new market. Customer reaction has been very positive, and we continue to work to ensure that all of the growth opportunities afforded by the acquisition are realized.

Expense control was a major highlight for the quarter. Although non-interest expense increased $140.9 million from the prior quarter, $161.3 million of the increase was merger related, either through merger related expenses or increased merger costs. Non-merger related expenses actually declined $20.4 million and represented most of the merger efficiencies that we targeted from the acquisition. We expect to achieve most of the remaining benefit next quarter. Our efficiency

ratio, which has been a key focal point for us, is approaching our targeted range, and we expect to be within, or very near, that range, once we achieve the remaining targeted merger efficiencies.

Fee income performance was mixed for the quarter. In addition to the increase in non-interest income that was merger related, non-merger related deposit service charges and other service charges showed very good growth, however, non-merger related trust services, mortgage banking, and brokerage and insurance income were down.

Net interest income for the third quarter of 2007 increased $156.2 million from the prior quarter. The current quarter included three months of net interest income attributable to the acquisition of Sky Financial, which added $12.8 billion of loans, net of transfers to loans held-for-sale and purchase accounting adjustment, and $12.9 billion of deposits at July 1, 2007. During the current quarter, we saw good growth in non-merger related commercial loans and certain consumer loans, however, average automobile leases continued to shrink, as expected, due to low consumer demand and competitive pricing. Additionally, the lack of growth in non-merger related average home equity loans and average residential real estate loans continued to reflect the softness in the real estate markets. Growth in non-merger related average total deposits was also good during the quarter, driven by strong growth in interest-bearing demand deposits and money market accounts. Our net interest margin was 3.52%, consistent with expectations and up from 3.26% in the second quarter, primarily merger related.

Consistent with expectations, overall credit quality was stable during the quarter. The allowance for loan and leases losses (ALLL) was 1.14% of total loans, down slightly from 1.15% at June 30, 2007. The ALLL coverage of nonperforming loans (NPLs) improved to 182% at September 30, 2007, from 145% at June 30, 2007, and declined from 189% at December 31, 2006. However, nonperforming assets (NPAs) increased $173.9 million from the prior quarter as we acquired $144.5 million of NPAs from Sky Financial. Additionally, we designated $16.3 million of impaired asset-backed securities as other NPAs. During the quarter, non-merger related NPLs and other-real-estate-owned (OREO) grew $13.0 million. Our outlook remains for NPLs to rise modestly in the 2007 fourth quarter, as there remains pressure on businesses and consumers in our markets.

Market conditions remain difficult and we do not expect that to change in the near future. We anticipate that the economic environment will continue to be negatively impacted by weakness in residential real estate markets and negative impacts from the on-going challenges in the automotive manufacturing and supplier sector. We expect our greatest impacts to be in our eastern Michigan and northern Ohio markets.

Significant Items

Certain components of the income statement are naturally subject to more volatility than others. As a result, readers of this report may view such items differently in their assessment of underlying or core earnings performance compared with their expectations and/or any implications resulting from them on their assessment of future performance trends.

Therefore, we believe the disclosure of certain Significant Items in current and prior period results aids readers of this report in better understanding corporate performance so that they can ascertain for themselves what, if any, items they may wish to include or exclude from their analysis of performance, within the context of determining how that performance differed from their expectations, as well as how, if at all, to adjust their estimates of future performance accordingly.

To this end, we have adopted a practice of listing as Significant Items in our external disclosure documents (including earnings press releases, investor presentations, Forms 10-Q and 10-K) individual and/or particularly volatile items that impact the current period results by $0.01 per share or more. Such Significant Items generally fall within one of two categories: timing differences and other items.

Timing Differences

Part of our regular business activities are by their nature volatile, including capital markets income and sales of loans. While such items may generally be expected to occur within a full year reporting period, they may vary significantly from period to period. Such items are also typically a component of an income statement line item and not, therefore, readily discernable. By specifically disclosing such items, analysts/investors can better assess how, if at all, to adjust their estimates of future performance.

