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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549**

**FORM 10-K**

(Mark One)

T Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

**For the fiscal year ended December 31, 2005**

or

£ Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Commission File Number **0-2525**

**Huntington Bancshares Incorporated**

(Exact name of registrant as specified in its charter)

**Maryland**

(State or other jurisdiction of  
incorporation or organization)

**31-0724920**

(I.R.S. Employer Identification No.)

**41 S. High Street, Columbus, OH**  
(Address of principal executive offices)

**43287**  
(Zip Code)

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

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

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

**Common Stock — Without Par Value**

(Title of class)

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.  T  Yes  £  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.  T

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  T

Accelerated filer  £

Non-accelerated filer  £

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

The aggregate market value of voting stock held by non-affiliates of the registrant as of June 30, 2005, determined by using a per share closing price of \$24.14, as quoted by NASDAQ on that date, was \$5,361,409,027. As of January 31, 2006, there were 223,403,135 shares of common stock without par value outstanding.

Documents Incorporated By Reference

Part II of this Form 10-K incorporates by reference certain information from the registrant's Annual Report to shareholders for the period ended December 31, 2005.

Part III of this Form 10-K incorporates by reference certain information from the registrant's definitive Proxy Statement for the 2006 Annual Shareholders' Meeting.

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## **Huntington Bancshares Incorporated**

### **PART I**

When we refer to “we,” “our,” and “us” in this report, we mean Huntington Bancshares Incorporated and our consolidated subsidiaries, unless the context indicates that we refer only to the parent company, Huntington Bancshares Incorporated. When we refer to the “Bank” in this report, we mean The Huntington National Bank, our only bank subsidiary. We refer in this report to relevant sections of our 2005 Annual Report to shareholders. Portions of our 2005 Annual Report to shareholders, including the sections we refer to in this report, are filed as Exhibit 13 to, and are incorporated by reference into, this report.

#### **Item 1: Business**

We are a multi-state diversified financial holding company organized under Maryland law in 1966 and headquartered in Columbus, Ohio. Through our subsidiaries, we provide full-service commercial and consumer banking services, mortgage banking services, automobile financing, equipment leasing, investment management, trust services, and brokerage services. We also reinsure private mortgage, credit life and disability insurance, and sell other insurance and financial products and services. The Bank, organized in 1866, is our only bank subsidiary. At December 31, 2005, the Bank had:

- 165 banking offices in Ohio
- 113 banking offices in Michigan
- 26 banking offices in West Virginia
- 23 banking offices in Indiana
- 12 banking offices in Kentucky
- 5 private banking offices in Florida
- one foreign office in the Cayman Islands
- one foreign office in Hong Kong

We conduct certain activities in other states including Arizona, Florida, Georgia, Maryland, Nevada, New Jersey, North Carolina, Pennsylvania, South Carolina and Tennessee. Our foreign banking activities, in total or with any individual country, are not significant. At December 31, 2005, we had 7,602 full-time equivalent employees.

Our lines of business are discussed in our Management’s Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report to shareholders, which is incorporated into this report by reference. The financial statement results for each of our lines of business can be found in Note 26 of the Notes to Consolidated Financial Statements in our 2005 Annual Report.

#### **Competition**

Competition is intense in most of our markets. We compete on price and service with other banks and financial services companies such as savings and loans, credit unions, finance companies, mortgage banking companies, insurance companies, and brokerage firms. Competition could intensify in the future as a result of industry consolidation, the increasing availability of products and services from non-banks, greater technological developments in the industry, and banking reform. For example, financial services reform legislation enacted in 1999 eliminated the long-standing Glass-Steagall Act restrictions on securities activities of bank holding companies and banks. That legislation, among other things, permits securities and insurance firms to engage in banking activities under specified conditions.

#### **Regulatory Matters**

As discussed further in Note 23 of the Notes to Consolidated Financial Statements, on March 1, 2005, we announced entering into formal written agreements with our banking regulators, the Federal Reserve Bank of Cleveland and the Office of the Comptroller of the Currency (OCC). On October 6, 2005, we announced that the OCC had lifted its formal written agreement with the Bank. We announced at the same time that our written agreement with the Federal Reserve Bank of Cleveland remained in effect, but we were advised that we were in full compliance with all applicable requirements of the Gramm-Leach-Bliley Act of 1999 including the well-capitalized and well-managed criteria.

As discussed further in Note 22 of the Notes to Consolidated Financial Statements, we announced on June 2, 2005, that we had settled the Securities and Exchange Commission (SEC) formal investigation.

Statements in this report concerning any statutory or regulatory provisions or their impact on us are not intended to be comprehensive and are qualified by reference to such statutory or regulatory provisions and, to the extent applicable, to our formal written agreement with the Federal Reserve Bank of Cleveland.

### **General**

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

Because we are a public company, we are also subject to regulation by the SEC. On December 15, 2005, the SEC adopted final rules establishing three categories of issuers for the purpose of filing periodic and annual reports. Under the new regulations, we are considered to be a “large accelerated filer” and, as such, must comply with the new SEC accelerated reporting requirements.

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

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

### **Holding Company Structure**

We have one national bank subsidiary and numerous non-bank subsidiaries. Exhibit 21 of this report lists all of our subsidiaries.

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

- 10% of the subsidiary bank’s capital and surplus for transfers to its parent corporation or to any individual non-bank subsidiary of the parent, and
- an aggregate of 20% of the subsidiary bank’s capital and surplus for transfers to such parent together with all such non-bank subsidiaries of the parent.

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

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

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

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

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

In December 2004, the Federal Reserve announced a revision of its bank holding company rating system, effective January 1, 2005, to align the system more closely with current supervisory practices. The revised system:

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

A composite rating is assigned based on the foregoing three components, but a fourth component is also rated, reflecting generally the assessment of depository institution subsidiaries by their principal regulators. Ratings are made on a scale of 1 to 5 (1 highest) and, like current ratings, are not made public. The new rating system applies to us.

#### ***Dividend Restrictions***

Dividends from the Bank are the primary source of funds for payment of dividends to our shareholders. In the year ended December 31, 2005, we declared cash dividends to shareholders of \$193.8 million. There are, however, statutory limits on the amount of dividends that the Bank can pay to us without regulatory approval.

The Bank may not, without prior regulatory approval, pay a dividend in an amount greater than its undivided profits. In addition, the prior approval of the OCC is required for the payment of a dividend by a national bank if the total of all dividends declared in a calendar year would exceed the total of its net income for the year combined with its retained net income for the two preceding years. At December 31, 2005, the Bank could declare and pay dividends to the parent company of \$163.0 million and still be considered "well capitalized." The Bank could declare an additional \$230.6 million of dividends without regulatory approval at December 31, 2005, although such dividends would take the Bank below "well capitalized" levels.

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

#### ***FDIC Insurance***

During 2005, the FDIC classified the Bank as a "well-capitalized" institution, the highest supervisory subcategory. The Bank, therefore, was not obliged under FDIC assessment practices to pay deposit insurance premiums in 2005, either on its deposits insured by the Bank Insurance Fund or on that portion of its deposits acquired from savings and loan associations and insured by the Savings and Loan Association Insurance Fund. Although not currently subject to FDIC assessments for insurance premiums, the Bank is required to make payments for the servicing of obligations of the Financing Corporation that were issued in connection with the resolution of savings and loan associations, so long as such obligations remain outstanding.

The FDIC may alter its assessment practices in the future if required by developments affecting the resources of the Bank Insurance Fund or the Savings and Loan Association Insurance Fund. In November 2005, the FDIC announced that it expected the Bank Insurance Fund to fall below its statutorily mandated reserve target of 1.25 percent of insured deposits by early 2006. This could cause the FDIC to impose premiums on all Bank Insurance Fund-insured institutions. Assessment practices may also be altered if pending legislative initiatives become law.

### **Capital Requirements**

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

- makes regulatory capital requirements sensitive to differences in risk profiles among banking organizations,
- takes off-balance sheet exposures into explicit account in assessing capital adequacy, and
- minimizes disincentives to holding liquid, low-risk assets.

Under the guidelines and related policies, bank holding companies must maintain capital sufficient to meet both a risk-based asset ratio test and a leverage ratio test on a consolidated basis. The risk-based ratio is determined by allocating assets and specified off-balance sheet commitments into four weighted categories, with higher weighting assigned to categories perceived as representing greater risk. A bank holding company's risk-based ratio represents capital divided by total risk weighted assets. The leverage ratio is core capital divided by total assets adjusted as specified in the guidelines. The Bank is subject to substantially similar capital requirements.

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

- "Tier 1", or core capital, includes common equity, non-cumulative perpetual preferred stock (excluding auction rate issues), and minority interests in equity accounts of consolidated subsidiaries, less both goodwill and, with certain limited exceptions, all other intangible assets. Bank holding companies, however, may include up to a limit of 25% of cumulative preferred stock in their Tier 1 capital.
- "Tier 2", or supplementary capital, includes, among other things, cumulative and limited-life preferred stock, hybrid capital instruments, mandatory convertible securities, qualifying subordinated debt, and the allowance for loan and lease losses, subject to certain limitations.
- "Total capital" is Tier 1 plus Tier 2 capital.

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

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

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

Special minimum capital requirements apply to equity investments in nonfinancial companies. The requirements consist of a series of marginal capital charges that increase within a range from 8% to 25% as a financial institution's over-all exposure to equity investments increases as a percentage of its Tier 1 capital.

Failure to meet applicable capital guidelines could subject the financial institution to a variety of enforcement remedies available to the federal regulatory authorities. These include limitations on the ability to pay dividends, the issuance by the regulatory authority of a capital directive to increase capital, and the termination of

deposit insurance by the FDIC. In addition, the financial institution could be subject to the measures described below under “Prompt Corrective Action” as applicable to “under-capitalized” institutions.

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

#### ***Prompt Corrective Action***

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

An institution is deemed to be:

- “well-capitalized” if it has a total risk-based capital ratio of 10% or greater, a Tier 1 risk-based capital ratio of 6% or greater, and a Tier 1 leverage ratio of 5% or greater and is not subject to a regulatory order, agreement, or directive to meet and maintain a specific capital level for any capital measure;
- “adequately-capitalized” if it has a total risk-based capital ratio of 8% or greater, a Tier 1 risk-based capital ratio of 4% or greater, and, generally, a Tier 1 leverage ratio of 4% or greater and the institution does not meet the definition of a “well-capitalized” institution;
- “under-capitalized” if it does not meet one or more of the “adequately-capitalized” tests;
- “significantly under-capitalized” if it has a total risk-based capital ratio that is less than 6%, a Tier 1 risk-based capital ratio that is less than 3%, or a Tier 1 leverage ratio that is less than 3%; and
- “critically under-capitalized” if it has a ratio of tangible equity, as defined in the regulations, to total assets that is equal to or less than 2%.

Throughout 2005, our regulatory capital ratios and those of the Bank were in excess of the levels established for “well-capitalized” institutions.

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

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

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

Under FDICIA, a depository institution that is not “well-capitalized” is generally prohibited from accepting brokered deposits and offering interest rates on deposits higher than the prevailing rate in its market. As previously stated, the Bank is “well-capitalized” and the FDICIA brokered deposit rule did not adversely affect its ability to accept brokered deposits. The Bank had \$3.2 billion of such brokered deposits at December 31, 2005.

### ***Financial Holding Company Status***

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

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

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

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

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

### ***USA Patriot Act***

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

The U.S. Congress has temporarily renewed the USA Patriot Act and is expected to consider permanent renewal early in 2006.

### ***Customer Privacy and Other Consumer Protections***

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

- provide notice to our customers regarding privacy policies and practices,
- inform our customers regarding the conditions under which their non-public personal information may be disclosed to non-affiliated third parties, and
- give our customers an option to prevent disclosure of such information to non-affiliated third parties.

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



## ***Sarbanes-Oxley Act of 2002***

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

## ***Recent Regulatory Developments***

Authority for financial holding companies to engage in real estate brokerage and property management services was proposed by the Treasury Department and the Federal Reserve in 2000, but final regulations implementing the proposal have been subject to a statutory moratorium which was renewed by Congress in late 2005 for an additional year. It is not possible at present to assess when or whether final regulations will come into effect.

The U.S. Congress approved deposit insurance reform at the beginning of February 2006. Under the new program, the BIF and the SAIF will be merged. In addition, the FDIC may from time to time adjust the minimum reserve ratio, currently fixed at 1.25%, within a range between 1.15% percent and 1.50%, and may adopt a risk-based premium system. Certain retirement accounts may receive coverage up to \$250,000, and the FDIC may adjust coverage levels for inflation commencing in 2010.

The Basel Committee on Banking Supervision presented its "Basel II" regulatory capital guidelines in July 2004, which would require changes by large internationally-active banks in the way in which their risk-based capital requirements are calculated. Federal banking regulators are considering the extent and timing of application of the guidelines to such large U.S. depository institutions.

On the basis of preliminary regulatory pronouncements, it does not appear that we would meet the asset size criteria to be included among the U.S. banking organizations affected by Basel II. In October 2005, however, U.S. banking regulators issued an advance rulemaking notice that contemplated possible modifications to the "Basel I" risk-based capital framework applicable to domestic banking organizations that would not be affected by Basel II. These possible modifications, which would be designed to avoid future competitive inequalities between Basel I and Basel II organizations and which would likely be applicable to us, include:

- increasing the number of risk-weight categories,
- expanding the use of external ratings for credit risk,
- expanding the range of collateral and guarantors to qualify for a lower risk weight, and
- basing residential mortgage risk ratings on loan-to-value ratios.

The banking regulators indicated an intention to publish proposed rules for implementation of Basel I and Basel II in similar time frames, presumptively during 2006.

## **Guide 3 Information**

Information required by Industry Guide 3 relating to statistical disclosure by bank holding companies is contained in the information incorporated by reference in response to Items 7 and 8 of this report.

## **Available Information**

We make available free of charge on our internet website, our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and, if applicable, amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, as soon as reasonably practicable after those reports have been electronically filed or submitted to the SEC. These filings can be accessed under the "Investor Relations" link found on the homepage of our website at [www.huntington.com](http://www.huntington.com). These filings are also accessible on the SEC's website at [www.sec.gov](http://www.sec.gov). The public may read and copy any materials we file with the SEC at the SEC's Public Reference Room at 450 Fifth Street, NW., Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330.

## **Item 1A: Risk Factors**

Like other financial companies, we 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 counterparties 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 the parent company and/or the Bank will have insufficient cash or access to cash to meet its operating needs, and (4) operational risk, which is the risk of loss resulting from inadequate or failed internal processes, people and systems, or external events.

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

**(1) Credit Risks:**

**We extend credit to a variety of customers based on internally set standards and judgment. We manage the credit risk through a program of underwriting standards, the review of certain credit decisions, and an on-going process of assessment of the quality of the credit already extended. Our credit standards and on-going process of credit assessment might not protect us from significant credit losses.**

We take credit risk by virtue of making loans and leases, purchasing non-governmental securities, extending loan commitments and letters of credit, and being counterparties to off-balance sheet financial instruments such as interest rate and foreign exchange derivatives.

Our exposure to credit risk is managed through the use of consistent underwriting standards that emphasize “in-market” lending while avoiding highly leveraged transactions as well as excessive industry and other concentrations. Our credit administration function employs risk management techniques to ensure that loans and leases adhere to corporate policy and problem loans and leases are promptly identified. These procedures provide us with the information necessary to implement policy adjustments where necessary, and to take proactive corrective actions.

For further discussion about our management of credit risk, see the “Credit Risk” section of Management’s Discussion and Analysis of our 2005 Annual Report.

**Our loans, leases, and deposits are focused in five states and adverse economic conditions in those states, in particular, could negatively impact results from operations, cash flows, and financial condition.**

Concentration of credit risk can also arise with respect to loans and leases when the borrowers are located in the same geographical region. Our customers with loan and/or deposit balances at December 31, 2005, were located predominantly in Ohio, Michigan, West Virginia, Indiana, and Kentucky. Because of the concentration of loans, leases, and deposits in these states, in the event of adverse economic conditions in these states, we could experience more difficulty in attracting deposits and experience higher rates of loss and delinquency on our loans and leases than if the loans and leases were more geographically diversified. Adverse economic conditions and other factors, such as political or business developments or natural hazards that may affect these states, may reduce demand for credit or fee-based products and could negatively affect real estate and other collateral values, interest rate levels, and the availability of credit to refinance loans at or prior to maturity.

**Declines in home values in our markets could adversely impact results from operations.**

Like all banks, we are subject to the effects of any economic downturn, and in particular, a significant decline in home values in our markets could have a negative effect on results of operations. At December 31, 2005, we had \$4.6 billion of consumer home equity loans and lines with a weighted average loan-to-value ratio for the portfolio of 80%. In addition, at December 31, 2005, we had \$4.2 billion in residential real estate loans with a weighted average loan-to-value ratio of 71%. A significant decline in home values could lead to higher charge-offs in event of default in both the consumer home equity loan and residential real estate loan portfolios.

**(2) Market Risks:**

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

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

Changes in interest rates also can affect the value of loans and other assets, including retained interests in securitizations, mortgage and non-mortgage servicing rights, and our ability to realize gains on the sale of assets. A portion of our earnings result from transactional income. An example of this type of transactional income is gain on sales of loans and other real estate owned. This type of income can vary significantly from quarter-to-quarter and year-to-year based on a number of different factors, including the interest rate environment. An increase in interest rates that adversely affects the ability of borrowers to pay the principal or interest on loans and leases may lead to an increase in non-performing assets and a reduction of income recognized, which could have a material, adverse effect on our results of operations and cash flows. For further discussion, see Note 5 of the Notes to Consolidated Financial Statements included in our 2005 Annual Report.

Although fluctuations in market interest rates are neither completely predictable nor controllable, our Market Risk Committee (MRC) meets periodically to monitor our interest rate sensitivity position and oversee our financial risk management by establishing policies and operating limits. For further discussion, see the "Interest Rate Risk" section of Management's Discussion and Analysis of our 2005 Annual Report.

**We could experience losses on residual values related to our automobile lease portfolio.**

Inherently, automobile lease portfolios are subject to residual risk, which arises when the market price of the leased vehicle at the end of the lease term is below the estimated residual value at the time the lease is originated. This situation arises due to a decline in used car market values. A reduction in the expected proceeds from the residual values of our direct financing leases would result in an immediate recognition of impairment on the lease whereas a reduction in the expected proceeds from the residual values of our operating leases would result in an increase in the depreciation of our operating lease assets over the remaining term of the lease. For further discussion about our management of lease residual risk, see the "Lease Residual Risk" section of Management's Discussion and Analysis of our 2005 Annual Report.

**(3) Liquidity Risks:**

**If we are unable to borrow funds through access to capital markets, we may not be able to meet the cash flow requirements of our depositors and borrowers, or meet the operating cash needs to fund corporate expansion and other activities.**

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

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

If we were unable to access any of these funding sources when needed, we might be unable to meet customers' needs, which could adversely impact our financial condition, results of operations, cash flows, and level of regulatory-qualifying capital. For further discussion, see the "Liquidity Risk" section of Management's Discussion and Analysis of our 2005 Annual Report.

**If our credit ratings were downgraded, the ability to access funding sources may be negatively impacted or eliminated, and our liquidity and the market price of our common stock could be adversely impacted.**

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

Credit ratings as of December 31, 2005, for the parent company and the Bank can be found in Table 26 of Management's Discussion and Analysis of our 2005 Annual Report.

We rely on certain funding sources such as large corporate deposits, public fund deposits, federal funds, Euro deposits, FHLB advances, and bank notes. Although not contractually tied to credit ratings, our ability to access these funding sources may be impacted by negative changes in credit ratings. In the case of public funds or FHLB advances, a credit downgrade may also trigger a requirement that we pledge additional collateral against outstanding borrowings. Credit rating downgrades could result in a loss of equity investor confidence.

**We have authorized the use of a substantial amount of our cash for the repurchase of our shares, and this use of funds may limit our ability to complete other transactions or to pursue other business initiatives.**

In October 2005, our board of directors authorized a new program for the repurchase of up to 15 million shares. We expect to repurchase shares for cash as business conditions warrant. The full implementation of this repurchase program will use a significant portion of our capital reserves. This use of capital could limit future flexibility to complete acquisitions of businesses or technology, or other transactions, or make investments in research and development, new employee hiring, or other aspects of operations that might be in our best interests, or could require that we borrow money or issue additional equity securities for such purposes. Any incurrence of debt may not be on favorable terms and could result in our being subject to covenants or other contractual restrictions that limit the ability to take advantage of other opportunities that may arise. Any such incurrence of debt would likely increase our interest expense, and any issuance of additional equity securities would dilute the stock ownership of existing shareholders.

***(4) Operational Risks:***

**We have significant competition in both attracting and retaining deposits and in originating loans and leases.**

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

**In the normal course of business, we process large volumes of transactions. However, there can be no assurance that we will be able to continue processing at the same or higher levels of transactions. If systems of internal control should fail to work as expected, if systems are used in an unauthorized manner, or if employees subvert the system of internal controls, significant losses could result.**

We process large volumes of transactions on a daily basis and are exposed to numerous types of operational risk. Operational risk resulting from inadequate or failed internal processes, people, and systems includes the risk of fraud by persons inside or outside the company, the execution of unauthorized transactions by employees, errors relating to transaction processing and systems, and breaches of the internal control system and compliance requirements. This risk of loss also includes the potential legal actions that could arise as a result of the operational deficiency or as a result of noncompliance with applicable regulatory standards.

We establish and maintain systems of internal operational controls that provide us with timely and accurate information about our level of operational risk. While not foolproof, these systems have been designed to manage operational risk at appropriate, cost-effective levels. Procedures exist that are designed to ensure that policies relating to conduct, ethics, and business practices are followed. From time to time, losses from operational risk may occur, including the effects of operational errors. Such losses are recorded as non-interest expense.

While we continually monitor and improve the system of internal controls, data processing systems, and corporate-wide processes and procedures, there can be no assurance that future losses will not occur.

**Our acquisitions may not receive the necessary approvals, meet income and/or cost saving expectation levels, or be integrated within time frames originally anticipated. We may encounter unforeseen difficulties, including unanticipated integration problems and business disruption in connection with acquisitions. Acquisitions could also dilute stockholder value and adversely affect operating results.**

The completion of any merger is dependent on, among other things, receipt of shareholder and regulatory approvals, the timing of which cannot be predicted with precision or may not be received at all. Additionally, a merger may be more expensive to complete than anticipated, as a result of unexpected factors or events, and the anticipated cost savings of a merger may take longer to be realized or may not be entirely achieved. The integration of acquired businesses and operations, including systems conversions, may take longer than anticipated, may be more costly than anticipated and may have unanticipated adverse results relating to our existing businesses or the businesses acquired. Further, decisions to sell or close units or otherwise change the business mix may adversely impact combined results. Moreover, we may be unable to identify, negotiate, or finance future acquisitions successfully. Future acquisitions could result in potentially dilutive issuances of equity securities or the incurrence of debt, contingent liabilities, or amortization expenses.

**An extended disruption of vital infrastructure could negatively impact our business, results of operations, and financial condition.**

Our operations depend upon, among other things, our infrastructure, including equipment and facilities. Extended disruption of vital infrastructure by fire, power loss, natural disaster, telecommunications failure, computer hacking or viruses, terrorist activity or the domestic and foreign response to such activity, or other events outside of our control could have a material adverse impact on the financial services industry as a whole and on our business, results of operations, cash flows, and financial condition in particular. Our business recovery plan may not work as intended or may not prevent significant interruptions of our operations.

**New or changes in existing tax, accounting, and regulatory rules and interpretations could significantly impact strategic initiatives, results of operations, cash flows, and financial condition.**

The financial services industry is extensively regulated. Federal and state banking regulations are designed primarily to protect the deposit insurance funds and consumers, not to benefit a financial company's shareholders. These regulations may sometimes impose significant limitations on operations. The significant federal and state banking regulations that affect us are described in this report under the heading "Regulatory Matters." These regulations, along with the currently existing tax, accounting, securities, insurance, and monetary laws, regulations, rules, standards, policies, and interpretations control the methods by which financial institutions conduct business, implement strategic initiatives and tax compliance, and govern financial reporting and disclosures. These laws, regulations, rules, standards, policies, and interpretations are constantly evolving and may change significantly over time.

In addition, we may be subject to actions of our regulators that are specific to us. For further discussion, see Note 23 of the Notes to Consolidated Financial Statements included in our 2005 Annual Report.

Events that may not have a direct impact on us, such as the bankruptcy of major U.S. companies, have resulted in legislators, regulators, and authoritative bodies, such as the Financial Accounting Standards Board, the SEC, the Public Company Accounting Oversight Board, and various taxing authorities responding by adopting and/or proposing substantive revisions to laws, regulations, rules, standards, policies, and interpretations. International capital standards developed in the framework of the Basel Committee on Banking Supervision may also affect the competitive environment for United States banks.

The nature, extent, and timing of the adoption of significant new laws and regulations, or changes in or repeal of existing laws and regulations, or specific actions of regulators, may have a material impact on our business and results of operations; however, it is impossible to predict at this time the extent of any impact from these items.

**Non-compliance with USA Patriot Act, Bank Secrecy Act, or other laws and regulations could result in fines or sanctions.**

The USA Patriot and Bank Secrecy Acts require financial institutions to develop programs to prevent financial institutions from being used for money laundering and terrorist activities. If such activities are detected, financial institutions are obligated to file suspicious activity reports with the U.S. Treasury Department's Office of Financial Crimes Enforcement Network. These rules require financial institutions to establish procedures for identifying and verifying the identity of customers seeking to open new financial accounts. Failure to comply with these regulations could result in fines or sanctions. During the last year, several banking institutions have received large fines for non-compliance with these laws and regulations. We have developed policies and procedures designed to assist in compliance with these laws and regulations.

**The OCC may impose dividend payment and other restrictions on the Bank, which would impact our ability to pay dividends to shareholders or repurchase stock.**

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

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

Payment of dividends could also be subject to regulatory limitations if the Bank became "under-capitalized" for purposes of the OCC "prompt corrective action" regulations. "Under-capitalized" is currently defined as having a total risk-based capital ratio of less than 8.0%, a Tier 1 risk-based capital ratio of less than 4.0%, or a core capital, or leverage, ratio of less than 4.0%. If the Bank were unable to pay dividends to the parent company, it would impact our ability to pay dividends to shareholders or repurchase stock. Throughout 2005, the Bank was in compliance with all regulatory capital requirements and considered to be "well-capitalized."

For further discussion, see the "Parent Company Liquidity" section of Management's Discussion and Analysis of our 2005 Annual Report.

**The Federal Reserve Board may require us to commit capital resources to support the Bank.**

The Federal Reserve, which examines us and our non-bank subsidiaries, has a policy stating that a bank holding company is expected to act as a source of financial and managerial strength to a subsidiary bank and to commit resources to support such subsidiary bank. Under the source of strength doctrine, the Federal Reserve may require a bank holding company to make capital injections into a troubled subsidiary bank, and may charge the bank holding company with engaging in unsafe and unsound practices for failure to commit resources to such a subsidiary bank. A capital injection may be required at times when the holding company may not have the resources to provide it, and therefore may be required to borrow the funds. Any loans by a holding company to its subsidiary bank are subordinate in right of payment to deposits and to certain other indebtedness of such subsidiary bank. In the event of a bank holding company's bankruptcy, the bankruptcy trustee will assume any commitment by the holding company to a federal bank regulatory agency to maintain the capital of a subsidiary bank. Moreover, the bankruptcy law provides that claims based on any such commitment will be entitled to a priority of payment over the claims of the institution's general unsecured creditors, including the holders of its note obligations. Thus, any borrowing that must be done by the holding company in order to make the required capital injection becomes more difficult and expensive and will adversely impact the holding company's results of operations and cash flows.

**If any of our Real Estate Investment Trust (REIT) affiliates fail to qualify as a REIT, we may be subject to a higher consolidated effective tax rate.**

Huntington Preferred Capital, Inc. (HPCI), Huntington Preferred Capital II, Inc. (HPC-II) and Huntington Capital Financing, LLC (HCF) operate as REITs for federal income tax purposes. HPCI, HPC-II, and HCF are consolidated holding company subsidiaries established to acquire, hold, and manage mortgage assets and other authorized investments to generate net income for distribution to their shareholders.

Qualification as a REIT involves application of specific provisions of the Internal Revenue Code relating to various asset tests. A REIT must satisfy six asset tests quarterly: (1) 75% of the value of the REIT's total assets must consist of real estate assets, cash and cash items, and government securities; (2) not more than 25% of the value of the REIT's total assets may consist of securities, other than those includible under the 75% test; (3) not more than 5% of the value of its total assets may consist of securities of any one issuer, other than those securities includible under the 75% test or securities of taxable REIT subsidiaries; (4) not more than 10% of the outstanding voting power of any one issuer may be held, other than those securities includible under the 75% test or securities of taxable REIT subsidiaries; (5) not more than 10% of the total value of the outstanding securities of any one issuer may be held, other than those securities includible under the 75% test or securities of taxable REIT subsidiaries; and (6) a REIT cannot own securities in one or more taxable REIT subsidiaries which comprise more than 20% of its total assets. At December 31, 2005, HPCI, HPC-II, and HCF met all of the quarterly asset tests.

Also, a REIT must annually satisfy two gross income tests: (1) 75% of its gross income must be from qualifying income closely connected with real estate activities; and (2) 95% of its gross income must be derived from sources qualifying for the 75% test plus dividends, interest, and gains from the sale of securities. In addition, a REIT must distribute 90% of the REIT's taxable income for the taxable year, excluding any net capital gains, to maintain its non-taxable status for federal income tax purposes. For 2005, HPCI, HPC-II, and HCF had met all annual income and distribution tests.

If any of these REIT affiliates fail to meet any of the required provisions for REITs, they could no longer qualify as a REIT and the resulting tax consequences would increase our effective tax rate.

**We could be held responsible for environmental liabilities of properties acquired through foreclosure of loans secured by real estate.**

In the event we foreclose on a defaulted commercial mortgage and/or residential mortgage loan to recover our investment, we may be subject to environmental liabilities in connection with the underlying real property, which could exceed the value of the real property. Although we exercise due diligence to discover potential environmental liabilities prior to acquiring any property through foreclosure, hazardous substances or wastes, contaminants, pollutants, or their sources may be discovered on properties during our ownership or after a sale to a third party. There can be no assurance that we would not incur full recourse liability for the entire cost of any removal and clean-up on an acquired property, that the cost of removal and clean-up would not exceed the value of the property, or that we could recover any of the costs from any third party.

**We have a pending formal supervisory agreement with the Federal Reserve Bank of Cleveland.**

On March 1, 2005, we announced entering into a formal written agreement with the Federal Reserve Bank of Cleveland (FRBC) providing for a comprehensive action plan designed to enhance our corporate governance, internal audit, risk management, accounting policies and procedures, and financial and regulatory reporting. The agreement called for independent third-party reviews, as well as the submission of written plans and progress reports by Management and remains in effect until terminated by the banking regulators.

We were verbally advised that we were in full compliance with the financial holding company and financial subsidiary requirements under the Gramm-Leach-Bliley Act (GLB Act). This notification reflects that we and the Bank meet both the "well-capitalized" and "well-managed" criteria under the GLB Act. We believe that the changes we have already made, and are in the process of making, will address the FRBC issues fully and comprehensively.



**Item 1B: Unresolved Staff Comments**

Not Applicable.

**Item 2: Properties**

Our headquarters, as well as the Bank's, are located in the Huntington Center, a thirty-seven-story office building located in Columbus, Ohio. Of the building's total office space available, we lease approximately 39%. The lease term expires in 2015, with nine five-year renewal options for up to 45 years but with no purchase option. The Bank has an indirect minority equity interest of 18.4% in the building. Our other major properties consist of a thirteen-story and a twelve-story office building, both of which are located adjacent to the Huntington Center; a twenty-one story office building, known as the Huntington Building, located in Cleveland, Ohio; an eighteen-story office building in Charleston, West Virginia; a three-story office building located in Holland, Michigan; a Business Service Center in Columbus, Ohio; The Huntington Mortgage Group's building, located in the greater Columbus area; an office complex located in Troy, Michigan; and two data processing and operations centers located in Ohio. The office buildings above serve as regional administrative offices occupied predominantly by our Regional Banking and Private Financial and Capital Markets Group lines of business. The Dealer Sales line of business is primarily located in a three-story office building located in Columbus, Ohio. Of these properties, we own the thirteen-story and twelve-story office buildings, and the Business Service Center. All of the other major properties are held under long-term leases. In 1998, we entered into a sale/leaseback agreement that included the sale of 51 of our locations. The transaction included a mix of branch banking offices, regional offices, and operational facilities, including certain properties described above, which we will continue to operate under a long-term lease.

**Item 3: Legal Proceedings**

Information required by this item is set forth in Notes 22 and 23 of Notes to Consolidated Financial Statements included in our 2005 Annual Report.

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

Not Applicable.

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

The common stock of Huntington Bancshares Incorporated is traded on the NASDAQ Stock Market under the symbol "HBAN". The stock is listed as "HuntgBcshr" or "HuntBanc" in most newspapers. As of January 31, 2006, we had 25,374 shareholders of record.

Information regarding the high and low sale prices of our common stock and cash dividends declared on such shares, as required by this item, is set forth in Table 36 entitled "Quarterly Stock Summary, Key Ratios and Statistics, and Capital Data" included in our 2005 Annual Report. Information regarding restrictions on dividends, as required by this item, is set forth in Item 1 "Business-Regulatory Matters-Dividend Restrictions" and in Note 23 of the Notes to Consolidated Financial Statements included in our 2005 Annual Report.

On January 7, 2005, we released from escrow 86,118 shares of unregistered Huntington common stock, without par value, to three former employees (the "Former Employees") in connection with a settlement upon termination of their employment. In exchange, the Former Employees agreed to waive all claims they may have against us. The shares were initially placed into escrow in connection with our acquisition of LeaseNet, Inc. ("LeaseNet") on September 19, 2002. The Former Employees were the sole shareholders of LeaseNet at the time of this acquisition. The release of these shares in this transaction was deemed to be exempt from registration under the Securities Act of 1933, as amended, in reliance on Section 4(2) since this was a transaction by an issuer not involving a public offering.

<b>Period</b>	<b>Total Number of Shares Purchased</b>	<b>Average Price Paid Per Share</b>	<b>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (1)</b>	<b>Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs(1)</b>
October 1, 2005 to October 31, 2005	900,000	\$ 22.59	900,000	14,100,000
November 1, 2005 to November 30, 2005	2,775,000	23.92	3,675,000	11,325,000
December 1, 2005 to December 31, 2005	1,500,000	24.18	5,175,000	9,825,000
<b>Total</b>	<b>5,175,000</b>	<b>\$ 23.76</b>	<b>5,175,000</b>	<b>9,825,000</b>

(1) Information is as of the end of the period. On October 18, 2005, we announced that the board of directors authorized a new program for the repurchase of up to 15 million shares of our common stock (the 2005 Repurchase Program). The 2005 Repurchase Program does not have an expiration date. The 2004 Repurchase Program, with 3.1 million shares remaining, was cancelled and replaced by the 2005 Repurchase Program. During the fourth quarter, we repurchased 5.2 million shares under the 2005 Repurchase Program. We expect to repurchase the remaining shares from time to time in the open market or through privately negotiated transactions depending on market conditions.

**Item 6: Selected Financial Data**

Information required by this item is set forth in Table 1 included in our 2005 Annual Report.

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

Information required by this item is set forth in “Management’s Discussion and Analysis of Financial Condition and Results of Operations” included in our 2005 Annual Report.

**Item 7a: Quantitative and Qualitative Disclosures About Market Risk**

Information required by this item is set forth in the caption “Market Risk” included in our 2005 Annual Report.

**Item 8: Financial Statements and Supplementary Data**

Information required by this item is set forth in the Report of Independent Registered Public Accounting Firm, Consolidated Financial Statements and Notes, and Selected Quarterly Income Statements included in our 2005 Annual Report.

**Item 9: Changes In and Disagreements With Accountants on Accounting and Financial Disclosure.**

Not applicable.

**Item 9A: Controls and Procedures**

**Disclosure Controls and Procedures**

Our Management, with the participation of our Chief Executive Officer and our Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this report. Based upon such evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of such period, disclosure controls and procedures were effective.

**Internal Controls Over Financial Reporting**

Information required by this item is set forth in “Report of Management” and “Report of Independent Registered Public Accounting Firm” included in our 2005 Annual Report.

### **Changes in Internal Control Over Financial Reporting**

There have not been any changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the quarter ended December 31, 2005 to which this report relates that have materially affected, or are reasonably likely to materially affect, internal control over financial reporting.

### **Item 9B: Other Information.**

Not applicable.

### **PART III**

We refer in Part III of this report to relevant sections of our 2006 Proxy Statement, which we expect to file with the SEC on or about March 9, 2006. Portions of our 2006 Proxy Statement, including the sections we refer to in this report, are incorporated by reference into this report.

### **Item 10: Directors and Executive Officers of The Registrant**

Information required by this item is set forth under the captions "Election of Directors", "Corporate Governance", "Executive Officers of Huntington", "Board Committees", "Report of the Audit Committee", "Involvement in Certain Legal Proceedings" and "Section 16(a) Beneficial Ownership Reporting Compliance" of our 2006 Proxy Statement.

### **Item 11: Executive Compensation**

Information required by this item is set forth under the captions "Executive Compensation" and "Director Compensation" of our 2006 Proxy Statement.

### **Item 12: Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters**

#### **Equity Compensation Plan Information**

<b>Plan category</b>	<b>Number of securities to be issued upon exercise of outstanding options, warrants, and rights (a)</b>	<b>Weighted-average exercise price of outstanding options, warrants, and rights (b)</b>	<b>Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)</b>
Equity compensation plans approved by security holders	18,767,650	\$ 21.32	5,698,420
Equity compensation not approved by security holders <sup>(1) (2)</sup>	<u>2,236,931</u>	19.32	<u>—</u>
<b>Total</b>	<b>21,004,581</b>	<b>\$ 21.11</b>	<b>5,698,420</b>

(1) On September 4, 2001, options on 3.2 million shares of common stock were granted to, with certain specified exceptions, full- and part-time employees under the Huntington Bancshares Incorporated Employee Stock Incentive Plan (the Incentive Plan). Under the terms of the Incentive Plan, these options were to vest on the earlier of September 4, 2006, or at such time as the closing price for our common stock for five consecutive trading days reached or exceeded \$25.00. Our common stock closing price exceeded \$25.00 for each of the five consecutive trading days beginning October 1, 2004, and ending October 7, 2004. As a result, options for 2.0 million shares of common stock granted under the Incentive Plan, net of options for 1.2 million shares cancelled due to employee attrition, became fully vested and exercisable after the close of trading on October 7, 2004. At December 31, 2005, options on 0.7 million shares remain outstanding under this plan.

(2) On August 27, 2002, options on 2.4 million shares of common stock were granted to, with certain specified exceptions, full- and part-time employees under the Incentive Plan. Under the terms of the Incentive Plan, these

options were to vest on the earlier of August 27, 2007, or at such time as the closing price for our common stock for five consecutive trading days reached or exceeded \$27.00. At December 31, 2005, options on 1.5 million shares remain outstanding under this plan.

#### **Other Information**

The other information required by this item is set forth under the caption "Ownership of Voting Stock" of our 2006 Proxy Statement.