Other Items

From time to time an event or transaction might significantly impact revenues, expenses, or taxes in a particular reporting period that are judged to be unusual, short-term in nature, and/or materially outside typically expected performance. Examples would be (1) merger costs, including restructuring charges and asset valuation adjustments, as they typically impact expenses for only a few quarters during the period of transition; (2) changes in an accounting principle; (3) unusual tax assessments or refunds; (4) a large gain/loss on the sale of an asset; (5) outsized commercial loan net charge-offs; and other items deemed significant. By disclosing such items, analysts/investors can better assess how, if at all, to adjust their estimates of future performance.

Provision for Credit Losses

While the provision for credit losses may vary significantly among periods, and often exceeds $0.01 per share, we typically exclude it from the list of significant items unless, in our view, there is a significant, specific credit (or multiple significant, specific credits) affecting comparability among periods. In determining whether any portion of the provision for credit losses should be included as a significant item, we consider, among other things, that the provision is a major income statement caption rather than a component of another caption and, therefore, the period-to-period variance can be readily determined.

Other Exclusions

Significant Items for any particular period are not intended to be a complete list of items that may significantly impact future periods. A number of factors, including those described in Huntington s 2006 Annual Report on Form 10-K and other factors described from time to time in Huntington s other filings with the SEC, could also significantly impact future periods.

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Table 1 Selected Quarterly Income Statement Data[(1), (7)]

	2007			2006	
(in thousands, except per share amounts)	**Third**	Second	First	Fourth	Third
Interest income	**$ 851,155**	$ 542,461	$ 534,949	$ 544,841	$ 538,988
Interest expense	**441,522**	289,070	279,394	286,852	283,675
Net interest income	**409,633**	253,391	255,555	257,989	255,313
Provision for credit losses	**42,007**	60,133	29,406	15,744	14,162
Net interest income after provision for credit losses	**367,626**	193,258	226,149	242,245	241,151
Service charges on deposit accounts	**78,107**	50,017	44,793	48,548	48,718
Trust services	**33,562**	26,764	25,894	23,511	22,490
Brokerage and insurance income	**28,806**	17,199	16,082	14,600	14,697
Other service charges and fees	**21,045**	14,923	13,208	13,784	12,989
Bank owned life insurance income	**14,847**	10,904	10,851	10,804	12,125
Mortgage banking income	**9,629**	7,122	9,351	6,169	8,512
Securities (losses) gains [(2)]	**(13,152)**	(5,139)	104	(15,804)	(57,332)
Other income	**31,830**	34,403	24,894	38,994	35,711
Total non-interest income	**204,674**	156,193	145,177	140,606	97,910
Personnel costs	**202,148**	135,191	134,639	137,944	133,823
Outside data processing and other services	**40,600**	25,701	21,814	20,695	18,664
Net occupancy	**33,334**	19,417	19,908	17,279	18,109
Equipment	**23,290**	17,157	18,219	18,151	17,249
Marketing	**13,186**	8,986	7,696	6,207	7,846
Professional services	**11,273**	8,101	6,482	8,958	6,438
Telecommunications	**7,286**	4,577	4,126	4,619	4,818
Printing and supplies	**4,743**	3,672	3,242	3,610	3,416
Amortization of intangibles	**19,949**	2,519	2,520	2,993	2,902
Other expense	**29,754**	19,334	23,426	47,334	29,165
Total non-interest expense	**385,563**	244,655	242,072	267,790	242,430
Income before income taxes	**186,737**	104,796	129,254	115,061	96,631
Provision (benefit) for income taxes [(3)]	**48,535**	24,275	33,528	27,346	(60,815)
Net income	**$ 138,202**	$ 80,521	$ 95,726	$ 87,715	$ 157,446
Average common shares diluted	**368,280**	239,008	238,754	239,881	240,896
Per common share					
Net income diluted	**$ 0.38**	$ 0.34	$ 0.40	$ 0.37	$ 0.65
Cash dividends declared	**0.265**	0.265	0.265	0.250	0.250

Return on average total assets	**1.02%**	0.92%	1.11%	0.98%	1.75%
Return on average total shareholders equity	**8.8**	10.6	12.9	11.3	21.0
Return on average tangible shareholder s equity [4]	**20.9**	13.6	16.5	14.5	27.1
Net interest margin [5]	**3.52**	3.26	3.36	3.28	3.22
Efficiency ratio [6]	**57.7**	57.8	59.2	63.3	57.8
Effective tax rate [3]	**26.0**	23.2	25.9	23.8	(62.9)
Revenue fully taxable equivalent (FTE)					
Net interest income	**$ 409,633**	$ 253,391	$ 255,555	$ 257,989	$ 255,313
FTE adjustment	**5,712**	4,127	4,047	4,115	4,090
Net interest income [5]	**415,345**	257,518	259,602	262,104	259,403
Non-interest income	**204,674**	156,193	145,177	140,606	97,910
Total revenue [5]	**$ 620,019**	$ 413,711	$ 404,779	$ 402,710	$ 357,313

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

(2) Includes $57.5 million of securities impairment losses for the 2006 third quarter.

(3) The third quarter of 2006 includes $84.5 million benefit reflecting the resolution of a federal income

tax audit of tax years 2002 and 2003, as well as the recognition of federal tax loss carry backs.

(4) Net income less expense of amortization of intangibles (net of tax) 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.

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

(6) Non-interest expense less amortization of intangibles divided by the sum of FTE net interest income and non-interest income excluding securities gains (losses).

(7)

On July 1, 2007, Huntington acquired Sky Financial Group, Inc. Accordingly, the balances presented include the impact of the acquisition from that date.

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Table 2 Selected Year to Date Income Statement Data[(1), (7)]

	Nine Months Ended September 30,		Change	
(in thousands, except per share amounts)	**2007**	2006	Amount	Percent
Interest income	**$ 1,928,565**	$ 1,525,678	$ 402,887	26.4%
Interest expense	**1,009,986**	764,490	245,496	32.1
Net interest income	**918,579**	761,188	157,391	20.7
Provision for credit losses	**131,546**	49,447	82,099	N.M.
Net interest income after provision for credit losses	**787,033**	711,741	75,292	10.6
Service charges on deposit accounts	**172,917**	137,165	35,752	26.1
Trust services	**86,220**	66,444	19,776	29.8
Brokerage and insurance income	**62,087**	44,235	17,852	40.4
Other service charges and fees	**49,176**	37,570	11,606	30.9
Bank owned life insurance income	**36,602**	32,971	3,631	11.0
Mortgage banking income	**26,102**	35,322	(9,220)	(26.1)
Securities losses [(2)]	**(18,187)**	(57,387)	39,200	(68.3)
Other income	**91,127**	124,143	(33,016)	(26.6)
Total non-interest income	**506,044**	420,463	85,581	20.4
Personnel costs	**471,978**	403,284	68,694	17.0
Outside data processing and other services	**88,115**	58,084	30,031	51.7
Net occupancy	**72,659**	54,002	18,657	34.5
Equipment	**58,666**	51,761	6,905	13.3
Marketing	**29,868**	25,521	4,347	17.0
Professional services	**25,856**	18,095	7,761	42.9
Telecommunications	**15,989**	14,633	1,356	9.3
Printing and supplies	**11,657**	10,254	1,403	13.7
Amortization of intangibles	**24,988**	6,969	18,019	N.M.
Other expense	**72,514**	90,601	(18,087)	(20.0)
Total non-interest expense	**872,290**	733,204	139,086	19.0
Income before income taxes	**420,787**	399,000	21,787	5.5
Provision for income taxes [(3)]	**106,338**	25,494	80,844	N.M.
Net income	**$ 314,449**	$ 373,506	$ (59,057)	(15.8)%
Average common shares diluted	**282,014**	239,933	42,081	17.5%
Per common share				
Net income per common share diluted	**$ 1.12**	$ 1.56	$ (0.44)	(28.2)%