#### **Item 13: Certain Relationships and Related Transactions**

Information required by this item is set forth under the caption "Transactions With Directors and Executive Officers" of our 2006 Proxy Statement.

#### **Item 14: Principal Accounting Fees and Services**

Information required by this item is set forth under the caption "Proposal to Ratify the Appointment of Independent Registered Public Accounting Firm" of our 2006 Proxy Statement.

### **PART IV**

#### **Item 15: Exhibits, Financial Statement Schedules**

(a) The following documents are filed as part of this report:

- (1) The report of independent registered public accounting firm and consolidated financial statements appearing in our 2005 Annual Report on the pages indicated below are incorporated by reference in Item 8.

	<u>Annual Report Page</u>
Report of Independent Registered Public Accounting Firm	98
Consolidated Balance Sheets as of December 31, 2005 and 2004	99
Consolidated Statements of Income for the years ended December 31, 2005, 2004 and 2003	100
Consolidated Statements of Changes in Shareholders Equity For the years ended December 31, 2005, 2004 and 2003	101
Consolidated Statements of Cash Flows for the years ended December 31, 2005, 2004 and 2003	102
Notes to Consolidated Financial Statements	103 -- 138

- (2) We are not filing separately financial statement schedules because of the absence of conditions under which they are required or because the required information is included in the consolidated financial statements or the related notes.
- (3) The exhibits required by this item are listed in the Exhibit Index of this Form 10-K. The management contracts and compensation plans or arrangements required to be filed as exhibits to this Form 10-K are listed as Exhibits 10(a) through 10(v) in the Exhibit Index.

(b) The exhibits to this Form 10-K begin on page 22 of this report.

(c) See Item 15(a)(2) above.

**Signatures**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on the 23rd day of February 2006.

HUNTINGTON BANCSHARES INCORPORATED  
(Registrant)

By: /s/ Thomas E. Hoaglin  
Thomas E. Hoaglin  
Chairman, President, Chief Executive  
Officer, and Director (Principal Executive  
Officer)

By: /s/ Donald R. Kimble  
Donald R. Kimble  
Chief Financial Officer and Controller  
(Principal Financial and Accounting Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities indicated on the 23rd day of February, 2006.

Raymond J. Biggs \*  
Raymond J. Biggs  
Director

David L. Porteous \*  
David L. Porteous  
Director

Don M. Casto III \*  
Don M. Casto III Director

Kathleen H. Ransier \*  
Kathleen H. Ransier Director

Michael J. Endres \*  
Michael J. Endres  
Director

Robert H. Schottenstein  
Director

Karen A. Holbrook \*  
Karen A. Holbrook  
Director

John B. Gerlach, Jr. \*  
John B. Gerlach, Jr.  
Director

David P. Lauer \*  
David P. Lauer  
Director

Wm. J. Lhota \*  
Wm. J. Lhota  
Director

\* /s/ Donald R. Kimble  
Donald R. Kimble  
Attorney-in-fact for each of the persons indicated

### Exhibit Index

This report incorporates by reference the documents listed below that we have previously filed with the SEC. The SEC allows us to incorporate by reference information in this document. The information incorporated by reference is considered to be a part of this document, except for any information that is superseded by information that is included directly in this document.

This information may be read and copied at the Public Reference Room of the SEC at 100 F Street N.E., Washington, D.C. 20549. The SEC also maintains an internet world-wide web site that contains reports, proxy statements, and other information about issuers, like us, who file electronically with the SEC. The address of the site is <http://www.sec.gov>. The reports and other information filed by us with the SEC are also available at our internet world-wide web site. The address of the site is <http://www.huntington.com>. Except as specifically incorporated by reference into this Annual Report on Form 10-K, information on those web sites is not part of this proxy statement/prospectus. You also should be able to inspect reports, proxy statements, and other information about us at the offices of the NASDAQ National Market at 33 Whitehall Street, New York, New York.

- 2.(a). Agreement and Plan of Merger, dated January 27, 2004, by and between Unizan Financial Corp. and Huntington Bancshares Incorporated -- previously filed as Exhibit 2 to Annual Report on Form 10-K for the year ended December 31, 2003, and incorporated herein by reference.
- (b). Amendment No. 1 to the Agreement and Plan of Merger, dated November 12, 2004, by and between Unizan Financial Corp. and Huntington Bancshares Incorporated -- previously filed as Exhibit 99.1 to Current Report on Form 8-K dated November 12, 2004, and incorporated herein by reference.
- 3(i)(a). Articles of Restatement of Charter, Articles of Amendment to Articles of Restatement of Charter, and Articles Supplementary -- previously filed as Exhibit 3(i) to Annual Report on Form 10-K for the year ended December 31, 1993, and incorporated herein by reference.
- (i)(b). Articles of Amendment to Articles of Restatement of Charter -- previously filed as Exhibit 3(i)(c) to Quarterly Report on Form 10-Q for the quarter ended March 31, 1998, and incorporated herein by reference.
- (ii). Amended and Restated Bylaws as of July 16, 2002 -- previously filed as Exhibit 3(ii) to Quarterly Report on Form 10-Q for the quarter ended June 30, 2003, and incorporated herein by reference.
- 4. Instruments defining the Rights of Security Holders -- reference is made to Articles Fifth, Eighth, and Tenth of Articles of Restatement of Charter, as amended and supplemented. Instruments defining the rights of holders of long-term debt will be furnished to the Securities and Exchange Commission upon request.
- 10. Material contracts:
  - (a). \* Form of Executive Agreement for certain executive officers -- previously filed as Exhibit 99.1 to Current Report on Form 8-K dated November 21, 2005, and incorporated herein by reference.
  - (b). \* Form of Executive Agreement for certain executive officers -- previously filed as Exhibit 99.2 to Current Report on Form 8-K dated November 21, 2005, and incorporated herein by reference.
  - (c). \* Form of Executive Agreement for certain executive officers -- previously filed as Exhibit 99.3 to Current Report on Form 8-K dated November 21, 2005, and incorporated herein by reference.
  - (d). \* Huntington Bancshares Incorporated Management Incentive Plan, as amended and restated effective for plan years beginning on or after January 1, 2004 -- previously filed as Exhibit 10(a) to Quarterly Report on Form 10-Q for the quarter ended June 30, 2004, and incorporated herein by reference.

- (e). \* Restated Huntington Supplemental Retirement Income Plan -- previously filed as Exhibit 10(n) to Annual Report on Form 10-K for the year ended December 31, 1999, and incorporated herein by reference.
- (f). \* Deferred Compensation Plan and Trust for Directors -- reference is made to Exhibit 4(a) of Post-Effective Amendment No. 2 to Registration Statement on Form S-8, Registration No. 33-10546, filed with the Securities and Exchange Commission on January 28, 1991, and incorporated herein by reference.
- (g)(1). \* Deferred Compensation Plan and Trust for Huntington Bancshares Incorporated Directors -- reference is made to Exhibit 4(a) of Registration Statement on Form S-8, Registration No. 33-41774, filed with the Securities and Exchange Commission on July 19, 1991, and incorporated herein by reference.
- (g)(2). \* First Amendment to Huntington Bancshares Incorporated Deferred Compensation Plan and Trust for Huntington Bancshares Incorporated Directors -- previously filed as Exhibit 10(q) to Quarterly Report 10-Q for the quarter ended March 31, 2001, and incorporated herein by reference.
- (h). \* Executive Deferred Compensation Plan, as amended and restated on February 18, 2004 -- previously filed as Exhibit 10(c) to Quarterly Report on Form 10-Q for the quarter ended June 30, 2004, and incorporated herein by reference.
- (i)(1). \* The Huntington Supplemental Stock Purchase and Tax Savings Plan and Trust (as amended and restated as of February 9, 1990) -- previously filed as Exhibit 4(a) to Registration Statement on Form S-8, Registration No. 33-44208, filed with the Securities and Exchange Commission on November 26, 1991, and incorporated herein by reference.
- (i)(2). \* First Amendment to The Huntington Supplemental Stock Purchase and Tax Savings Plan and Trust Plan -- previously filed as Exhibit 10(o)(2) to Annual Report on Form 10-K for the year ended December 31, 1997, and incorporated herein by reference.
- (j)(1). \* 1990 Stock Option Plan -- reference is made to Exhibit 4(a) of Registration Statement on Form S-8, Registration No. 33-37373, filed with the Securities and Exchange Commission on October 18, 1990, and incorporated herein by reference.
- (j)(2). \* First Amendment to Huntington Bancshares Incorporated 1990 Stock Option Plan -- previously filed as Exhibit 10(q)(2) to Annual Report on Form 10-K for the year ended December 31, 1991, and incorporated herein by reference.
- (j)(3). \* Second Amendment to Huntington Bancshares Incorporated 1990 Stock Option Plan -- previously filed as Exhibit 10(n)(3) to Annual Report on Form 10-K for the year ended December 31, 1996, and incorporated herein by reference.
- (j)(4). \* Third Amendment to Huntington Bancshares Incorporated 1990 Stock Option Plan -- previously filed as Exhibit 10(b) to Quarterly Report on Form 10-Q for the quarter ended June 30, 2000, and incorporated herein by reference.
- (j)(5). \* Fourth Amendment to Huntington Bancshares Incorporated 1990 Stock Option Plan -- previously filed as Exhibit 10(a) to Quarterly Report on Form 10-Q for the quarter ended March 31, 2002, and incorporated herein by reference.
- (j)(6). \* Fifth Amendment to Huntington Bancshares Incorporated 1990 Stock Option Plan -- previously filed as Exhibit 10(b) to Quarterly Report on Form 10-Q for the quarter ended March 31, 2002, and incorporated herein by reference.

- (k)(1). \* Amended and Restated 1994 Stock Option Plan -- previously filed as Exhibit 10(r) to Annual Report on Form 10-K for the year ended December 31, 1996, and incorporated herein by reference.
- (k)(2). \* First Amendment to Huntington Bancshares Incorporated 1994 Stock Option Plan -- previously filed as Exhibit 10(a) to Quarterly Report on Form 10-Q for the quarter ended June 30, 2000, and incorporated herein by reference.
- (k)(3). \* First Amendment to Huntington Bancshares Incorporated Amended and Restated 1994 Stock Option Plan -- previously filed as Exhibit 10(c) to Quarterly Report on Form 10-Q for the quarter ended March 31, 2002, and incorporated herein by reference.
- (k)(4). \* Second Amendment to Huntington Bancshares Incorporated Amended and Restated 1994 Stock Option Plan -- previously filed as Exhibit 10(d) to Quarterly Report on Form 10-Q for the quarter ended March 31, 2002, and incorporated herein by reference.
- (k)(5). \* Third Amendment to Huntington Bancshares Incorporated Amended and Restated 1994 Stock Option Plan -- previously filed as Exhibit 10(e) to Quarterly Report on Form 10-Q for the quarter ended March 31, 2002, and incorporated herein by reference.
- (l)(1). \* Huntington Bancshares Incorporated 2001 Stock and Long-Term Incentive Plan -- previously filed as Exhibit 10(r) to Quarterly Report 10-Q for the quarter ended March 31, 2001, and incorporated herein by reference.
- (l)(2). \* First Amendment to the Huntington Bancshares Incorporated 2001 Stock and Long-Term Incentive Plan -- previously filed as Exhibit 10(h) to Quarterly Report 10-Q for the quarter ended March 31, 2002, and incorporated herein by reference.
- (l)(3). \* Second Amendment to the Huntington Bancshares Incorporated 2001 Stock and Long-Term Incentive Plan -- previously filed as Exhibit 10(i) to Quarterly Report 10-Q for the quarter ended March 31, 2002, and incorporated herein by reference.
- (m). \* Huntington Bancshares Incorporated 2004 Stock and Long-Term Incentive Plan -- previously filed as Exhibit 10(b) to Quarterly Report on Form 10-Q for the quarter ended June 30, 2004, and incorporated herein by reference.
- (n)(1). \* Huntington Bancshares Incorporated Employee Stock Incentive Plan (incorporating changes made by first amendment to Plan) -- reference is made to Exhibit 4(a) of Registration Statement on Form S-8, Registration 333-75032, previously filed with the Securities and Exchange Commission on December 13, 2001, and incorporated herein by reference.
- (n)(2). \* Second Amendment to Huntington Bancshares Incorporated Employee Stock Incentive Plan -- previously filed as Exhibit 10(s) to Annual Report on Form 10-K for the year ended December 31, 2002, and incorporated herein by reference.
- (o). \* Performance criteria and potential awards for executive officers for fiscal year 2005 under the Management Incentive Plan and for a long-term incentive award cycle beginning on January 1, 2005 and ending on December 31, 2007 under the 2004 Stock and Long-Term Incentive Plan, as set forth in a Current Report on Form 8-K dated February 15, 2005, and incorporated herein by reference.



- (p). \* Compensation Schedule for Non-Employee Directors of Huntington Bancshares Incorporated, effective July 19, 2005 - previously filed as Exhibit 99.1 to Current Report on Form 8-K dated July 19, 2005, and incorporated herein by reference.
  - (q). \* Employment Agreement, dated February 15, 2004, between Huntington Bancshares Incorporated and Thomas E. Hoaglin - previously filed as Exhibit 10(n) to Annual Report on Form 10-K for the year ended December 31, 2003, and incorporated herein by reference.
  - (r). \* Letter Agreement between Huntington Bancshares Incorporated and James W. Nelson, acknowledged and agreed to by Mr. Nelson on February 14, 2005 - previously filed as Exhibit 99.2 to Current Report on Form 8-K dated February 14, 2005, and incorporated herein by reference.
  - (s). \* Letter Agreement between Huntington Bancshares Incorporated and Mahesh Sankaran, acknowledged and agreed to by Mr. Sankaran on January 28, 2005 - previously filed as Exhibit 10(b) to Quarterly Report on Form 10-Q for the quarter ended March 31, 2005, and incorporated herein by reference.
  - (t). \* Letter Agreement between Huntington Bancshares Incorporated and Raymond J. Biggs, acknowledged and agreed to by Mr. Biggs on May 1, 1995.
  - (u). \* Schedule identifying material details of Executive Agreements.
  - (v). \* Performance criteria and potential awards for executive officers for fiscal year 2006 under the Management Incentive Plan and for a long-term incentive award cycle beginning on January 1, 2006 and ending on December 31, 2008 under the 2004 Stock and Long-Term Incentive Plan, as set forth in a Current Report on Form 8-K dated February 21, 2006, and incorporated herein by reference.
12. Ratio of Earnings to Fixed Charges.
13. Portions of our 2005 Annual Report to shareholders.
14. Code of Business Conduct and Ethics dated January 14, 2003 and revised on February 14, 2006 and Financial Code of Ethics for Chief Executive Officer and Senior Financial Officers, adopted January 18, 2003 and revised on April 19, 2005, are available on our web site at <http://www.investquest.com/iq/h/hban/main/cg/cg.htm>.
21. Subsidiaries of the Registrant.
- 23.(a). Consent of Deloitte & Touche LLP, Independent Registered Public Accounting Firm.
- 23.(b). Consent of Ernst & Young LLP, Independent Registered Public Accounting Firm.
24. Power of Attorney.
- 31.(a). Rule 13a-14(a) Certification -- Chief Executive Officer.
- 31.(b). Rule 13a-14(a) Certification -- Chief Financial Officer.
- 32.(a). Section 1350 Certification -- Chief Executive Officer.
- 32.(b). Section 1350 Certification -- Chief Financial Officer.
- 99.(a). Opinion of Ernst & Young LLP, Independent Registered Public Accounting Firm.
- 99.(b). Written Agreement between Huntington Bancshares Incorporated and the Federal Reserve Bank of Cleveland dated February 28, 2005, as set forth in a Current Report on Form 8-K dated March 2, 2005, and incorporated herein by reference.

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\* Denotes management contract or compensatory plan or arrangement.

April 27, 1995

Mr. Raymond J. Biggs  
One North Main Street  
Mt. Clemens, MI 48043

Dear Ray:

Brenda Warne and I discussed your elections with respect to handling of the New England Mutual Life Insurance Policy discussed below. Except for the changes required to reflect the insurance election, and the designation of beneficiary with respect to Paragraphs C and D below, the balance of this letter simply restates the commitments of my April 14, 1995, letter.

If you concur, these terms will supersede all prior understandings with respect to the subject matter covered:

- A The employment agreement dated January 1, 1990, between Huntington Bancshares Michigan, Inc. and Raymond J. Biggs is terminated in its entirety.
  - B The Supplemental Retirement Income Plan/Agreement between First Macomb Corporation and Raymond J. Biggs dated January 1, 1985, as amended by Amendment to Supplement Retirement Income Plan/Agreement dated December 17, 1987, is terminated in its entirety. I have incorporated the retirement benefits below.
  - C Commencing August 1, 2002, and for each month thereafter for a term of fifteen (15) years, Huntington shall cause to be paid to you the sum of \$13,142.20 per month. In the event of your death subsequent to commencement of such benefits payments, but prior to the expiration of the fifteen year period, Huntington shall continue to make such payments during the remainder of the fifteen year term to your beneficiary. In the event of your death, prior to the commencement of such payments, Huntington shall thereafter pay to your beneficiary the sum of \$13,142.20 per month for a term of fifteen years commencing on the first day of the month immediately following the date of death.
  - D Effective February 7, 1990, you assigned and transferred all of your right, title and ownership interests in New England Mutual Life Insurance Policy No. 6539543 to:  
  
First Macomb Bank  
  
You have not acquired any interest in said policy.  
  
Commencing May 1, 1995, and on May 1 of each succeeding year through and including May 1, 2009, when the final installment shall be due and payable, Huntington shall cause to be paid to you the sum of \$15,159.00. In the event of your death prior to payment of the May 1, 2009 installment, Huntington shall continue to make such payments during the remainder of the term to your beneficiary.
  - E For purposes of Paragraphs C and D of this letter, references to the term "beneficiary" shall mean "Raymond J. Biggs Family Trust, revocable intervivos trust, previously executed by Raymond J. Biggs as settlor on September 18, 1986 as the same may be amended prior to death". You reserve the right to change the designation of beneficiary by notifying Huntington Bancshares Incorporated in a signed and dated notice of such change.
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F Attached hereto as Exhibit A is a summary of additional Huntington benefits available to you at retirement.

G Huntington will continue through June 30, 1997, to provide executive office space and a part-time secretary for your use. During this period you agree not to engage in the banking business as a director, officer, employee or agent of any other financial institution located in the Detroit Primary Metropolitan Statistical Area without the prior written consent of Huntington Bancshares Incorporated.

I believe the above accurately reflects our understandings, and if you concur, we will consider the referenced agreements terminated by mutual agreement; and the claim reflected in your letter of March 28, 1995, to be withdrawn. Please indicate your agreement to these terms by executing and returning to me the enclosed copy of this letter.

Very truly yours,

/s/ Zuheir Sofia  
Zuheir Sofia

The terms stated above accurately reflect our agreement this 1st day of May, 1995.

/s/ Ryamond J. Biggs  
Raymond J. Biggs

cc: Brenda Warne, Vice President

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EXHIBIT A  
RAYMOND BIGGS  
SUMMARY OF HUNTINGTON BENEFITS AT TERMINATION OF EMPLOYMENT

I. Retiree Health Care

You elected to receive retiree health care for both yourself and your spouse. Your monthly subsidy from the Huntington for this benefit is \$260.00.

II. Huntington Stock Purchase and Tax Savings Plan ("Stock Plan")

As of February 28, 1995, you have 6357.3315 shares of Huntington Bancshares Incorporated common stock ("HBI Stock") and \$72,960.01 in the Alternative Investment Fund in your account in the Stock Plan. You have not yet requested distribution of your account in the Stock Plan.

III. Huntington Supplemental Stock Purchase and Tax Savings Plan ("Supplemental Plan")

As of February 28, 1995, you have 1,439.518 shares of HBI Stock in your account in the Supplemental Plan. Huntington Trust Company is currently processing your distribution from the Supplemental Plan.

IV. Huntington Bancshares Retirement Plan ("Pension Plan")

Your early retirement benefit (as of January 1, 1995) under the Pension Plan was \$857.54, payable monthly in the form of a life annuity. You had a variety of optional forms of benefit available. All optional forms were the actuarial equivalent of the life annuity amount

You have not yet elected to commence receipt of your accrued benefit under the Pension Plan. Your accrued benefit, payable at your normal retirement date of August 1, 2002, is \$1,208.83, payable monthly in the form of a life annuity. At the time you notify the Huntington, in writing, that you are electing to commence receipt of your benefits under the Pension Plan, your accrued benefit and available optional forms of distribution will be determined and communicated to you.

V. Life Insurance

You have life insurance coverage in the amount of \$27,300.

Schedule Identifying Material Details of  
Executive Agreements Substantially Similar to Exhibit 99.1 to Huntington's  
Current Report on Form 8-K dated November 21, 2005

<u>Name</u>	<u>Effective Date</u>
Ronald C. Baldwin	January 1, 2006
Thomas E. Hoaglin	January 1, 2006

Schedule Identifying Material Details of  
Executive Agreements Substantially Similar to Exhibit 99.2 to Huntington's  
Current Report on Form 8-K dated November 21, 2005

<u>Name</u>	<u>Effective Date</u>
Daniel B. Benhase	January 1, 2006
Richard A. Cheap	January 1, 2006
Donald R. Kimble	January 1, 2006
Mary W. Navarro	January 1, 2006
Nicholas G. Stanutz	January 1, 2006

Schedule Identifying Material Details of  
Executive Agreements Substantially Similar to Exhibit 99.3 to Huntington's  
Current Report on Form 8-K dated November 21, 2005

<u>Name</u>	<u>Effective Date</u>
James W. Nelson	January 1, 2006
Mahesh Sankaran	January 1, 2006

## Ratio of Earnings to Fixed Charges

<i>(in thousands of dollars)</i>	Year Ended December 31,				
	2005	2004	2003	2002	2001
<b>Earnings:</b>					
Income before taxes	\$ 543,574	\$ 552,666	\$ 523,987	\$ 522,705	\$ 95,477
Add: Fixed charges, excluding interest on deposits	243,239	191,648	179,903	169,788	299,872
Earnings available for fixed charges, excluding interest on deposits	786,813	744,314	703,890	692,493	395,349
Add: Interest on deposits	446,919	257,099	288,271	385,733	654,056
Earnings available for fixed charges, including interest on deposits	\$ 1,233,732	\$ 1,001,413	\$ 992,161	\$ 1,078,226	\$ 1,049,405
<b>Fixed Charges:</b>					
Interest expense, excluding interest on deposits	\$ 232,435	\$ 178,842	\$ 168,499	\$ 157,888	\$ 285,445
Interest factor in net rental expense	10,804	12,806	11,404	11,900	14,427
Total fixed charges, excluding interest on deposits	243,239	191,648	179,903	169,788	299,872
Add: Interest on deposits	446,919	257,099	288,271	385,733	654,056
Total fixed charges, including interest on deposits	\$ 690,158	\$ 448,747	\$ 468,174	\$ 555,521	\$ 953,928
<b>Ratio of Earnings to Fixed Charges</b>					
Excluding interest on deposits	3.23x	3.88x	3.91x	4.08x	1.32x
Including interest on deposits	1.79x	2.23x	2.12x	1.94x	1.10x

## SELECTED FINANCIAL DATA

## HUNTINGTON BANCSHARES INCORPORATED

Table 1 — Selected Financial Data

	Year Ended December 31,				
(in thousands of dollars, except per share amounts)	2005	2004	2003	2002	2001
Interest income	\$ 1,641,765	\$ 1,347,315	\$ 1,305,756	\$ 1,293,195	\$ 1,654,789
Interest expense	679,354	435,941	456,770	543,621	939,501
Net interest income	962,411	911,374	848,986	749,574	715,288
Provision for credit losses	81,299	55,062	163,993	194,426	257,326
<b>Net interest income after provision for credit losses</b>	<b>881,112</b>	<b>856,312</b>	<b>684,993</b>	<b>555,148</b>	<b>457,962</b>
Service charges on deposit accounts	167,834	171,115	167,840	153,564	165,012
Operating lease income	138,433	287,091	489,698	657,074	691,733
Gain on sales of automobile loans	1,211	14,206	40,039	—	—
Gain on sale of branch offices	—	—	13,112	—	—
Gain on sale of Florida operations	—	—	—	182,470	—
Merchant services gain	—	—	—	24,550	—
Securities gains (losses)	(8,055)	15,763	5,258	4,902	723
Other non-interest income	332,859	330,423	353,206	319,144	342,474
<b>Total non-interest income</b>	<b>632,282</b>	<b>818,598</b>	<b>1,069,153</b>	<b>1,341,704</b>	<b>1,199,942</b>
Personnel costs	481,658	485,806	447,263	418,037	454,210
Operating lease expense	108,376	236,478	393,270	518,970	558,626
Restructuring reserve (releases) charges	—	(1,151)	(6,666)	48,973	79,957
Loss on early extinguishment of debt	—	—	15,250	—	—
Other non-interest expense	379,786	401,111	381,042	388,167	469,634
<b>Total non-interest expense</b>	<b>969,820</b>	<b>1,122,244</b>	<b>1,230,159</b>	<b>1,374,147</b>	<b>1,562,427</b>
Income before income taxes	543,574	552,666	523,987	522,705	95,477
Provision (benefit) for income taxes	131,483	153,741	138,294	198,974	(39,319) <sup>(5)</sup>
Income before cumulative effect of change in accounting principle	412,091	398,925	385,693	323,731	134,796
Cumulative effect of change in accounting principle, net of tax <sup>(1)</sup>	—	—	(13,330)	—	—
<b>Net income</b>	<b>\$ 412,091</b>	<b>\$ 398,925</b>	<b>\$ 372,363</b>	<b>\$ 323,731</b>	<b>\$ 134,796</b>
Income before cumulative effect of change in accounting principle per common share — basic	\$ 1.79	\$ 1.74	\$ 1.68	\$ 1.34	\$ 0.54
Net Income per common share — basic	1.79	1.74	1.62	1.34	0.54
Income before cumulative effect of change in accounting principle per common share — diluted	1.77	1.71	1.67	1.33	0.54
Net Income per common share — diluted	1.77	1.71	1.61	1.33	0.54
Cash dividends declared	0.845	0.750	0.670	0.640	0.720
<b>Balance sheet highlights</b>					
Total assets (period end)	\$ 32,764,805	\$ 32,565,497	\$ 30,519,326	\$ 27,539,753	\$ 28,458,769
Total long-term debt (period end) <sup>(2)</sup>	4,597,437	6,326,885	6,807,979	4,246,801	2,739,332
Total shareholders' equity (period end)	2,557,501	2,537,638	2,275,002	2,189,793	2,341,897
Average long-term debt <sup>(2)</sup>	5,168,959	6,650,367	5,816,660	3,613,527	3,429,480
Average shareholders' equity	2,582,721	2,374,137	2,196,348	2,238,761	2,330,968
Average total assets	32,639,011	31,432,746	28,971,701	26,063,281	28,126,386
<b>Key ratios and statistics</b>					
Margin analysis — as a % of average earnings assets					
Interest income <sup>(3)</sup>	5.65%	4.89%	5.35%	6.23%	7.58%
Interest expense	2.32	1.56	1.86	2.61	4.29
<b>Net interest margin<sup>(3)</sup></b>	<b>3.33%</b>	<b>3.33%</b>	<b>3.49%</b>	<b>3.62%</b>	<b>3.29%</b>
Return on average total assets	1.26%	1.27%	1.29%	1.24%	0.48%
Return on average total shareholders' equity	16.0	16.8	17.0	14.5	5.8
Efficiency ratio <sup>(4)</sup>	60.0	65.0	63.9	65.6	79.2
Dividend payout ratio	47.7	43.9	41.6	48.1	133.3
Average shareholders' equity to average assets	7.91	7.55	7.58	8.59	8.29

Effective tax rate	<b>24.2</b>	27.8	26.4	38.1	(41.2) <sup>(5)</sup>
Tangible equity to asset (period end) <sup>(6)</sup>	<b>7.19</b>	7.18	6.79	7.22	5.86
Tier 1 leverage ratio	<b>8.34</b>	8.42	7.98	8.51	7.16
Tier 1 risk-based capital ratio (period end)	<b>9.13</b>	9.08	8.53	8.34	7.02
Total risk-based capital ratio (period end)	<b>12.42</b>	12.48	11.95	11.25	10.07

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**Other data**

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Full-time equivalent employees	<b>7,602</b>	7,812	7,983	8,177	9,743
Domestic banking offices	<b>344</b>	342	338	343	481

(1) Due to the adoption of FASB Interpretation No. 46 “*Consolidation of Variable Interest Entities.*”

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

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

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

(5) Reflects a \$32.5 million reduction related to the issuance of \$400 million REIT subsidiary preferred stock, of which \$50 million was sold to the public.

(6) Total equity minus intangible assets divided by total assets minus intangible assets.



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, we provide full-service commercial and consumer banking services, mortgage banking services, automobile financing, equipment leasing, investment management, trust services, brokerage services, private mortgage insurance; reinsure credit life and disability insurance; and sell other insurance and financial products and services. Our banking offices are located in Ohio, Michigan, West Virginia, Indiana, and Kentucky. Certain activities are also conducted in Arizona, Florida, Georgia, Maryland, Nevada, New Jersey, North Carolina, Pennsylvania, South Carolina, and Tennessee. We have a foreign office in the Cayman Islands and another in Hong Kong. The Huntington National Bank (the Bank), organized in 1866, is our only bank subsidiary.

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.

You should note the following discussion is divided into key segments:

- **INTRODUCTION** — Provides overview comments on important matters including risk factors, the now settled Securities and Exchange Commission (SEC) investigation, any bank regulatory agreements, and critical accounting policies and the use of significant estimates. 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 Factors 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.
- **RESULTS FOR THE FOURTH QUARTER** — Provides a discussion of results for the 2005 fourth quarter compared with the year-earlier quarter.

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

*Forward-Looking Statements*

This report, including Management's Discussion and Analysis of Financial Condition and Results of Operations, contains forward-looking statements. These include descriptions of products or services, plans or objectives for future operations, including any pending acquisitions, and forecasts of revenues, earnings, cash flows, or other measures of economic performance. Forward-looking statements can be identified by the fact that they do not relate strictly to historical or current facts.

By their nature, forward-looking statements are subject to numerous assumptions, risks, and uncertainties. A number of factors could cause actual conditions, events, or results to differ significantly from those described in the forward-looking statements. These factors include, but are not limited to, those set forth under *Risk Factors* of our Annual Report on Form 10-K for the year ended December 31, 2005, and other factors described in this report and from time to time in our other filings with the SEC.

You should understand forward-looking statements to be strategic objectives and not absolute forecasts of future performance. 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.

*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 counterparties 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 the parent company and/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 external events. *More information on risks is set forth in Risk Factors of our Annual Report on Form 10-K for the year ended December 31, 2005.*

#### *Securities and Exchange Commission Formal Investigation*

On June 26, 2003, we announced that the SEC staff was conducting a formal investigation into certain financial accounting matters, relating to fiscal years 2002 and earlier, and certain related disclosure matters.

On June 2, 2005, we announced that the SEC approved the settlement of their formal investigation. As a part of the settlement, the SEC instituted a cease and desist administrative proceeding and entered a cease and desist order, as well as filed a civil action in federal district court pursuant to which, without admitting or denying the allegations in the complaint, we, our chief executive officer, former chief financial officer, and former controller, consented to pay civil money penalties. We consented to pay a penalty of \$7.5 million, which may be distributed pursuant to the Fair Fund provisions of Section 308(a) of the Sarbanes-Oxley Act of 2002. This civil money penalty had no impact on our 2005 financial results, as reserves for this amount were established and expensed in 2004.

#### *Formal Regulatory Supervisory Agreements and Pending Acquisition*

On March 1, 2005, we announced entering into a formal written agreement with the Federal Reserve Bank of Cleveland (FRBC), as well as the Bank entering into a formal written agreement with the Office of the Comptroller of the Currency (OCC), providing for a comprehensive action plan designed to enhance corporate governance, internal audit, risk management, accounting policies and procedures, and financial and regulatory reporting. The agreements called for independent third-party reviews, as well as the submission of written plans and progress reports by Management, and would remain in effect until terminated by the banking regulators.

On October 6, 2005, we announced that the OCC had terminated its formal written agreement with the Bank dated February 28, 2005, and that the FRBC written agreement remained in effect. We were verbally advised that we were in full compliance with the financial holding company and financial subsidiary requirements under the Gramm-Leach-Bliley Act (GLB Act). This notification reflected that we and the Bank met both the "well-capitalized" and "well-managed" criteria under the GLB Act. We believe that the changes we have already made, and are in the process of making, will address the FRBC issues fully and comprehensively.

On January 27, 2004, we announced the signing of a definitive agreement to acquire Unizan Financial Corp. (Unizan), a financial holding company based in Canton, Ohio. On November 12, 2004, the companies jointly announced entering into an amendment to our January 26, 2004 merger agreement extending the term of the agreement for one year from January 27, 2005 to January 27, 2006. On the same date, we also announced that we withdrew our application with the FRBC to acquire Unizan. On October 24, 2005, we announced that, after consultation with the FRBC, we had re-filed our application to acquire Unizan. On January 26, 2006, we announced that the Federal Reserve Board had approved our merger application. The merger is scheduled to close March 1, 2006.

#### *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 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. You 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. The most significant accounting estimates and their related application are discussed below. This analysis is included to emphasize that estimates are used in

connection with the critical and other accounting policies and to illustrate the potential effect on the financial statements if the actual amount were different from the estimated amount.

- **TOTAL ALLOWANCES FOR CREDIT LOSSES** — At December 31, 2005, the total allowances for credit losses (ACL) was \$305.3 million and represented the sum of the allowance for loan and lease losses (ALLL) and the allowance for unfunded loan commitments and letters of credit (AULC). The amount of the ACL was determined by our judgments regarding the quality of the loan portfolio, including loan commitments. All known relevant internal and external factors that affected loan collectibility were considered. The ACL represents the estimate of the level of reserves appropriate to absorb inherent credit losses. We believe the process for determining the ACL considers all of the significant potential factors that could result in credit losses. However, the process includes judgmental and quantitative elements that may be subject to significant change. To the extent actual outcomes differ from our estimates, additional provision for credit losses could be required, which could adversely affect earnings or financial performance in future periods. At December 31, 2005, the ACL as a percent of total loans and leases was 1.25%. Based on the December 31, 2005 balance sheet, a 10 basis point increase in this ratio to 1.35% would require \$25.1 million in additional reserves funded by additional provision for credit losses, which would have negatively impacted 2005 net income by approximately \$16.3 million, or \$0.07 per share. *A discussion about the process used to estimate the ACL is presented in the Credit Risk section of Management's Discussion and Analysis in this report.*
- **FAIR VALUE OF FINANCIAL INSTRUMENTS** — A significant portion of our assets is carried at fair value, including securities, derivatives, and trading assets. Additionally, a smaller portion is carried at the lower of fair value or cost, including held-for-sale loans and mortgage servicing rights (MSRs). At December 31, 2005, approximately \$4.9 billion of our assets were recorded at either fair value or at the lower of fair value or cost.

The fair value of a financial instrument is defined as the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The majority of assets reported at fair value are based on quoted market prices or on internally developed models that utilize independently sourced market parameters, including interest rate yield curves, option volatilities, and currency rates.

We estimate the fair value of a financial instrument using a variety of valuation methods. Where financial instruments are actively traded and have quoted market prices, quoted market prices are used for fair value. When observable market prices do not exist, we estimate fair value. Our valuation methods consider factors such as liquidity and concentration concerns and, for the derivatives portfolio, counterparty credit risk. Other factors such as model assumptions, market dislocations, and unexpected correlations can affect estimates of fair value. Imprecision in estimating these factors can impact the amount of revenue or loss recorded for a particular position.

#### ***Trading securities and securities available-for-sale***

Substantially all of our securities are valued based on quoted market prices. However, certain securities are less actively traded. These securities do not always have quoted market prices. The determination of their fair value, therefore, requires judgment, as this determination may require benchmarking to similar instruments or analyzing default and recovery rates. Examples include certain collateralized mortgage and debt obligations and high-yield debt securities.

Our securities available-for-sale are valued using quoted market prices. Our derivative positions are valued using internally developed models based on observable market parameters — that is, parameters that are actively quoted and can be validated to external sources, including industry-pricing services.

#### ***Loans held-for-sale***

The fair value of loans in the held-for-sale portfolio is generally based on observable market prices of similar instruments. If market prices are not available, fair value is based on the estimated cash flows, adjusted for credit risk. The credit risk adjustment is discounted using a rate that is appropriate for each maturity and incorporates the effects of interest rate changes.

#### ***MSRs and other servicing rights***

MSRs and certain other servicing rights do not trade in an active, open market with readily observable prices. While sales of MSRs occur, the precise terms and conditions are typically not readily available. Therefore, we estimate the fair value of MSRs and certain other servicing rights using a discounted future cash flow model. For MSRs and certain other servicing rights, the model considers portfolio characteristics, contractually specified servicing fees and assumptions related to prepayments, delinquency rates, late charges, other ancillary revenues, costs to service, and other economic factors. Changes in the assumptions used may have a significant impact on the valuation of these financial instruments. We believe that the fair values and related assumptions used in the models are comparable to those used by other market participants. *Note 5 of*

*the Notes to Consolidated Financial Statements contains an analysis of the impact to the fair value of MSRs resulting from changes in the estimates used by Management.*

- **INCOME TAXES** — The calculation of our periodic provision for income taxes is complex and requires the use of estimates and judgments. We have two accruals for income taxes: our accrued income taxes represent the net estimated amount currently due or to be received from taxing jurisdictions, including any reserve for potential examination issues, and is reported as a component of “accrued expenses and other liabilities” in our consolidated balance sheet; and our deferred income tax liability represents the estimated impact of temporary differences between how we recognize our assets and liabilities under GAAP, and how such assets and liabilities are recognized under the federal tax code.

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

Table 2 — Selected Annual Income Statements

(in thousands, except per share amounts)	Year Ended December 31,								
	2005	Change from 2004		2004	Change from 2003		2003	2002	2001
		Amount	%		Amount	%			
Interest income	\$ 1,641,765	\$ 294,450	21.9%	\$ 1,347,315	\$ 41,559	3.2%	\$ 1,305,756	\$ 1,293,195	\$ 1,654,789
Interest expense	679,354	243,413	55.8	435,941	(20,829)	(4.6)	456,770	543,621	939,501
Net interest income	962,411	51,037	5.6	911,374	62,388	7.3	848,986	749,574	715,288
Provision for credit losses	81,299	26,237	47.7	55,062	(108,931)	(66.4)	163,993	194,426	257,326
<b>Net interest income after provision for credit losses</b>	<b>881,112</b>	<b>24,800</b>	<b>2.9</b>	<b>856,312</b>	<b>171,319</b>	<b>25.0</b>	<b>684,993</b>	<b>555,148</b>	<b>457,962</b>
Service charges on deposit accounts	167,834	(3,281)	(1.9)	171,115	3,275	2.0	167,840	153,564	165,012
Operating lease income	138,433	(148,658)	(51.8)	287,091	(202,607)	(41.4)	489,698	657,074	691,733
Trust services	77,405	9,995	14.8	67,410	5,761	9.3	61,649	62,051	60,298
Brokerage and insurance income	53,619	(1,180)	(2.2)	54,799	(3,045)	(5.3)	57,844	62,109	75,013
Other service charges and fees	44,348	2,774	6.7	41,574	128	0.3	41,446	42,888	48,217
Mortgage banking	41,710	9,414	29.1	32,296	(25,884)	(44.5)	58,180	32,033	54,518
Bank owned life insurance income	40,736	(1,561)	(3.7)	42,297	(731)	(1.7)	43,028	43,123	41,123
Gain on sales of automobile loans	1,211	(12,995)	(91.5)	14,206	(25,833)	(64.5)	40,039	—	—
Gain on sale of branch offices	—	—	—	—	(13,112)	N.M.	13,112	—	—
Gain on sale of Florida operations	—	—	—	—	—	—	—	182,470	—
Merchant services gain	—	—	—	—	—	—	—	24,550	—
Securities gains (losses)	(8,055)	(23,818)	N.M.	15,763	10,505	N.M.	5,258	4,902	723
Other	75,041	(17,006)	(18.5)	92,047	988	1.1	91,059	76,940	63,305
<b>Total non-interest income</b>	<b>632,282</b>	<b>(186,316)</b>	<b>(22.8)</b>	<b>818,598</b>	<b>(250,555)</b>	<b>(23.4)</b>	<b>1,069,153</b>	<b>1,341,704</b>	<b>1,199,942</b>
Personnel costs	481,658	(4,148)	(0.9)	485,806	38,543	8.6	447,263	418,037	454,210
Operating lease expense	108,376	(128,102)	(54.2)	236,478	(156,792)	(39.9)	393,270	518,970	558,626
Outside data processing and other services	74,638	2,523	3.5	72,115	5,997	9.1	66,118	67,368	69,692
Net occupancy	71,092	(4,849)	(6.4)	75,941	13,460	21.5	62,481	59,539	76,449
Equipment	63,124	(218)	(0.3)	63,342	(2,579)	(3.9)	65,921	68,323	80,560
Professional services	34,569	(2,307)	(6.3)	36,876	(5,572)	(13.1)	42,448	33,085	32,862
Marketing	28,077	1,588	6.0	26,489	(1,001)	(3.6)	27,490	27,911	31,057
Telecommunications	18,648	(1,139)	(5.8)	19,787	(2,192)	(10.0)	21,979	22,661	27,984
Printing and supplies	12,573	110	0.9	12,463	(546)	(4.2)	13,009	15,198	18,367
Amortization of intangibles	829	12	1.5	817	1	0.1	816	2,019	41,225
Restructuring reserve (releases) charges	—	1,151	N.M.	(1,151)	5,515	(82.7)	(6,666)	48,973	79,957
Loss on early extinguishment of debt	—	—	—	—	(15,250)	N.M.	15,250	—	—
Other	76,236	(17,045)	(18.3)	93,281	12,501	15.5	80,780	92,063	91,438
<b>Total non-interest expense</b>	<b>969,820</b>	<b>(152,424)</b>	<b>(13.6)</b>	<b>1,122,244</b>	<b>(107,915)</b>	<b>(8.8)</b>	<b>1,230,159</b>	<b>1,374,147</b>	<b>1,562,427</b>
Income before income taxes	543,574	(9,092)	(1.6)	552,666	28,679	5.5	523,987	522,705	95,477
Provision (benefit) for income taxes <sup>(3)</sup>	131,483	(22,258)	(14.5)	153,741	15,447	11.2	138,294	198,974	(39,319)
Income before cumulative effect of change in accounting principle	412,091	13,166	3.3	398,925	13,232	3.4	385,693	323,731	134,796
Cumulative effect of change in accounting principle, net of tax <sup>(1)</sup>	—	—	—	—	13,330	N.M.	(13,330)	—	—
<b>Net income</b>	<b>\$ 412,091</b>	<b>\$ 13,166</b>	<b>3.3%</b>	<b>\$ 398,925</b>	<b>\$ 26,562</b>	<b>7.1%</b>	<b>\$ 372,363</b>	<b>\$ 323,731</b>	<b>\$ 134,796</b>
Average common shares — basic	230,142	229	0.1%	229,913	512	0.2%	229,401	242,279	251,078
Average common shares — diluted	233,475	(381)	(0.2)	233,856	2,274	1.0	231,582	244,012	251,716
<b>Per common share:</b>									
Income before cumulative effect of change in accounting principle — basic	\$ 1.79	\$ 0.05	2.9%	\$ 1.74	\$ 0.06	3.6%	\$ 1.68	\$ 1.34	\$ 0.54
Net income — basic	1.79	0.05	2.9	1.74	0.12	7.4	1.62	1.34	0.54
Income before cumulative effect of change in accounting principle — diluted	1.77	0.06	3.5	1.71	0.04	2.4	1.67	1.33	0.54
Net income — diluted	1.77	0.06	3.5	1.71	0.10	6.2	1.61	1.33	0.54
Cash dividends declared	0.845	0.10	12.7	0.750	0.08	11.9	0.670	0.640	0.720
<b>Revenue — fully taxable equivalent (FTE)</b>									
Net interest income	\$ 962,411	\$ 51,037	5.6%	\$ 911,374	\$ 62,388	7.3%	\$ 848,986	\$ 749,574	\$ 715,288
FTE adjustment	13,393	1,740	14.9	11,653	1,969	20.3	9,684	5,205	6,352
Net interest income <sup>(2)</sup>	975,804	52,777	5.7	923,027	64,357	7.5	858,670	754,779	721,640
Non-interest income	632,282	(186,316)	(22.8)	818,598	(250,555)	(23.4)	1,069,153	1,341,704	1,199,942
<b>Total revenue<sup>(2)</sup></b>	<b>\$ 1,608,086</b>	<b>\$ (133,539)</b>	<b>(7.7)%</b>	<b>\$ 1,741,625</b>	<b>\$ (186,198)</b>	<b>(9.7)%</b>	<b>\$ 1,927,823</b>	<b>\$ 2,096,483</b>	<b>\$ 1,921,582</b>

N.M., not a meaningful value.

(1) Due to adoption of FASB Interpretation No. 46 for variable interest entities.

(2) Calculated assuming a 35% tax rate.

(3) 2001 reflects a \$32.5 million reduction related to the issuance of \$400 million REIT subsidiary preferred stock, of which \$50 million was sold to the public.



## DISCUSSION OF RESULTS OF OPERATIONS

This section provides a review of financial performance from a consolidated perspective. It also includes a Significant Factors 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, this section should be read in conjunction with the Lines of Business Discussion.

## Summary

*2005 versus 2004*

Earnings for 2005 were \$412.1 million, or \$1.77 per common share, up 3% and 4%, respectively, from \$398.9 million, or \$1.71 per common share, in 2004. The \$13.2 million increase in net income primarily reflected:

- \$152.4 million, or 14%, decline in non-interest expense, primarily reflecting a \$128.1 million decline in operating lease expenses, a \$9.9 million decline in SEC-related expenses, a \$4.8 million decline in net occupancy expense, a \$4.1 million decline in personnel costs, and a \$2.9 million decline in Unizan system conversion expenses.
- \$51.0 million, or 6%, increase in net interest income, reflecting a 6% increase in average earning assets, as the net interest margin of 3.33% was unchanged from the prior year. The increase in average earning assets reflected 10% growth in average total loans and leases, including 11% growth in average total consumer loans and 8% growth in average total commercial loans, partially offset by a 14% decline in average investment securities.
- \$22.3 million decline in income tax expense as the effective tax rate for 2005 was 24.2%, down from 27.8% in 2004. The lower 2005 income tax expense reflected a combination of factors including the benefit of a federal tax loss carry back, partially offset by the net impact of repatriating foreign earnings.

Partially offset by:

- \$186.3 million, or 23%, decline in non-interest income. Contributing to the decrease were a \$148.7 million decline in operating lease income, a \$23.8 million decline in securities gains as the current year had \$8.1 million of securities losses and the prior year had \$15.8 million of securities gains, a \$13.0 million decline in gains on sales of automobile loans, a \$17.0 million decline in other income reflecting primarily MSR-hedge related trading losses, and a \$3.3 million decline in service charges on deposit accounts. These declines were partially offset by a \$10.0 million increase in trust services income, a \$9.4 million increase in mortgage banking income, and a \$2.8 million increase in other service charges and fees.
- \$26.2 million, or 48%, increase in the provision for credit losses, reflecting higher levels of non-performing assets and problem credits, as well as growth in the loan portfolio.

The ROA and ROE for 2005 were 1.26% and 16.0%, respectively, down slightly from 1.27% and 16.8%, respectively, in 2004.

*2004 versus 2003*

Earnings for 2004 were \$398.9 million, or \$1.71 per common share, up 7% and 6%, respectively, from \$372.4 million, or \$1.61 per common share, in 2003. The \$26.6 million increase in net income primarily reflected:

- \$108.9 million, or 66%, decline in the provision for credit losses, reflecting lower levels of non-performing assets and problem credits, only partially offset by the impact of loan growth.
- \$107.9 million, or 9%, decline in non-interest expense, primarily reflecting a \$156.8 million decline in operating lease expenses, a \$15.3 million loss on early extinguishment of debt expense in 2003, a \$5.6 million decline in professional services, and declines in equipment, marketing, telecommunications, and printing and supplies. These declines were partially offset by a \$38.5 million increase in personnel costs, a \$13.5 million increase in net occupancy expense, a \$6.7 million increase in SEC/regulatory-related expenses, and \$3.6 million of Unizan system conversion expenses, as the prior year did not have these expenses.
- \$62.4 million, or 7%, increase in net interest income, reflecting a 13% increase in average earning assets, partially offset by the negative impact of a 16 basis point, or an effective 5%, decline in the net interest margin to 3.33% from 3.49%. The increase in average earning assets reflected 11% growth in average total loans and leases, including 16% growth in average total consumer loans, 4% growth in average total commercial loans, and a 25% increase in average investment securities.

Partially offset by:

- \$250.6 million, or 23%, decline in non-interest income. Contributing to the decrease were a \$202.6 million decline in operating lease income, a \$25.9 million decline in mortgage banking income, a \$25.8 million decline in gains on sales of automobile loans, and the fact that 2003 benefited from a \$13.1 million gain on sale of branch offices. Partially offsetting these declines were \$10.5 million of higher securities gains, a \$5.8 million increase in trust income, and a \$3.3 million increase in service charges on deposits.
- \$15.4 million increase in income tax expense as the effective tax rate for 2004 was 27.8%, up from 26.4% in 2003.

The ROA and ROE for 2004 were 1.27% and 16.8%, respectively, down from 1.29% and 17.0%, respectively, in 2003.

## Results Of Operations

### Significant Factors Influencing Financial Performance Comparisons

Earnings comparisons from 2003 through 2005 were impacted by a number of factors, some related to changes in the economic and competitive environment, while others reflected specific management strategies or changes in accounting practices. Those key factors are summarized below.

- 1. AUTOMOBILE LEASES ORIGINATED THROUGH APRIL 2002 ARE ACCOUNTED FOR AS OPERATING LEASES.** — Automobile leases originated before May 2002 are accounted for using the operating lease method of accounting because they do not qualify as direct financing leases. Operating leases are carried in other assets with the related rental income, other revenue, and credit recoveries reflected as operating lease income, a component of non-interest income. Under this accounting method, depreciation expenses, as well as other costs and charge-offs, are reflected as operating lease expense, a component of non-interest expense. With no new operating leases originated since April 2002, the operating lease assets have declined rapidly. It is anticipated that the level of operating lease assets and related operating lease income and expense will decline to a point of diminished materiality sometime in 2006. However, until that point is reached, and since operating lease income and expense represented a significant percentage of total non-interest income and expense, respectively, throughout these reporting periods, their downward trend influenced total revenue, total non-interest income, and total non-interest expense trends.

In contrast, automobile leases originated since April 2002 are accounted for as direct financing leases, an interest earning asset included in total loans and leases with the related income reflected as interest income and included in the calculation of the net interest margin. Credit charge-offs and recoveries are reflected in the ALLL, with related changes in the ALLL reflected in the provision for credit losses. The relative newness and rapid growth of the direct financing lease portfolio resulted in higher reported automobile lease growth rates than in a more mature portfolio, especially in 2002 through 2004. To better understand overall trends in automobile lease exposure, it is helpful to compare trends in the combined total of direct financing leases plus operating leases.

- 2. MORTGAGE SERVICING RIGHTS (MSRS) AND RELATED HEDGING.** — Interest rate levels throughout this period have remained low by historical standards, though they have generally been rising in 2004 and 2005. They have also been volatile, with increases in one quarter followed by declines in another and vice versa. This has impacted the valuation of MSRs, which can be volatile when rates change.
  - Since the second quarter of 2002, we have generally retained the servicing on mortgage loans we originate and sell. MSR 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. Thus, as interest rates decline, less future income is expected and the value of MSRs declines. We recognize impairment when the valuation is less than the recorded book value. We recognize temporary impairment due to changes in interest rates through a valuation reserve and record a direct write-down of the book value of MSRs for other-than-temporary declines in valuation. Changes and fluctuations in interest rate levels between quarters resulted in some quarters reporting an MSR temporary impairment, with others reporting a recovery of previously recognized MSR temporary impairment. Such swings in MSR valuations have significantly impacted quarterly mortgage banking income trends throughout this period.
  - Prior to 2004, we used investment securities as the primary method of offsetting MSR temporary valuation changes. Beginning in 2004, we have used trading account assets. The valuations of trading and investment securities generally react to interest rate changes in an opposite direction compared with changes in MSR valuations. As a



result, changes in interest rate levels that impacted MSR valuations also resulted in securities or trading gains or losses. As such, in quarters where an MSR impairment was recognized, investment securities and/or trading account assets were sold, typically resulting in a gain on sale or trading income, and vice versa. Investment securities gains or losses are reflected in the income statement in a single non-interest income line item, whereas trading gains or losses are a component of other non-interest income on the income statement (see Tables 3 and 7).

3. **THE SALE OF AUTOMOBILE LOANS.** — Beginning in 2003, a key strategy has been to lower our credit exposure to automobile loans and leases to 20% or less of total credit exposure, primarily by selling automobile loans. This objective was achieved during the 2005 first quarter. These sales of loans impacted results in a number of ways including: lower growth rates in automobile, total consumer, and total loans; and lower net interest income than otherwise would be the case if the loans were not sold. In addition, during 2004 such sales resulted in the generation of significant gains as large pools of automobile loans were sold in order to achieve the objective, with such gains reflected in non-interest income. In the 2005 second quarter, we entered into an arrangement to sell 50%-75% of automobile loan production to a third party on an on-going basis and retain the loan servicing as part of a strategy to maintain automobile loans and leases total credit exposure. While this flow-sale program resulted in modest gains in 2005, we view such gains as recurring given their on-going nature (see Table 3).
4. **SIGNIFICANT C&I AND CRE CHARGE-OFFS AND RECOVERIES.** — A single commercial credit recovery in the 2004 second quarter on a loan previously charged off in the 2002 fourth quarter, favorably impacted the 2004 second quarter and full year provision expense (see Table 17), as well as middle-market commercial and industrial, total commercial, and total net charge-offs for the 2004 second quarter and full year period (see Table 19). In addition, in the 2005 first quarter, a single large commercial credit was charged-off. This impacted 2005 first quarter and full year period total net charge-offs and provision expense (see Tables 3, 17, and 19).
5. **EXPENSES AND ACCRUALS ASSOCIATED WITH THE SEC FORMAL INVESTIGATION AND BANKING REGULATORY FORMAL WRITTEN AGREEMENTS.** — On June 26, 2003, we announced that the SEC staff was conducting a formal investigation into certain financial accounting matters, relating to fiscal years 2002 and earlier, and certain related disclosure matters. In addition, on March 1, 2005, we announced entering into a formal written agreement with the FRBC, as well as the Bank entering into a formal written agreement with the OCC, providing for a comprehensive action plan designed to enhance corporate governance, internal audit, risk management, accounting policies and procedures, and financial and regulatory reporting. On June 2, 2005, we announced that the SEC approved the settlement of their formal investigation. As a part of the settlement, we consented to pay a penalty of \$7.5 million. This civil money penalty had no impact on our 2005 financial results, as reserves for this amount were established and expensed in 2004. These matters resulted in certain expenses and accruals as detailed below:

(in millions of dollars)	2005	2004	2003
First quarter	\$ 2.0	\$ 0.7	\$ —
Second quarter	1.7	0.9	0.4
Third quarter	—	5.5	4.7
Fourth quarter	—	6.5	1.8
<b>Full year</b>	<b>\$ 3.7</b>	<b>\$ 13.6</b>	<b>\$ 6.9</b>

6. **EFFECTIVE TAX RATE.** — In each quarter of 2005, the effective tax rate included the after-tax positive impact on net income due to a federal tax loss carry back, tax exempt income, bank owned life insurance, asset securitization activities, and general business credits from investment in low income housing and historic property partnerships. In addition, the 2005 third quarter and full-year effective tax rates reflected a \$5.0 million after-tax negative net impact, primarily in increased income tax expense, resulting from the repatriation of foreign earnings. In 2006, the effective tax rate is anticipated to increase to a more typical rate just below 30%.

7. **OTHER SIGNIFICANT ITEMS INFLUENCING EARNINGS PERFORMANCE COMPARISONS.** — From the first quarter of 2003 through the fourth quarter of 2005, and in addition to other items discussed separately in this section, a number of significant items impacted financial results. These included:

**2005**

- \$8.1 million pre-tax of investment securities losses related to a decision made during the 2005 fourth quarter to restructure a portion of the investment portfolio to replace lower rate securities with higher rate securities. This item lowered non-interest income.
- \$5.1 million pre-tax of severance and consolidation expenses associated with the consolidation of certain operations functions, including the closing of an item-processing center in Michigan. This item increased non-interest expense.
- \$2.1 million pre-tax write-off of an equity investment in the 2005 second quarter. This item lowered non-interest income.

**2004**

- \$7.8 million pre-tax of property lease impairments. This item increased non-interest expense.
- \$3.6 million pre-tax of Unizan system conversion expense. This item increased non-interest expense.
- \$3.7 million pre-tax one-time funding cost adjustment for a securitization structure consolidated in a prior period, which lowered interest expense and increased net interest income, as well as the net interest margin.
- \$1.2 million pre-tax restructuring reserve release related to reserves established in conjunction with the 2002 sale of the Florida banking and insurance operations that were no longer needed. This item lowered non-interest expense.

**2003**

- \$15.3 million pre-tax non-interest expense due to the early termination of long-term debt. This item increased non-interest expense.
- \$13.1 million pre-tax gain from the sale of our Martinsburg, West Virginia area branches. This item increased non-interest income.
- \$13.3 million after-tax cumulative effect of adopting FASB Interpretation No. 46, *Consolidation of Variable Interest Entities*. This item lowered net income.
- \$6.7 million pre-tax restructuring reserve release related to reserves that were no longer needed, which were established in conjunction with the sale of the Florida banking and insurance operations. This item lowered non-interest expense.

Table 3 — Significant Items Influencing Earnings Performance Comparison<sup>(1)</sup>

(in thousands of dollars)	2005		2004		2003	
	After-tax	EPS	After-tax	EPS	After-tax	EPS
<b>Net income — GAAP</b>	\$ 412,091		\$ 398,925		\$ 372,363	
<b>Earnings per share, after tax</b>		\$ 1.77		\$ 1.71		\$ 1.61
Change from prior year — \$		0.06		0.10		0.28
Change from prior year — %		3.5%		6.2%		21.1%
<b>Significant items — favorable (unfavorable) impact:</b>	<b>Earnings<sup>(3)</sup></b>	<b>EPS</b>	<b>Earnings<sup>(3)</sup></b>	<b>EPS</b>	<b>Earnings<sup>(3)</sup></b>	<b>EPS</b>
MSR valuation (impairment) recovery, net of hedge-related trading activity	\$ (7,318)	\$ (0.02)	\$ (7,174)	\$ (0.02)	\$ 14,957	\$ 0.04
Gain on sale of automobile loans	—	—	14,206	0.04	40,039	0.11
Single commercial credit net charge-off net of allocated reserves	(6,449)	(0.02)	—	—	—	—
Single commercial credit recovery	—	—	11,095	0.03	—	—
SEC/regulatory related expenses	(3,715)	(0.01)	(13,597)	(0.05)	(6,859)	(0.02)
Net impact of federal tax loss carry back <sup>(4)</sup>	26,936	0.12	—	—	—	—
Securities gains (losses)	(8,055)	(0.02)	15,763	0.04	5,258	0.01
Net impact of repatriating foreign earnings <sup>(4)</sup>	(5,040)	(0.02)	—	—	—	—
Severance and consolidation expenses	(5,064)	(0.01)	—	—	—	—
Write-off of equity investment	(2,098)	(0.01)	—	—	—	—
Property lease impairment	—	—	(7,846)	(0.02)	—	—
One-time adjustment to consolidated securitization	—	—	3,682	0.01	—	—
Unizan system conversion expense	—	—	(3,610)	(0.01)	—	—
Restructuring releases	—	—	1,151	N.M.	6,666	0.02
Cumulative effect of change in accounting principle <sup>(2)</sup>	—	—	—	—	N/A	(0.06)
Gain on sale of branch offices	—	—	—	—	13,112	0.04
Long-term debt extinguishment	—	—	—	—	(15,250)	(0.04)

N.M., not a meaningful value.

N/A, not applicable.

(1) See Significant Factors Influencing Financial Performance discussion.

(2) Only reflected in the income statement on an after tax basis of \$13.3 million.

(3) Pre-tax unless otherwise noted.

(4) After-tax.

### Net Interest Income

(This section should be read in conjunction with Significant Factors 1-3 and 7.)

Our primary source of revenue is net interest income, which is the difference between interest income on earning assets (primarily loans, direct financing leases, and securities) and interest expense on funding sources (including interest bearing deposits and borrowings.) Earning asset balances and related funding, as well as changes in the levels of interest rates, impact net interest income. The difference between the average yield on earning assets and the average rate paid for interest bearing liabilities is the net interest spread. Non-interest bearing sources of funds, such as demand deposits and shareholders' equity, also support earning assets. The impact of the non-interest bearing sources of funds, often referred to as "free" funds, is captured in the net interest margin, which is calculated as net interest income divided by average earning assets. Given the "free" nature of non-interest bearing sources of funds, the net interest margin is generally higher than the net interest spread. Both the net interest spread and net interest margin are presented on a fully taxable equivalent basis, which means that tax-free interest income has been adjusted to a pre-tax equivalent income, assuming a 35% tax rate.

Table 4 shows changes in fully taxable equivalent interest income, interest expense, and net interest income due to volume and rate variances for major categories of earning assets and interest bearing liabilities. The change in interest income or expense not solely due to changes in volume or rates has been allocated in proportion to the absolute dollar amount of the change in volume and rate.

Table 4 — Change in Net Interest Income Due to Changes in Average Volume and Interest Rates<sup>(1)</sup>

Fully tax equivalent basis <sup>(2)</sup> (in millions of dollars)	2005			2004		
	Increase (Decrease) From Previous Year Due To			Increase (Decrease) From Previous Year Due To		
	Volume	Yield/ Rate	Total	Volume	Yield/ Rate	Total
Loans and direct financing leases	\$ 118.6	\$ 177.7	\$ 296.3	\$ 110.8	\$ (75.7)	\$ 35.1
Securities	(29.8)	19.9	(9.9)	42.1	(24.7)	17.4
Other earning assets	3.8	6.2	10.0	1.4	(10.5)	(9.1)
<b>Total interest income in earning assets</b>	<b>92.6</b>	<b>203.8</b>	<b>296.4</b>	<b>154.3</b>	<b>(110.9)</b>	<b>43.4</b>
Deposits	41.7	148.1	189.8	21.5	(52.7)	(31.2)
Short-term borrowings	(0.3)	21.6	21.3	(1.8)	(0.9)	(2.7)
Federal Home Loan Bank advances	(4.7)	6.1	1.4	0.3	8.6	8.9
Subordinated notes and other long-term debt, including capital securities	(39.0)	66.4	27.4	21.6	(13.9)	7.7
<b>Total interest expense in interest-bearing liabilities</b>	<b>(2.3)</b>	<b>242.2</b>	<b>239.9</b>	<b>41.6</b>	<b>(58.9)</b>	<b>(17.3)</b>
Net interest income before funding cost adjustment	94.9	(38.4)	56.5	112.7	(52.0)	60.7
Funding cost adjustment	—	(3.7)	(3.7)	—	3.7	3.7
<b>Net interest income</b>	<b>\$ 94.9</b>	<b>\$ (42.1)</b>	<b>\$ 52.8</b>	<b>\$ 112.7</b>	<b>\$ (48.3)</b>	<b>\$ 64.4</b>

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

(2) Calculated assuming a 35% tax rate.

#### 2005 versus 2004 Performance

Fully taxable equivalent net interest income increased \$52.8 million, or 6%, from 2004, reflecting the favorable impact of a \$1.6 billion, or 6%, increase in average earning assets, as the fully taxable equivalent net interest margin remained unchanged at 3.33%.

The stability of the net interest margin reflected a combination of factors including the benefit of a shift in the earning asset mix from lower-yielding investments to higher-yielding loans as a result of decreasing the level of excess liquidity and redirecting part of the proceeds of securities sales to fund loan growth. In addition, the margin also benefited from an increase in non-interest bearing funds. These benefits were partially offset by the negative impact of intense loan and deposit price competition and share repurchases.

#### 2004 versus 2003 Performance

Fully taxable equivalent net interest income increased \$64.4 million, or 7%, in 2004 from 2003. This reflected the benefit of a 13% increase in average earning assets, partially offset by the negative impact of an effective 5% decline in the net interest margin to 3.33% from 3.49%.

The net interest margin declined in the first half of 2004, primarily reflecting the sale of higher-margin automobile loans. Such sales totaled \$1.4 billion in the first half of 2004 but only \$0.2 billion in the second half of 2004. The decline in the net interest margin in the first half of the year also reflected, to a lesser degree, the growth in lower-margin investment securities, as well as the impact of rising interest rates. The net interest margin stabilized in the second half of the year as automobile loan sales diminished and lower cost deposit growth was strong.

#### AVERAGE BALANCE SHEET

Table 5 shows average annual balance sheets and net interest margin analysis for the last five years. It details average balances for total assets and liabilities, as well as shareholders' equity, and their various components, most notably loans and leases, deposits, and borrowings. It also shows the corresponding interest income or interest expense associated with each earning asset and interest bearing liability category along with the average rate, with the difference resulting in the net interest spread. The net interest spread plus the positive impact from the non-interest bearing funds represent the net interest margin.



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N.M., not a meaningful value.

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

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

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

(4) 2005 reflects a net reclassification of \$500 million from middle market commercial real estate to middle market commercial and industrial, on November 1, 2005.

	Interest Income/Expense					Average Rate <sup>(2)</sup>				
	2005	2004	2003	2002	2001	2005	2004	2003	2002	2001
\$	1.1	\$ 0.7	\$ 0.6	\$ 0.8	\$ 0.2	2.16%	1.05%	1.53%	2.38%	3.43%
	8.5	4.4	0.6	0.3	1.3	4.08	4.15	4.02	4.11	5.13
	6.0	5.5	1.6	1.1	4.5	2.91	1.73	1.80	1.56	4.19
	17.9	13.0	30.0	20.5	25.0	5.64	5.35	5.32	6.35	6.95
	158.7	171.7	159.6	173.0	206.9	4.24	3.88	4.52	6.06	6.58
	31.9	28.8	23.5	10.1	13.0	6.71	6.98	7.04	7.42	7.49
	190.6	200.5	183.1	183.1	219.9	4.52	4.14	4.73	6.12	6.63
	279.0	196.5	224.1	262.0	353.4	5.79	4.41	4.95	5.45	6.96
	101.0	58.0	52.1	52.6	72.7	6.01	4.09	4.09	4.57	6.99
	110.6	85.3	88.0	98.7	113.3	5.79	4.44	4.84	5.91	7.44
	211.6	143.3	140.1	151.3	186.0	5.90	4.29	4.54	5.36	7.26
	137.5	110.3	105.6	110.6	204.8	6.18	5.50	5.91	6.73	7.96
	628.1	450.1	469.8	523.9	744.2	5.91	4.59	5.00	5.65	7.29
	133.3	165.1	242.1	237.9	253.8	6.52	7.22	7.38	8.67	N.M
	119.6	109.6	72.8	23.2	1.2	4.94	5.00	5.09	5.14	N.M
	252.9	274.7	314.9	261.1	255.0	5.66	6.14	6.68	8.17	8.94
	297.2	205.4	174.1	180.6	274.5	6.41	4.91	5.14	5.96	8.23
	222.3	175.9	111.4	91.4	81.6	5.45	5.48	5.85	6.55	8.19
	30.6	28.7	29.5	35.6	54.9	6.13	6.38	6.71	7.40	8.40
	803.0	684.7	629.9	568.7	666.0	5.87	5.56	5.93	6.98	8.44
	1,431.1	1,134.8	1,099.7	1,092.6	1,410.2	5.89	5.11	5.49	6.27	7.79
	1,655.2	1,358.9	1,315.6	1,298.4	1,661.1	5.65	4.89	5.35	6.23	7.58
	—	—	—	—	—	—	—	—	—	—
	135.5	74.1	73.0	88.9	133.5	1.77	1.03	1.18	1.71	2.64
	42.9	44.1	67.7	80.2	154.9	1.36	1.28	1.94	2.24	3.54
	105.0	81.2	100.4	165.6	281.5	3.56	3.36	3.68	4.58	5.65
	283.4	199.4	241.1	334.7	569.9	2.06	1.53	1.94	2.70	3.95
	44.5	20.5	18.5	28.8	66.8	3.44	2.37	2.50	3.39	5.22
	109.4	33.1	24.1	17.3	6.6	3.51	1.80	1.70	2.36	5.12
	9.6	4.1	4.6	4.9	10.8	2.10	0.82	0.92	1.47	3.82
	446.9	257.1	288.3	385.7	654.1	2.40	1.58	1.91	2.69	4.06
	34.3	13.0	15.7	29.0	95.8	2.49	0.93	0.98	1.56	4.57
	34.7	33.3	24.4	5.6	1.2	3.13	2.57	1.94	2.00	6.17
	163.5	132.5	128.5	123.3	188.4	4.02	2.46	2.82	3.70	5.52
	679.4	435.9	456.9	543.6	939.5	2.70	1.79	2.03	2.75	4.34
\$	975.8	\$ 923.0	\$ 858.7	\$ 754.8	\$ 721.6					
						2.95	3.10	3.32	3.48	3.24
						0.38	0.23	0.17	0.14	0.05
						3.33%	3.33%	3.49%	3.62%	3.29%

**AVERAGE BALANCE SHEET — LOANS, LEASES, AND OTHER EARNING ASSETS*****2005 versus 2004 Performance***

Average total loans and leases increased \$2.2 billion, or 10%, from 2004, reflecting growth in consumer loans and, to a lesser degree, growth in commercial loans. Average total consumer loans increased \$1.4 billion, or 11%, from 2004 primarily due to a \$0.9 billion, or 27%, increase in average residential mortgages as mortgage loan rates remained at attractive levels. Average home equity loans increased \$0.4 billion, or 11%. Growth in both residential mortgages and home equity loans slowed over the second half of the year as rising short-term interest rates dampened customer demand.

Average total automobile loans decreased \$0.2 billion, or 11%, from 2004 reflecting the sale of automobile loans, loan pay downs, and slowing production. Partially offsetting the decline in automobile loans was \$0.2 billion, or 10%, growth in direct financing leases due to the continued migration from operating lease assets, which have not been originated since April 2002.

Average total commercial loans increased \$0.8 billion, or 8%, from 2004. This reflected a \$0.4 billion, or 8%, increase in middle market commercial and industrial (C&I) loans, a \$0.2 billion, or 7%, increase in middle market commercial real estate (CRE) loans, and a \$0.2 billion, or 11%, increase in average small business C&I and CRE loans.

Average total investment securities declined \$0.7 billion, or 14%, from 2004. This decline reflected a combination of factors including lowering the level of excess liquidity, a decision to sell selected lower yielding securities, and partially funding loan growth with the proceeds from the sale of securities. We also made a decision in the fourth quarter of 2005 to reposition a segment of the portfolio to replace lower yield securities with higher yield securities. This resulted in \$8.8 million of securities losses in the fourth quarter, but should position the portfolio for better future performance.

***2004 versus 2003 Performance***

Growth in average total loans and leases accounted for most of the 13% increase in earning assets, though investment securities also increased as a portion of the proceeds from automobile loan sales was reinvested.

Average total loans and leases increased 11% from the prior year. Most of this reflected growth in average total consumer loans where the strong growth in residential mortgage and home equity loans was only partially offset by a decline in automobile loans, reflecting the sale of \$1.5 billion of automobile loans in 2004. Average total commercial loans increased 4%, reflecting growth in middle market CRE and small business loans, partially offset by a decline in average middle market C&I loans.

**AVERAGE BALANCE SHEET — DEPOSITS AND OTHER FUNDING*****2005 versus 2004 Performance***

Average total core deposits in 2005 were \$17.1 billion, up \$0.9 billion, or 5%, from 2004, reflecting a \$0.5 billion, or 22%, increase in certificates of deposit less than \$100,000, a \$0.5 billion, or 6%, increase in average interest bearing demand deposit accounts, primarily money market accounts, and a \$0.1 billion, or 5%, increase in non-interest bearing deposits. These increases were partially offset by a \$0.3 billion, or 8%, decline in savings and other domestic time deposits. With interest rates rising throughout the year, demand for certificates of deposit less than \$100,000 increased as customers transferred funds from lower-rate savings and other domestic time deposits into higher fixed-rate term deposit accounts.

We use the non-core funding ratio (total liabilities less core deposits and accrued expenses and other liabilities divided by total assets) to measure the extent to which funding is dependent on wholesale deposits and borrowing sources. For 2005, the average non-core funding ratio was 35%, down from 36% in 2004. The average non-core funding ratio reached a peak of 38% in the first quarter of 2004 as strong loan growth outpaced core deposit growth. Subsequent loan sales, as well as successful core deposit growth initiatives, reduced average non-core funding requirements to 35% by the 2004 fourth quarter.

***2004 versus 2003 Performance***

Average total deposits in 2004 increased 7% from the prior year, primarily reflecting 5% growth in average core deposits. Growth in interest bearing demand deposits, and to a lesser degree non-interest bearing deposits, accounted for virtually all of the growth in average core deposits, as average certificates of deposit (CDs) less than \$100,000 declined. With interest rates near historical low levels, demand for CDs less than \$100,000 greatly diminished in the first half of 2004. However, CDs less than \$100,000 grew in the second half of the year as interest rates and customer demand for CDs less than \$100,000 increased. In addition to growth in average core deposits, the increase in average total deposits also reflected a 29% increase in brokered time deposits and negotiable CDs, which, in comparison with rates on CDs less than \$100,000, remained a relatively low cost of funds.

For 2004, the average non-core funding ratio was 36%, up from 35% in 2003.



**Provision for Credit Losses**

(This section should be read in conjunction with Significant Factor 4 and the Credit Risk section.)

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

Provision expense for 2005 was \$81.3 million, up \$26.2 million, or 48%, from 2004. The increase in 2005 reflected a combination of factors including loan growth and higher levels of problem assets, most notably downgrades in certain commercial credits late in the fourth quarter. Given our highly quantitative loan loss reserve methodology, these downgrades required a meaningful increase in our ALLL. We believe these downgrades reflect weakness in certain credit situations rather than the beginning of a trend of material weakening in general credit quality.

Provision expense for 2004 was \$55.1 million, down \$108.9 million, or 66%, from the prior year. This reflected significant improvement in overall credit quality as reflected by a combination of factors, including lower net charge-offs and a single C&I recovery of \$11.1 million in 2004, as well as the overall lower risk inherent in the loan and lease portfolio resulting from strategies to lower the overall risk profile of the balance sheet, partially offset by additional provision expense related to loan growth.

**Non-Interest Income**

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

Non-interest income for the three years ended December 31, 2005, was as follows:

**Table 6 — Non-Interest Income**

(in thousands of dollars)	Year Ended December 31,						
	2005	Change from 2004		2004	Change from 2003		2003
		Amount	%		Amount	%	
Service charges on deposit accounts	\$ 167,834	\$ (3,281)	(1.9)%	\$ 171,115	\$ 3,275	2.0%	\$ 167,840
Trust services	77,405	9,995	14.8	67,410	5,761	9.3	61,649
Brokerage and insurance income	53,619	(1,180)	(2.2)	54,799	(3,045)	(5.3)	57,844
Other service charges and fees	44,348	2,774	6.7	41,574	128	0.3	41,446
Mortgage banking	41,710	9,414	29.1	32,296	(25,884)	(44.5)	58,180
Bank owned life insurance income	40,736	(1,561)	(3.7)	42,297	(731)	(1.7)	43,028
Securities gains (losses)	(8,055)	(23,818)	N.M.	15,763	10,505	N.M.	5,258
Other	75,041	(17,006)	(18.5)	92,047	988	1.1	91,059
Sub-total before operating lease income	492,638	(24,663)	(4.8)	517,301	(9,003)	(1.7)	526,304
Operating lease income	138,433	(148,658)	(51.8)	287,091	(202,607)	(41.4)	489,698
Sub-total including operating lease income	631,071	(173,321)	(21.5)	804,392	(211,610)	(20.8)	1,016,002
Gain on sales of automobile loans	1,211	(12,995)	(91.5)	14,206	(25,833)	(64.5)	40,039
Gain on sale of branch offices	—	—	—	—	(13,112)	N.M.	13,112
<b>Total non-interest income</b>	<b>\$ 632,282</b>	<b>\$ (186,316)</b>	<b>(22.8)%</b>	<b>\$ 818,598</b>	<b>\$ (250,555)</b>	<b>(23.4)%</b>	<b>\$ 1,069,153</b>

N.M., not a meaningful value.

Table 7 details mortgage banking income and the net impact of MSR hedging activity. We record MSR temporary impairment valuation changes in mortgage banking income, whereas MSR hedge-related trading activity is recorded in other non-interest income, as well as in net interest income. Striking a mortgage banking income sub-total before MSR recoveries or impairments, provides a clearer understanding of the underlying trends in mortgage banking income associated with the primary business activities of origination, sales, and servicing. The net impact of MSR hedging analysis presents all of the MSR impairment valuation changes and related hedging activity.