Cash dividends declared	**0.795**	0.750	0.045	6.0
Return on average total assets	**1.02%**	1.43%	(0.41)	(28.7)%
Return on average total shareholders equity	**10.3**	17.2	(6.9)	(40.1)
Return on average tangible shareholders equity [4]	**17.3**	21.5	(4.2)	(19.5)
Net interest margin [5]	**3.40**	3.29	0.11	3.3
Efficiency ratio [6]	**58.2**	58.1	0.1	0.2
Effective tax rate [3]	**25.3**	6.4	18.9	N.M.
Revenue fully taxable equivalent (FTE)				
Net interest income	**$ 918,578**	$ 761,188	$ 157,390	20.7%
FTE adjustment [5]	**13,886**	11,910	1,976	16.6
Net interest income	**932,464**	773,098	159,366	20.6
Non-interest income	**506,046**	420,463	85,583	20.4
Total revenue	**$ 1,438,510**	$ 1,193,561	$ 244,949	20.5%

N.M., not a meaningful value.

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

(2) Includes $57.5 million of securities impairment losses for the 2006 third quarter.

(3) The third quarter of 2006 includes $84.5 million benefit

reflecting the resolution of a federal income tax audit of tax years 2002 and 2003, as well as the recognition of federal tax loss carry backs.

(4) Net income less expense of amortization of intangibles (net of tax) 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.

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

(6) Non-interest expense less amortization of intangibles divided by the sum of FTE net interest income and non-interest income excluding securities

gains/(losses).

(7) On July 1, 2007, Huntington acquired Sky Financial Group, Inc. Accordingly, the balances presented include the impact of the acquisition from that date.

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Significant Items Influencing Financial Performance Comparisons

Earnings comparisons from the beginning of 2006 through the third quarter of 2007 were impacted by a number of significant items summarized below.

1. **Sky Financial Acquisition.** The merger with Sky Financial was completed on July 1, 2007. At the time of acquisition, Sky Financial had assets of $16.8 billion, including $13.3 billion of loans, and total deposits of $12.9 billion. Sky Financial results are reflected in our consolidated results beginning July 1, 2007. The impacts of the affected quarterly and year-to-date reported results compared with premerger reporting periods are as follows:

   Increased the absolute level of reported average balance sheet, revenue, expense, and credit quality results (for example, net charge-offs).

   Increased reported non-interest expense items as a result of costs incurred as part of merger integration activities, most notably employee retention bonuses, outside programming services related to systems conversions, and marketing expenses related to customer retention initiatives. These net merger costs were $0.8 million in the 2007 first quarter, $7.6 million in the 2007 second quarter, and $32.3 million in the 2007 third quarter.

2. **Balance Sheet Restructuring**. In third and fourth quarters of 2006, we utilized the excess capital resulting from the third quarter s significant reduction to federal tax expense (see Item 6 below) to restructure certain under-performing components of our balance sheet. Total securities losses as a result of these actions totaled $73.3 million. The refinancing of Federal Home Loan Bank (FHLB) funding and the sale of mortgage loans resulted in total charges of $4.4 million, resulting in total balance sheet restructuring costs of $77.7 million ($0.21 per common share). Our actions impacted 2006 third and fourth quarter results as follows:

   $57.3 million pretax ($0.16 per common share) negative impact in the 2006 third quarter from securities impairment. Subsequent to the end of the quarter, we initiated a review of our investment securities portfolio. The objective of this review was to reposition the portfolio to optimize performance in light of changing economic conditions and other factors. A total of $2.1 billion of securities, primarily consisting of U.S. Treasury, agency securities, and mortgage-backed securities, as well as certain other asset-backed securities, were identified as other-than-temporarily impaired as a result of this review.

   $20.2 million pretax ($13.1 million after tax or $0.05 per common share) negative impact in the 2006 fourth quarter related to costs associated with the completion of the balance sheet restructuring. This consisted of $9.0 million pretax of investment securities losses as well as $6.8 million of additional impairment on certain asset-backed securities not included in the restructuring recognized in the third quarter, and $4.4 million pretax of other balance sheet restructuring expenses, most notably FHLB funding refinancing costs.