Mortgage banking income and the net impact of MSR hedging activities for the three years ended December 31, 2005, was as follows:

**Table 7 — Mortgage Banking Income and Net Impact of MSR Hedging**

(in thousands of dollars)	Year Ended December 31,						
	2005	Change from 2004		2004	Change from 2003		2003
		Amount	%		Amount	%	
<b>Mortgage Banking Income</b>							
Origination fees	\$ 10,781	\$ (1,596)	(12.9)%	\$ 12,377	\$ (4,895)	(28.3)%	\$ 17,272
Secondary marketing	10,986	2,646	31.7	8,340	(15,267)	(64.7)	23,607
Servicing fees	22,181	485	2.2	21,696	4,790	28.3	16,906
Amortization of capitalized servicing	(18,359)	660	(3.5)	(19,019)	6,947	(26.8)	(25,966)
Other mortgage banking income	11,750	4,226	56.2	7,524	(3,880)	(34.0)	11,404
Sub-total	37,339	6,421	20.8	30,918	(12,305)	(28.5)	43,223
MSR recovery	4,371	2,993	N.M.	1,378	(13,579)	(90.8)	14,957
<b>Total mortgage banking income</b>	<b>\$ 41,710</b>	<b>\$ 9,414</b>	<b>29.1%</b>	<b>\$ 32,296</b>	<b>\$ (25,884)</b>	<b>(44.5)%</b>	<b>\$ 58,180</b>
Capitalized mortgage servicing rights <sup>(1)</sup>	\$ 91,259	\$ 14,152	18.4%	\$ 77,107	\$ 6,020	8.5%	\$ 71,087
MSR allowance <sup>(1)</sup>	(404)	4,371	(91.5)	(4,775)	1,378	(22.4)	(6,153)
Total mortgages serviced for others <sup>(1)</sup>	7,276,000	415,000	6.0	6,861,000	467,000	7.3	6,394,000
<b>Net Impact of MSR Hedging</b>							
MSR recovery	\$ 4,371	\$ 2,993	N.M.%	\$ 1,378	\$ (13,579)	(90.8)%	\$ 14,957
Net trading losses related to MSR hedging <sup>(2)</sup>	(13,377)	(7,867)	N.M.	(5,510)	(5,510)	N.M.	—
Net interest income related to MSR hedging	1,688	238	16.4	1,450	1,450	N.M.	—
Other MSR hedge activity <sup>(4)</sup>	—	4,492	N.M.	(4,492)	(4,492)	N.M.	—
<b>Net impact of MSR hedging<sup>(3)</sup></b>	<b>\$ (7,318)</b>	<b>\$ (144)</b>	<b>2.0%</b>	<b>\$ (7,174)</b>	<b>\$ (22,131)</b>	<b>N.M.%</b>	<b>\$ 14,957</b>

N.M., not a meaningful value.

(1) At period end.

(2) Included in other non-interest income.

(3) The tables above exclude securities gains or losses related to the investment securities portfolio.

(4) Included in other mortgage banking income.

#### 2005 versus 2004 Performance

Non-interest income decreased \$186.3 million, or 23%, from 2004 with \$148.7 million of the decline reflecting the decrease in operating lease income. Of the remaining \$37.7 million decline from 2004, the primary drivers were:

- \$23.8 million decline in net securities gains, as the current year reflected \$8.1 million of securities losses, primarily related to \$8.8 million of securities losses due to the fourth quarter restructuring of a part of the securities portfolio, compared with \$15.8 million of gains in 2004 taken to mitigate the net impact of the MSR impairment.
- \$17.0 million, or 18%, decline in other income reflected a combination of factors including an increase in MSR hedge-related trading losses, lower income from automobile lease terminations, the \$2.1 million write-off of an equity investment in the 2005 second quarter, lower investment banking income, and lower equity investment gains.
- \$13.0 million decline in gains on sale of automobile loans as the year-ago period included \$14.2 million of such gains.
- \$3.3 million, or 2%, decline in service charges on deposit accounts, all driven by a decline in commercial service charges, reflecting a combination of lower activity and a preference by commercial customers to pay for services with higher compensating balances rather than fees as interest rates increased. Consumer service charges increased slightly reflecting higher activity-related personal service charges, mostly offset by lower maintenance fees on deposit accounts, as well as lower personal NSF and overdraft service charges.
- \$1.6 million, or 4%, decline in bank owned life insurance income.
- \$1.2 million, or 2%, decline in brokerage and insurance income, reflecting lower annuity sales.

Partially offset by:

- \$10.0 million, or 15%, increase in trust services due to higher personal trust and mutual fund fees, reflecting a combination of higher market value of assets, as well as increased activity.



- \$9.4 million, or 29%, increase in mortgage banking income, reflecting a \$6.9 million increase in secondary marketing and other mortgage banking income, as well as a \$3.0 million increase in MSR temporary impairment recoveries.
- \$2.8 million, or 7%, increase in other service charges and fees, due to higher debit card fees, partially offset by lower bill pay fees as a result of a decision to eliminate fees for this service beginning in the 2004 fourth quarter.

**2004 versus 2003 Performance**

Non-interest income for 2004 declined \$250.6 million, or 23%, from 2003. Reflecting the run-off of the operating lease portfolio, operating lease income declined \$202.6 million, or 41%, from 2003. Of the remaining \$47.9 million decline from a year ago, the primary drivers were:

- \$25.9 million decline in mortgage banking income reflected a combination of factors, all basically related to the lower level of mortgage originations as interest rates increased during 2004. Such factors included lower net secondary marketing revenue, as sales declined, and a 91% reduction in MSR recovery.
- \$25.8 million decline in gains on the sale of automobile loans, reflecting both a decline in loan sales (\$1.5 billion in 2004, \$2.1 billion in 2003), as well as lower relative gains on the sales as the loans sold in 2003 were older and originated at higher rates.
- \$13.1 million decline in gains on sale of branch offices, reflecting no such sales in 2004.
- \$3.0 million decline in brokerage and insurance income primarily due to lower title insurance-related fees and reduced credit life insurance revenue, as well as a decline in annuity fee income due to a 7% decline in annuity sales volume.

Partially offset by:

- \$10.5 million increase in securities gains primarily related to MSR temporary impairment hedging activity.
- \$5.8 million increase in trust services income primarily due to higher personal trust income and proprietary mutual fund fees.
- \$3.3 million increase in service charges on deposit accounts, reflecting higher NSF and overdraft fees, partially offset by lower personal and commercial account maintenance charges.

*Non-Interest Expense*

(This section should be read in conjunction with Significant Factors 1, 5, and 7.)

Non-interest expense for the three years ended December 31, 2005 was as follows:

**Table 8 — Non-Interest Expense**

(in thousands of dollars)	Year Ended December 31,						
	2005	Change from 2004		2004	Change from 2003		2003
		Amount	%		Amount	%	
Salaries	\$ 379,589	\$ 3,321	0.9%	\$ 376,268	\$ 14,826	4.1%	\$ 361,442
Benefits	102,069	(7,469)	(6.8)	109,538	23,717	27.6	85,821
Personnel costs	481,658	(4,148)	(0.9)	485,806	38,543	8.6	447,263
Net occupancy	71,092	(4,849)	(6.4)	75,941	13,460	21.5	62,481
Outside data processing and other services	74,638	2,523	3.5	72,115	5,997	9.1	66,118
Equipment	63,124	(218)	(0.3)	63,342	(2,579)	(3.9)	65,921
Professional services	34,569	(2,307)	(6.3)	36,876	(5,572)	(13.1)	42,448
Marketing	28,077	1,588	6.0	26,489	(1,001)	(3.6)	27,490
Telecommunications	18,648	(1,139)	(5.8)	19,787	(2,192)	(10.0)	21,979
Printing and supplies	12,573	110	0.9	12,463	(546)	(4.2)	13,009
Amortization of intangibles	829	12	1.5	817	1	0.1	816
Other	76,236	(17,045)	(18.3)	93,281	12,501	15.5	80,780
Sub-total before operating lease expense	861,444	(25,473)	(2.9)	886,917	58,612	7.1	828,305
Operating lease expense	108,376	(128,102)	(54.2)	236,478	(156,792)	(39.9)	393,270
Sub-total including operating lease expense	969,820	(153,575)	(13.7)	1,123,395	(98,180)	(8.0)	1,221,575
Restructuring reserve releases	—	1,151	N.M.	(1,151)	5,515	(82.7)	(6,666)
Loss on early extinguishment of debt	—	—	—	—	(15,250)	N.M.	15,250
<b>Total non-interest expense</b>	<b>\$ 969,820</b>	<b>\$ (152,424)</b>	<b>(13.6)%</b>	<b>\$ 1,122,244</b>	<b>\$ (107,915)</b>	<b>(8.8)%</b>	<b>\$ 1,230,159</b>

N.M., not a meaningful value.

**2005 versus 2004 Performance**

Non-interest expense decreased \$152.4 million, or 14%, from 2004 with \$128.1 million of the decline reflecting the decrease in operating lease expense. Of the remaining \$24.3 million decline, the primary drivers were:

- \$17.0 million, or 18%, decrease in other expense, reflecting \$7.5 million of SEC/regulatory-related expenses in 2004, \$5.8 million of costs related to investments in partnerships generating tax benefits in the year-ago period, and lower litigation related expense accruals and lower insurance costs in the current period.
- \$4.8 million, or 6%, decline in net occupancy expense, as 2004 included a \$7.8 million loss caused by property lease impairments, partially offset by lower rental income and higher depreciation expense in 2005.
- \$4.1 million, or 1%, decline in personnel costs, mainly due to lower commission and benefit expense, partially offset by higher salaries and severance.
- \$2.3 million, or 6%, decline in professional services, reflecting lower SEC/regulatory-related expense.

Partially offset by:

- \$2.5 million, or 3%, increase in outside data processing and other services, reflecting mostly higher debit card processing expense and system conversion expense.
- \$1.6 million, or 6%, increase in marketing expense.
- \$1.2 million increase in the restructuring reserve charges line item, reflecting a restructuring reserve release in 2004 with no release in 2005.

SEC-related expenses and accruals, as well as expenses related to Unizan integration planning and systems conversions, contributed to the change in expense from 2004. Specifically, SEC/regulatory-related expenses and accruals totaled \$3.7 million in 2005, down from \$13.6 million in 2004. These expenses and accruals impacted the professional services and other expense categories. Unizan integration planning and systems conversion expenses totaled \$0.7 million in 2005, down from \$3.6 million in

2004. In addition to impacting the data processing and other services expense category, a portion of these expenses was also spread across various other expense categories.

#### **2004 versus 2003 Performance**

Non-interest expense declined \$107.9 million, or 9%, from 2003. Comparisons with prior-period results were significantly influenced by the decline in operating lease expense as previously noted. Operating lease expense declined \$156.8 million, or 40%, from 2003. All other components of non-interest expense increased a net \$48.9 million from 2003 reflecting:

- \$38.5 million increase in personnel costs primarily related to higher retirement and insurance benefit expenses, and to a lesser degree, higher salaries.
- \$13.5 million increase in net occupancy expense, reflecting a \$7.8 million property lease impairment, as well as higher depreciation and lower rental income.
- \$12.5 million increase in other expense impacted by SEC-related expenses and accruals. *(See discussion below.)*
- \$6.0 million increase in outside data processing expenses, including Unizan-related expenses. *(See discussion below.)*
- \$5.5 million decline in restructuring reserve releases, as such releases totaled \$1.2 million in 2004, down from \$6.7 million in 2003.

Partially offset by:

- \$15.3 million related to the loss on the early extinguishment of debt in 2003.
- \$5.6 million decline in professional services, primarily reflecting lower consulting expenses.

SEC-related expenses and accruals, as well as expenses related to Unizan integration planning and systems conversions, contributed to the change in expense from 2003. Specifically, SEC-related expenses and accruals totaled \$13.6 million in 2004 compared with \$6.9 million in 2003. These expenses and accruals impacted the professional services and other expense categories. Unizan integration planning and systems conversion expenses totaled \$3.6 million in 2004. In addition to impacting the data processing and other services expense category, a portion of these expenses was also spread across various other expense categories.

#### **Operating Lease Assets**

*(This section should be read in conjunction with Significant Factor 1 and the Market Risk section.)*

Operating lease assets represent automobile leases originated before May 2002. This operating lease portfolio is running-off over time since all automobile lease originations after April 2002 have been recorded as direct financing leases and are reported in the automobile loan and lease category in earning assets. As a result, the non-interest income and non-interest expenses associated with the operating lease portfolio has declined.

Operating lease assets performance for the five years ended December 31, 2005, was as follows:

**Table 9 — Operating Lease Performance**

(in thousands of dollars)	Year Ended December 31,				
	2005	2004	2003	2002	2001
<b>Balance Sheet:</b>					
Average operating lease assets outstanding	\$ 372,132	\$ 896,773	\$ 1,696,535	\$ 2,601,666	\$ 2,969,902
<b>Income Statement:</b>					
Net rental income	\$ 126,519	\$ 267,202	\$ 458,644	\$ 615,453	\$ 654,625
Fees	6,531	13,457	21,623	28,542	27,573
Recoveries — early terminations	5,383	6,432	9,431	13,079	9,535
<b>Total operating lease income</b>	<b>138,433</b>	<b>287,091</b>	<b>489,698</b>	<b>657,074</b>	<b>691,733</b>
Depreciation and residual losses at termination	99,342	216,445	350,550	463,783	506,267
Losses — early terminations	9,034	20,033	42,720	55,187	52,359
<b>Total operating lease expense</b>	<b>108,376</b>	<b>236,478</b>	<b>393,270</b>	<b>518,970</b>	<b>558,626</b>
<b>Net earnings contribution</b>	<b>\$ 30,057</b>	<b>\$ 50,613</b>	<b>\$ 96,428</b>	<b>\$ 138,104</b>	<b>\$ 133,107</b>
<b>Earnings ratios<sup>(1)</sup></b>					
Net rental income	34.0%	29.8%	27.0%	23.7%	22.0%
Depreciation and residual losses at termination	26.7	24.1	20.7	17.8	17.0

(1) As a percent of average operating lease assets.

#### 2005 versus 2004 Performance

Average operating lease assets in 2005 were \$0.4 billion, down \$0.5 billion, or 59% from a year-ago.

The net earnings contribution from operating leases was \$30.1 million in 2005, down 41% from \$50.6 million in 2004. Operating lease income, which totaled \$138.4 million in 2005, and represented 22% of non-interest income, declined 52% from 2004, reflecting the decline in average operating leases. The majority of this decline was reflected in lower net rental income, down 53% from 2004. Lower fees and recoveries from early terminations also contributed to the decline in total operating lease income, but to a much lesser degree. Operating lease expense totaled \$108.4 million for 2005, down 54% from a year ago, also reflecting the continued decline in operating lease assets, with the decline related to lower depreciation and residual losses at termination expenses.

The ratio of operating lease credit losses, net of recoveries, to average operating lease assets was 0.98% in 2005, down from 1.52% in 2004.

#### 2004 versus 2003 Performance

Average operating lease assets in 2004 declined 47% from the prior year. The net earnings contribution from operating leases was \$50.6 million in 2004, down 48% from \$96.4 million in 2003. Operating lease income, which totaled \$287.1 million in 2004, and represented 35% of non-interest income, declined 41% from 2003 reflecting the decline in average operating leases. The majority of this decline was reflected in lower net rental income, down 42% from 2003. Lower fees and recoveries from early terminations also contributed to the decline in total operating lease income, but to a much lesser degree. Operating lease expense totaled \$236.5 million, down 40% from a year ago, also reflecting the continued decline in operating lease assets, with the decline primarily related to lower depreciation and residual losses at termination expenses.

The ratio of operating lease asset credit losses to average operating lease assets, net of recoveries, was 1.52% in 2004, down from 1.96% in 2003.

#### Provision for Income Taxes

The provision for income taxes was \$131.5 million in 2005, \$153.7 million in 2004, and \$138.3 million in 2003. The effective tax rate was 24.2%, 27.8%, and 26.4% in 2005, 2004, and 2003, respectively. The lower effective tax rate in 2005 compared with 2004 reflected an increasing benefit from tax-exempt income and a federal tax loss carryback, partially offset by the effect of the repatriation of foreign earnings. The higher effective tax rate in 2004 compared with 2003 reflected a reduction in tax benefits (credits) from investments in partnerships and the impact of higher non-deductible expenses.

As noted in our 2004 Form 10-K, the American Jobs Creation Act of 2004 introduced a special one-time dividends received deduction of 85% on the repatriation of certain foreign earnings to a U.S. taxpayer. During 2005, we had \$109.4 million of foreign earnings eligible for repatriation, and in the third quarter of 2005, we received cash dividends in the amount of these previously undistributed foreign earnings. During the third quarter of 2005, our board of directors resolved to adopt our Domestic Reinvestment Plan, signed by our chairman, president, and chief executive officer. In the third quarter of 2005, income tax expense of \$5.7 million, associated with the repatriation, was recorded. We have reinvested in the United States the cash dividend received through expenditures on infrastructure and capital investments with respect to the opening of new branches, qualified pension and 401(k) contributions, and funding of worker hiring, training, and other compensation.

The cost of qualifying investments in low income housing partnerships, along with the related tax credit, is recognized in the financial statements as a component of income taxes under the effective yield method. The cost of the investment in historic property partnerships is reported in non-interest expense and the related tax credit is recognized in the financial statements as a component of income taxes.

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

During the first quarter of 2005, the Internal Revenue Service commenced an audit of our consolidated federal income tax returns for tax years 2002 and 2003.

We expect the 2006 effective tax rate to increase to a more typical rate just below 30%.(See Note 18 of the Notes to Consolidated Financial Statements.)

## RISK MANAGEMENT AND CAPITAL

Risk identification and monitoring are key elements in overall risk management. We believe the primary risk exposures are credit, market, liquidity, and operational risk. Credit risk is the risk of loss due to adverse changes in borrowers' ability to meet their financial obligations under agreed upon terms. Market risk represents the risk of loss due to changes in the market value of assets and liabilities due to changes in interest rates, exchange rates, residual values, and equity prices. Liquidity risk arises from the possibility that funds may not be available to satisfy current or future commitments based on external macro market issues, investor perception of financial strength, and events unrelated to the company such as war, terrorism, or financial institution market specific issues. Operational risk arises from the inherent day-to-day operations of the company that could result in losses due to human error, inadequate or failed internal systems and controls, and external events.

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

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

### Credit Risk

Credit risk is the risk of loss due to adverse changes in borrowers' ability to meet their financial obligations under agreed upon terms. We are subject to credit risk in lending, trading, and investment activities. The nature and degree of credit risk is a function of the types of transactions, the structure of those transactions, and the parties involved. The majority of our credit risk is associated with lending activities, as the acceptance and management of credit risk is central to profitable lending. Credit risk is incidental to trading activities and represents a limited portion of the total risks associated with the investment portfolio. Credit risk is mitigated through a combination of credit policies and processes, and portfolio diversification.

The maximum level of credit exposure to individual commercial borrowers is limited by policy guidelines based on the risk of default associated with the credit facilities extended to each borrower or related group of borrowers. All authority to grant



commitments is delegated through the independent credit administration function and is monitored and regularly updated in a centralized database.

Concentration risk is managed via limits on loan type, geography, industry, loan quality factors, and country limits. We have focused on extending credit to commercial customers with existing or expandable relationships within our primary markets. As a result, shared national credit exposure declined in 2002 and 2003. The on-going sale of automobile loans is an example of the proactive management of concentration risk.

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

#### *Credit Exposure Mix*

*(This section should be read in conjunction with Significant Factors 1 and 3.)*

An overall corporate objective is to avoid undue portfolio concentrations. As shown in Table 10, at December 31, 2005, total credit exposure from the loan and lease portfolio was \$24.7 billion. Of this amount, \$13.6 billion, or 55%, represented total consumer loans and leases, \$10.8 billion, or 44%, total commercial loans and leases, and \$0.2 billion, or 1%, operating lease assets.

A specific portfolio concentration objective has been to reduce the relative level of total automobile exposure (the sum of automobile loans, automobile leases, securitized automobile loans, and operating lease assets) from 33% at the end of 2002. As shown in Table 10, such exposure was 18% at December 31, 2005.

In contrast, another specific portfolio concentration objective has been to increase the relative level of lower-risk residential mortgages and home equity loans. At December 31, 2005, such loans represented 36% of total credit exposure, up from 22% at the end of 2002.

Since the end of 2002, the level of total commercial loans and leases has remained relatively constant at 42%-44% of total credit exposure. However, middle market C&I loans declined to 19% at year-end 2004 from 22% at December 31, 2002, reflecting weak demand, but also a specific objective to reduce exposure to large individual credits, as well as a strategy to focus on commercial lending to customers with existing or potential relationships within our primary markets. During 2005, that concentration increased to 21%, reflecting increased customer demand. Conversely, since the end of 2002, small business loans increased to 9% from 8%, reflecting strategies to grow this important targeted business segment. *(See Table 10.)*

Table 10 — Loan and Lease Portfolio Composition

		At December 31,										
(in millions of dollars)		2005		2004		2003		2002		2001		
<b>Commercial<sup>(1)</sup></b>												
Middle market commercial and industrial	\$	5,084	20.6%	\$	4,666	19.3%	\$	4,416	19.7%	\$	4,922	21.7%
Construction		1,522	6.2		1,602	6.6		1,264	5.7		983	4.5
Commercial		2,015	8.2		1,917	7.9		1,919	8.6		1,896	8.7
Total middle market real estate		3,537	14.4		3,519	14.5		3,183	14.3		2,879	13.2
Small business commercial and industrial and commercial real estate		2,224	9.0		2,118	8.8		1,887	8.4		1,695	7.7
<b>Total commercial</b>		<b>10,845</b>	<b>44.0</b>		<b>10,303</b>	<b>42.6</b>		<b>9,486</b>	<b>42.4</b>		<b>9,331</b>	<b>42.6</b>
<b>Consumer:</b>												
Automobile loans		1,985	8.0		1,949	8.1		2,992	13.4		3,042	13.9
Automobile leases		2,289	9.3		2,443	10.1		1,902	8.5		874	4.0
Home equity		4,639	18.8		4,555	18.9		3,734	16.7		3,142	14.3
Residential mortgage		4,193	17.0		3,829	15.9		2,531	11.3		1,746	8.0
Other loans		521	2.0		481	2.0		430	1.9		452	2.1
<b>Total consumer</b>		<b>13,627</b>	<b>55.1</b>		<b>13,257</b>	<b>55.0</b>		<b>11,589</b>	<b>51.8</b>		<b>9,256</b>	<b>42.3</b>
<b>Total loans and direct financing leases</b>		<b>24,472</b>	<b>99.1</b>		<b>23,560</b>	<b>97.6</b>		<b>21,075</b>	<b>94.2</b>		<b>18,587</b>	<b>84.9</b>
Operating lease assets		229	0.9		587	2.4		1,260	5.6		2,201	10.0
Securitized loans		—	—		—	—		37	0.2		1,119	5.1
<b>Total credit exposure</b>	\$	<b>24,701</b>	<b>100.0%</b>	\$	<b>24,147</b>	<b>100.0%</b>	\$	<b>22,372</b>	<b>100.0%</b>	\$	<b>21,907</b>	<b>100.0%</b>
<b>Total automobile exposure<sup>(2)</sup></b>	\$	<b>4,503</b>	<b>18.2%</b>	\$	<b>4,979</b>	<b>20.6%</b>	\$	<b>6,191</b>	<b>27.7%</b>	\$	<b>7,236</b>	<b>33.0%</b>

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

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

### Commercial Credit

Commercial credit approvals are based on the financial strength of the borrower, assessment of the borrower's management capabilities, industry sector trends, type of exposure, transaction structure, and the general economic outlook. While these are the primary factors considered, there are a number of other factors that may be considered in the decision process. There are two processes for approving credit risk exposures. The first involves a centralized loan approval process for the standard products and structures utilized in small business lending. In this centralized decision environment, individual credit authority is granted to certain individuals on a regional basis to preserve our local decision-making focus. The second, and more prevalent approach, involves individual approval of exposures. These approvals are consistent with the authority delegated to officers located in the geographic regions who are experienced in the industries and loan structures over which they have responsibility.

Commercial and industrial loan commitments and balances outstanding by industry classification code as of December 31, 2005, were as follows:

**Table 11 — Commercial and Industrial Loans by Industry Classification Code**

(in thousands of dollars)	At December 31, 2005			
	Commitments		Loans Outstanding	
	Amount	%	Amount	%
<b>Industry Classification:</b>				
Services	\$3,017,705	26.2%	\$1,955,613	28.7%
Manufacturing	2,084,924	18.1	1,152,619	16.9
Retail trade	1,932,962	16.8	1,245,250	18.3
Finance, insurance, and real estate	1,837,506	16.0	1,005,204	14.8
Contractors and construction	699,719	6.1	272,041	4.0
Wholesale trade	905,919	7.9	534,289	7.8
Transportation, communications, and utilities	565,961	4.9	342,806	5.0
Agriculture and forestry	147,972	1.3	107,924	1.6
Energy	191,953	1.7	117,784	1.7
Public administration	94,362	0.8	42,783	0.6
Other	32,950	0.2	32,895	0.6
<b>Total</b>	<b>\$11,511,933</b>	<b>100.0%</b>	<b>\$6,809,208</b>	<b>100.0%</b>

Commercial real estate loans at December 31, 2005, were predominantly for properties located in our primary banking markets. These loans, including both middle market and small business commercial real estate loans, were well diversified by the type of property, as reflected in the following table:

**Table 12 — Commercial Real Estate Loans by Property Type and Location**

(in thousands of dollars)	At December 31, 2005						Total Amount	Percent of Total
	Geographic Region							
	Ohio	Michigan	West Virginia	Indiana	Other			
Retail properties	\$ 341,059	\$ 174,265	\$ 45,659	\$ 80,006	\$ —	\$ 640,989	15.9%	
Single family development	322,292	170,232	24,056	8,628	6,102	531,310	13.2	
Industrial and warehouse	226,361	181,135	14,263	34,005	2,689	458,453	11.4	
Office	203,712	115,706	40,438	76,647	1,277	437,780	10.8	
Unsecured lines to real estate companies	270,757	79,308	12,889	54,788	2,287	420,029	10.4	
Multi family	229,998	56,873	40,840	84,470	1,702	413,883	10.3	
Raw land	180,614	94,810	19,568	9,870	5,131	309,993	7.7	
Other land uses	86,527	45,117	11,194	12,875	—	155,713	3.9	
Single family land development	103,201	14,357	987	6,063	1,379	125,987	3.1	
Other land development	92,260	15,952	1,771	15,655	—	125,638	3.1	
Health care	39,748	48,107	9,088	12,468	—	109,411	2.7	
Recreational	68,766	21,940	13,387	2,470	—	106,563	2.6	
Condominium construction	59,877	32,596	8,403	2,204	—	103,080	2.6	
Hotel	38,001	45,180	5,150	5,514	3,497	97,342	2.4	
<b>Total</b>	<b>\$ 2,263,173</b>	<b>\$ 1,095,578</b>	<b>\$ 247,693</b>	<b>\$ 405,663</b>	<b>\$ 24,064</b>	<b>\$ 4,036,171</b>	<b>100.0%</b>	

All C&I and CRE credit extensions are assigned internal risk ratings, reflecting the borrower's probability-of-default and loss-in-event-of-default. This two-dimensional rating methodology, which has 192 individual loan grades, provides granularity in the portfolio management process. The probability-of-default is rated on a scale of 1-12 and is applied at the borrower level. The loss-in-event-of-default is rated on a scale of 1-16 and is associated with each individual credit exposure based on the type of credit extension and the underlying collateral.

In commercial lending, ongoing credit management is dependent on the type and nature of the loan. In general, quarterly monitoring is normal for all significant exposures. The internal risk ratings are revised and updated with each periodic monitoring event. There is also extensive macro portfolio management analysis on an ongoing basis to continually update default probabilities and to estimate future losses.

In addition to the initial credit analysis initiated by the portfolio manager during the underwriting process, the loan review group performs independent credit reviews. The loan review group reviews individual loans and credit processes and conducts a portfolio review at each of the regions on a 15-month cycle, and the loan review group validates the risk grades on a minimum of 50% of the portfolio exposure. During the previous 15 months, 61% of the total commercial portfolio was reviewed by our independent loan review function.

Borrower exposures may be designated as "watch list" accounts when warranted by individual company performance, or by industry and environmental factors. Such accounts are subjected to additional quarterly reviews by the business line Management, the loan review group, and credit administration in order to adequately assess the borrower's credit status and to take appropriate action.

A specialized credit workout group manages problem credits and handles commercial recoveries, workouts, and problem loan sales, as well as the day-to-day management of relationships rated substandard or lower. The group is responsible for developing an action plan, assessing the risk rating, and determining the adequacy of the reserve, the accrual status, and the ultimate collectibility of the credits managed.

### *Consumer Credit*

Consumer credit approvals are based on, among other factors, the financial strength of the borrower, type of exposure, and the transaction structure. Consumer credit decisions are generally made in a centralized environment utilizing decision models. There is also individual credit authority granted to certain individuals on a regional basis to preserve our local decision-making focus. Each credit extension is assigned a specific probability-of-default and loss-in-event-of-default. The probability-of-default is generally a function of the borrower's credit bureau score, while the loss-in-event-of-default is related to the type of collateral and the loan-to-value ratio associated with the credit extension.

In consumer lending, credit risk is managed from a loan type and vintage performance analysis. All portfolio segments are continuously monitored for changes in delinquency trends and other asset quality indicators. We make extensive use of portfolio assessment models to continuously monitor the quality of the portfolio and identify underperforming segments. This information is then incorporated into future origination strategies. The independent risk management group has a consumer process review component to ensure the effectiveness and efficiency of the consumer credit processes.

Collection action is initiated on an "as needed" basis through a centrally managed collection and recovery function. The collection group employs a series of collection methodologies designed to maintain a high level of effectiveness while maximizing efficiency. In addition to the retained consumer loan portfolio, the collection group is responsible for collection activity on all sold and securitized consumer loans and leases.

### *Non-Performing Assets (NPAs)*

*(This section should be read in conjunction with Significant Factor 4.)*

NPAs consist of loans and leases that are no longer accruing interest, loans and leases that have been renegotiated to below market rates based upon financial difficulties of the borrower, and real estate acquired through foreclosure. C&I, CRE, and small business loans are generally placed on non-accrual status when collection of principal or interest is in doubt or when the loan is 90 days past due. When interest accruals are suspended, accrued interest income is reversed with current year accruals charged to earnings and prior-year amounts generally charged-off as a credit loss. Consumer loans and leases, excluding residential mortgages and home equity lines and leases, are not placed on non-accrual status but are charged-off in accordance with regulatory statutes, which is generally no more than 120 days past due. Residential mortgages and home equity lines and leases, while highly secured, are placed on non-accrual status within 180 days past due as to principal and 210 days past due as to interest, regardless of collateral. When we believe the borrower's ability and intent to make periodic interest and principal payments resume and collectibility is no longer in doubt, the loan is returned to accrual status. A charge-off on a residential mortgage loan is recorded when the loan has been foreclosed and the loan balance exceeds the fair value of the real estate. The fair value of the collateral, less the cost to sell, is then recorded as real estate owned.

At September 30, 2004, we adopted a new policy of placing home equity loans and lines on non-accrual status when they exceed 180 days past due. Such loans were previously classified as accruing loans and leases past due 90 days or more. This policy change conforms the home equity loans and lines classification to that of other consumer loans secured by residential real estate.

Total NPAs were \$117.2 million at December 31, 2005, up \$8.6 million, or 8%, from \$108.6 million at December 31, 2004, which was up \$21.2 million, or 24%, from the end of 2003. Expressed as a percent of total loans and leases and other real estate, the year-end positions for 2005, 2004, and 2003 were 0.48%, 0.46%, and 0.41%, respectively. Total non-performing loans and leases increased throughout 2005, from a historically low point at the end of 2004, to a more normal level at the end of 2005.

All of the increase in 2004 related to the workout of a troubled mezzanine financing relationship. During the 2004 fourth quarter, OREO reflected \$35.7 million for properties related to the workout of \$5.9 million of non-performing mezzanine loans to a real estate partnership as we took ownership of the partnership, which required consolidation of the partnership's assets and liabilities including these properties.

**Table 13 — Non-Performing Assets and Past Due Loans and Leases**

		At December 31,				
(in thousands of dollars)		2005	2004	2003	2002	2001
<b>Non-accrual loans and leases:</b>						
Middle market commercial and industrial	\$	28,888	24,179	33,745	79,691	143,140
Middle market commercial real estate		15,763	4,582	18,434	19,875	35,848
Small business commercial and industrial and commercial real estate		28,931	14,601	13,607	19,060	29,009
Residential mortgage		17,613	13,545	9,695	9,443	11,836
Home equity		10,720	7,055	—	—	—
<b>Total non-accrual loans and leases</b>		<b>101,915</b>	<b>63,962</b>	<b>75,481</b>	<b>128,069</b>	<b>219,833</b>
Renegotiated loans		—	—	—	—	1,276
<b>Total non-performing loans and leases</b>		<b>101,915</b>	<b>63,962</b>	<b>75,481</b>	<b>128,069</b>	<b>221,109</b>
<b>Other real estate, net:</b>						
Residential		14,214	8,762	6,918	7,915	4,915
Commercial <sup>(1)</sup>		1,026	35,844	4,987	739	1,469
<b>Total other real estate, net</b>		<b>15,240</b>	<b>44,606</b>	<b>11,905</b>	<b>8,654</b>	<b>6,384</b>
<b>Total non-performing assets</b>	\$	<b>117,155</b>	\$ 108,568	\$ 87,386	\$ 136,723	\$ 227,493
Non-performing loans and leases as a % of total loans and leases		0.42%	0.27%	0.36%	0.69%	1.20%
Non-performing assets as a % of total loans and leases and other real estate		0.48	0.46	0.41	0.74	1.23
Accruing loans and leases past due 90 days or more	\$	56,138	\$ 54,283	\$ 55,913	\$ 61,526	\$ 76,013
Accruing loans and leases past due 90 days or more as a percent of total loans and leases		0.23%	0.23%	0.27%	0.33%	0.41%
Total allowances for credit losses (ACL) as % of:						
Total loans and leases		1.25	1.29	1.59	1.81	2.00
Non-performing loans and leases		300	476	444	263	167
Non-performing assets		261	280	384	246	162

(1) At December 31, 2004, other real estate owned included \$35.7 million of properties that related to the workout of \$5.9 million of mezzanine loans. These properties were subject to \$29.8 million of non-recourse debt to another financial institution. Both properties were sold in 2005.

Non-performing asset activity for the five years ended December 31, 2005 was as follows:

**Table 14 — Non-Performing Asset Activity**

		Year Ended December 31,				
(in thousands of dollars)		2005	2004	2003	2002	2001
<b>Non-performing assets, beginning of year</b>	\$	<b>108,568</b>	\$ 87,386	\$ 136,723	\$ 227,493	\$ 105,397
New non-performing assets <sup>(1)</sup>		171,150	137,359	222,043	260,229	329,882
Returns to accruing status		(7,547)	(3,795)	(16,632)	(17,124)	(2,767)
Loan and lease losses		(38,819)	(37,337)	(109,905)	(152,616)	(67,491)
Payments		(64,861)	(43,319)	(83,886)	(136,774)	(106,889)
Sales <sup>(1)</sup>		(51,336)	(31,726)	(60,957)	(44,485)	(30,639)
<b>Non-performing assets, end of year</b>	\$	<b>117,155</b>	\$ 108,568	\$ 87,386	\$ 136,723	\$ 227,493

(1) In 2004, new non-performing assets included \$35.7 million of properties that relate to the workout of \$5.9 million of mezzanine loans. These properties were subject to \$29.8 million of non-recourse debt to another financial institution. Both properties were sold in 2005.

**Allowances for Credit Losses (ACL)**

*(This section should be read in conjunction with Significant Factors 1, 3, and 4.)*

We maintain two reserves, both of which are to absorb probable credit losses: the allowance for loan and lease losses (ALLL) and the allowance for unfunded loan commitments and letters of credit (AULC). When summed together, these reserves constitute the total ACL. Our credit administration group is responsible for developing the methodology and determining the adequacy of the ACL.

The ALLL represents the estimate of probable losses inherent in the loan portfolio at the balance sheet date. Additions to the ALLL result from recording provision expense for loan losses or recoveries, while reductions reflect charge-offs, net of recoveries, or the sale of loans. The AULC is determined by applying the transaction reserve process to the unfunded portion of the portfolio adjusted by an applicable funding percentage.

We have an established process to determine the adequacy of the ACL that relies on a number of analytical tools and benchmarks. No single statistic or measurement, in itself, determines the adequacy of the allowance. For determination purposes, the allowance is comprised of two components: the transaction reserve and the economic reserve. The continued use of quantitative methodologies for the transaction reserve and the introduction of the quantitative methodology for the economic component may have the impact of more period to period fluctuation in the absolute and relative level of the reserves.

**Transaction Reserve**

The transaction reserve component of the ACL includes both (a) an estimate of loss based on characteristics of each commercial and consumer loan, lease, or loan commitment in the portfolio and (b) an estimate of loss based on an impairment review of each loan greater than \$500,000 that is considered to be impaired. The latter was formerly referred to as the specific reserve.

For middle market commercial and industrial, middle market commercial real estate, and small business loans, the estimate of loss is based on characteristics of each loan through the use of a standardized loan grading system, which is applied on an individual loan level and updated on a continuous basis. The reserve factors applied to these portfolios were developed based on internal credit migration models that track historical movements of loans between loan ratings over time and a combination of long-term average loss experience of our own portfolio and external industry data.

In the case of more homogeneous portfolios, such as consumer loans and leases and residential mortgage loans, the determination of the transaction reserve is conducted at an aggregate, or pooled, level. For such portfolios, the development of the reserve factors includes the use of forecasting models to measure inherent loss in these portfolios.

We analyze each middle market commercial and industrial, middle market commercial real estate, or small business loan over \$500,000 for impairment when the loan is non-performing or has a grade of substandard or lower. The impairment tests are done in accordance with applicable accounting standards and regulations. For loans that are determined to be impaired, an estimate of loss is reserved for the amount of the impairment.

Models and analyses are updated frequently to capture the recent behavioral characteristics of the subject portfolios, as well as any changes in the loss mitigation or credit origination strategies. Adjustments to the reserve factors are made as needed based on observed results of the portfolio analytics.

**Economic Reserve**

Changes in the economic environment are a significant judgmental factor we consider in determining the appropriate level of the ACL. The economic reserve incorporates our determination of the impact on the portfolio of risks associated with the general economic environment. The economic reserve is designed to address economic uncertainties and is determined based on a variety of economic factors that are correlated to the historical performance of the loan portfolio. Because of this more quantitative approach to recognizing risks in the general economy, the economic reserve may fluctuate from period-to-period.

In an effort to be as quantitative as possible in the ACL calculation, we implemented a revised methodology for calculating the economic reserve portion of the ACL in 2004. The revised methodology is specifically tied to economic indices that have a high correlation to our historic charge-off variability. The indices currently in the model consist of the U.S. Index of Leading Economic Indicators, U.S. Profits Index, U.S. Unemployment Index, and the University of Michigan Current Consumer Confidence Index. Beginning in 2004, the calculated economic reserve was determined based upon the variability of credit losses over a credit cycle. The indices and time frame may be adjusted as actual

portfolio performance changes over time. Management has the capability to judgmentally adjust the calculated economic reserve amount by a maximum of +/- 20% to reflect, among other factors, differences in local versus national economic conditions. This adjustment capability is deemed necessary given the newness of the model and the continuing uncertainty of forecasting economic environment changes. This methodology allows for a more meaningful discussion of our view of the current economic conditions and the potential impact on credit losses.

The table below presents the components of the ACL expressed as a percent of total period end loans and leases as of December 31, 2005, 2004, and 2003:

**Table 15 — ACL as % of Total Period End Loans and Leases**

	At December 31,				
	2005	2004	2003	2002	2001
Transaction reserve	<b>0.89%</b>	0.83%	1.02%	N.A.%	N.A.%
Economic reserve	<b>0.21</b>	0.32	0.40	N.A.	N.A.
Total ALLL	<b>1.10</b>	1.15	1.42	1.62	1.87
Total AULC	<b>0.15</b>	0.14	0.17	0.19	0.13
<b>Total ACL</b>	<b>1.25%</b>	1.29%	1.59%	1.81%	2.00%

N.A., not applicable.