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3. **Mortgage servicing rights (MSRs) and related hedging.** Included in net market related losses are net losses or gains from our mortgage servicing rights and the related hedging. MSR fair values are very sensitive to movements in interest rates as expected future net servicing income depends on the projected outstanding principal balances of the underlying loans, which can be greatly reduced by prepayments. Prepayments usually increase when mortgage interest rates decline and decrease when mortgage interest rates rise. A hedging strategy is used to minimize the impact from MSR fair value changes. However, volatile changes in interest rates can diminish the effectiveness of these hedges. We typically report MSR fair value adjustments net of hedge-related trading activity. Net income included the following net impact of MSR hedging activity *(reference Table 11)*:

(in thousands)

Period	Net interest income	Non-interest income	Pretax income	Net income	Per Common Share
1Q 07	$	$ (2,018)	$ (2,018)	$ (1,312)	$ (0.01)
2Q 07	248	(4,998)	(4,750)	(3,088)	(0.01)
3Q 07	2,357	(6,002)	(3,645)	(2,369)	(0.01)
9 mo. 07	$ 2,605	$ (13,018)	$ (10,413)	$ (6,769)	$ (0.02)
1Q 06	$	$ 4,575*(1)*	$ 4,575	$ 2,974	$ 0.01
2Q 06		1,542	1,542	1,002	
3Q 06	38	(38)			
9 mo. 06	38	6,079	6,117	3,976	0.02
4Q 06	(2)	(2,493)	(2,495)	(1,622)	(0.01)
12 mo. 06	$ 36	$ 3,586	$ 3,622	$ 2,354	$ 0.01

(1) Includes $5.1 million related to the positive impact of adopting SFAS No. 156

Beginning in the 2006 first quarter, we adopted Statement of Financial Accounting Standards (Statement) No. 156, *Accounting for Servicing of Financial Assets (an amendment of FASB Statement No. 140),* which allowed us to carry MSRs at fair value. This resulted in a $5.1 million pretax ($0.01 per common share) positive impact in the 2006 first quarter (this impact is reflected in the above table). Under the fair value approach, servicing assets and liabilities are recorded at fair value at each reporting date. Changes in fair value between reporting dates are recorded as an increase or decrease in mortgage banking income. MSR assets are included in other assets.

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4. **Other net market-related losses.** Other net market-related losses include losses and gains related to the following market-driven activities: gains and losses from equity investing (included in other non-interest income), net securities gains and losses, and the impact from the extinguishment of debt (included as other non-interest expense). Total net market-related losses also include the net impact of MSRs and related hedging (see item 3 above). Net income included the following impact from other net market-related losses:

(in thousands)

Period	Securities Gains/ (Losses)	Equity Investing	Debt Extinguish-ment	Pretax income	Net income	Per Common Share
1Q 07	$ 104	$ (8,530)	$	$ (8,426)	$ (5,477)	$ (0.02)
2Q 07	(5,139)	2,301	4,090	1,252	814	
3Q 07	(13,152)	(4,387)	3,220	(14,319)	(9,307)	(0.03)
9 mo. 07	$ (18,187)	$ (10,616)	$ 7,310	$ (21,493)	$ (13,970)	$ (0.05)
1Q 06	$ (20)	$ 1,505	$	$ 1,485	$ 965	$
2Q 06	(35)	2,322		2,287	1,487	0.01
3Q 06	(57,332)	352		(56,980)	(37,037)	(0.15)
9 mo. 06	(57,387)	4,179		(53,208)	(34,585)	(0.14)
4Q 06	(15,804)	3,257	(4,389)	(16,936)	(11,008)	(0.05)
12 mo. 06	$ (73,191)	$ 7,436	$ (4,389)	$ (70,144)	$ (45,593)	$ (0.19)

5. **Significant commercial loan provision expense.** Performance for the 2007 second quarter included $24.8 million ($16.1 million after tax, or $0.07 per common share) in provision for credit losses associated with three credit relationships: two in the eastern Michigan single-family home builder sector and one northern Ohio commercial credit to an auto industry-related manufacturing company. In the 2007 second quarter, charge-offs of $12.2 million were recorded against two of these credit relationships. In the 2007 third quarter, an additional $10.0 million of charge-offs were recorded, relating to all three of these credit relationships.

6. **Effective tax rate.** The effective tax rate for the 2006 third quarter included an $84.5 million ($0.35 per common share) reduction of federal income tax expense from the release of tax reserves as a result of the resolution of the federal income tax audit for 2002 and 2003 and the recognition of federal tax loss carry backs.