**Table 16 — Allocation of Allowances for Credit Losses<sup>(1)</sup>**

(in thousands of dollars)	At December 31,									
	2005		2004		2003		2002		2001	
<b>Commercial:</b>										
Middle market commercial and industrial	\$ 82,963	20.8%	\$ 87,485	19.8%	\$ 103,237	21.0%	\$ 106,998	25.6%	\$ 131,489	26.6%
Middle market commercial real estate	60,667	14.4	54,927	14.9	63,294	15.1	35,658	15.5	43,574	14.8
Small business commercial and industrial and commercial real estate	40,056	9.1	32,009	9.0	30,455	8.9	26,914	9.1	31,582	14.1
<b>Total commercial</b>	<b>183,686</b>	<b>44.3</b>	<b>174,421</b>	<b>43.7</b>	<b>196,986</b>	<b>45.0</b>	<b>169,570</b>	<b>50.2</b>	<b>206,645</b>	<b>55.5</b>
<b>Consumer:</b>										
Automobile loans and leases	33,870	17.5	41,273	18.6	58,375	23.2	51,621	21.1	38,799	16.0
Home equity	30,245	19.0	29,275	19.3	25,995	17.7	16,878	16.9	24,054	19.0
Residential mortgage	13,172	17.1	18,995	16.3	11,124	12.0	8,566	9.4	6,013	6.1
Other loans	7,374	2.1	7,247	2.1	7,252	2.1	8,085	2.4	19,757	3.4
<b>Total consumer</b>	<b>84,661</b>	<b>55.7</b>	<b>96,790</b>	<b>56.3</b>	<b>102,746</b>	<b>55.0</b>	<b>85,150</b>	<b>49.8</b>	<b>88,623</b>	<b>44.5</b>
<b>Total unallocated<sup>(2)</sup></b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>45,783</b>	<b>—</b>	<b>50,134</b>	<b>—</b>
<b>Total allowance for loan and lease losses</b>	<b>\$ 268,347</b>	<b>100.0%</b>	<b>\$ 271,211</b>	<b>100.0%</b>	<b>\$ 299,732</b>	<b>100.0%</b>	<b>\$ 300,503</b>	<b>100.0%</b>	<b>\$ 345,402</b>	<b>100.0%</b>
<b>Allowance for unfunded loan commitments and letters of credit</b>	<b>36,957</b>		<b>33,187</b>		<b>35,522</b>		<b>36,145</b>		<b>23,930</b>	
<b>Total allowances for credit losses</b>	<b>\$ 305,304</b>		<b>\$ 304,398</b>		<b>\$ 335,254</b>		<b>\$ 336,648</b>		<b>\$ 369,332</b>	

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

(2) Prior to 2003, an unallocated component of the ALLL was maintained.

Table 17 — Summary of Allowances for Credit Losses and Related Statistics

	Year Ended December 31,				
(in thousands of dollars)	2005	2004	2003	2002	2001
<b>Allowance for loan and lease losses, beginning of year</b>	<b>\$ 271,211</b>	<b>\$ 299,732</b>	<b>\$ 300,503</b>	<b>\$ 345,402</b>	<b>\$ 246,758</b>
<b>Loan and lease charge-offs</b>					
Commercial:					
Middle market commercial and industrial	(22,247)	(21,095)	(86,217)	(112,430)	(48,788)
Construction	(534)	(2,477)	(3,092)	(4,343)	(824)
Commercial	(4,311)	(5,650)	(6,763)	(13,383)	(1,959)
Middle market commercial real estate	(4,845)	(8,127)	(9,855)	(17,726)	(2,783)
Small business commercial and industrial and commercial real estate	(16,707)	(10,270)	(16,311)	(18,587)	(18,693)
<b>Total commercial</b>	<b>(43,799)</b>	<b>(39,492)</b>	<b>(112,383)</b>	<b>(148,743)</b>	<b>(70,264)</b>
Consumer:					
Automobile loans	(25,780)	(45,335)	(57,890)	(57,675)	(72,054)
Automobile leases	(12,966)	(11,690)	(5,632)	(1,335)	416
Automobile loans and leases	(38,746)	(57,025)	(63,522)	(59,010)	(71,638)
Home equity	(20,129)	(17,514)	(14,166)	(13,395)	(13,201)
Residential mortgage	(2,561)	(1,975)	(915)	(888)	(879)
Other loans	(10,613)	(10,109)	(10,548)	(12,316)	(18,558)
<b>Total consumer</b>	<b>(72,049)</b>	<b>(86,623)</b>	<b>(89,151)</b>	<b>(85,609)</b>	<b>(104,276)</b>
<b>Total charge-offs</b>	<b>(115,848)</b>	<b>(126,115)</b>	<b>(201,534)</b>	<b>(234,352)</b>	<b>(174,540)</b>
<b>Recoveries of loan and lease charge-offs</b>					
Commercial:					
Middle market commercial and industrial	\$ 8,669	\$ 19,175	\$ 10,414	\$ 7,727	\$ 3,450
Construction	399	12	164	127	35
Commercial	401	144	1,744	1,415	539
Middle market commercial real estate	800	156	1,908	1,542	574
Small business commercial and industrial and commercial real estate	4,756	4,704	4,686	4,071	2,943
<b>Total commercial</b>	<b>14,225</b>	<b>24,035</b>	<b>17,008</b>	<b>13,340</b>	<b>6,967</b>
Consumer:					
Automobile loans	13,792	16,761	17,603	18,559	16,630
Automobile leases	1,302	853	(75)	(95)	(63)
Automobile loans and leases	15,094	17,614	17,528	18,464	16,567
Home equity	2,510	2,440	2,052	1,555	1,743
Residential mortgage	229	215	83	16	94
Other loans	3,733	3,276	3,054	4,065	2,900
<b>Total consumer</b>	<b>21,566</b>	<b>23,545</b>	<b>22,717</b>	<b>24,100</b>	<b>21,304</b>
<b>Total recoveries</b>	<b>35,791</b>	<b>47,580</b>	<b>39,725</b>	<b>37,440</b>	<b>28,271</b>
<b>Net loan and lease charge-offs</b>	<b>(80,057)</b>	<b>(78,535)</b>	<b>(161,809)</b>	<b>(196,912)</b>	<b>(146,269)</b>
Provision for loan and lease losses	83,782	57,397	164,616	182,211	251,567
Economic reserve transfer	(6,253)	—	—	—	—
Allowance for assets sold and securitized	(336)	(7,383)	(3,578)	(30,198)	(6,654)
<b>Allowance for loan and lease losses, end of year</b>	<b>\$ 268,347</b>	<b>\$ 271,211</b>	<b>\$ 299,732</b>	<b>\$ 300,503</b>	<b>\$ 345,402</b>
Allowance for unfunded loan commitments and letters of credit, beginning of year	\$ 33,187	\$ 35,522	\$ 36,145	\$ 23,930	\$ 18,171
Provision for unfunded loan commitments and letters of credit losses	(2,483)	(2,335)	(623)	12,215	5,759
Economic reserve transfer	6,253	—	—	—	—
<b>Allowance for unfunded loan commitments and letters of credit, end of year</b>	<b>36,957</b>	<b>33,187</b>	<b>35,522</b>	<b>36,145</b>	<b>23,930</b>



<b>Allowance for credit losses, end of year</b>	<b>\$ 305,304</b>	\$ 304,398	\$ 335,254	\$ 336,648	\$ 369,332
Net loan and lease losses as a % of average total loans and leases	<b>0.33%</b>	0.35%	0.81%	1.13%	0.81%
Allowance for credit losses as a % of total period end loans and leases	<b>1.25</b>	1.29	1.59	1.81	2.00

*Net Charge-offs*

*(This section should be read in conjunction with Significant Factor 4.)*

Total net charge-offs as a percent of average total loans and leases were 0.33% in 2005, down from 0.35% in 2004, and 0.81% in 2003(See Table 19.)

Total net charge-offs for 2005 were \$80.1 million, or an annualized 0.33% of average total loans and leases. While the dollar amount of net charge-offs increased 2% from 2004, on a relative basis, net charge-offs declined slightly from the annualized 0.35% ratio a year ago.

Total commercial net charge-offs in 2005 were \$29.6 million, or an annualized 0.28%, up from \$15.5 million, or 0.16%, in 2004, which included a \$11.1 million one-time recovery on a previously charged-off loan.

Total consumer net charge-offs in the current year were \$50.5 million, or an annualized 0.37% of related loans, down from \$63.1 million, or 0.51%, in 2004. Total automobile loan and lease net charge-offs in 2005 were \$23.7 million, or an annualized 0.53% of related loans and leases, down from \$39.4 million, or 0.88%, in 2004. This reduction reflected the impact of previous loan sales. Home equity net charge-offs in the current year were \$17.6 million, or an annualized 0.38% of related loans, up from \$15.1 million, or 0.36%, in 2004.

We have established the following long-term net charge-off ratio targets for certain portfolio segments, and for the total portfolio, assuming a comparable portfolio mix, as well as a stable economic environment:

**Table 18 — Long-term Net Charge-off Ratio Targets**

	Long-term Targets <sup>(1)</sup>
Middle market C&I	0.20% - 0.30%
Middle market CRE	0.15% - 0.25%
Small business C&I and CRE	0.50% - 0.60%
Automobile loans	0.75% - 0.85%
Automobile direct financing leases	0.50% - 0.60%
Home equity loans and lines	0.35% - 0.45%
Residential loans	0.10% +/-
<b>Total portfolio</b>	<b>0.35% - 0.45%</b>

(1) Assumes loan and lease portfolio mix comparable to December 31, 2005, and stable economic environment.

Table 19 — Net Loan and Lease Charge-offs

	At December 31,				
(in thousands of dollars)	2005	2004	2003	2002	2001
<b>Net charge-offs by loan and lease type:</b>					
Commercial:					
Middle market commercial and industrial	\$ 13,578	\$ 1,920	\$ 75,803	\$ 104,703	\$ 45,338
Construction	135	2,465	2,928	4,216	789
Commercial	3,910	5,506	5,019	11,968	1,420
Middle market commercial real estate	4,045	7,971	7,947	16,184	2,209
Small business commercial and industrial and commercial real estate	11,951	5,566	11,625	14,516	15,750
<b>Total commercial</b>	<b>29,574</b>	<b>15,457</b>	<b>95,375</b>	<b>135,403</b>	<b>63,297</b>
Consumer:					
Automobile loans	11,988	28,574	40,266	39,115	N.M.
Automobile leases	11,664	10,837	5,728	1,431	N.M.
Automobile loans and leases	23,652	39,411	45,994	40,546	55,071
Home equity	17,619	15,074	12,114	11,840	11,458
Residential mortgage	2,332	1,760	832	872	785
Other loans	6,880	6,833	7,494	8,251	15,658
<b>Total consumer</b>	<b>50,483</b>	<b>63,078</b>	<b>66,434</b>	<b>61,509</b>	<b>82,972</b>
<b>Total net charge-offs</b>	<b>\$ 80,057</b>	<b>\$ 78,535</b>	<b>\$ 161,809</b>	<b>\$ 196,912</b>	<b>\$ 146,269</b>
<b>Net charge-offs — annualized percentages:</b>					
Commercial:					
Middle market commercial and industrial	0.28%	0.04%	1.64%	2.18%	0.89%
Construction	0.01	0.17	0.24	0.37	0.08
Commercial	0.20	0.29	0.28	0.72	0.09
Middle market commercial real estate	0.11	0.24	0.26	0.57	0.09
Small business commercial and industrial and commercial real estate	0.54	0.28	0.65	0.88	0.61
<b>Total commercial</b>	<b>0.28</b>	<b>0.16</b>	<b>1.01</b>	<b>1.46</b>	<b>0.62</b>
Consumer:					
Automobile loans	0.59	1.25	1.24	1.43	N.M.
Automobile leases	0.48	0.49	0.40	0.32	N.M.
Automobile loans and leases	0.53	0.88	0.98	1.27	1.94
Home equity	0.38	0.36	0.35	0.39	0.34
Residential mortgage	0.06	0.05	0.04	0.06	0.07
Other loans	1.37	1.52	1.72	1.72	2.39
<b>Total consumer</b>	<b>0.37</b>	<b>0.51</b>	<b>0.63</b>	<b>0.76</b>	<b>1.05</b>
<b>Net charge-offs as a % of average loans</b>	<b>0.33%</b>	<b>0.35%</b>	<b>0.81%</b>	<b>1.13%</b>	<b>0.81%</b>

N.M., not a meaningful value.

### Investment Portfolio

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

### Market Risk

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

### Interest Rate Risk

Interest rate risk results from timing differences in the repricings and maturities of assets and liabilities, and changes in relationships between market interest rates and the yields on assets and rates on liabilities, as well as from the impact of



embedded options, such as borrowers' ability to prepay residential mortgage loans at any time and depositors' ability to terminate CDs before maturity.

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

Interest rate risk management is a dynamic process that encompasses monitoring loan and deposit flows, investment and funding activities, and assessing the impact of the changing market and business environments. Effective management of interest rate risk begins with understanding the interest rate characteristics of assets and liabilities and determining the appropriate interest rate risk posture given market expectations and policy objectives and constraints.

Interest rate risk modeling is performed monthly. Two broad approaches to modeling interest rate risk are employed: income simulation and economic value analysis. An income simulation analysis is used to measure the sensitivity of forecasted net interest income to changes in market rates over a one-year time horizon. Although bank owned life insurance and automobile operating lease assets are classified as non-interest earning assets, and the income from these assets is in non-interest income, these portfolios are included in the interest sensitivity analysis because both have attributes similar to fixed-rate interest earning assets. The economic value of equity (EVE) is calculated by subjecting the period-end balance sheet to changes in interest rates, and measuring the impact of the changes on the values of the assets and liabilities. EVE serves as a complement to income simulation modeling as it provides risk exposure estimates for time periods beyond the one-year simulation horizon. Similar to income simulation modeling, EVE analysis also includes the risks of bank owned life insurance and the mortgage servicing asset.

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

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

The simulations for evaluating short-term interest rate risk exposure are scenarios that model gradual 100 and 200 basis point increasing and decreasing parallel shifts in interest rates over the next 12-month period beyond the interest rate change implied by the current yield curve. The table below shows the results of the scenarios as of December 31, 2005, and December 31, 2004. All of the positions were well within the board of directors' policy limits.

**Table 20 — Net Interest Income at Risk**

Basis point change scenario	Net Interest Income at Risk (%)			
	-200	-100	+100	+200
Board policy limits	-4.0%	-2.0%	-2.0%	-4.0%
<b>December 31, 2005</b>	<b>-1.3%</b>	<b>-0.5%</b>	<b>+0.1%</b>	<b>+0.3%</b>
December 31, 2004	-1.2%	-0.5%	+0.2%	+0.2%

The primary simulations for EVE at risk assume an immediate and parallel increase in rates of +/- 100 and +/- 200 basis points beyond any interest rate change implied by the current yield curve. The table below outlines the results compared with the previous year-end and policy limits. All of the positions were well within the board of directors' policy limits.

Table 21 — Economic Value of Equity at Risk

	Economic Value of Equity at Risk (%)			
Basis point change scenario	-200	-100	+100	+200
Board policy limits	-12.0%	-5.0%	-5.0%	-12.0%
<b>December 31, 2005</b>	<b>-0.8%</b>	<b>+0.5%</b>	<b>-2.5%</b>	<b>-6.2%</b>
December 31, 2004	-1.9%	-0.2%	-1.5%	-4.5%

**Price Risk**

Price risk represents the risk of loss arising from adverse movements in the prices of financial instruments that are carried at fair value and are subject to mark-to-market accounting. We have price risk from mortgage servicing rights (MSRs) and trading securities, which includes the instruments to hedge MSRs. We also have price risk from securities owned by our broker-dealer subsidiaries, foreign exchange positions, investments in private equity limited partnerships, and marketable equity securities held by our insurance subsidiaries. We have established loss limits on the trading portfolio and on the amount of foreign exchange exposure that can be maintained and the amount of marketable equity securities that can be held by the insurance subsidiaries.

**Lease Residual Risk**

*(This section should be read in conjunction with Significant Factor 1 and the Operating Lease Assets section.)*

Lease residual risk associated with retail automobile and commercial equipment leases is the potential for declines in the fair market value of the vehicle or equipment below the maturity value estimated at origination. Most of our lease residual risk is in our automobile leases. Used car values are the primary factor in determining the magnitude of the risk exposure. Since used car values are subject to many factors, lease residual risk has been extremely volatile throughout the history of automobile leasing. We mitigate lease residual risk by purchasing residual value insurance. Residual value insurance provides for the recovery of a decline in the vehicle residual value, as specified at the inception of the lease by the Automotive Lease Guide (ALG), an authoritative industry source. As a result, the risk associated with market driven declines in used car values is mitigated. Market driven declines include economic factors, environmental factors, and consumer sentiment, but not vehicle condition or accrued mileage.

As of December 31, 2005, three distinct residual value insurance policies were in place to address the residual risk in the automobile lease portfolio. One residual value insurance policy covered all vehicles leased between October 1, 2000 and April 30, 2002 and had a total payment cap of \$50 million. Any losses above the cap result in additional operating lease depreciation expense. It is our assessment that the \$50 million cap remains sufficient to cover any expected losses. A second residual insurance policy covers all originations from May 2002 through June 2005, and does not have a payment cap. A third policy went into effect July 1, 2005, and covers all originations for a period of one year with no payment cap.

**Liquidity Risk**

The objective of effective liquidity management is to ensure that cash flow needs can be met on a timely basis at a reasonable cost under both normal operating conditions and unforeseen circumstances. The liquidity of the Bank is used to originate loans and leases and to repay deposit and other liabilities as they become due or are demanded by customers. Liquidity risk arises from the possibility that funds may not be available to satisfy current or future commitments based on external macro market issues, asset and liability activities, investor perception of financial strength, and events unrelated to the company such as war, terrorism, or financial institution market specific issues.

Liquidity policies and limits are established by our board of directors, with operating limits set by our MRC, based upon analyses of the ratio of loans to deposits, the percentage of assets funded with non-core or wholesale funding, and the amount of liquid assets available to cover non-core funds maturities. In addition, guidelines are established to ensure diversification of wholesale funding by type, source, and maturity and provide sufficient balance sheet liquidity to cover 100% of wholesale funds maturing within a six-month time period. A contingency funding plan is in place, which includes forecasted sources and uses of funds under various scenarios in order to prepare for unexpected liquidity shortages, including the implications of any credit rating changes. Our MRC meets monthly to identify and monitor liquidity issues, provide policy guidance, and oversee adherence to, and the maintenance of, an evolving contingency funding plan. We believe that sufficient liquidity exists to meet the funding needs of the Bank and the parent company.

*Sources of Liquidity*

Our primary source of funding is core deposits from retail and commercial customers. As of December 31, 2005, these core deposits, of which 93% were provided by our Regional Banking line of business, funded 53% of total assets. The types and sources of deposits by business segment at December 31, 2005, are detailed in Table 22. At December 31, 2005, total core deposits represented 78% of total deposits, down slightly from 83% at the end of the prior year.

Core deposits are comprised of interest bearing and non-interest bearing demand deposits, savings and other domestic time deposits, and certificates of deposit less than \$100,000. Other domestic time deposits are comprised primarily of IRA deposits. Brokered time deposits represent funds obtained by or through a deposit broker. At December 31, 2005, \$2.1 billion of brokered deposits were issued in denominations of \$100,000 or more and, in turn, participated by the broker to their customers in denominations of \$100,000 or less. Foreign deposits are interest bearing and all mature in one year or less.

Domestic time deposits of \$100,000 or more and brokered deposits and negotiable CDs totaled \$4.5 billion at the end of 2005 and \$3.2 billion at the end of 2004. The contractual maturities of the deposits at December 31, 2005 were as follows: \$1.4 billion in three months or less, \$0.3 billion in three months through six months, \$0.5 billion after six months through twelve months, and \$2.3 billion after twelve months.

Demand deposit overdrafts that have been reclassified as loan balances were \$11.9 million and \$12.8 million at December 31, 2005 and 2004, respectively.

Sources of wholesale funding include domestic time deposits of \$100,000 or more, brokered deposits and negotiable CDs, deposits in foreign offices, short-term borrowings, Federal Home Loan Bank (FHLB) advances, other long-term debt, and subordinated notes. At December 31, 2005, total wholesale funding was \$11.5 billion, an increase of \$0.4 billion, or 3%, from December 31, 2004. The \$11.5 billion portfolio at December 31, 2005, had a weighted average maturity of 3.5 years. We are a member of the FHLB of Cincinnati, which provides funding to members through advances. These advances carry maturities from one month to 20 years. At December 31, 2005, our wholesale funding included \$1.2 billion of advances from the FHLB. All FHLB borrowings are collateralized with mortgage-related assets such as residential mortgage loans and home equity loans. To provide further liquidity, we have a \$6.0 billion domestic bank note program with \$3.0 billion available for future issuance under this program as of December 31, 2005. This program enables us to issue notes with maturities from one month to 30 years.

Table 22 — Deposit Composition

		At December 31,													
(in millions of dollars)		2005		2004		2003		2002		2001					
<b>By Type</b>															
Demand deposits — non-interest bearing	\$	3,390	15.1%	\$	3,392	16.3%	\$	2,987	16.2%	\$	3,058	17.5%	\$	3,607	17.9%
Demand deposits — interest bearing		7,380	32.9		7,786	37.5		6,411	34.7		5,390	30.8		5,752	28.5
Savings and other domestic time deposits		3,094	13.8		3,503	16.9		3,591	19.4		3,546	20.3		4,362	21.6
Certificates of deposit less than \$100,000		3,526	15.7		2,467	11.9		2,462	13.3		3,261	18.6		4,970	24.6
<b>Total core deposits</b>		<b>17,390</b>	<b>77.5</b>		<b>17,148</b>	<b>82.6</b>		<b>15,451</b>	<b>83.6</b>		<b>15,255</b>	<b>87.2</b>		<b>18,691</b>	<b>92.6</b>
Domestic time deposits of \$100,000 or more		1,349	6.0		1,082	5.2		789	4.3		732	4.2		1,131	5.6
Brokered deposits and negotiable CDs		3,200	14.3		2,097	10.1		1,772	9.6		1,093	6.2		140	0.7
Deposits in foreign offices		471	2.2		441	2.1		475	2.5		419	2.4		225	1.1
<b>Total deposits</b>	<b>\$</b>	<b>22,410</b>	<b>100.0%</b>	<b>\$</b>	<b>20,768</b>	<b>100.0%</b>	<b>\$</b>	<b>18,487</b>	<b>100.0%</b>	<b>\$</b>	<b>17,499</b>	<b>100.0%</b>	<b>\$</b>	<b>20,187</b>	<b>100.0%</b>
<b>Total core deposits:</b>															
Commercial	\$	5,352	30.8%	\$	5,294	30.9%	\$	4,255	27.5%	\$	3,981	26.1%	\$	4,192	22.4%
Personal		12,038	69.2		11,854	69.1		11,196	72.5		11,274	73.9		14,499	77.6
<b>Total core deposits</b>	<b>\$</b>	<b>17,390</b>	<b>100.0%</b>	<b>\$</b>	<b>17,148</b>	<b>100.0%</b>	<b>\$</b>	<b>15,451</b>	<b>100.0%</b>	<b>\$</b>	<b>15,255</b>	<b>100.0%</b>	<b>\$</b>	<b>18,691</b>	<b>100.0%</b>
<b>By Business Segment <sup>(1)</sup></b>															
<b>Regional Banking:</b>															
Central Ohio	\$	4,526	20.2%	\$	4,501	21.7%									
Northern Ohio		4,071	18.2		4,068	19.6									
Southern Ohio/Kentucky		1,951	8.7		1,742	8.4									
West Michigan		2,795	12.5		2,644	12.7									
East Michigan		2,272	10.1		2,222	10.7									
West Virginia		1,463	6.5		1,375	6.6									
Indiana		727	3.2		664	3.2									
Mortgage and equipment leasing groups		162	0.7		195	0.9									
<b>Regional Banking</b>		<b>17,967</b>	<b>80.1</b>		<b>17,411</b>	<b>83.8</b>									
Dealer Sales		66	0.3		75	0.4									
Private Financial and Capital Markets Group		1,169	5.2		1,176	5.7									
Treasury/Other <sup>(2)</sup>		3,208	14.4		2,106	10.1									
<b>Total deposits</b>	<b>\$</b>	<b>22,410</b>	<b>100.0%</b>	<b>\$</b>	<b>20,768</b>	<b>100.0%</b>									

(1) Prior period amounts have been reclassified to conform to the current period business segment structure.

(2) Comprised largely of brokered deposits and negotiable CDs.

Table 23 — Federal Funds Purchased and Repurchase Agreements

		At December 31,				
(in millions of dollars)		2005	2004	2003	2002	2001
Balance at year end	\$	1,820	\$ 1,124	\$ 1,378	\$ 2,459	\$ 1,914
Weighted average interest rate at year-end		3.46%	1.31%	0.73%	1.49%	2.24%
Maximum amount outstanding at month-end during the year	\$	1,820	\$ 1,671	\$ 2,439	\$ 2,504	\$ 3,095
Average amount outstanding during the year		1,319	1,356	1,707	2,072	2,259
Weighted average interest rate during the year		2.41%	0.88%	1.22%	1.98%	4.11%

Other potential sources of liquidity include the sale or maturity of investment securities, the sale or securitization of loans, and the issuance of common and preferred securities. The Bank also has access to the Federal Reserve's discount window. At December 31, 2005, a total of \$2.4 billion of commercial loans had been pledged to secure potential future borrowings through this facility.



Table 24 — Investment Securities

	At December 31,		
(in thousands of dollars)	2005	2004	2003
U.S. Treasury	\$ 23,675	\$25,136	\$308,370
Federal agencies	1,615,488	1,945,762	2,977,546
Other	2,887,357	2,268,047	1,643,144
<b>Total investment securities</b>	<b>\$4,526,520</b>	<b>\$4,238,945</b>	<b>\$4,929,060</b>

	Amortized Cost	Fair Value	Yield <sup>(1)</sup>
U.S. Treasury			
Under 1 year	\$ —	\$ —	—%
1-5 years	23,446	22,893	3.54
6-10 years	753	782	5.45
Over 10 years	—	—	—
<b>Total U.S. Treasury</b>	<b>24,199</b>	<b>23,675</b>	<b>3.61</b>
Federal agencies			
Mortgage backed securities			
Under 1 year	—	—	—
1-5 years	31,058	30,047	3.99
6-10 years	—	—	—
Over 10 years	1,278,540	1,248,975	4.63
<b>Total mortgage-backed Federal agencies</b>	<b>1,309,598</b>	<b>1,279,022</b>	<b>4.61</b>
Other agencies			
Under 1 year	—	—	—
1-5 years	296,945	286,754	3.38
6-10 years	52,440	49,712	3.71
Over 10 years	—	—	—
<b>Total other Federal agencies</b>	<b>349,385</b>	<b>336,466</b>	<b>3.43</b>
<b>Total Federal agencies</b>	<b>1,658,983</b>	<b>1,615,488</b>	<b>4.37</b>
Municipal securities			
Under 1 year	65	65	8.64
1-5 years	145	145	7.69
6-10 years	144,415	143,597	5.83
Over 10 years	400,156	401,043	6.63
<b>Total municipal securities</b>	<b>544,781</b>	<b>544,850</b>	<b>6.42</b>
Private label CMO			
Under 1 year	—	—	—
1-5 years	—	—	—
6-10 years	—	—	—
Over 10 years	402,959	393,569	4.67
<b>Total private label CMO</b>	<b>402,959</b>	<b>393,569</b>	<b>—</b>
Asset backed securities			
Under 1 year	—	—	—
1-5 years	31,663	31,659	5.22
6-10 years	—	—	—
Over 10 years	1,757,031	1,757,121	5.37
<b>Total asset backed securities</b>	<b>1,788,694</b>	<b>1,788,780</b>	<b>5.37</b>
Other			
Under			
1 year	1,700	1,700	3.80
1-5 years	10,997	11,051	4.70
6-10 years	2,062	2,063	5.75
Over 10 years	44	43	—
Non-marketable equity securities	89,661	89,661	—
Marketable equity securities	55,058	55,640	2.51
<b>Total other</b>	<b>159,522</b>	<b>160,158</b>	<b>2.98</b>

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<b>Total investment securities</b>	<b>\$ 4,579,138</b>	<b>\$ 4,526,520</b>	<b>5.02%</b>
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(1) Weighted average yields were calculated using amortized cost on a fully taxable equivalent basis assuming a 35% tax rate.

At December 31, 2005, the investment securities portfolio totaled \$4.5 billion, of which \$1.4 billion was pledged to secure public and trust deposits, interest rate swap agreements, U.S. Treasury demand notes, and securities sold under repurchase agreements. The composition and maturity of these securities are presented in Table 24. Another source of liquidity is non-pledged securities, which increased to \$3.1 billion at December 31, 2005, from \$2.1 billion at December 31, 2004.

The relatively short-term nature of our loans and leases also provides significant liquidity. As shown in Table 25, of the \$10.8 billion total commercial loans at December 31, 2005, approximately 38% mature within one year. In addition, during 2005 and 2004, \$0.4 billion and \$1.5 billion, respectively, in indirect automobile loans were sold, with such sales representing another source of liquidity.

**Table 25 — Maturity Schedule of Commercial Loans**

At December 31, 2005					
(in millions of dollars)	One Year or Less	One to Five Years	After Five Years	Total	Percent of total
Commercial and industrial	\$ 2,819	\$ 2,804	\$ 1,186	\$ 6,809	62.8%
Commercial real estate — construction	581	925	32	1,538	14.2
Commercial real estate — commercial	710	1,329	459	2,498	23.0
<b>Total</b>	<b>\$ 4,110</b>	<b>\$ 5,058</b>	<b>\$ 1,677</b>	<b>\$ 10,845</b>	<b>100.0%</b>
Variable interest rates	\$ 3,992	\$ 3,992	\$ 1,467	\$ 9,451	87.1%
Fixed interest rates	118	1,066	210	1,394	12.9
<b>Total</b>	<b>\$ 4,110</b>	<b>\$ 5,058</b>	<b>\$ 1,677</b>	<b>\$ 10,845</b>	<b>100.0%</b>
<b>Percent of total</b>	<b>37.9%</b>	<b>46.6%</b>	<b>15.5%</b>	<b>100.0%</b>	

#### Parent Company Liquidity

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

We intend to maintain the Bank's risk-based capital ratios at levels considered to be "well capitalized" by regulators. As a result, the amount of dividends that can be paid to the parent company depends on the Bank's capital needs. At December 31, 2005, the bank was "well capitalized" according to guidelines established by the Bank's primary regulator, the OCC. At December 31, 2005, the Bank could declare and pay dividends to the parent company of \$163.0 million and still be considered "well capitalized." The Bank could declare an additional \$230.6 million of dividends without regulatory approval at December 31, 2005, although such dividends would take the Bank below "well capitalized" levels.

At December 31, 2005, the parent company had no debt outstanding under its medium-term note program, with \$195 million available for future funding needs. In January 2006, we filed an open-ended automatic shelf registration statement, which permits us to issue debt or equity securities as needed.

At December 31, 2005, the parent company had \$227 million in cash or cash equivalents. We believe that the parent company has sufficient liquidity to meet its cash flow obligations in 2006, including anticipated annual dividend payments.

#### Credit Ratings

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

As a result of the then-pending formal SEC investigation and banking regulatory supervisory agreements announced on November 3, 2004, the following rating agency actions were taken (1) Moody's reaffirmed their Negative outlook and placed all the ratings on review for possible downgrade, (2) Standard and Poor's lowered their outlook from Stable to Negative, and (3) Fitch lowered their outlook from Stable to Negative. As a precautionary measure, we increased the volume of long-term wholesale borrowings, while reducing overnight Federal Funds borrowings. The cost of short-term borrowings was not materially affected by these actions, although at least one investor reduced exposure limits.

On February 8, 2005, Moody's announced the following rating actions:

		From	To
<b>Huntington Bancshares Incorporated</b>			
	Senior Unsecured Notes	A2	A3
	Subordinated Notes	A3	Baa1
	Short Term	P-1	P-2
	Outlook	Negative	Stable
<b>The Huntington National Bank</b>			
	Senior Unsecured Notes	A1	A2
	Subordinated Notes	A2	A3
	Short Term (reaffirmed)	P-1	P-1
	Outlook	Negative	Stable

On April 6, 2005, Standard and Poor's announced the following rating actions:

		From	To
<b>Huntington Bancshares Incorporated</b>			
	Senior Unsecured Notes	A-	BBB+
	Subordinated Notes	BBB+	BBB
	Short Term (reaffirmed)	A-2	A-2
	Outlook	Negative	Stable
<b>The Huntington National Bank</b>			
	Senior Unsecured Notes	A	A-
	Subordinated Notes	A-	BBB+
	Short Term	A-1	A-2
	Outlook	Negative	Stable

These two rating agency actions had no adverse impact on rating triggers inherent in financial markets or our ability to raise and maintain core deposits or access the capital markets for funding.

On October 3, 2005, Fitch Ratings affirmed their current ratings and changed the outlook to Stable from Negative. Credit ratings as of December 31, 2005 for the parent company and the Bank were:

Table 26 — Credit Ratings

	December 31, 2005			
	Senior Unsecured Notes	Subordinated Notes	Short-Term	Outlook
<b>Huntington Bancshares Incorporated</b>				
Moody's Investor Service	A3	Baa1	P-2	Stable
Standard and Poor's	BBB+	BBB	A-2	Stable
Fitch Ratings	A	A-	F1	Stable
<b>The Huntington National Bank</b>				
Moody's Investor Service	A2	A3	P-1	Stable
Standard and Poor's	A-	BBB+	A-2	Stable
Fitch Ratings	A	A-	F1	Stable

**Off-Balance Sheet Arrangements**

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

Standby letters of credit are conditional commitments issued to guarantee the performance of a customer to a third party. These guarantees are primarily issued to support public and private borrowing arrangements, including commercial paper, bond financing, and similar transactions. Most of these arrangements mature within two years. Approximately 48% of standby letters of credit are collateralized and most are expected to expire without being drawn upon. There were \$1.1 billion and \$0.9 billion of outstanding standby letters of credit at December 31, 2005 and 2004, respectively. Non-interest income was recognized from the issuance of these standby letters of credit of \$11.1 million and \$11.3 million in 2005 and 2004, respectively. The carrying amount of deferred revenue related to standby letters of credit at December 31, 2005, was \$4.0 million. Standby letters of credit are included in the determination of the amount of risk-based capital that we and the Bank are required to hold.

The Bank enters into forward contracts relating to the mortgage banking business. At December 31, 2005 and 2004, commitments to sell residential real estate loans totaled \$348.3 million and \$311.3 million, respectively. These contracts mature in less than one year.

The parent company and/or the Bank may also have liabilities under certain contractual agreements contingent upon the occurrence of certain events. A discussion of significant contractual arrangements under which the parent company and/or the Bank may be held contingently liable, including guarantee arrangements, is included in Note 22 of the Notes to Consolidated Financial Statements.

Through our credit process, we monitor the credit risks of outstanding standby letters of credit. When it is probable that a standby letter of credit will be drawn and not repaid in full, losses are recognized in provision for credit losses. We do not believe that off-balance sheet arrangements will have a material impact on our liquidity or capital resources.

**Table 27 — Contractual Obligations**

At December 31, 2005						
(in millions of dollars)	One Year or Less	1 to 3 Years	3 to 5 Years	More than 5 years	Total	
Deposits without a stated maturity	\$ 14,047	\$ —	\$ —	\$ —	\$ 14,047	
Certificates of deposit and other time deposits	4,102	3,034	656	571	8,363	
Other long-term debt	775	325	450	868	2,418	
Federal Home Loan Bank advances	159	995	—	2	1,156	
Short-term borrowings	1,889	—	—	—	1,889	
Subordinated notes	—	—	—	1,023	1,023	
Operating lease obligations	32	59	52	158	301	

**Operational Risk**

As with all companies, there is risk inherent in the day-to-day operations that could result in losses due to human error, inadequate or failed internal systems and controls, and external events. We, through a combination of business units and centralized processes, have the responsibility to manage the risk for the company through a process that assesses the overall level of risk on a regular basis and identifies specific risks and the steps being taken to control them. Furthermore, a system of committees is established to provide guidance over the process and escalate potential concerns to senior management on the operational risk committee, executive management on the risk management committee and the risk committee of the board of directors, as appropriate.

We continue to develop and enhance policies and procedures to control the elements of risk found in our processes. While we are not able to eliminate risk completely, our goal is to minimize the impact of a risk event and to be prepared to cover the result of it through insurance, earnings, and capital.

Certain overarching operational risk activities are performed by an enterprise risk group. These include monitoring adherence to corporate policies governing risk, business continuity programs to assure that operations to serve our customers continue during emergency situations, and information security to monitor and address electronic and sensitive information threats for the company.

## Capital

Capital is managed both at the Bank and on a consolidated basis. Capital levels are maintained based on regulatory capital requirements and the economic capital required to support credit, market, liquidity, and operational risks inherent in our business, and to provide the flexibility needed for future growth and new business opportunities. We place significant emphasis on the maintenance of a strong capital position, which promotes investor confidence, provides access to the national markets under favorable terms, and enhances business growth and acquisition opportunities. The importance of managing capital is also recognized, and we continually strive to maintain an appropriate balance between capital adequacy and providing attractive returns to shareholders.

Shareholders' equity totaled \$2.6 billion at December 31, 2005. This balance represented a \$19.9 million increase during 2005. Growth in shareholders' equity primarily reflected a \$218.2 million increase from the retention of net income after the declaration of dividends and a \$39.2 million increase from stock option exercises during 2005. These increases were partially offset by the repurchase of 9.6 million shares during 2005, which reduced shareholders' equity by \$231.7 million.

At December 31, 2005, we had unused authority to repurchase up to 9.8 million common shares. All purchases under the current authorization are expected to be made from time to time in the open market or through privately negotiated transactions, depending on market conditions.

On April 27, 2005, the quarterly common stock dividend was increased 7.5% to \$0.215 per share, up from \$0.20 per share. Total dividends declared on our common stock in 2005 were \$0.845 per common share, up 12.7% from total dividends declared in 2004 of \$0.75 per share. On January 18, 2006, the quarterly common stock dividend was increased 16.3% to \$0.25 per share, up from \$0.215 per share. The increase, assuming it is maintained throughout 2006, would result in a dividend payout ratio above our long-term targeted payout range of 40%-50%, but we believe this is warranted in the current, slow growth environment.

We evaluate several measures of capital, along with the customary three primary regulatory ratios: Tier 1 Risk-based Capital, Total Risk-based Capital, and Tier 1 Leverage. The Federal Reserve Board, which supervises and regulates us, sets minimum capital requirements for each of these regulatory capital ratios. In the calculation of these risk-based capital ratios, risk weightings are assigned to certain asset and off-balance sheet items such as interest rate swaps, loan commitments, and securitizations. Our Tier 1 Risk-based Capital, Total Risk-based Capital, Tier 1 Leverage ratios, and risk-adjusted assets for five years are shown in Table 28 and are well in excess of minimum levels established for "well capitalized" institutions. The Bank is primarily supervised and regulated by the OCC which establishes regulatory capital guidelines for banks similar to those established for bank holding companies by the Federal Reserve Board. At December 31, 2005, the Bank had regulatory capital ratios in excess of "well capitalized" regulatory minimums.