7. **Other significant items influencing earnings performance comparisons.** In addition to the items discussed separately in this section, a number of other items impacted financial results. These included:

2007 - First Quarter

$1.9 million pretax ($1.2 million after tax or $0.01 per common share) negative impact due to litigation losses.

2006 - Fourth Quarter

$10.0 million pretax ($6.5 million after tax or $0.03 per common share) contribution to the Huntington Foundation.

$5.2 million pretax ($3.6 million after tax or $0.02 per common share) increase in automobile lease residual value losses. This increase reflected higher relative losses on vehicles sold at auction, most notably high-line imports and larger sport utility vehicles.

$4.5 million pretax ($2.9 million after tax or $0.01 per common share) in severance and consolidation expenses. This reflected severance-related expenses associated with a reduction of 75 Regional Banking staff positions, as well as costs associated with the retirements of a vice chairman and an executive vice president.

$2.6 million pretax ($1.7 million after tax or $0.01 per common share) gain related to the sale of MasterCard® stock.

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2006 - First Quarter

$2.3 million pretax ($1.5 million after tax or $0.01 per common share) negative impact, reflecting a cumulative adjustment to defer annual fees related to home equity loans.

Table 3 reflects the earnings impact of the above-mentioned significant items for periods affected by this Discussion of Results of Operations:

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Table 3 Significant Items Influencing Earnings Performance Comparison [1]

	Three Months Ended					
	September 30, 2007		June 30, 2007		September 30, 2006	
(in millions)	**After-tax**	**EPS**	After-tax	EPS	After-tax	EPS
Net income reported earnings	**$138.2**		$80.5		$157.4	
Earnings per share, after tax		**$ 0.38**		$ 0.34		$0.65
Change from prior quarter $		**0.04**		(0.06)		0.19
Change from prior quarter %		**11.8%**		(15.0)%		41.3%
Change from a year-ago $		**$(0.27)**		$(0.12)		$0.18
Change from a year-ago %		**(41.5)%**		(26.1)%		38.3%

Significant items - favorable (unfavorable) impact:	**Earnings** [2]	**EPS**	Earnings [2]	EPS	Earnings [2]	EPS
Merger costs	**$(32.3)**	**$(0.06)**	$ (7.6)	$(0.02)	$	$
Net market-related losses	**(18.0)**	**(0.03)**	(3.5)	(0.01)		
Significant commercial loan provision expense			(24.8)	(0.07)		
Reduction to federal income tax expense [3]					84.5	0.35
Balance sheet restructuring					(57.3)	(0.16)
Adjustment for equity method investments					(2.1)	(0.01)

	Nine Months Ended			
	September 30, 2007		September 30, 2006	
(in millions)	**After-tax**	**EPS**	After-tax	EPS
Net income reported earnings	**$314.4**		$373.5	
Earnings per share, after tax		**$ 1.12**		$1.56
Change from a year-ago $		**(0.44)**		0.22
Change from a year-ago %		**(28.2)%**		16.4%

Significant items - favorable (unfavorable) impact:	**Earnings** [2]	**EPS**	Earnings [2]	EPS
Merger costs	**$(40.7)**	**$(0.09)**	$ (4.2)	$(0.01)
Net market-related losses	**(32.0)**	**(0.07)**	5.1	0.01
Significant commercial loan provision expense	**(24.8)**	**(0.06)**		
Reduction to federal income tax expense [3]			84.5	0.35
MSR FAS 156 accounting change			5.1	0.01
Balance sheet restructuring			(57.3)	(0.16)
Adjustment for equity method investments			(3.2)	(0.01)

Adjustment to defer home equity annual fees	(2.3)	(0.01)

(1) Refer to the Significant Items Influencing Financial Performance Comparisons for additional discussion regarding these items.

(2) Pretax unless otherwise noted.