**Table 28 — Capital Adequacy**

(in millions of dollars)	"Well-Capitalized" Minimums	At December 31,				
		2005	2004	2003	2002	2001
Total risk-weighted assets		\$ 29,599	\$ 29,542	\$ 28,164	\$ 27,030	\$ 27,736
Ratios:						
Tier 1 leverage ratio	5.00%	8.34%	8.42%	7.98%	8.51%	7.16%
Tier 1 risk-based capital ratio	6.00	9.13	9.08	8.53	8.34	7.02
Total risk-based capital ratio	10.00	12.42	12.48	11.95	11.25	10.07
Tangible equity ratio / asset ratio		7.19	7.18	6.79	7.22	5.86
Tangible equity / risk-weighted assets ratio		7.91	7.86	7.31	7.29	5.86

Our tangible equity ratio at December 31, 2005, was 7.19%, up from 7.18% at the end of 2004. This improvement in tangible equity was largely due to the retention of earnings in excess of dividends paid to shareholders, offset partially by the impact of a \$0.2 billion increase in period-end assets and share repurchases. We have targeted a longer-term tangible common equity to asset ratio of 6.25%-6.50%, given the current portfolio risk profile.

Another measure of capital adequacy favored by one of the rating agencies is tangible common equity to risk-weighted assets. This measurement utilizes risk-weighted assets, as defined in the regulatory capital ratio. The tangible common equity to risk-weighted assets ratio at December 31, 2005, was 7.91%, up from 7.86% at the end of 2004. The ratio was favorably impacted by the addition of lower risk-weighted assets during the year, e.g., residential mortgages, home equity loans, and investment securities, partially offset by the impact of share repurchases.

**LINES OF BUSINESS DISCUSSION**

This section reviews financial performance from a line of business perspective and should be read in conjunction with the Discussion of Results of Operations and other sections for a full understanding of consolidated financial performance.

We have three distinct lines of business: Regional Banking, Dealer Sales, and the Private Financial and Capital Markets Group (PFCMG). A fourth segment includes our Treasury function and other unallocated assets, liabilities, revenue, and expense. Lines of business results are determined based upon our management reporting system, which assigns balance sheet and income statement items to each of the business segments. The process is designed around our organizational and management structure and, accordingly, the results below are not necessarily comparable with similar information published by other financial institutions. During the second quarter of 2005, the Capital Markets Group was removed from the Treasury/Other segment and combined with the Private Financial Group to form the Private Financial and Capital Markets Group segment. Since the Capital Markets Group is now managed through the Private Financial Group, combining these two segments better reflects the management accountability and decision making structure. Prior periods reflect this change. An overview of this system is provided below, along with a description of each segment and discussion of financial results.

**FUNDS TRANSFER PRICING**

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

The FTP methodology also provides for a charge (credit) to the line of business when a fixed-rate loan is sold and the internal funding associated with the loan is extinguished. The charge (credit) to the line of business represents the cost (or benefit) to Treasury/ Other of the early extinguishment of the internal fixed-rate funding. This charge (credit) has no impact on consolidated financial results.

**USE OF OPERATING EARNINGS**

We use earnings on an operating basis, rather than on a GAAP basis, to measure underlying performance trends for each business segment. Operating earnings represent GAAP earnings adjusted to exclude the impact of certain items discussed in the Significant Factors Influencing Financial Performance Comparisons section, Table 3, and Table 29. (Also, see Note 26 of the Notes to Consolidated Financial Statements.) Analyzing earnings on an operating basis is very helpful in assessing underlying performance trends, a critical factor used to determine the success of strategies and future earnings capabilities.

Table 29 — Lines of Business — GAAP Earnings vs. Operating Earnings Reconciliation<sup>(1)</sup>

(in thousands of dollars)	Regional Banking	Dealer Sales	PFCMG	Treasury/Other	Total
<b>2005</b>					
<b>Net income — GAAP</b>	\$ 290,627	\$ 67,184	\$ 47,208	\$ 7,072	\$ 412,091
Change from prior year — \$	40,212	(7,053)	2,578	(22,571)	13,166
Change from prior year — %	16.1%	(9.5)%	5.8%	(76.1)%	3.3%
<b>Net income — operating</b>	\$ 290,627	\$ 67,184	\$ 47,208	\$ 7,072	\$ 412,091
Change from prior year — \$	40,212	1,545	2,578	(21,187)	23,148
Change from prior year — %	16.1%	2.4%	5.8%	(75.0)%	6.0%
<b>2004</b>					
<b>Net income — GAAP</b>	\$ 250,415	\$ 74,237	\$ 44,630	\$ 29,643	\$ 398,925
Change from prior year — \$	79,180	9,866	14,491	(76,975)	26,562
Change from prior year — %	46.2%	15.3%	48.1%	(72.2)%	7.1%
Restructuring releases	—	—	—	(748)	(748)
Gain on sale of automobile loans	—	(8,598)	—	(636)	(9,234)
<b>Net income — operating</b>	\$ 250,415	\$ 65,639	\$ 44,630	\$ 28,259	\$ 388,943
Change from prior year — \$	79,180	3,873	14,491	(65,326)	32,218
Change from prior year — %	46.2%	6.3%	48.1%	(69.8)%	9.0%
<b>2003</b>					
<b>Net income — GAAP</b>	\$ 171,235	\$ 64,371	\$ 30,139	\$ 106,618	\$ 372,363
Restructuring releases	—	—	—	(4,333)	(4,333)
Gain on sale of automobile loans	—	(13,493)	—	(12,532)	(26,025)
Cumulative effect of change in accounting	—	10,888	—	2,442	13,330
Gain on sale of branch offices	—	—	—	(8,523)	(8,523)
Long-term debt extinguishment	—	—	—	9,913	9,913
<b>Net income — operating</b>	\$ 171,235	\$ 61,766	\$ 30,139	\$ 93,585	\$ 356,725

(1) See Significant Factors Influencing Financial Performance section.



**Regional Banking**

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

**Objectives, Strategies and Priorities**

Our Regional Banking line of business provides traditional banking products and services to consumer, small business, and commercial customers located in its seven operating regions within the five states of Ohio, Michigan, West Virginia, Indiana, and Kentucky. It provides these services through a banking network of 334 branches, over 900 ATMs, plus on-line and telephone banking channels. Each region is further divided into Retail and Commercial Banking units. Retail products and services include home equity loans and lines of credit, first mortgage loans, direct installment loans, small business loans, personal and business deposit products, as well as sales of investment and insurance services. Retail Banking accounts for 60% and 79% of total Regional Banking loans and deposits, respectively. Commercial Banking serves middle market commercial banking relationships, which use a variety of banking products and services including, but not limited to, commercial loans, international trade, cash management, leasing, interest rate protection products, capital market alternatives, 401(k) plans, and mezzanine investment capabilities.

We have a business model that emphasizes the delivery of a complete set of banking products and services offered by larger banks, but distinguished by local decision-making about the pricing and the offering of these products. Our strategy has been to focus on building a deeper relationship with our customers by providing a "Simply the Best" service experience. This focus on service required investments in state-of-the-art platform technology in our branches and award-winning retail and business web sites for our customers, extensive development and training of associates, and internal processes that empower our local bankers to serve our customers better. We expect the combination of local decision-making and "Simply the Best" service will result in a competitive advantage and drive revenue and earnings growth.

**2005 versus 2004 Performance**

Regional Banking contributed \$290.6 million, or 71%, of our net operating earnings for 2005, up \$40.2 million, or 16%, from operating earnings last year. This improved performance primarily reflected a \$104.6 million, or 11%, increase in fully taxable equivalent revenue partially offset by a \$43.4 million increase in provision for credit losses. Improved expense management resulted in flat year-over-year expenses. Regional Banking's ROA was 1.57%, up from 1.52% for 2004, with a ROE of 28.7%, up from 24.2% in 2004.

Revenue growth reflected a 15% increase in net interest income resulting from strong loan growth and improved profitability of core deposits. Higher loan and deposit balances reflected improved sales efforts. Average loans and leases increased strongly across all regions:

**Regional Banking Average Loans & Leases:**

(in millions of dollars)	2005	Increase from 2004
<b>Region</b>		
Central Ohio	\$ 3,220	7%
Northern Ohio	2,892	8
Southern Ohio/ Kentucky	2,031	16
West Michigan	2,355	7
East Michigan	1,491	10
West Virginia	923	11
Indiana	978	22
Mortgage and equipment leasing groups	3,381	30
<b>Total</b>	<b>\$ 17,271</b>	<b>13%</b>

Average loans and leases grew in most categories compared with 2004, including residential mortgages, commercial loans, and home equity loans and lines of credit. Residential mortgage and home equity growth rates were strong, with 2005 growth rates of 30% and 11%, respectively. Residential mortgage loans grew, as interest rates remained low, even though there was a 22% decline in closed loan origination volume from 2004. Commercial loan growth reflected a 17% increase in average middle-market CRE

construction loans and an 11% increase in small business loans. Both consumer and commercial loan growth slowed significantly near the end of 2005, reflecting industry trends and an increasingly competitive environment.

Since we focus on developing relationships, we monitor the "cross-sell" ratio as an indicator of our sales performance. This ratio measures success in selling multiple products to households. In Retail Banking, the 90-day cross-sell ratio improved 18% over the prior year, and the small business cross-sell ratio increased 6%. In addition, customer bases continued to expand. Period-end Retail Banking non-interest bearing checking account (DDA) households were 11,759, or 2%, higher than a year earlier, with the number of small business DDA relationships up 3,141, or 6%. The DDA is viewed as the primary banking relationship account as most additional services are cross-sold to customers after first establishing a DDA account. As a result, growth in average deposits was also broad-based:

#### Regional Banking Average Deposits:

(in millions of dollars)	2005	Increase from 2004
<b>Region</b>		
Central Ohio	\$ 4,520	8%
Northern Ohio	4,060	7
Southern Ohio/ Kentucky	1,828	18
West Michigan	2,687	3
East Michigan	2,273	9
West Virginia	1,397	4
Indiana	728	11
Mortgage and equipment leasing groups	198	(7)
<b>Total</b>	<b>\$ 17,691</b>	<b>8%</b>

The 8% increase in average deposits reflected 7% growth in average interest bearing demand deposits, which includes money market deposit accounts, and 22% increase in domestic time deposits. Interest-bearing and non-interest bearing deposits grew 7% and 5%, respectively, from the year-ago period, while savings deposits declined 7%. The number of on-line consumer banking customers at December 31, 2005, grew 16% to more than 245,000 customers, which represented a relatively high 45% penetration of Retail Banking households, and indicated a deepening relationship with those customers.

The growth in revenue was accomplished without significant increases in Regional Banking's expense base. Regional Banking's efficiency ratio declined to 54% from 60% for 2004, reflecting strong revenue growth and a continued focus on expense management, while still making investments in distribution and technology.

#### 2004 versus 2003 Performance

Regional Banking contributed \$250.4 million, or 64%, of our net operating earnings in 2004, up \$79.2 million, or 46%, from 2003. This increase primarily reflected an \$89.1 million, or 92%, reduction in provision for credit losses. The decline in the provision for credit losses reflected significantly improved credit quality performance as represented by a 72% decline in net charge-offs and a 6% decline in year-end NPAs. Revenue increased \$63.5 million, or 7%, reflecting a 12% increase in net interest income. Higher net interest income was driven by a 15% increase in average loans and a 2 basis point rise in net interest margin. The ROA and ROE for Regional Banking were 1.52% and 24.2%, respectively, up from 1.16% and 16.9% in 2003.

Table 30 — Regional Banking<sup>(1)</sup>

	2005	Change From 2004		2004	Change From 2003		2003
		Amount	%		Amount	%	
<b>INCOME STATEMENT</b> (in thousands of dollars)							
Net interest income	\$ 780,072	\$ 101,784	15.0%	\$ 678,288	\$ 72,977	12.1%	\$ 605,311
Provision for credit losses	51,061	43,397	N.M.	7,664	(89,071)	(92.1)	96,735
<b>Net interest income after provision for credit losses</b>	<b>729,011</b>	<b>58,387</b>	<b>8.7</b>	<b>670,624</b>	<b>162,048</b>	<b>31.9</b>	<b>508,576</b>
Operating lease income	5,421	3,761	N.M.	1,660	1,660	N.M.	—
Service charges on deposit accounts	165,445	(1,089)	(0.7)	166,534	3,457	2.1	163,077
Brokerage and insurance income	15,939	(480)	(2.9)	16,419	243	1.5	16,176
Trust services	914	(91)	(9.1)	1,005	36	3.7	969
Mortgage banking	38,251	1,928	5.3	36,323	(21,206)	(36.9)	57,529
Other service charges and fees	43,854	2,733	6.6	41,121	76	0.2	41,045
Other income	41,402	(4,015)	(8.8)	45,417	6,442	16.5	38,975
Securities gains	18	4	28.6	14	14	N.M.	—
<b>Total non-interest income</b>	<b>311,244</b>	<b>2,751</b>	<b>0.9</b>	<b>308,493</b>	<b>(9,278)</b>	<b>(2.9)</b>	<b>317,771</b>
Operating lease expense	4,526	3,129	N.M.	1,397	1,397	N.M.	—
Personnel costs	252,244	(3,516)	(1.4)	255,760	24,418	10.6	231,342
Other expense	336,367	(337)	(0.1)	336,704	5,137	1.5	331,567
<b>Total non-interest expense</b>	<b>593,137</b>	<b>(724)</b>	<b>(0.1)</b>	<b>593,861</b>	<b>30,952</b>	<b>5.5</b>	<b>562,909</b>
Income before income taxes	447,118	61,862	16.1	385,256	121,818	46.2	263,438
Provision for income taxes <sup>(2)</sup>	156,491	21,650	16.1	134,841	42,638	46.2	92,203
<b>Net income — operating<sup>(1)</sup></b>	<b>\$ 290,627</b>	<b>\$ 40,212</b>	<b>16.1%</b>	<b>\$ 250,415</b>	<b>\$ 79,180</b>	<b>46.2%</b>	<b>\$ 171,235</b>
<b>Revenue — fully taxable equivalent (FTE)</b>							
Net interest income	\$ 780,072	\$ 101,784	15.0%	\$ 678,288	\$ 72,977	12.1%	\$ 605,311
Tax equivalent adjustment <sup>(2)</sup>	1,056	41	4.0	1,015	(168)	(14.2)	1,183
Net interest income (FTE)	781,128	101,825	15.0	679,303	72,809	12.0	606,494
Non-interest income	311,244	2,751	0.9	308,493	(9,278)	(2.9)	317,771
<b>Total revenue (FTE)</b>	<b>\$ 1,092,372</b>	<b>\$ 104,576</b>	<b>10.6%</b>	<b>\$ 987,796</b>	<b>\$ 63,531</b>	<b>6.9%</b>	<b>\$ 924,265</b>
<b>SELECTED AVERAGE BALANCES</b> (in millions of dollars)							
<b>Loans:</b>							
<b>Commercial</b>							
Middle market commercial and industrial	\$ 3,577	\$ 303	9.3%	\$ 3,274	\$ (352)	(9.7)%	\$ 3,626
Middle market commercial real estate							
Construction	1,623	231	16.6	1,392	204	17.2	1,188
Commercial	1,634	21	1.3	1,613	99	6.5	1,514
Small business loans	2,224	221	11.0	2,003	216	12.1	1,787
<b>Total commercial</b>	<b>9,058</b>	<b>776</b>	<b>9.4</b>	<b>8,282</b>	<b>167</b>	<b>2.1</b>	<b>8,115</b>
<b>Consumer</b>							
Auto loans — indirect	3	(1)	(25.0)	4	(3)	(42.9)	7
Home equity loans & lines of credit	4,314	427	11.0	3,887	703	22.1	3,184
Residential mortgage	3,510	816	30.3	2,694	1,092	68.2	1,602
Other loans	386	22	6.0	364	(3)	(0.8)	367
<b>Total consumer</b>	<b>8,213</b>	<b>1,264</b>	<b>18.2</b>	<b>6,949</b>	<b>1,789</b>	<b>34.7</b>	<b>5,160</b>
<b>Total loans &amp; leases</b>	<b>\$ 17,271</b>	<b>\$ 2,040</b>	<b>13.4%</b>	<b>\$ 15,231</b>	<b>\$ 1,956</b>	<b>14.7%</b>	<b>\$ 13,275</b>
<b>Operating lease assets</b>	<b>\$ 21</b>	<b>\$ 15</b>	<b>N.M.%</b>	<b>\$ 6</b>	<b>\$ 6</b>	<b>N.M.%</b>	<b>\$ —</b>
<b>Deposits:</b>							
Non-interest bearing deposits	\$ 3,131	\$ 142	4.8%	\$ 2,989	\$ 118	4.1%	\$ 2,871
Interest bearing demand deposits	6,926	449	6.9	6,477	987	18.0	5,490
Savings deposits	2,594	(188)	(6.8)	2,782	32	1.2	2,750
Domestic time deposits	4,617	839	22.2	3,778	(290)	(7.1)	4,068
Foreign time deposits	423	6	1.4	417	60	16.8	357
<b>Total deposits</b>	<b>\$ 17,691</b>	<b>\$ 1,248</b>	<b>7.6%</b>	<b>\$ 16,443</b>	<b>\$ 907</b>	<b>5.8%</b>	<b>\$ 15,536</b>

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N.M., not a meaningful value.

(1) Operating basis, see Lines of Business section for definition.

(2) Calculated assuming a 35% tax rate.

Table 30 — Regional Banking<sup>(1)</sup>

	2005	Change From 2004		2004	Change From 2003		2003
		Amount	%		Amount	%	
<b>PERFORMANCE METRICS</b>							
Return on average assets	1.57%	0.05%		1.52%	0.36%		1.16%
Return on average equity	28.7	4.5		24.2	7.3		16.9
Net interest margin	4.46	0.05		4.41	0.02		4.39
Efficiency ratio	54.3	(5.8)		60.1	(0.8)		60.9
<b>CREDIT QUALITY (in thousands of dollars)</b>							
<b>Net charge-offs by loan type</b>							
Commercial							
Middle market commercial and industrial	\$ 9,499	\$ 8,523	N.M.%	\$ 976	\$ (74,098)	(98.7)%	\$ 75,074
Middle market commercial real estate	4,475	988	28.3	3,487	(4,278)	(55.1)	7,765
Small business loans	11,951	6,385	N.M.	5,566	(6,059)	(52.1)	11,625
<b>Total commercial</b>	<b>25,925</b>	<b>15,896</b>	<b>N.M.</b>	<b>10,029</b>	<b>(84,435)</b>	<b>(89.4)</b>	<b>94,464</b>
Consumer							
Auto loans	29	(1)	(3.3)	30	14	87.5	16
Home equity loans & lines of credit	17,235	3,416	24.7	13,819	2,492	22.0	11,327
Residential mortgage	2,161	634	41.5	1,527	716	88.3	811
Other loans	5,807	(136)	(2.3)	5,943	(588)	(9.0)	6,531
<b>Total consumer</b>	<b>25,232</b>	<b>3,913</b>	<b>18.4</b>	<b>21,319</b>	<b>2,634</b>	<b>14.1</b>	<b>18,685</b>
<b>Total net charge-offs</b>	<b>\$ 51,157</b>	<b>\$ 19,809</b>	<b>63.2%</b>	<b>\$ 31,348</b>	<b>\$ (81,801)</b>	<b>(72.3)%</b>	<b>\$ 113,149</b>
<b>Net charge-offs — annualized percentages</b>							
Commercial							
Middle market commercial and industrial	0.27%	0.24%		0.03%	(2.04)%		2.07%
Middle market commercial real estate	0.14	0.02		0.12	(0.17)		0.29
Small business loans	0.54	0.26		0.28	(0.37)		0.65
<b>Total commercial</b>	<b>0.29</b>	<b>0.17</b>		<b>0.12</b>	<b>(1.04)</b>		<b>1.16</b>
Consumer							
Auto loans	0.97	0.22		0.75	0.52		0.23
Home equity loans & lines of credit	0.40	0.04		0.36	—		0.36
Residential mortgage	0.06	—		0.06	0.01		0.05
Other loans	1.50	(0.13)		1.63	(0.15)		1.78
<b>Total consumer</b>	<b>0.31</b>	<b>—</b>		<b>0.31</b>	<b>(0.05)</b>		<b>0.36</b>
<b>Total net charge-offs</b>	<b>0.30%</b>	<b>0.09%</b>		<b>0.21%</b>	<b>(0.64)%</b>		<b>0.85%</b>
<b>Non-performing assets (NPA) (in millions of dollars)</b>							
Middle market commercial and industrial	\$ 23	\$ 1	4.5%	\$ 22	\$ (8)	(26.7)%	\$ 30
Middle market commercial real estate	16	14	N.M.	2	(5)	(71.4)	7
Small business loans	29	14	93.3	15	1	7.1	14
Residential mortgage	18	6	50.0	12	4	50.0	8
Home equity	11	4	57.1	7	7	N.M.	—
<b>Total non-accrual loans</b>	<b>97</b>	<b>39</b>	<b>67.2</b>	<b>58</b>	<b>(1)</b>	<b>(1.7)</b>	<b>59</b>
Renegotiated loans	—	—	N.M.	—	—	N.M.	—
<b>Total non-performing loans (NPL)</b>	<b>97</b>	<b>39</b>	<b>67.2</b>	<b>58</b>	<b>(1)</b>	<b>(1.7)</b>	<b>59</b>
Other real estate, net (OREO)	15	6	66.7	9	(3)	(25.0)	12
<b>Total non-performing assets</b>	<b>\$ 112</b>	<b>\$ 45</b>	<b>67.2%</b>	<b>\$ 67</b>	<b>\$ (4)</b>	<b>(5.6)%</b>	<b>\$ 71</b>
Accruing loans past due 90 days or more	\$ 41	\$ (2)	(4.7)%	\$ 43	\$ 4	10.3%	\$ 39
Allowance for loan and lease losses (ALLL) (eop)	213	(7)	(3.2)	220	(11)	(4.8)	231
ALLL as a % of total loans and leases	1.22%	(0.11)%		1.33%	(0.34)%		1.67%
ALLL as a % of NPLs	219.6	(159.7)		379.3	(12.2)		391.5
ALLL + OREO as a % of NPAs	203.6	(138.2)		341.8	(0.5)		342.3
NPLs as a % of total loans and leases	0.55	0.20		0.35	(0.08)		0.43
NPAs as a % of total loans and leases + OREO	0.64	0.24		0.40	(0.11)		0.51

N.M., not a meaningful value.

cop — End of Period.

(1) Operating basis, see Lines of Business section for definition.

Table 30 — Regional Banking<sup>(1)</sup>

	2005	Change From 2004		2004	Change From 2003		2003
		Amount	%		Amount	%	
<b>SUPPLEMENTAL DATA</b>							
# employees — full-time equivalent (eop)	4,622	(138)	(2.9)%	4,760	(109)	(2.2)%	4,869
<b>Retail Banking</b>							
Average loans (in millions)	\$ 5,245	\$ 500	10.5%	\$ 4,745	\$ 829	21.2%	\$ 3,916
Average deposits (in millions)	11,592	551	5.0	11,041	(5)	(0.0)	11,046
# employees — full-time equivalent (eop)	3,244	(152)	(4.5)	3,396	(18)	(0.5)	3,414
# banking offices (eop)	334	—	—	334	1	0.3	333
# ATMs (eop)	944	240	34.1	704	9	1.3	695
# DDA households (eop)	514,690	11,759	2.3	502,931	12,007	2.4	490,924
# New relationships 90-day cross-sell (average)	2.80	0.43	18.1	2.37	0.42	21.4	1.95
# on-line customers (eop)	245,143	33,751	16.0	211,392	47,800	29.2	163,592
% on-line retail household penetration (eop)	45%	5%		40%	9%		31%
<b>Small Business</b>							
Average loans (in millions)	\$ 2,224	\$ 221	11.0%	\$ 2,003	\$ 216	12.1%	\$ 1,787
Average deposits (in millions)	2,131	129	6.4	2,002	318	18.9	1,684
# employees — full-time equivalent (eop)	275	5	2.0	270	7	2.7	263
# business DDA relationships (eop)	53,998	3,141	6.2	50,857	4,243	9.1	46,614
# New relationships 90-day cross-sell (average)	2.34	0.13	6.0	2.21	0.35	18.6	1.86
<b>Commercial Banking</b>							
Average loans (in millions)	\$ 6,847	\$ 604	9.7%	\$ 6,243	\$ (29)	(0.5)%	\$ 6,272
Average deposits (in millions)	3,781	558	17.3	3,223	629	24.2	2,594
# employees — full-time equivalent (eop)	502	(42)	(7.7)	544	(28)	(4.9)	572
# customers (eop)	4,636	(877)	(15.9)	5,513	(690)	(11.1)	6,203
<b>Mortgage Banking</b>							
Average loans (in millions)	\$ 2,955	\$ 715	31.9%	\$ 2,240	\$ 940	72.3%	\$ 1,300
Average deposits (in millions)	187	10	5.6	177	(35)	(16.5)	212
# employees — full-time equivalent (eop)	601	50	9.0	551	(69)	(11.2)	620
Closed loan volume (in millions)	\$ 3,284	\$ (909)	(21.7)	\$ 4,193	\$ (1,884)	(31.0)	\$ 6,077
Portfolio closed loan volume (in millions)	1,282	(1,277)	(49.9)	2,559	532	26.2	2,027
Agency delivery volume (in millions)	1,689	45	2.7	1,644	(2,681)	(62.0)	4,325
Total servicing portfolio (in millions)	11,582	827	7.7	10,755	1,694	18.7	9,061
Portfolio serviced for others (in millions)	7,276	415	6.0	6,861	467	7.3	6,394
Mortgage servicing rights (in millions)	91.3	14.2	18.4	77.1	6.0	8.4	71.1

N.M., not a meaningful value.

N/A — Not Available.

eop — End of Period.

(1) Operating basis, see Lines of Business section for definition.

**Dealer Sales**

(See Significant Factors 1 and 3 and the Operating Lease Assets Section.)

**Objectives, Strategies, and Priorities**

Our Dealer Sales line of business provides a variety of banking products and services to more than 3,500 automotive dealerships within our primary banking markets, as well as in Arizona, Florida, Georgia, North Carolina, Pennsylvania, South Carolina and Tennessee. We have been in this business for more than 50 years. Dealer Sales finances the purchase of automobiles by customers of the automotive dealerships, purchases automobiles from dealers and simultaneously leases the automobiles to consumers under long-term leases, finances the dealerships' floor plan inventories, real estate, or working capital needs, and provides other banking services to the automotive dealerships and their owners. Dealer Sales is directly impacted by general automotive sales, including programs initiated by manufacturers to enhance and increase sales directly. Competition from the financing divisions of automobile manufacturers and from other financial institutions is intense.

Dealer Sales' strategy has been to focus on developing relationships with the dealership through its finance department, general manager, and owner. An underwriter who understands each local market makes loan decisions. Maintaining pricing discipline is a higher priority than simply increasing market share. In 2005, total vehicle sales expanded 1.5% domestically, yet the number of vehicles we financed fell 18%, as we chose to maintain disciplined pricing. As a result, our market share fell in nearly all of our markets, though we maintained our market rankings among our bank competitors.

In 2003, we established a goal to reduce credit exposure to automobile financing. To reduce this credit exposure, while increasing our service levels provided to the dealerships, we sold a portion of our originated loans. As a result, at the end of 2005, only 18% of total credit exposure was to automobile financing. To maintain this level of automobile financing exposure, we expect to continue selling a portion of our on-going loan production.

Automobile lease accounting significantly impacts the presentation of Dealer Sales' financial results. Automobile leases originated prior to May 2002 are accounted for as operating leases, with leases originated since April 2002 accounted for as direct financing leases. This accounting treatment impacts a number of Dealer Sales' financial performance results and trends, including net interest income, non-interest income, and non-interest expense. Residual values on leased automobiles, including the accounting for residual value losses, are also an important factor in the overall profitability of automobile leases.

**2005 versus 2004 Performance**

Dealer Sales contributed \$67.2 million, or 16%, of our net operating earnings for 2005, up \$1.5 million, or 2%, from 2004. This primarily reflected the benefit of a \$138.3 million decline in non-interest expenses and an \$18.7 million reduction in the provision for credit losses, partially offset by a \$154.6 million, or 33%, decrease in fully taxable equivalent revenue. The decreases in revenue and expenses were driven by the decline in the operating lease portfolio, as operating lease income declined \$152.4 million and operating lease expense fell \$131.2 million. Dealer Sales' ROA was 0.99%, down slightly from 1.01% in 2004, with a ROE of 18.9%, up from 16.1% in 2004.

The \$154.6 million decrease in revenues reflected a \$152.4 million decline in operating lease income as that portfolio continued to run off. The remaining \$2.2 million decline in revenue reflected a \$4.2 million, or 3%, decrease in net interest income, partially offset by higher fee income. Net interest income declined primarily as a result of pricing pressure that pushed the net interest margin down 8 basis points from 2004, as total average loans and leases declined only slightly. Though funding costs rose steadily throughout 2005 as interest rates increased, competitive pressures resulted in the inability to pass these higher funding costs directly to consumers in the form of higher loan and lease rates. This resulted in narrower margins on automobile loan and lease originations in 2005 compared with 2004.

Average total loans declined \$30 million from 2004, but there were significant changes in the loan mix. Specifically, average automobile loans declined \$241 million, or 11%, reflecting a 5% decline in automobile loan production, as well as the impact of loan sales. In contrast, average automobile leases increased \$230 million, or 11%, reflecting the impact of 2004 originations carrying over into 2005, as average new automobile lease production declined 47% from the prior year. Intense competition, especially on pricing, drove the decline in automobile loan and lease production. Average commercial loans declined 6%, reflecting a decline in middle market C&I floor plan loans, as well as a decline in middle market CRE loans to dealers.

The \$138.3 million decrease in non-interest expense reflected a \$131.2 million decline in operating lease expense, as well as an 8% decline in both personnel and other expenses.

The decline in the provision for credit losses reflected Dealer Sales' continued focus on originating high quality assets in recent years, as net charge-offs were 0.48% of average total loans and leases, down from 0.74% in 2004.



***2004 versus 2003 Performance***

Dealer Sales contributed \$65.6 million, or 17%, of our net operating earnings for 2004, up \$3.9 million, or 6%, from 2003. The improved performance primarily reflected improved credit quality, as the provision for credit losses fell \$11.9 million. While revenue fell \$163.2 million, or 26%, this decrease was largely caused by the run-off of the operating leases, which was also reflected in the \$158.2 million decline in operating lease expenses. Dealer Sales ROA was 1.01%, up from 0.83% in 2003 with a ROE of 16.1%, up from 14.0% in 2003.

Table 31 — Dealer Sales<sup>(1)</sup>

	2005	Change From 2004		2004	Change From 2003		2003
		Amount	%		Amount	%	
<b>INCOME STATEMENT</b> (in thousands of dollars)							
Net interest income	\$ 145,578	\$ (4,213)	(2.8)%	\$ 149,791	\$ 42,568	39.7%	\$ 107,223
Provision for credit losses	26,073	(18,660)	(41.7)	44,733	(11,879)	(21.0)	56,612
<b>Net interest income after provision for credit losses</b>	<b>119,505</b>	<b>14,447</b>	<b>13.8</b>	<b>105,058</b>	<b>54,447</b>	<b>N.M.</b>	<b>50,611</b>
Operating lease income	133,012	(152,419)	(53.4)	285,431	(204,267)	(41.7)	489,698
Service charges on deposit accounts	621	(168)	(21.3)	789	(19)	(2.4)	808
Brokerage and insurance income	4,026	1,384	52.4	2,642	(1,161)	(30.5)	3,803
Trust services	3	3	N.M.	—	(13)	N.M.	13
Mortgage banking	(3)	(3)	N.M.	—	(3)	N.M.	3
Other service charges and fees	4	3	N.M.	1	1	N.M.	—
Other income	32,129	1,307	4.2	30,822	(810)	(2.6)	31,632
Securities gains	—	(469)	N.M.	469	469	N.M.	—
<b>Total non-interest income</b>	<b>169,792</b>	<b>(150,362)</b>	<b>(47.0)</b>	<b>320,154</b>	<b>(205,803)</b>	<b>(39.1)</b>	<b>525,957</b>
Operating lease expense	103,850	(131,231)	(55.8)	235,081	(158,189)	(40.2)	393,270
Personnel costs	20,488	(1,865)	(8.3)	22,353	2,254	11.2	20,099
Other expense	61,598	(5,197)	(7.8)	66,795	(1,379)	(2.0)	68,174
<b>Total non-interest expense</b>	<b>185,936</b>	<b>(138,293)</b>	<b>(42.7)</b>	<b>324,229</b>	<b>(157,314)</b>	<b>(32.7)</b>	<b>481,543</b>
Income before income taxes	103,361	2,378	2.4	100,983	5,958	6.3	95,025
Provision for income taxes <sup>(2)</sup>	36,177	833	2.4	35,344	2,085	6.3	33,259
<b>Net income — operating<sup>(1)</sup></b>	<b>\$ 67,184</b>	<b>\$ 1,545</b>	<b>2.4%</b>	<b>\$ 65,639</b>	<b>\$ 3,873</b>	<b>6.3%</b>	<b>\$ 61,766</b>
<b>Revenue — fully taxable equivalent (FTE)</b>							
Net interest income	\$ 145,578	\$ (4,213)	(2.8)%	\$ 149,791	\$ 42,568	39.7%	\$ 107,223
Tax equivalent adjustment <sup>(2)</sup>	—	—	N.M.	—	—	N.M.	—
Net interest income (FTE)	145,578	(4,213)	(2.8)	149,791	42,568	39.7	107,223
Non-interest income	169,792	(150,362)	(47.0)	320,154	(205,803)	(39.1)	525,957
<b>Total revenue (FTE)</b>	<b>\$ 315,370</b>	<b>\$ (154,575)</b>	<b>(32.9)%</b>	<b>\$ 469,945</b>	<b>\$ (163,235)</b>	<b>(25.8)%</b>	<b>\$ 633,180</b>
<b>SELECTED AVERAGE BALANCES</b> (in millions of dollars)							
<b>Loans:</b>							
<b>Commercial</b>							
Middle market commercial and industrial	\$ 736	\$ (22)	(2.9)%	\$ 758	\$ 110	17.0%	\$ 648
Middle market commercial real estate							
Construction	5	—	—	5	(3)	(37.5)	8
Commercial	51	(25)	(32.9)	76	8	11.8	68
<b>Total commercial</b>	<b>792</b>	<b>(47)</b>	<b>(5.6)</b>	<b>839</b>	<b>115</b>	<b>15.9</b>	<b>724</b>
<b>Consumer</b>							
Auto leases — indirect	2,422	230	10.5	2,192	769	54.0	1,423
Auto loans — indirect	2,040	(241)	(10.6)	2,281	(972)	(29.9)	3,253
Home equity loans & lines of credit	—	—	N.M.	—	—	N.M.	—
Other loans	105	28	36.4	77	17	28.3	60
<b>Total consumer</b>	<b>4,567</b>	<b>17</b>	<b>0.4</b>	<b>4,550</b>	<b>(186)</b>	<b>(3.9)</b>	<b>4,736</b>
<b>Total loans &amp; leases</b>	<b>\$ 5,359</b>	<b>\$ (30)</b>	<b>(0.6)%</b>	<b>\$ 5,389</b>	<b>\$ (71)</b>	<b>(1.3)%</b>	<b>\$ 5,460</b>
<b>Operating lease assets</b>	<b>\$ 351</b>	<b>\$ (540)</b>	<b>(60.6)%</b>	<b>\$ 891</b>	<b>\$ (806)</b>	<b>(47.5)%</b>	<b>\$ 1,697</b>
<b>Deposits:</b>							
Non-interest bearing deposits	\$ 62	\$ (4)	(6.1)%	\$ 66	\$ 8	13.8%	\$ 58
Interest bearing demand deposits	2	—	—	2	—	—	2
Foreign time deposits	4	—	—	4	(2)	(33.3)	6
<b>Total deposits</b>	<b>\$ 68</b>	<b>\$ (4)</b>	<b>(5.6)%</b>	<b>\$ 72</b>	<b>\$ 6</b>	<b>9.1%</b>	<b>\$ 66</b>

N.M., not a meaningful value.

(1) Operating basis, see Lines of Business section for definition.

(2) Calculated assuming a 35% tax rate.

Table 31 — Dealer Sales<sup>(1)</sup>

	2005	Change From 2004		2004	Change From 2003		2003
		Amount	%		Amount	%	
<b>PERFORMANCE METRICS</b>							
Return on average assets	0.99%	(0.02)%		1.01%	0.18%		0.83%
Return on average equity	18.9	2.8		16.1	2.1		14.0
Net interest margin	2.68	(0.08)		2.76	0.82		1.94
Efficiency ratio	59.0	(10.1)		69.1	(7.0)		76.1
<b>CREDIT QUALITY</b> (in thousands of dollars)							
<b>Net charge-offs by loan type</b>							
Commercial							
Middle market commercial and industrial	\$ 1,432	\$ 1,461	N.M.%	\$ (29)	\$ (16)	N.M.%	\$ (13)
Middle market commercial real estate	—	—	N.M.	—	—	N.M.	—
<b>Total commercial</b>	<b>1,432</b>	<b>1,461</b>	<b>N.M.</b>	<b>(29)</b>	<b>(16)</b>	<b>N.M.</b>	<b>(13)</b>
Consumer							
Auto leases	11,664	827	7.6	10,837	5,109	89.2	5,728
Auto loans	11,959	(16,585)	(58.1)	28,544	(11,706)	(29.1)	40,250
Home equity loans & lines of credit	18	18	N.M.	—	(36)	N.M.	36
Other loans	871	190	27.9	681	(81)	(10.6)	762
<b>Total consumer</b>	<b>24,512</b>	<b>(15,550)</b>	<b>(38.8)</b>	<b>40,062</b>	<b>(6,714)</b>	<b>(14.4)</b>	<b>46,776</b>
<b>Total net charge-offs</b>	<b>\$ 25,944</b>	<b>\$ (14,089)</b>	<b>(35.2)%</b>	<b>\$ 40,033</b>	<b>\$ (6,730)</b>	<b>(14.4)%</b>	<b>\$ 46,763</b>
<b>Net charge-offs — annualized percentages</b>							
Commercial							
Middle market commercial and industrial	0.19%	0.19%		—%	—%		—%
Middle market commercial real estate	—	—		—	—		—
<b>Total commercial</b>	<b>0.18</b>	<b>0.18</b>		<b>—</b>	<b>—</b>		<b>—</b>
Consumer							
Auto leases	0.48	(0.01)		0.49	0.09		0.40
Auto loans	0.59	(0.66)		1.25	0.01		1.24
Home equity loans & lines of credit	N.M.	N.M.		N.M.	N.M.		N.M.
Other loans	0.83	(0.05)		0.88	(0.39)		1.27
<b>Total consumer</b>	<b>0.54</b>	<b>(0.34)</b>		<b>0.88</b>	<b>(0.11)</b>		<b>0.99</b>
<b>Total net charge-offs</b>	<b>0.48%</b>	<b>(0.26)%</b>		<b>0.74%</b>	<b>(0.12)%</b>		<b>0.86%</b>
<b>Non-performing assets (NPA)</b> (in millions of dollars)							
Middle market commercial and industrial	\$ —	\$ —	N.M.%	\$ —	\$ —	N.M.%	\$ —
Middle market commercial real estate	—	—	N.M.	—	—	N.M.	—
<b>Total non-accrual loans</b>	<b>—</b>	<b>—</b>	<b>N.M.</b>	<b>—</b>	<b>—</b>	<b>N.M.</b>	<b>—</b>
Renegotiated loans	—	—	N.M.	—	—	N.M.	—
<b>Total non-performing loans (NPL)</b>	<b>—</b>	<b>—</b>	<b>N.M.</b>	<b>—</b>	<b>—</b>	<b>N.M.</b>	<b>—</b>
Other real estate, net (OREO)	—	—	N.M.	—	—	N.M.	—
<b>Total non-performing assets</b>	<b>\$ —</b>	<b>\$ —</b>	<b>N.M.%</b>	<b>\$ —</b>	<b>\$ —</b>	<b>N.M.%</b>	<b>\$ —</b>
<b>Accruals</b>							
Accruing loans past due 90 days or more	\$ 10	\$ 3	42.9%	\$ 7	\$ (7)	(50.0)%	\$ 14
Allowance for loan and lease losses (ALLL) (eop)	39	2	5.4	37	(30)	(44.8)	67
ALLL as a % of total loans and leases	0.74%	0.05%		0.69%	(0.40)%		1.09%
ALLL as a % of NPLs	N.M.	N.M.		N.M.	N.M.		N.M.
ALLL + OREO as a % of NPAs	N.M.	N.M.		N.M.	N.M.		N.M.
NPLs as a % of total loans and leases	—	—		—	—		—
NPAs as a % of total loans and leases + OREO	—	—		—	—		—

N.M., not a meaningful value.

eop — End of Period.