(3) After tax

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Net Interest Income

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

2007 Third Quarter versus 2006 Third Quarter

Fully taxable equivalent net interest income for the 2007 third quarter was $415.3 million. This represented an increase of $155.9 million, or 60%, from the year-ago quarter. This reflected the favorable impact of a $14.9 billion increase in average earning assets, of which $13.5 billion represented an increase in average loans and leases, as well as the benefit of an increase in the fully taxable equivalent net interest margin of 30 basis points to 3.52%. The 3.52% fully taxable equivalent net interest margin was consistent with our expectations for a relatively stable net interest margin compared with the pro forma 2007 second quarter level of 3.50%.

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

Table 4 Average Loans/Leases and Deposits Estimated Merger Related Impacts 3Q 07 vs. 3Q 06

	Third Quarter		Change		Merger	Non-merger Related	
(in millions)	**2007**	2006	Amount	%	Related	Amount	% [1]
Loans							
Total commercial	**$22,016**	$12,039	$ 9,977	82.9%	$ 8,746	$1,231	5.9%
Automobile loans and leases	**4,354**	4,055	299	7.4	432	(133)	(3.0)
Home equity	**7,355**	5,041	2,314	45.9	2,385	(71)	(1.0)
Residential mortgage	**5,456**	4,748	708	14.9	1,112	(404)	(6.9)
Other consumer	**647**	430	217	50.5	143	74	12.9
Total consumer	**17,812**	14,274	3,538	24.8	4,072	(534)	(2.9)
Total loans	**$39,828**	$26,313	$13,515	51.4%	$12,818	$ 697	1.8%
Deposits							
Demand deposits non-interest bearing	**$ 5,384**	$ 3,509	$ 1,875	53.4%	$ 1,829	$ 46	0.9%
Demand deposits interest bearing	**3,808**	2,169	1,639	75.6	1,460	179	4.9
Money market deposits	**6,869**	5,689	1,180	20.7	996	184	2.8
Savings and other domestic deposits	**5,043**	2,923	2,120	72.5	2,594	(474)	(8.6)
Core certificates of deposit	**10,425**	5,334	5,091	95.4	4,630	461	4.6
Total core deposits	**31,529**	19,624	11,905	60.7	11,509	396	1.3
Other deposits	**6,123**	4,969	1,154	23.2	1,342	(188)	(3.0)
Total deposits	**$37,652**	$24,593	$13,059	53.1%	$12,851	$ 208	0.6%

[1] Calculated as non-merger related / (prior period + merger-related)

The $0.7 billion, or 2%, non-merger related increase in total average loans primarily reflected:

- $1.2 billion, or 6%, increase in average total commercial loans, reflecting continued strong growth in middle-market commercial and industrial (C&I) loans. The increase in commercial loans was spread across substantially all regions.

Partially offset by:

- $0.5 billion, or 3%, decrease in average total consumer loans, reflecting continued declines in automobile leasing due to low consumer demand and competitive pricing, as well as the impact of mortgage loan sales over the last 12 months.

Also contributing to the growth in average earning assets was a $1.1 billion increase in average trading account securities. The increase in these assets reflected a change in our strategy to use trading account securities to hedge the change in fair value of our MSRs.

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Concerning total average deposits, the $0.2 billion of non-merger related increase primarily reflected:

$0.4 billion, or 1%, increase in average total core deposits, reflecting strong growth in interest bearing demand deposits and money market accounts. While there was strong growth in core certificates of deposits, this was offset by a decline in savings and other domestic deposits, as customers transferred funds from lower rate to higher rate accounts.

Partially offset by:

$0.2 billion, or 3%, decline in other non-core deposits driven by a decline in brokered deposits and negotiable certificates of deposit.

2007 Third Quarter versus 2007 Second Quarter

Fully taxable equivalent net interest income for the 2007 third quarter was $415.3 million. This represented an increase of $157.8 million, or 61%, from the prior quarter. This reflected the favorable impact of a $15.2 billion increase in average earning assets, of which $13.4 billion represented an increase in average loans and leases, as well as the benefit of an increase in the fully taxable equivalent net interest margin of 26 basis points to 3.52%. These increases were primarily merger related.