(1) Operating basis, see Lines of Business section for definition.

Table 31 — Dealer Sales<sup>(1)</sup>

	2005	Change From 2004		2004	Change From 2003		2003
		Amount	%		Amount	%	
<b>SUPPLEMENTAL DATA</b>							
# employees — full-time equivalent (eop)	352	(40)	(10.2)%	392	(42)	(9.7)%	434
<b>Automobile loans</b>							
Production (in millions)	\$ 1,502.8	\$ (84)	(5.3)%	\$ 1,586.9	\$ (1,170)	(42.4)%	\$ 2,757.0
% Production new vehicles	56.2%	6.7%		49.5%	(8.7)%		58.2%
Average term (in months)	65.2	0.2		65.0	0.8		64.2
<b>Automobile leases</b>							
Production (in millions)	\$ 566.1	\$ (494)	(46.6)%	\$ 1,060.2	\$ (260)	(19.7)%	\$ 1,319.9
% Production new vehicles	98.7%	(0.5)%		99.2%	1.9%		97.3%
Average term (in months)	53.4	(0.6)		54.0	1.3		52.7
Average residual %	41.7%	(0.7)%		42.4%	(0.7)%		43.1%

eop — End of Period.

(1) Operating basis, see Lines of Business section for definition.

**Private Financial and Capital Markets Group****Objectives, Strategies, and Priorities**

The Private Financial and Capital Markets Group (PFCMG) provides products and services designed to meet the needs of our higher net worth customers. Revenue is derived through the sale of trust, asset management, investment advisory, brokerage, insurance, and private banking products and services. It also focuses on financial solutions for corporate and institutional customers that include investment banking, sales and trading of securities, mezzanine capital financing, and risk management products. To serve our customers, a unique distribution model is used that employs a single, unified sales force to deliver products and services mainly through Regional Banking distribution channels.

PFCMG provides investment management and custodial services to our 29 proprietary mutual funds, including ten variable annuity funds. The Huntington Investment Company offers brokerage and investment advisory services to both Regional Banking and PFCMG customers through more than 100 licensed investment sales representatives and nearly 700 licensed personal bankers. PFCMG's insurance entities provide a complete array of insurance products including individual life insurance products ranging from basic term life insurance, to estate planning, group life and health insurance, property and casualty insurance, mortgage title insurance, and reinsurance for payment protection products. Income and related expenses from the sale of brokerage and insurance products is shared with the line of business that generated the sale or provided the customer referral, most notably Regional Banking.

PFCMG's primary goals are to consistently increase assets under management by offering innovative products and services that are responsive to the clients' changing financial needs and to grow the balance sheet mainly through improved cross-selling efforts. PFCMG has been successful in introducing innovative investment management products such as offering services that utilize enhanced option techniques. We opened two new trust offices in Florida mid-year 2005, which, by year-end, had total trust assets of \$145 million.

PFCMG has reacted to the challenge of slower annuity sales by expanding and diversifying product offerings, focusing on growing managed assets, and by continuing to place less reliance on traditional transaction-based investment product sales.

**2005 versus 2004 Performance**

PFCMG contributed \$47.2 million, or 11%, of our net operating earnings for 2005, up \$2.6 million, or 6%, from 2004. The improvement reflected a \$12.5 million, or 6%, increase in revenue partially offset by the negative impact of a \$6.8 million, or 5%, increase in non-interest expense and a \$1.5 million increase in the provision for credit losses. PFCMG's ROA and ROE for 2005 were 2.40% and 36.3%, respectively, compared to 2.52% and 33.7%, respectively, for 2004.

The overall improvement in revenue for 2005 was largely the result of improved net interest income and continued success in the trust and asset management business. Net interest income increased \$11.1 million as a result of higher loan and lease balances. Average loan balances increased \$173 million, or 11%, with growth in both commercial and consumer loans, up 14% and 9%, respectively. Consumer loan growth continued to be largely driven by growth in residential real estate loans. Trust services revenue grew \$10.1 million, or 15%. The growth in trust services revenue was largely the result of higher trust assets, especially assets under management. At December 31, 2005, assets under management totaled \$10.8 billion, up 10% from \$9.8 billion at the end of 2004. Total trust assets were \$45.6 billion, up 7% from \$42.8 billion at the end of 2004. The investment performance of our proprietary mutual funds also contributed to PFCMG's success in 2005. Huntington Fund assets increased to \$3.5 billion at year end, up 13% over 2004, with equity fund assets exceeding \$1.3 billion, a 15% increase. In addition, four of the nine Huntington equity funds had a Morningstar "4 Star" rating and one Huntington fixed income fund had a Morningstar "5 Star" rating for the periods ended December 31, 2005. Brokerage and insurance revenues declined 9%. A flattening yield curve negatively impacted the sale of fixed income products, such as annuities, in 2005.

**2004 versus 2003 Performance**

PFCMG contributed \$44.6 million, or 11%, of our net operating earnings for 2004, up \$14.5 million, or 48%, from 2003. The improvement reflected a \$21.9 million increase in total revenue combined with a \$8.0 million decrease in the provision for credit losses, partially offset by the negative impact of a \$7.6 million increase in non-interest expense. The ROA and ROE for 2004 were 2.52% and 33.7%, respectively, compared with 2.00% and 26.4%, respectively, for 2003.

Table 32 — Private Financial and Capital Markets Group<sup>(1)</sup>

	2005	Change From 2004		2004	Change From 2003		2003
		Amount	%		Amount	%	
<b>INCOME STATEMENT</b> (in thousands of dollars)							
Net interest income	\$ 72,886	\$ 11,123	18.0%	\$ 61,763	\$ 11,096	21.9%	\$ 50,667
Provision for credit losses	4,165	1,500	56.3	2,665	(7,981)	(75.0)	10,646
<b>Net interest income after provision for credit losses</b>	<b>68,721</b>	<b>9,623</b>	<b>16.3</b>	<b>59,098</b>	<b>19,077</b>	<b>47.7</b>	<b>40,021</b>
Service charges on deposit accounts	3,634	(317)	(8.0)	3,951	37	0.9	3,914
Brokerage and insurance income	33,650	(3,442)	(9.3)	37,092	(769)	(2.0)	37,861
Trust services	76,488	10,083	15.2	66,405	5,738	9.5	60,667
Mortgage banking	(909)	(268)	41.8	(641)	(1,365)	N.M.	724
Other service charges and fees	490	38	8.4	452	51	12.7	401
Other income	21,679	(4,779)	(18.1)	26,458	6,840	34.9	19,618
Securities gains	70	(218)	(75.7)	288	254	N.M.	34
<b>Total non-interest income</b>	<b>135,102</b>	<b>1,097</b>	<b>0.8</b>	<b>134,005</b>	<b>10,786</b>	<b>8.8</b>	<b>123,219</b>
Personnel costs	75,583	1,749	2.4	73,834	6,227	9.2	67,607
Other expense	55,612	5,005	9.9	50,607	1,342	2.7	49,265
<b>Total non-interest expense</b>	<b>131,195</b>	<b>6,754</b>	<b>5.4</b>	<b>124,441</b>	<b>7,569</b>	<b>6.5</b>	<b>116,872</b>
Income before income taxes	72,628	3,966	5.8	68,662	22,294	48.1	46,368
Provision for income taxes <sup>(2)</sup>	25,420	1,388	5.8	24,032	7,803	48.1	16,229
<b>Net income — operating<sup>(1)</sup></b>	<b>\$ 47,208</b>	<b>\$ 2,578</b>	<b>5.8%</b>	<b>\$ 44,630</b>	<b>\$ 14,491</b>	<b>48.1%</b>	<b>\$ 30,139</b>
<b>Revenue — fully taxable equivalent (FTE)</b>							
Net interest income	\$ 72,886	\$ 11,123	18.0%	\$ 61,763	\$ 11,096	21.9%	\$ 50,667
Tax equivalent adjustment <sup>(2)</sup>	366	277	N.M.	89	24	36.9	65
Net interest income (FTE)	73,252	11,400	18.4	61,852	11,120	21.9	50,732
Non-interest income	135,102	1,097	0.8	134,005	10,786	8.8	123,219
<b>Total revenue (FTE)</b>	<b>\$ 208,354</b>	<b>\$ 12,497</b>	<b>6.4%</b>	<b>\$ 195,857</b>	<b>\$ 21,906</b>	<b>12.6%</b>	<b>\$ 173,951</b>
<b>SELECTED AVERAGE BALANCES</b> (in millions of dollars)							
<b>Loans:</b>							
<b>Commercial</b>							
Middle market commercial and industrial	\$ 504	\$ 80	18.9%	\$ 424	\$ 65	18.1%	\$ 359
Middle market commercial real estate							
Construction	50	27	N.M.	23	—	—	23
Commercial	223	(10)	(4.3)	233	15	6.9	218
<b>Total commercial</b>	<b>777</b>	<b>97</b>	<b>14.3</b>	<b>680</b>	<b>80</b>	<b>13.3</b>	<b>600</b>
<b>Consumer</b>							
Home equity loans & lines of credit	322	22	7.3	300	43	16.7	257
Residential mortgage	571	53	10.2	518	94	22.2	424
Other loans	10	1	11.1	9	1	12.5	8
<b>Total consumer</b>	<b>903</b>	<b>76</b>	<b>9.2</b>	<b>827</b>	<b>138</b>	<b>20.0</b>	<b>689</b>
<b>Total loans &amp; leases</b>	<b>\$ 1,680</b>	<b>\$ 173</b>	<b>11.5%</b>	<b>\$ 1,507</b>	<b>\$ 218</b>	<b>16.9%</b>	<b>\$ 1,289</b>
<b>Deposits:</b>							
Non-interest bearing deposits	\$ 186	\$ 11	6.3%	\$ 175	\$ 24	15.9%	\$ 151
Interest bearing demand deposits	730	2	0.3	728	27	3.9	701
Savings deposits	41	(6)	(12.8)	47	(5)	(9.6)	52
Domestic time deposits	147	41	38.7	106	10	10.4	96
Foreign time deposits	19	(4)	(17.4)	23	5	27.8	18
<b>Total deposits</b>	<b>\$ 1,123</b>	<b>\$ 44</b>	<b>4.1%</b>	<b>\$ 1,079</b>	<b>\$ 61</b>	<b>6.0%</b>	<b>\$ 1,018</b>

N.M., not a meaningful value.

(1) Operating basis, see Lines of Business section for definition.

(2) Calculated assuming a 35% tax rate.



Table 32 — Private Financial and Capital Markets Group<sup>(1)</sup>

	2005	Change From 2004		2004	Change From 2003		2003
		Amount	%		Amount	%	
<b>PERFORMANCE METRICS</b>							
Return on average assets	2.40%	(0.12)%		2.52%	0.52%		2.00%
Return on average equity	36.3	2.6		33.7	7.3		26.4
Net interest margin	4.13	0.32		3.81	0.15		3.66
Efficiency ratio	63.0	(0.6)		63.6	(3.6)		67.2
<b>CREDIT QUALITY (in thousands of dollars)</b>							
<b>Net charge-offs by loan type</b>							
Commercial							
Middle market commercial and industrial	\$ 2,647	\$ 1,674	N.M.%	\$ 973	\$ 231	31.1%	\$ 742
Middle market commercial real estate	(430)	(4,914)	N.M.	4,484	4,302	N.M.	182
<b>Total commercial</b>	<b>2,217</b>	<b>(3,240)</b>	<b>(59.4)</b>	<b>5,457</b>	<b>4,533</b>	<b>N.M.</b>	<b>924</b>
Consumer							
Home equity loans & lines of credit	366	(889)	(70.8)	1,255	504	67.1	751
Residential mortgage	171	(62)	(26.6)	233	212	N.M.	21
Other loans	202	(7)	(3.3)	209	8	4.0	201
<b>Total consumer</b>	<b>739</b>	<b>(958)</b>	<b>(56.5)</b>	<b>1,697</b>	<b>724</b>	<b>74.4</b>	<b>973</b>
<b>Total net charge-offs</b>	<b>\$ 2,956</b>	<b>\$ (4,198)</b>	<b>(58.7)%</b>	<b>\$ 7,154</b>	<b>\$ 5,257</b>	<b>N.M.%</b>	<b>\$ 1,897</b>
<b>Net charge-offs — annualized percentages</b>							
Commercial							
Middle market commercial and industrial	0.53%	0.30%		0.23%	0.02%		0.21%
Middle market commercial real estate	(0.16)	(1.91)		1.75	1.67		0.08
<b>Total commercial</b>	<b>0.29</b>	<b>(0.51)</b>		<b>0.80</b>	<b>0.65</b>		<b>0.15</b>
Consumer							
Home equity loans & lines of credit	0.11	(0.31)		0.42	0.13		0.29
Residential mortgage	0.03	(0.01)		0.04	0.04		—
Other loans	2.02	(0.30)		2.32	(0.19)		2.51
<b>Total consumer</b>	<b>0.08</b>	<b>(0.12)</b>		<b>0.20</b>	<b>0.06</b>		<b>0.14</b>
<b>Total net charge-offs</b>	<b>0.18%</b>	<b>(0.29)%</b>		<b>0.47%</b>	<b>0.32%</b>		<b>0.15%</b>
<b>Non-performing assets (NPA) (in millions of dollars)</b>							
Middle market commercial and industrial	\$ 5	\$ 3	N.M.%	\$ 2	\$ (2)	(50.0)%	\$ 4
Middle market commercial real estate	—	(2)	N.M.	2	(9)	(81.8)	11
Residential mortgage	—	(2)	N.M.	2	1	N.M.	1
Home equity	—	—	N.M.	—	—	N.M.	—
<b>Total non-accrual loans</b>	<b>5</b>	<b>(1)</b>	<b>(16.7)</b>	<b>6</b>	<b>(10)</b>	<b>(62.5)</b>	<b>16</b>
Renegotiated loans	—	—	N.M.	—	—	N.M.	—
<b>Total non-performing loans (NPL)</b>	<b>5</b>	<b>(1)</b>	<b>(16.7)</b>	<b>6</b>	<b>(10)</b>	<b>(62.5)</b>	<b>16</b>
Other real estate, net (OREO)	—	(36)	N.M.	36	36	N.M.	—
<b>Total non-performing assets</b>	<b>\$ 5</b>	<b>\$ (37)</b>	<b>(88.1)%</b>	<b>\$ 42</b>	<b>\$ 26</b>	<b>N.M.%</b>	<b>\$ 16</b>
Accruing loans past due 90 days or more	\$ 5	\$ 1	17.5%	\$ 4	\$ 1	33.3%	\$ 3
Allowance for loan and lease losses (ALLL) (eop)	16	2	14.3	14	(4)	(22.2)	18
ALLL as a % of total loans and leases	0.93%	0.07%		0.86%	(0.41)%		1.27%
ALLL as a % of NPLs	320.0	86.7		233.3	120.8		112.5
ALLL + OREO as a % of NPAs	320.0	201.0		119.0	6.5		112.5
NPLs as a % of total loans and leases	0.29	(0.08)		0.37	(0.76)		1.13
NPAs as a % of total loans and leases = OREO	0.29	(2.22)		2.51	1.38		1.13

N.M., not a meaningful value.

eop — End of Period.

(1) Operating basis, see Lines of Business section for definition.

Table 32 — Private Financial and Capital Markets Group<sup>(1)</sup>

	2005	Change From 2004		2004	Change From 2003		2003
		Amount	%		Amount	%	
<b>PRIVATE FINANCIAL SUPPLEMENTAL DATA</b>							
# employees — full-time equivalent (eop) <sup>(2)</sup>	722	(8)	(1.1)%	730	3	0.4%	727
# licensed bankers (eop)	661	(8)	(1.2)	669	(26)	(3.7)	695
<b>Brokerage and Insurance Income (in thousands)</b>							
Mutual fund revenue	\$ 4,473	\$ (749)	(14.3)%	\$ 5,222	\$ 851	19.5%	\$ 4,371
Annuities revenue	24,341	(2,331)	(8.7)	26,672	(1,544)	(5.5)	28,216
12b-1 fees	2,625	330	14.4	2,295	205	9.8	2,090
Discount brokerage commissions and other	5,522	21	0.4	5,501	1,282	30.4	4,219
<b>Total retail investment sales</b>	<b>36,961</b>	<b>(2,729)</b>	<b>(6.9)</b>	<b>39,690</b>	<b>794</b>	<b>2.0</b>	<b>38,896</b>
Investment banking fees	—	—	N.M.	—	—	N.M.	—
Insurance fees and revenue	12,059	226	1.9	11,833	(3,515)	(22.9)	15,348
<b>Total brokerage and insurance income</b>	<b>49,020</b>	<b>(2,503)</b>	<b>(4.9)</b>	<b>51,523</b>	<b>(2,721)</b>	<b>(5.0)</b>	<b>54,244</b>
Fee sharing	15,943	808	5.3	15,135	(2,100)	(12.2)	17,235
<b>Total brokerage and insurance income (net of fee sharing)</b>	<b>\$ 33,077</b>	<b>\$ (3,311)</b>	<b>(9.1)%</b>	<b>\$ 36,388</b>	<b>\$ (621)</b>	<b>(1.7)%</b>	<b>\$ 37,009</b>
Mutual fund sales volume (in thousands)	\$ 183,728	\$ 14,128	8.3%	\$ 169,600	\$ (43,319)	(20.3)%	\$ 212,919
Annuities sales volume (in thousands)	483,863	(53,809)	(10.0)	537,672	(39,891)	(6.9)	577,563
<b>Trust Services Income (in thousands)</b>							
Personal trust revenue	\$ 36,552	\$ 2,965	8.8%	\$ 33,587	\$ 3,070	10.1%	\$ 30,517
Huntington funds revenue	26,508	5,030	23.4	21,478	2,278	11.9	19,200
Institutional trust revenue	10,243	1,551	17.8	8,692	962	12.4	7,730
Corporate trust revenue	4,034	466	13.1	3,568	(518)	(12.7)	4,086
Other trust revenue	—	—	N.M.	—	—	N.M.	—
<b>Total trust services income</b>	<b>77,337</b>	<b>10,012</b>	<b>14.9</b>	<b>67,325</b>	<b>5,792</b>	<b>9.4</b>	<b>61,533</b>
Fee sharing	849	(71)	(7.7)	920	54	6.2	866
<b>Total trust services income (net of fee sharing)</b>	<b>\$ 76,488</b>	<b>\$ 10,083</b>	<b>15.2%</b>	<b>\$ 66,405</b>	<b>\$ 5,738</b>	<b>9.5%</b>	<b>\$ 60,667</b>
<b>Assets Under Management (eop) (in billions)</b>							
Personal trust	\$ 5.5	\$ 0.2	3.8%	\$ 5.3	\$ 0.4	8.2%	\$ 4.9
Huntington funds	3.5	0.4	12.9	3.1	0.2	6.9	2.9
Institutional trust	1.2	0.4	39.5	0.8	0.2	33.3	0.6
Corporate trust	—	—	N.M.	—	—	N.M.	—
Haberer	0.6	—	7.0	0.6	0.1	11.1	0.5
Other	—	—	N.M.	—	—	N.M.	—
<b>Total assets under management</b>	<b>\$ 10.8</b>	<b>\$ 1.0</b>	<b>10.2%</b>	<b>\$ 9.8</b>	<b>\$ 0.9</b>	<b>9.6%</b>	<b>\$ 8.9</b>
<b>Total Trust Assets (eop) (in billions)</b>							
Personal trust	\$ 9.3	\$ 0.4	4.5%	\$ 8.9	\$ 0.6	7.2%	\$ 8.3
Huntington funds	3.5	0.4	12.9	3.1	0.2	6.9	2.9
Institutional trust	28.1	1.0	3.7	27.1	4.0	17.3	23.1
Corporate trust	4.7	1.0	27.0	3.7	0.5	15.6	3.2
<b>Total trust assets</b>	<b>\$ 45.6</b>	<b>\$ 2.8</b>	<b>6.5%</b>	<b>\$ 42.8</b>	<b>\$ 5.3</b>	<b>14.1%</b>	<b>\$ 37.5</b>
<b>Mutual Fund Data</b>							
# Huntington mutual funds (eop) <sup>(3)</sup>	29	—	—	29	5	—	24
Sales penetration <sup>(4)</sup>	4.9%	(0.4)%		5.3%	(0.9)%		6.2%
Revenue penetration (whole dollars) <sup>(5)</sup>	\$ 3,160	\$ (55)	(1.7)%	\$ 3,215	\$ (108)	(3.3)%	\$ 3,323
Profit penetration (whole dollars) <sup>(6)</sup>	1,161	158	15.8	1,003	(197)	(16.4)	1,200
Average sales volume per licensed banker (whole dollars)	55,824	(12,425)	(18.2)	68,249	325	0.5	67,924
Average revenue per licensed banker (whole dollars)	2,490	(1,149)	(31.6)	3,639	532	17.1	3,107

N.M., not a meaningful value.

eop — End of Period.

(1) Operating basis, see Lines of Business section for definition.

(2) Includes Capital Markets employees.

(3) Includes variable annuity funds.

(4) Sales (dollars invested) of mutual funds and annuities divided by bank's retail deposits.

(5) Investment program revenue per million of the bank's retail deposits.

(6) Contribution of investment program to pretax profit per million of the bank's retail deposits. Contribution is difference between program revenue and program expenses.

**Treasury/Other**

(See Significant Factors 2, 5, 6, and 7.)

**Objectives, Strategies and Priorities**

The Treasury/Other line of business includes revenue and expense related to assets, liabilities, and equity not directly assigned or allocated to one of the other three business segments. Assets in this segment include investment securities and bank owned life insurance.

Net interest income includes the net impact of administering Huntington's investment securities portfolios as part of overall liquidity management. A match-funded transfer pricing system is used to attribute appropriate funding interest income and interest expense to other business segments. As such, net interest income includes the net impact of any over or under allocations arising from centralized management of interest rate risk. Furthermore, net interest income includes the net impact of derivatives used to hedge interest rate sensitivity.

Non-interest income includes miscellaneous fee income not allocated to other business segments, including bank owned life insurance income. Fee income also includes asset revaluations not allocated to other business segments including MSR temporary impairments or recoveries, as well as any investment securities and trading assets gains or losses used to mitigate the earnings impact of MSR valuation changes.

Non-interest expense includes certain corporate administrative and other miscellaneous expenses not allocated to other business segments. The provision for income taxes for each of the other business segments is calculated at a statutory 35% tax rate, though our overall effective tax rate is lower. As a result, we reflect a credit for income taxes representing the difference between the actual effective tax rate and the statutory tax rate used to allocate income taxes to the other segments.

**2005 versus 2004 Performance**

Net income for Treasury/ Other declined \$21.2 million to \$7.1 million for 2005. This comprised only 2% of our net operating earnings, down from 7% in the prior year. The decline in net income resulted from a \$61.9 million decline in income before taxes, offset by a \$40.8 million higher benefit from income taxes. Net income for 2005 benefited from a lower effective tax rate resulting from a federal tax loss carry back in 2005, partly offset by the impact of repatriation of foreign earnings.

The decline in income before taxes was largely related to changes in net interest income and to changes in net securities gains. In 2005, Treasury/ Other had net interest expense of \$36.1 million compared with net interest income of \$21.5 million in 2004. This \$57.7 million decline resulted from an increase, attributable to market rates, in the credit provided to other lines of business for their non-interest bearing sources of funding and an 18% decline in average investment securities balances.

Net securities gains declined by \$23.1 million, driven by a current year net securities losses of \$8.1 million, primarily related to \$8.8 million of securities losses due to the fourth quarter restructuring of a part of the securities portfolio, and \$15.0 million of net securities gains in the prior year, related to the use of securities to offset changes in the temporary impairment of MSRs.

The \$21.3 million decline in non-interest expense was due largely to higher SEC/regulatory-related expenses in the prior year. Additionally, expenses of certain historical tax credit investments impacted the prior year, as we expensed these investments in the same period that we recognized the tax benefits.

**2004 versus 2003 Performance**

The net operating earnings for Treasury/Other declined \$65.3 million, or 70%, to \$28.3 million for 2004. Treasury/ Other's net operating earnings comprised only 7% of our total net operating earnings, down from 26% in 2003. The decline in net operating earnings resulted from a \$64.3 million decline in net interest income and a \$20.6 million increase in non-interest expense, partially offset by a \$26.9 million higher benefit from income taxes. The decline in net interest income resulted from a reduction in the funding needs of other lines of business, due to strong deposit growth and loan sales in other lines of business. Non-interest expense increased due to SEC/regulatory-related expenses, Unizan integration expenses, and a property lease impairment.

Table 33 — Treasury/Other<sup>(1)</sup>

	2005	Change From 2004		2004	Change From 2003		2003
		Amount	%		Amount	%	
<b>INCOME STATEMENT</b> (in thousands of dollars)							
Net interest income	\$ (36,125)	\$ (57,657)	N.M.%	\$ 21,532	\$ (64,253)	(74.9)%	\$ 85,785
Provision for credit losses	—	—	N.M.	—	—	N.M.	—
<b>Net interest income after provision for credit losses</b>	<b>(36,125)</b>	<b>(57,657)</b>	<b>N.M.</b>	<b>21,532</b>	<b>(64,253)</b>	<b>(74.9)</b>	<b>85,785</b>
Service charges on deposit accounts	(1,866)	(1,707)	N.M.	(159)	(200)	N.M.	41
Brokerage and insurance income	4	1,358	N.M.	(1,354)	(1,358)	N.M.	4
Mortgage banking	4,371	7,757	N.M.	(3,386)	(3,310)	N.M.	(76)
Bank owned life insurance income	40,736	(1,561)	(3.7)	42,297	(731)	(1.7)	43,028
Other income	(18,958)	(8,308)	78.0	(10,650)	(11,484)	N.M.	834
Securities gains (losses)	(8,143)	(23,135)	N.M.	14,992	9,768	N.M.	5,224
<b>Total non-interest income</b>	<b>16,144</b>	<b>(25,596)</b>	<b>(61.3)</b>	<b>41,740</b>	<b>(7,315)</b>	<b>(14.9)</b>	<b>49,055</b>
<b>Total non-interest expense</b>	<b>59,552</b>	<b>(21,312)</b>	<b>(26.4)</b>	<b>80,864</b>	<b>20,613</b>	<b>34.2</b>	<b>60,251</b>
Income before income taxes	(79,533)	(61,941)	N.M.	(17,592)	(92,181)	N.M.	74,589
Provision for income taxes <sup>(2)</sup>	(86,605)	(40,754)	88.9	(45,851)	(26,855)	N.M.	(18,996)
<b>Net income — operating<sup>(1)</sup></b>	<b>\$ 7,072</b>	<b>\$ (21,187)</b>	<b>(75.0)%</b>	<b>\$ 28,259</b>	<b>\$ (65,326)</b>	<b>(69.8)%</b>	<b>\$ 93,585</b>
<b>Revenue — fully taxable equivalent (FTE)</b>							
Net interest income	\$ (36,125)	\$ (57,657)	N.M.%	\$ 21,532	\$ (64,253)	(74.9)%	\$ 85,785
Tax equivalent adjustment <sup>(3)</sup>	11,971	1,422	13.5	10,549	2,113	25.0	8,436
Net interest income (FTE)	(24,154)	(56,235)	N.M.	32,081	(62,140)	(66.0)	94,221
Non-interest income	16,144	(25,596)	(61.3)	41,740	(7,315)	(14.9)	49,055
<b>Total revenue (FTE)</b>	<b>\$ (8,010)</b>	<b>\$ (81,831)</b>	<b>N.M.%</b>	<b>\$ 73,821</b>	<b>\$ (69,455)</b>	<b>(48.5)%</b>	<b>\$ 143,276</b>
<b>SELECTED AVERAGE BALANCES</b> (in millions of dollars)							
Securities	\$ 4,132	\$ (922)	(18.2)%	\$ 5,054	\$ 1,286	34.1%	\$ 3,768
Deposits:							
Brokered time deposits and negotiable CDs	3,119	1,282	69.8%	1,837	418	29.5%	1,419
Foreign time deposits	11	(53)	(82.8)	64	(55)	(46.2)	119
<b>Total deposits</b>	<b>\$ 3,130</b>	<b>\$ 1,229</b>	<b>64.7%</b>	<b>\$ 1,901</b>	<b>\$ 363</b>	<b>23.6%</b>	<b>\$ 1,538</b>
<b>PERFORMANCE METRICS</b>							
Return on average assets	0.13%	(0.29)%		0.42%	(1.34)%		1.76%
Return on average equity	0.7	(2.8)		3.5	(11.4)		14.9
Net interest margin	(0.53)	(1.14)		0.61	(1.79)		2.40
Efficiency ratio	N.M.	N.M.		N.M.	N.M.		40.9
<b>SUPPLEMENTAL DATA</b>							
# employees — full-time equivalent (eop)	1,906	(24)	(1.2)%	1,930	(29)	(1.5)%	1,959

N.M., not a meaningful value.

eop — End of Period.

(1) Operating basis, see Lines of Business section for definition.

(2) Reconciling difference between company's actual effective tax rate and 35% tax rate allocated to each business segment.

(3) Calculated assuming a 35% tax rate.

Table 34 — Total Company<sup>(1)</sup>

	2005	Change From 2004		2004	Change From 2003		2003
		Amount	%		Amount	%	
<b>INCOME STATEMENT</b> (in thousands of dollars)							
Net interest income	\$ 962,411	\$ 51,037	5.6%	\$ 911,374	\$ 62,388	7.3%	\$ 848,986
Provision for credit losses	81,299	26,237	47.6	55,062	(108,931)	(66.4)	163,993
<b>Net interest income after provision for credit losses</b>	<b>881,112</b>	<b>24,800</b>	<b>2.9</b>	<b>856,312</b>	<b>171,319</b>	<b>25.0</b>	<b>684,993</b>
Operating lease income	138,433	(148,658)	(51.8)	287,091	(202,607)	(41.4)	489,698
Service charges on deposit accounts	167,834	(3,281)	(1.9)	171,115	3,275	2.0	167,840
Brokerage and insurance income	53,619	(1,180)	(2.2)	54,799	(3,045)	(5.3)	57,844
Trust services	77,405	9,995	14.8	67,410	5,761	9.3	61,649
Mortgage banking	41,710	9,414	29.1	32,296	(25,884)	(44.5)	58,180
Bank owned life insurance income	40,736	(1,561)	(3.7)	42,297	(731)	(1.7)	43,028
Other service charges and fees	44,348	2,774	6.7	41,574	128	0.3	41,446
Other income	76,252	(15,795)	(17.2)	92,047	988	1.1	91,059
Securities gains	(8,055)	(23,818)	N.M.	15,763	10,505	N.M.	5,258
<b>Total non-interest income</b>	<b>632,282</b>	<b>(172,110)</b>	<b>(21.4)</b>	<b>804,392</b>	<b>(211,610)</b>	<b>(20.8)</b>	<b>1,016,002</b>
Operating lease expense	108,376	(128,102)	(54.2)	236,478	(156,792)	(39.9)	393,270
Personnel costs	481,658	(4,148)	(0.9)	485,806	38,543	8.6	447,263
Other expense	379,786	(21,325)	(5.3)	401,111	20,069	5.3	381,042
<b>Total non-interest expense</b>	<b>969,820</b>	<b>(153,575)</b>	<b>(13.7)</b>	<b>1,123,395</b>	<b>(98,180)</b>	<b>(8.0)</b>	<b>1,221,575</b>
Income before income taxes	543,574	6,265	1.2	537,309	57,889	12.1	479,420
Provision for income taxes	131,483	(16,883)	(11.4)	148,366	25,671	20.9	122,695
<b>Net income — operating<sup>(1)</sup></b>	<b>\$ 412,091</b>	<b>\$ 23,148</b>	<b>6.0%</b>	<b>\$ 388,943</b>	<b>\$ 32,218</b>	<b>9.0%</b>	<b>\$ 356,725</b>
<b>Revenue — fully taxable equivalent (FTE)</b>							
Net interest income	\$ 962,411	\$ 51,037	5.6%	\$ 911,374	\$ 62,388	7.3%	\$ 848,986
Tax equivalent adjustment <sup>(2)</sup>	13,393	1,740	14.9	11,653	1,969	20.3	9,684
Net interest income (FTE)	975,804	52,777	5.7	923,027	64,357	7.5	858,670
Non-interest income	632,282	(172,110)	(21.4)	804,392	(211,610)	(20.8)	1,016,002
<b>Total revenue (FTE)</b>	<b>\$ 1,608,086</b>	<b>\$ (119,333)</b>	<b>(6.9)%</b>	<b>\$ 1,727,419</b>	<b>\$ (147,253)</b>	<b>(7.9)%</b>	<b>\$ 1,874,672</b>
<b>SELECTED AVERAGE BALANCES</b> (in millions of dollars)							
<b>Loans:</b>							
<b>Commercial</b>							
Middle market commercial and industrial	\$ 4,817	\$ 361	8.1%	\$ 4,456	\$ (177)	(3.8)%	\$ 4,633
Middle market commercial real estate							
Construction	1,678	258	18.2	1,420	201	16.5	1,219
Commercial	1,908	(14)	(0.7)	1,922	122	6.8	1,800
Small business loans	2,224	221	11.0	2,003	216	12.1	1,787
<b>Total commercial</b>	<b>10,627</b>	<b>826</b>	<b>8.4</b>	<b>9,801</b>	<b>362</b>	<b>3.8</b>	<b>9,439</b>
<b>Consumer</b>							
Auto leases — indirect	2,422	230	10.5	2,192	769	54.0	1,423
Auto loans — indirect	2,043	(242)	(10.6)	2,285	(975)	(29.9)	3,260
Home equity loans & lines of credit	4,636	449	10.7	4,187	746	21.7	3,441
Residential mortgage	4,081	869	27.1	3,212	1,186	58.5	2,026
Other loans	501	51	11.3	450	15	3.4	435
<b>Total consumer</b>	<b>13,683</b>	<b>1,357</b>	<b>11.0</b>	<b>12,326</b>	<b>1,741</b>	<b>16.4</b>	<b>10,585</b>
<b>Total loans &amp; leases</b>	<b>\$ 24,310</b>	<b>\$ 2,183</b>	<b>9.9%</b>	<b>\$ 22,127</b>	<b>\$ 2,103</b>	<b>10.5%</b>	<b>\$ 20,024</b>
<b>Operating lease assets</b>	<b>\$ 372</b>	<b>\$ (525)</b>	<b>(58.5)%</b>	<b>\$ 897</b>	<b>\$ (800)</b>	<b>(47.1)%</b>	<b>\$ 1,697</b>
<b>Deposits:</b>							
Non-interest bearing deposits	\$ 3,379	\$ 149	4.6%	\$ 3,230	\$ 150	4.9%	\$ 3,080
Interest bearing demand deposits	7,658	451	6.3	7,207	1,014	16.4	6,193
Savings deposits	2,635	(194)	(6.9)	2,829	27	1.0	2,802
Domestic time deposits	4,764	880	22.7	3,884	(280)	(6.7)	4,164
Brokered time deposits and negotiable CDs	3,119	1,282	69.8	1,837	418	29.5	1,419
Foreign time deposits	457	(51)	(10.0)	508	8	1.6	500
<b>Total deposits</b>	<b>\$ 22,012</b>	<b>\$ 2,517</b>	<b>12.9%</b>	<b>\$ 19,495</b>	<b>\$ 1,337</b>	<b>7.4%</b>	<b>\$ 18,158</b>

N.M., not a meaningful value.

(1) Operating basis, see Lines of Business section for definition.

(2) Calculated assuming a 35% tax rate.