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

Table 5 Average Loans/Leases and Deposits Estimated Merger Related Impacts 3Q 07 vs. 2Q 07

(in millions)	**Third Quarter 2007**	Second Quarter 2007	Change Amount	Change Percent	Merger Related	Non-merger Related Amount	Non-merger Related % (1)
Loans							
Total commercial	**$22,016**	$12,818	$ 9,198	71.8%	$ 8,746	$ 452	2.1%
Automobile loans and leases	**4,354**	3,873	481	12.4	432	49	1.1
Home equity	**7,355**	4,973	2,382	47.9	2,385	(3)	(0.0)
Residential mortgage	**5,456**	4,351	1,105	25.4	1,112	(7)	(0.1)
Other consumer	**647**	424	223	52.6	143	80	14.1
Total consumer	**17,812**	13,621	4,191	30.8	4,072	119	0.7
Total loans	**$39,828**	$26,439	$13,389	50.6%	$12,818	$ 571	1.5%
Deposits							
Demand deposits non-interest bearing	**$ 5,384**	$ 3,591	$ 1,793	49.9%	$ 1,829	$ (36)	(0.7)%
Demand deposits interest bearing	**3,808**	2,404	1,404	58.4	1,460	(56)	(1.4)
Money market deposits	**6,869**	5,466	1,403	25.7	996	407	6.3
Savings and other domestic deposits	**5,043**	2,863	2,180	76.1	2,594	(414)	(7.6)
Core certificates of deposit	**10,425**	5,591	4,834	86.5	4,630	204	2.0
Total core deposits	**31,529**	19,915	11,614	58.3	11,509	105	0.3
Other deposits	**6,123**	4,358	1,765	40.5	1,342	423	7.4
Total deposits	**$37,652**	$24,273	$13,379	55.1%	$12,851	$ 528	1.4%

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

The $0.6 billion, or 1%, non-merger related increase in average total loans and leases primarily reflected 2% growth in average total commercial loans due to continued strong growth across substantially all regions. Non-merger related average total consumer loans increased 1% with most categories essentially unchanged.

Also contributing to the growth in average earning assets were $0.9 billion increase in average trading account securities and $0.7 billion in average investment securities. These increases were primarily merger related. The increase in these assets reflected a change in our strategy to use trading account securities to hedge the change in fair value of our MSRs.

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Concerning the $13.4 billion increase in average total deposits, $12.9 billion was merger related. The $0.5 billion, or 1%, non-merger related increase reflected:

- $0.4 billion, or 7%, increase in other non-core deposits, reflecting an increase in wholesale deposits.

- $0.1 billion increase in average total core deposits. This reflected strong growth in money market deposits and core certificates of deposit, partially offset by a decline in savings and other domestic deposits as those depositors moved funds into higher rate accounts. The decline in interest bearing and non-interest bearing demand deposits reflected seasonality.

Tables 6 and 7 reflect quarterly average balance sheets and rates earned and paid on interest-earning assets and interest-bearing liabilities.

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Table 6 Consolidated Quarterly Average Balance Sheets

Fully taxable equivalent basis *(in millions)*	Average Balances 2007 Third	2007 Second	2007 First	2006 Fourth	2006 Third	Change 3Q07 vs 3Q06 Amount	Change 3Q07 vs 3Q06 Percent
Assets							
Interest bearing deposits in banks	**$ 292**	$ 259	$ 93	$ 77	$ 75	$ 217	N.M.%
Trading account securities	**1,149**	230	48	116	96	1,053	N.M.
Federal funds sold and securities purchased under resale agreements	**557**	574	503	531	266	291	N.M.
Loans held for sale	**419**	291	242	265	275	144	52.4
Investment securities:							
Taxable	**3,951**	3,253	3,595	3,792	4,364	(413)	(9.5)
Tax-exempt	**675**	629	591	594	581	94	16.2
Total investment securities	**4,626**	3,882	4,186	4,386	4,945	(319)	(6.5)
Loans and leases: [(1)]							
Commercial:							
Middle market commercial and industrial	**10,301**	6,209	6,070	5,882	5,651	4,650	82.3
Middle market commercial real estate:							
Construction	**1,782**	1,245	1,151	1,170	1,129	653	57.8
Commercial	**5,623**	2,865	2,772	2,839	2,846	2,777	97.6
Middle market commercial real estate	**7,405**						