Table 34 — Total Company<sup>(1)</sup>

	2005	Change From 2004		2004	Change From 2003		2003
		Amount	%		Amount	%	
<b>PERFORMANCE METRICS</b>							
Return on average assets	1.26%	0.02%		1.24%	0.01%		1.23%
Return on average equity	16.0	(0.4)		16.4	0.2		16.2
Net interest margin	3.33	0.00		3.33	(0.16)		3.49
Efficiency ratio	60.0	(5.6)		65.6	0.3		65.3
<b>CREDIT QUALITY</b> (in thousands of dollars)							
<b>Net charge-offs by loan type</b>							
Commercial							
Middle market commercial and industrial	\$ 13,578	\$ 11,658	N.M.%	\$ 1,920	\$ (73,883)	(97.5)%	\$ 75,803
Middle market commercial real estate	4,045	(3,926)	(49.3)	7,971	24	0.3	7,947
Small business loans	11,951	6,385	N.M.	5,566	(6,059)	(52.1)	11,625
<b>Total commercial</b>	<b>29,574</b>	<b>14,117</b>	<b>91.3</b>	<b>15,457</b>	<b>(79,918)</b>	<b>(83.8)</b>	<b>95,375</b>
Consumer							
Auto leases	11,664	827	7.6	10,837	5,109	89.2	5,728
Auto loans	11,988	(16,586)	(58.0)	28,574	(11,692)	(29.0)	40,266
Home equity loans & lines of credit	17,619	2,545	16.9	15,074	2,960	24.4	12,114
Residential mortgage	2,332	572	32.5	1,760	928	N.M.	832
Other loans	6,880	47	0.7	6,833	(661)	(8.8)	7,494
<b>Total consumer</b>	<b>50,483</b>	<b>(12,595)</b>	<b>(20.0)</b>	<b>63,078</b>	<b>(3,356)</b>	<b>(5.1)</b>	<b>66,434</b>
<b>Total net charge-offs</b>	<b>\$ 80,057</b>	<b>\$ 1,522</b>	<b>1.9%</b>	<b>\$ 78,535</b>	<b>\$ (83,274)</b>	<b>(51.5)%</b>	<b>\$ 161,809</b>
<b>Net charge-offs — annualized percentages</b>							
Commercial							
Middle market commercial and industrial	0.28%	0.24%		0.04%	(1.60)%		1.64%
Middle market commercial real estate	0.11	(0.13)		0.24	(0.02)		0.26
Small business loans	0.54	0.26		0.28	(0.37)		0.65
<b>Total commercial</b>	<b>0.28</b>	<b>0.12</b>		<b>0.16</b>	<b>(0.85)</b>		<b>1.01</b>
Consumer							
Auto leases	0.48	(0.01)		0.49	0.09		0.40
Auto loans	0.59	(0.66)		1.25	0.01		1.24
Home equity loans & lines of credit	0.38	0.02		0.36	0.01		0.35
Residential mortgage	0.06	0.01		0.05	0.01		0.04
Other loans	1.37	(0.15)		1.52	(0.20)		1.72
<b>Total consumer</b>	<b>0.37</b>	<b>(0.14)</b>		<b>0.51</b>	<b>(0.12)</b>		<b>0.63</b>
<b>Total net charge-offs</b>	<b>0.33%</b>	<b>(0.02)%</b>		<b>0.35%</b>	<b>(0.46)%</b>		<b>0.81%</b>
<b>Non-performing assets (NPA)</b> (in millions of dollars)							
Middle market commercial and industrial	\$ 28	\$ 4	16.7%	\$ 24	\$ (10)	(29.4)%	\$ 34
Middle market commercial real estate	16	12	N.M.	4	(14)	(77.8)	18
Small business loans	29	14	93.3	15	1	7.1	14
Residential mortgage	18	4	28.6	14	5	55.6	9
Home equity	11	4	57.1	7	7	N.M.	—
<b>Total non-accrual loans</b>	<b>102</b>	<b>38</b>	<b>59.4</b>	<b>64</b>	<b>(11)</b>	<b>(14.7)</b>	<b>75</b>
Renegotiated loans	—	—	N.M.	—	—	N.M.	—
<b>Total non-performing loans (NPL)</b>	<b>102</b>	<b>38</b>	<b>59.4</b>	<b>64</b>	<b>(11)</b>	<b>(14.7)</b>	<b>75</b>
Other real estate, net (OREO)	15	(30)	(66.7)	45	33	N.M.	12
<b>Total non-performing assets</b>	<b>\$ 117</b>	<b>\$ 8</b>	<b>7.3%</b>	<b>\$ 109</b>	<b>\$ 22</b>	<b>25.3%</b>	<b>\$ 87</b>
Accruing loans past due 90 days or more	\$ 56	\$ 2	3.7%	\$ 54	\$ (2)	(3.6)%	\$ 56
Allowance for loan and lease losses (ALLL) (eop)	268	(3)	(1.1)	271	(29)	(9.7)	300
ALLL as a % of total loans and leases	1.10%	(0.05)%		1.15%	(0.27)%		1.42%
ALLL as a % of NPLs	263.0	(161.0)		424.0	26.9		397.1
ALLL + OREO as a % of NPAs	241.9	(48.0)		289.9	(68.7)		358.6
NPLs as a % of total loans and leases	0.42	0.15		0.27	(0.09)		0.36
NPAs as a % of total loans and leases + OREO	0.48	0.02		0.46	0.05		0.41
<b>SUPPLEMENTAL DATA</b>							
# employees — full-time equivalent	7,602	(210)	(2.7)%	7,812	(171)	(2.1)%	7,983

N.M., not a meaningful value.



cop — End of Period.

(1) Operating basis, see Lines of Business section for definition.

## RESULTS FOR THE FOURTH QUARTER

## Earnings Discussion

2005 fourth quarter earnings were \$100.6 million, or \$0.44 per common share, up 10% and 13%, respectively, from \$91.1 million, or \$0.39 per common share, in the year-ago quarter. Significant items impacting 2005 fourth quarter performance included (see table below):

- \$7.0 million after-tax (\$0.03 earnings per share) positive net impact related to the recognition of the effect of federal tax refunds on income tax expense. Each quarter of 2005 reflected similar impacts, resulting from the ability to carry back federal tax losses to prior years.
- \$10.4 million pre-tax (\$0.03 earnings per share) negative impact from (1) the sale of investment securities as part of a plan to reposition a segment of the portfolio, which resulted in \$8.8 million of pre-tax losses, and (2) a \$1.6 million impact of a recovery of temporary MSR impairment, net of hedge-related trading activity.

Significant Items Impacting Earnings Performance Comparisons<sup>(1)</sup>:

(In millions, except per share)	Three Months Ended	
	Impact <sup>(2)</sup>	
	Amount <sup>(3)</sup>	EPS
<b>December 31, 2005 — GAAP earnings<sup>(4)</sup></b>	<b>\$ 100.6</b>	<b>\$ 0.44</b>
Net impact of federal tax loss carry back <sup>(4)</sup>	7.0	0.03
Securities losses plus recovery of temporary MSR impairment, net of hedge-related trading activity	(10.4)	(0.03)
<b>December 31, 2004 — GAAP earnings<sup>(4)</sup></b>	<b>\$ 91.1</b>	<b>\$ 0.39</b>
SEC/regulatory-related expenses	(6.5)	(0.03)
Property lease impairments	(7.8)	(0.02)
Adjustment to consolidated securitization	3.7	0.01

(1) Includes significant items with \$0.01 EPS impact or greater.

(2) Favorable (unfavorable) impact on GAAP earnings.

(3) Pre-tax unless otherwise noted.

(4) After-tax.

Fully taxable equivalent net interest income increased \$5.6 million, or 2%, from the year-ago quarter, primarily reflecting the favorable impact of a \$0.9 billion, or 3%, increase in average earning assets, partially offset by a 4 basis point, or an effective 1%, decline in the net interest margin. The fully taxable equivalent net interest margin of 3.34% declined from 3.38% in the year-ago quarter, as the net interest margin in the year-ago quarter included a 6 basis point positive impact related to a securitization funding cost adjustment. Excluding this impact, the current quarter's net interest margin would have increased 2 basis points from the year-ago period, reflecting the benefit of higher-yielding loans, the unwinding of excess liquidity early in the year, and disciplined deposit pricing.

Average total loans and leases increased \$1.4 billion, or 6%, from the 2004 fourth quarter, with consumer and commercial loans contributing equally to the growth. Average total consumer loans increased \$0.7 billion, or 6%, from the year-ago quarter, reflecting growth across all consumer loan categories. Average residential mortgages increased \$0.5 billion, or 13%, and average home equity loans increased \$0.2 billion, or 4%. Though residential mortgage and home equity loan growth rates were strong compared with the year-ago quarter, they have continued to slow.

Compared with the year-ago quarter, average total automobile loans and leases increased only 1%. Average automobile loans increased \$0.1 billion, or 5%, reflecting current automobile loan production and loan sales. Average direct financing leases declined 2% from the year-ago quarter, reflecting declining production levels due to lower consumer demand and aggressive price competition. Average operating lease assets declined \$0.4 billion, or 62%, as this portfolio continued to run off. Total automobile loan and lease exposure at quarter end was 18%, down from 21% a year ago.

Average total commercial loans increased \$0.7 billion, or 7%, from the year-ago quarter. This reflected a \$0.6 billion, or 8%, increase in total middle market C&I and CRE loans, and 4% growth in average small business C&I and CRE loans.

Average total investment securities were \$0.1 billion, or 2%, higher than in the year-ago quarter.

Average total core deposits in the 2005 fourth quarter increased \$0.4 billion, or 3%, from the year-ago quarter. All of this increase reflected growth in certificates of deposit less than \$100,000, partially offset by declines in savings and other domestic

time deposits and interest bearing demand deposits. This transfer of funds into certificates of deposit less than \$100,000 and out of other deposit accounts reflected customer preference for higher fixed rate term deposit accounts. Average certificates of deposit less than \$100,000 increased \$1.0 billion, or 39%, with this increase partially offset by a 12% decline in savings and other domestic time deposits, as well as a 2% decline in interest bearing demand deposits.

Non-interest income decreased \$35.6 million, or 19%, from the year-ago quarter, mostly attributed to the \$30.8 million decline in operating lease income, reflecting the continued run-off of the operating lease portfolio. The remaining categories decreased a total of \$4.9 million with the primary drivers being:

- \$10.9 million decline in securities gains as the current quarter reflected \$8.8 million of securities losses related to the repositioning of a portion of the investment securities portfolio. This contrasts with \$2.1 million of securities gains in the year-ago quarter.

Partially offset by:

- \$3.1 million, or 18%, increase in trust services income, due primarily to higher mutual fund, personal trust, and institutional trust assets under management.
- \$2.1 million, or 24%, increase in mortgage banking income, primarily reflecting higher secondary marketing income.

Non-interest expense decreased \$50.7 million, or 18%, from the year-ago quarter with \$29.6 million of the decline reflecting the run-off of the operating lease portfolio. Of the remaining \$21.1 million decline from the year-ago quarter, the primary drivers were:

- \$8.1 million, or 31%, decline in net occupancy expense as the year-ago quarter included a \$7.8 million property lease impairment.
- \$7.3 million, or 28%, decline in other expense, as the year-ago quarter included \$5.5 million of SEC/regulatory-related expenses and \$1.7 million in residual value losses on automobile leases.
- \$6.6 million, or 5%, decline in personnel expense, primarily reflecting lower incentive compensation and benefits expense.
- \$2.1 million, or 22%, decline in professional services, due primarily to lower legal and consulting expense.

Partially offset by:

- \$1.8 million, or 33%, increase in marketing expense related to increased advertising expenditures.
- \$1.1 million increase in outside data processing and other services with the largest increase in debit card processing expense, up \$0.6 million.

Our effective tax rate was 22.5% in the 2005 fourth quarter, down from 29.0% in the year-ago quarter. As previously disclosed, the effective tax rate in each quarter of 2005 included the positive impact on net income due to a federal tax loss carry back, tax exempt income, bank owned life insurance, asset securitization activities, and general business credits from investment in low income housing and historic property partnerships.

### *Credit Quality*

Total net charge-offs for the 2005 fourth quarter were \$17.6 million, or an annualized 0.29% of average total loans and leases. This was down from \$20.9 million, or an annualized 0.36%, in the year-ago quarter.

Total commercial net charge-offs in the fourth quarter were \$3.6 million, or an annualized 0.13%, down from \$5.2 million, or an annualized 0.21%, in the year-ago quarter. This reflected net recoveries in the current quarter in middle market C&I and CRE loans, which lowered total commercial net charge-offs by \$2.0 million and \$2.7 million, respectively, from the year-ago quarter. This benefit was partially offset by a \$3.1 million increase in small business loan net charge-offs, which totaled \$4.5 million in the current quarter, or an annualized 0.80% of related loans.

Total consumer net charge-offs in the fourth quarter were \$14.0 million, or an annualized 0.41% of related loans. This compared with \$15.8 million, or 0.49%, in the year-ago quarter. The decline from the year-ago quarter reflected primarily lower automobile loan and lease net charge-offs and lower home equity net charge-offs. Total automobile loan and lease net charge-offs in the 2005 fourth quarter were \$6.6 million, or an annualized 0.61% of related loans and leases, down from \$7.5 million, or an annualized 0.70%, in the year-ago quarter. Home equity loan net charge-offs in the current quarter were \$4.5 million, or an annualized 0.39%, down from \$5.3 million, or 0.48%, in the year-ago quarter.

NPAs were \$117.2 million at December 31, 2005, and represented 0.48% of related assets, up from \$108.6 million, or 0.46%, at the end of last year. Non-performing loans and leases (NPLs), which exclude OREO, were \$101.9 million at December 31, 2005, up \$38.0 million from the year-earlier period. NPLs expressed as a percent of total loans and leases were 0.42% at December 31, 2005, up from 0.27% a year earlier.

The over 90-day delinquent, but still accruing, ratio was 0.23% at December 31, 2005, unchanged from the end of the year-ago quarter.

#### Allowances for Credit Losses (ACL)

The December 31, 2005, ALLL was \$268.3 million, down from \$271.2 million a year earlier. Expressed as a percent of period-end loans and leases, the ALLL ratio at December 31, 2005, was 1.10%, down from 1.15% a year ago, reflecting the improvement in economic conditions. The table below shows the change in the ALLL ratio and each reserve component from the 2004 fourth quarter.

Components of ALLL as percent of total loans and leases:

	4Q05	4Q04	Change
Transaction reserve	0.89%	0.83%	0.06%
Economic reserve	0.21	0.32	(0.11)
<b>Total ALLL</b>	<b>1.10%</b>	<b>1.15%</b>	<b>(0.05)%</b>

The ALLL as a percent of NPAs was 229% at December 31, 2005, down from 250% a year ago. At December 31, 2005, the AULC was \$37.0 million, up from \$33.2 million at the end of the year-ago quarter. On a combined basis, the ACL as a percent of total loans and leases was 1.25% at December 31, 2005, down from 1.29% a year earlier. The ACL as a percent of NPAs was 261% at December 31, 2005, down from 280% a year earlier.

The provision for credit losses in the 2005 fourth quarter was \$30.8 million, an \$18.2 million increase from the year-ago quarter. The increase in provision expense from the year-ago quarter reflected a combination of higher non-performing assets, as well as the downgrades in certain commercial credits discussed above.

#### Capital

At December 31, 2005, the tangible equity to assets ratio was 7.19%, up slightly from 7.18% a year ago. At December 31, 2005, the tangible equity to risk-weighted assets ratio was 7.91%, up slightly from 7.86% at the end of the year-ago quarter. The increase in these ratios from a year ago reflected growth in retained earnings, with the improvement in the risk-weighted ratio also reflecting the reduced overall risk profile of earning assets.

During the quarter, 5.2 million shares of common stock were repurchased in the open market, leaving 9.8 million shares remaining under the 15 million share repurchase authorization announced October 18, 2005.

Table 35 presents quarterly income statements and Table 36 presents quarterly stock summary, key ratios and statistics, and capital data for eight quarters.

Table 35 — Selected Quarterly Income Statements

(in thousands of dollars, except per share amounts)	2005				2004			
	Fourth	Third	Second	First	Fourth	Third	Second	First
Interest income	\$ 442,476	\$ 420,858	\$ 402,326	\$ 376,105	\$ 359,215	\$ 338,002	\$ 324,167	\$ 325,931
Interest expense	198,800	179,221	160,426	140,907	120,147	110,944	101,604	103,246
Net interest income	243,676	241,637	241,900	235,198	239,068	227,058	222,563	222,685
Provision for credit losses	30,831	17,699	12,895	19,874	12,654	11,785	5,027	25,596
<b>Net interest income after provision for credit losses</b>	<b>212,845</b>	<b>223,938</b>	<b>229,005</b>	<b>215,324</b>	<b>226,414</b>	<b>215,273</b>	<b>217,536</b>	<b>197,089</b>
Service charges on deposit accounts	42,083	44,817	41,516	39,418	41,747	43,935	43,596	41,837
Trust services	20,425	19,671	19,113	18,196	17,315	17,064	16,708	16,323
Brokerage and insurance income	13,101	13,948	13,544	13,026	12,879	13,200	13,523	15,197
Other service charges and fees	11,488	11,449	11,252	10,159	10,617	10,799	10,645	9,513
Mortgage banking income (loss)	10,909	21,116	(2,376)	12,061	8,822	4,448	23,322	(4,296)
Bank owned life insurance income	10,389	10,104	10,139	10,104	10,484	10,019	11,309	10,485
Gains on sales of automobile loans	455	502	254	—	—	312	4,890	9,004
Securities gains (losses)	(8,770)	101	(343)	957	2,100	7,803	(9,230)	15,090
Other income	22,900	9,770	24,974	17,397	23,870	17,899	24,659	25,619
Sub-total before operating lease income	122,980	131,478	118,073	121,318	127,834	125,479	139,422	138,772
Operating lease income	24,342	29,262	38,097	46,732	55,106	64,412	78,706	88,867
<b>Total non-interest income</b>	<b>147,322</b>	<b>160,740</b>	<b>156,170</b>	<b>168,050</b>	<b>182,940</b>	<b>189,891</b>	<b>218,128</b>	<b>227,639</b>
Personnel costs	116,111	117,476	124,090	123,981	122,738	121,729	119,715	121,624
Outside data processing and other services	19,693	18,062	18,113	18,770	18,563	17,527	17,563	18,462
Net occupancy	17,940	16,653	17,257	19,242	26,082	16,838	16,258	16,763
Equipment	16,093	15,531	15,637	15,863	15,733	15,295	16,228	16,086
Professional services	7,440	8,323	9,347	9,459	9,522	12,219	7,836	7,299
Marketing	7,403	6,779	7,441	6,454	5,581	5,000	8,069	7,839
Telecommunications	4,453	4,512	4,801	4,882	4,596	5,359	4,638	5,194
Printing and supplies	3,084	3,102	3,293	3,094	3,148	3,201	3,098	3,016
Amortization of intangibles	218	203	204	204	205	204	204	204
Restructuring reserve releases	—	—	—	—	—	(1,151)	—	—
Loss on early extinguishment of debt	—	—	—	—	—	—	—	—
Other expense	19,194	19,588	19,074	18,380	26,526	22,317	25,981	18,457
Sub-total before operating lease expense	211,629	210,229	219,257	220,329	232,694	218,538	219,590	214,944
Operating lease expense	18,726	22,823	28,879	37,948	48,320	54,885	62,563	70,710
<b>Total non-interest expense</b>	<b>230,355</b>	<b>233,052</b>	<b>248,136</b>	<b>258,277</b>	<b>281,014</b>	<b>273,423</b>	<b>282,153</b>	<b>285,654</b>
Income before income taxes	129,812	151,626	137,039	125,097	128,340	131,741	153,511	139,074
Provision for income taxes	29,239	43,052	30,614	28,578	37,201	38,255	43,384	34,901
<b>Net income</b>	<b>\$ 100,573</b>	<b>\$ 108,574</b>	<b>\$ 106,425</b>	<b>\$ 96,519</b>	<b>\$ 91,139</b>	<b>\$ 93,486</b>	<b>\$ 110,127</b>	<b>\$ 104,173</b>
Average common shares — diluted	229,718	233,456	235,671	235,053	235,502	234,348	232,659	232,915
<b>Per common share:</b>								
Net income — diluted	\$ 0.44	\$ 0.47	\$ 0.45	\$ 0.41	\$ 0.39	\$ 0.40	\$ 0.47	\$ 0.45
Cash dividends declared	0.215	0.215	0.215	0.200	0.200	0.200	0.175	0.175
<b>Revenue — fully taxable equivalent (FTE)</b>								
Net interest income	\$ 243,676	\$ 241,637	\$ 241,900	\$ 235,198	\$ 239,068	\$ 227,058	\$ 222,563	\$ 222,685
FTE adjustment	3,837	3,734	2,961	2,861	2,847	2,864	2,919	3,023
Net interest income <sup>(1)</sup>	247,513	245,371	244,861	238,059	241,915	229,922	225,482	225,708
Non-interest income	147,322	160,740	156,170	168,050	182,940	189,891	218,128	227,639
<b>Total revenue <sup>(1)</sup></b>	<b>\$ 394,835</b>	<b>\$ 406,111</b>	<b>\$ 401,031</b>	<b>\$ 406,109</b>	<b>\$ 424,855</b>	<b>\$ 419,813</b>	<b>\$ 443,610</b>	<b>\$ 453,347</b>

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

Table 36 — Quarterly Stock Summary, Key Ratios and Statistics, and Capital Data

Quarterly common stock summary		2005				2004			
(in thousands, except per share)	Fourth	Third	Second	First	Fourth	Third	Second	First	
<b>Common stock price, per share</b>									
High <sup>(1)</sup>	\$ 24.640	\$ 25.410	\$ 24.750	\$ 24.780	\$ 25.380	\$ 25.150	\$ 23.120	\$ 23.780	
Low <sup>(1)</sup>	20.970	22.310	22.570	22.150	23.110	22.700	20.890	21.000	
Close	23.750	22.470	24.140	23.900	24.740	24.910	22.980	22.030	
Average closing price	23.369	24.227	23.771	23.216	24.241	24.105	22.050	22.501	
<b>Dividends, per share</b>									
Cash dividends declared on common stock	\$ 0.215	\$ 0.215	\$ 0.215	\$ 0.200	\$ 0.200	\$ 0.200	\$ 0.175	\$ 0.175	
<b>Common shares outstanding</b>									
Average — basic	226,699	229,830	232,217	231,824	231,147	229,848	229,429	229,227	
Average — diluted	229,718	233,456	235,671	235,053	235,502	234,348	232,659	232,915	
Ending	224,106	229,006	230,842	232,192	231,605	230,153	229,476	229,410	
Book value per share	\$ 11.41	\$ 11.45	\$ 11.40	\$ 11.15	\$ 10.96	\$ 10.69	\$ 10.40	\$ 10.31	
<b>Common share repurchases</b>									
Number of shares repurchased	5,175	2,598	1,818	—	—	—	—	—	
<b>Quarterly key ratios and statistics</b>									
Margin analysis-as a % of average earning assets <sup>(2)</sup>									
Interest income <sup>(2)</sup>	6.01%	5.72%	5.52%	5.21%	5.05%	4.89%	4.76%	4.89%	
Interest expense	2.67	2.41	2.16	1.90	1.67	1.59	1.47	1.53	
Net interest margin <sup>(2)</sup>	3.34%	3.31%	3.36%	3.31%	3.38%	3.30%	3.29%	3.36%	
Return on average total assets	1.22%	1.32%	1.31%	1.20%	1.13%	1.18%	1.41%	1.36%	
Return on average total shareholders' equity	15.5	16.5	16.3	15.5	14.6	15.4	19.1	18.4	
<b>Capital adequacy</b>		2005				2004			
(in millions of dollars)	December 31,	September 30,	June 30,	March 31,	December 31,	September 30,	June 30,	March 31,	
Total risk-weighted assets	\$ 29,599	\$ 29,352	\$ 29,973	\$ 30,267	\$ 29,542	\$ 28,679	\$ 28,416	\$ 28,247	
Tier 1 leverage ratio	8.34%	8.50%	8.50%	8.45%	8.42%	8.36%	8.20%	8.07%	
Tier 1 risk-based capital ratio	9.13	9.42	9.18	9.04	9.08	9.10	8.98	8.74	
Total risk-based capital ratio	12.42	12.70	12.39	12.33	12.48	12.53	12.56	12.13	
Tangible equity/asset ratio	7.19	7.39	7.36	7.42	7.18	7.11	6.95	6.97	
Tangible equity/risk-weighted assets ratio	7.91	8.19	8.05	7.84	7.86	7.83	7.64	7.60	
Average equity/average assets	7.89	7.97	8.03	7.76	7.74	7.67	7.42	7.39	

(1) High and low stock prices are intra-day quotes obtained from NASDAQ.

(2) Presented on a fully taxable equivalent basis assuming a 35% tax rate.

## REPORT OF MANAGEMENT

## HUNTINGTON BANCSHARES INCORPORATED

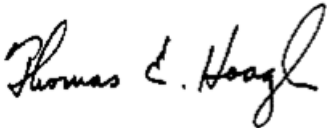
The management of Huntington (the Company) is responsible for the financial information and representations contained in the consolidated financial statements and other sections of this report. The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States. In all material respects, they reflect the substance of transactions that should be included based on informed judgments, estimates, and currently available information.

Management maintains a system of internal accounting controls, which includes the careful selection and training of qualified personnel, appropriate segregation of responsibilities, communication of written policies and procedures, and a broad program of internal audits. The costs of the controls are balanced against the expected benefits. During 2005, the audit committee of the board of directors met regularly with Management, Huntington's internal auditors, and the independent registered public accounting firm, Deloitte & Touche LLP, to review the scope of the audits and to discuss the evaluation of internal accounting controls and financial reporting matters. The independent registered public accounting firm and the internal auditors have free access to, and meet confidentially with, the audit committee to discuss appropriate matters. Also, Huntington maintains a disclosure review committee. This committee's purpose is to design and maintain disclosure controls and procedures to ensure that material information relating to the financial and operating condition of Huntington is properly reported to its chief executive officer, chief financial officer, internal auditors, and the audit committee of the board of directors in connection with the preparation and filing of periodic reports and the certification of those reports by the chief executive officer and the chief financial officer.

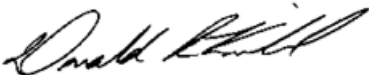
## REPORT ON MANAGEMENT'S ASSESSMENT OF INTERNAL CONTROL OVER FINANCIAL REPORTING

Management is responsible for establishing and maintaining adequate internal control over financial reporting for the Company, including accounting and other internal control systems that, in the opinion of Management, provide reasonable assurance that (1) transactions are properly authorized, (2) the assets are properly safeguarded, and (3) transactions are properly recorded and reported to permit the preparation of the financial statements in conformity with accounting principles generally accepted in the United States.

Huntington's management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2005. In making this assessment, Management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control — Integrated Framework*. Based on that assessment, Management believes that, as of December 31, 2005, the Company's internal control over financial reporting is effective based on those criteria. Deloitte & Touche LLP, the Company's independent registered public accounting firm, has issued an attestation report on Management's assessment of the Company's internal control over financial reporting.



Thomas E. Hoaglin  
Chairman, President and Chief Executive Officer



Donald R. Kimble  
Executive Vice President, Chief Financial Officer and Controller

February 14, 2006

**Deloitte.**

To the Board of Directors and Shareholders of

Huntington Bancshares Incorporated  
Columbus, Ohio

We have audited management's assessment, included in the accompanying Report on Management's Assessment of Internal Control over Financial Reporting, that Huntington Bancshares Incorporated and subsidiaries (the "Company") maintained effective internal control over financial reporting as of December 31, 2005, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that the Company maintained effective internal control over financial reporting as of December 31, 2005, is fairly stated, in all material respects, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2005, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended December 31, 2005 of the Company and our report dated February 14, 2006 expressed an unqualified opinion on those financial statements.

The logo for Deloitte & Touche LLP, featuring the company name in a stylized, cursive script.

Deloitte & Touche LLP  
Columbus, Ohio  
February 14, 2006



**Deloitte.**

To the Board of Directors and Shareholders of

Huntington Bancshares Incorporated  
Columbus, Ohio

We have audited the accompanying consolidated balance sheets of Huntington Bancshares Incorporated and subsidiaries (the "Company") as of December 31, 2005 and 2004, and the related consolidated statements of income, changes in shareholders' equity, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. The consolidated financial statements of the Company for the year ended December 31, 2003 were audited by other auditors whose report, dated January 16, 2004 (except for Note 25, as to which the date is January 27, 2004), expressed an unqualified opinion on those financial statements and included an explanatory paragraph that described the adoption of new accounting guidance for variable interest entities in 2003.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated 2005 and 2004 financial statements present fairly, in all material respects, the financial position of Huntington Bancshares Incorporated and subsidiaries at December 31, 2005 and 2004, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company's internal control over financial reporting as of December 31, 2005, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 14, 2006 expressed an unqualified opinion on management's assessment of the effectiveness of the Company's internal control over financial reporting and an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.



Deloitte & Touche LLP  
Columbus, Ohio  
February 14, 2006

December 31,

(in thousands, except number of shares)

	2005	2004
<b>Assets</b>		
Cash and due from banks	\$ 966,445	\$ 877,320
Federal funds sold and securities purchased under resale agreements	74,331	628,040
Interest bearing deposits in banks	22,391	22,398
Trading account securities	8,619	309,630
Loans held for sale	294,344	223,469
Investment securities	4,526,520	4,238,945
Loans and leases:		
Commercial and industrial loans	6,809,208	5,829,685
Commercial real estate loans	4,036,171	4,473,293
Automobile loans	1,985,304	1,948,667
Automobile leases	2,289,015	2,443,455
Home equity loans	4,638,841	4,554,540
Residential mortgage loans	4,193,139	3,829,234
Other consumer loans	520,488	481,403
Loans and leases	24,472,166	23,560,277
Allowance for loan and lease losses	(268,347)	(271,211)
Net loans and leases	24,203,819	23,289,066
Bank owned life insurance	1,001,542	963,059
Premises and equipment	360,677	355,115
Operating lease assets	229,077	587,310
Goodwill and other intangible assets	217,486	215,807
Customers' acceptance liability	4,536	11,299
Accrued income and other assets	855,018	844,039
<b>Total assets</b>	<b>\$ 32,764,805</b>	<b>\$ 32,565,497</b>
<b>Liabilities and shareholders' equity</b>		
<b>Liabilities</b>		
Deposits in domestic offices		
Demand deposits — non-interest bearing	\$ 3,390,044	\$ 3,392,123
Interest bearing	18,548,943	16,935,091
Deposits in foreign offices	470,688	440,947
Deposits	22,409,675	20,768,161
Short-term borrowings	1,889,260	1,207,233
Federal Home Loan Bank advances	1,155,647	1,271,088
Other long-term debt	2,418,419	4,016,004
Subordinated notes	1,023,371	1,039,793
Deferred income tax liability	743,655	783,628
Allowance for unfunded loan commitments and letters of credit	36,957	33,187
Bank acceptances outstanding	4,536	11,299
Accrued expenses and other liabilities	525,784	897,466
<b>Total liabilities</b>	<b>30,207,304</b>	<b>30,027,859</b>
<b>Shareholders' equity</b>		
Preferred stock — authorized 6,617,808 shares; none outstanding	—	—
Common stock — without par value; authorized 500,000,000 shares; issued 257,866,255 shares; outstanding 224,106,172 and 231,605,281 shares, respectively	2,491,326	2,484,204
Less 33,760,083 and 26,260,974 treasury shares, respectively	(693,576)	(499,259)
Accumulated other comprehensive loss	(22,093)	(10,903)
Retained earnings	781,844	563,596
<b>Total shareholders' equity</b>	<b>2,557,501</b>	<b>2,537,638</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 32,764,805</b>	<b>\$ 32,565,497</b>

See Notes to Consolidated Financial Statements.

Year Ended December 31,

(in thousands, except per share amounts)

	2005	2004	2003
<b>Interest and fee income</b>			
Loans and leases			
Taxable	\$ 1,428,371	\$ 1,132,599	\$ 1,096,750
Tax-exempt	1,466	1,474	1,674
Investment securities			
Taxable	158,741	171,709	159,590
Tax-exempt	19,865	17,884	15,067
Other	33,322	23,649	32,675
<b>Total interest income</b>	<b>1,641,765</b>	<b>1,347,315</b>	<b>1,305,756</b>
<b>Interest expense</b>			
Deposits	446,919	257,099	288,271
Short-term borrowings	34,334	13,053	15,698
Federal Home Loan Bank advances	34,647	33,253	24,394
Subordinated notes and other long-term debt	163,454	132,536	128,407
<b>Total interest expense</b>	<b>679,354</b>	<b>435,941</b>	<b>456,770</b>
<b>Net interest income</b>	<b>962,411</b>	<b>911,374</b>	<b>848,986</b>
Provision for credit losses	81,299	55,062	163,993
<b>Net interest income after provision for credit losses</b>	<b>881,112</b>	<b>856,312</b>	<b>684,993</b>
Service charges on deposit accounts	167,834	171,115	167,840
Operating lease income	138,433	287,091	489,698
Trust services	77,405	67,410	61,649
Brokerage and insurance income	53,619	54,799	57,844
Other service charges and fees	44,348	41,574	41,446
Mortgage banking income	41,710	32,296	58,180
Bank owned life insurance income	40,736	42,297	43,028
Gains on sales of automobile loans	1,211	14,206	40,039
Gain on sale of branch offices	—	—	13,112
Securities gains (losses), net	(8,055)	15,763	5,258
Other income	75,041	92,047	91,059
<b>Total non-interest income</b>	<b>632,282</b>	<b>818,598</b>	<b>1,069,153</b>
Personnel costs	481,658	485,806	447,263
Operating lease expense	108,376	236,478	393,270
Outside data processing and other services	74,638	72,115	66,118
Net occupancy	71,092	75,941	62,481
Equipment	63,124	63,342	65,921
Professional services	34,569	36,876	42,448
Marketing	28,077	26,489	27,490
Telecommunications	18,648	19,787	21,979
Printing and supplies	12,573	12,463	13,009
Amortization of intangibles	829	817	816
Restructuring reserve releases	—	(1,151)	(6,666)
Loss on early extinguishment of debt	—	—	15,250
Other expense	76,236	93,281	80,780
<b>Total non-interest expense</b>	<b>969,820</b>	<b>1,122,244</b>	<b>1,230,159</b>
<b>Income before income taxes</b>	<b>543,574</b>	<b>552,666</b>	<b>523,987</b>
Provision for income taxes	131,483	153,741	138,294
<b>Income before cumulative effect of change in accounting principle</b>	<b>412,091</b>	<b>398,925</b>	<b>385,693</b>
Cumulative effect of change in accounting principle, net of tax	—	—	(13,330)
<b>Net income</b>	<b>\$ 412,091</b>	<b>\$ 398,925</b>	<b>\$ 372,363</b>
Average common shares — basic	230,142	229,913	229,401
Average common shares — diluted	233,475	233,856	231,582
<b>Per common share</b>			
Income before cumulative effect of change in accounting principle — basic	\$ 1.79	\$ 1.74	\$ 1.68
Income before cumulative effect of change in accounting principle — diluted	1.77	1.71	1.67
Net income — basic	1.79	1.74	1.62
Net income — diluted	1.77	1.71	1.61
Cash dividends declared	0.845	0.750	0.670



**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS'  
EQUITY**

**HUNTINGTON BANCSHARES INCORPORATED**

(in thousands)	Preferred Stock		Common Stock		Treasury Stock		Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total
	Shares	Amount	Shares	Amount	Shares	Amount			
Balance — January 1, 2003	—	\$ —	257,866	\$ 2,484,421	(24,987)	\$ (475,399)	\$ 62,300	\$ 118,471	\$ 2,189,793
Comprehensive income:									
Net income								372,363	372,363
Unrealized net losses on investment securities arising during the year, net of reclassification of net realized gains							(47,427)		(47,427)
Unrealized losses on cash flow hedging derivatives							(11,081)		(11,081)
Minimum pension liability adjustment							(1,114)		(1,114)
<b>Total comprehensive income</b>									<b>312,741</b>
Cash dividends declared (\$0.67 per share)								(153,476)	(153,476)
Stock options exercised				(609)	481	8,691			8,082
Treasury shares purchased					(4,300)	(81,061)			(81,061)
Other				(270)	(52)	(807)			(1,077)
Balance — December 31, 2003	—	—	257,866	2,483,542	(28,858)	(548,576)	2,678	337,358	2,275,002
Comprehensive income:									
Net income								398,925	398,925
Unrealized net losses on investment securities arising during the year, net of reclassification of net realized gains							(22,112)		(22,112)
Unrealized gains on cash flow hedging derivatives							9,694		9,694
Minimum pension liability adjustment							(1,163)		(1,163)
<b>Total comprehensive income</b>									<b>385,344</b>
Cash dividends declared (\$0.75 per share)								(172,687)	(172,687)
Stock options exercised				678	2,432	46,561			47,239
Other				(16)	165	2,756			2,740
Balance — December 31, 2004	—	—	257,866	2,484,204	(26,261)	(499,259)	(10,903)	563,596	2,537,638
Comprehensive income:									
Net income								412,091	412,091
Unrealized net losses on investment securities arising during the year, net of reclassification of net realized losses							(21,333)		(21,333)
Unrealized gains on cash flow hedging derivatives							10,954		10,954
Minimum pension liability adjustment							(811)		(811)
<b>Total comprehensive income</b>									<b>400,901</b>
Cash dividends declared (\$0.845 per share)								(193,843)	(193,843)
Stock options exercised				2,999	1,866	36,195			39,194
Treasury shares purchased					(9,591)	(231,656)			(231,656)
Other				4,123	226	1,144			5,267
Balance — December 31, 2005	—	\$ —	257,866	\$ 2,491,326	(33,760)	\$ (693,576)	\$ (22,093)	\$ 781,844	\$ 2,557,501

See Notes to Consolidated Financial Statements.

Year Ended December 31,

(in thousands of dollars)	2005	2004	2003
<b>Operating activities</b>			
Net income	\$ 412,091	\$ 398,925	\$ 372,363
Adjustments to reconcile net income to net cash provided by operating activities:			
Cumulative effect of change in accounting principle, net of tax	—	—	13,330
Provision for credit losses	81,299	55,062	163,993
Depreciation on operating lease assets	99,342	216,444	350,550
Amortization of mortgage servicing rights	18,359	19,019	25,966
Other depreciation and amortization	73,635	89,669	126,530
Mortgage servicing rights impairment recoveries	(4,371)	(1,378)	(14,957)
Deferred income tax (benefit) provision	(32,110)	140,962	258
Decrease (increase) in trading account securities	275,765	(302,041)	(7,348)
Originations of loans held for sale	(2,572,346)	(1,858,262)	(4,221,322)
Principal payments on and proceeds from loans held for sale	2,501,471	1,861,272	4,522,972
Losses (gains) on sales of investment securities	8,055	(15,763)	(5,258)
Gains on sales/securitizations of loans	(1,211)	(14,206)	(45,610)
Gain on sale of branch offices	—	—	(13,112)
Loss on early extinguishment of debt	—	—	15,250
Restructuring reserve releases	—	(1,151)	(6,666)
Increase of cash surrender value of bank owned life insurance	(40,736)	(42,297)	(43,028)
(Decrease) increase in payable to investors in sold loans	(119,352)	24,541	64,986
Other, net	(25,192)	(42,580)	40,373
<b>Net cash provided by operating activities</b>	<b>674,699</b>	<b>528,216</b>	<b>1,339,270</b>
<b>Investing activities</b>			
Decrease in interest bearing deposits in banks	7	11,229	3,673
Proceeds from:			
Maturities and calls of investment securities	463,001	881,305	1,585,979
Sales of investment securities	1,995,764	2,386,479	1,161,325
Purchases of investment securities	(2,832,258)	(2,438,158)	(4,341,946)
Proceeds from sales/securitizations of loans	—	1,534,395	2,576,869
Net loan and lease originations, excluding sales	(1,012,345)	(4,216,309)	(4,506,843)
Purchases of equipment for operating lease assets	(31,363)	(14,666)	—
Proceeds from sale of operating lease assets	280,746	451,264	572,596
Sale of branch offices	—	—	(81,367)
Proceeds from sale of premises and equipment	1,164	1,188	7,382
Purchases of premises and equipment	(57,288)	(56,531)	(64,571)
Proceeds from sales of other real estate	50,614	16,388	14,083
Consolidation of cash of securitization trust	—	—	58,500
<b>Net cash used for investing activities</b>	<b>(1,141,958)</b>	<b>(1,443,416)</b>	<b>(3,014,320)</b>
<b>Financing activities</b>			
Increase in deposits	1,655,736	2,273,046	1,177,324
Increase (decrease) in short-term borrowings	682,027	(245,071)	(688,712)
Proceeds from issuance of subordinated notes	—	148,830	198,430
Maturity of subordinated notes	—	(100,000)	(250,000)
Proceeds from Federal Home Loan Bank advances	809,589	1,088	270,000
Maturity of Federal Home Loan Bank advances	(925,030)	(3,000)	(10,000)
Proceeds from issuance of long-term debt	—	925,000	2,075,000
Maturity of long-term debt	(1,719,403)	(1,455,000)	(895,250)
Purchase of minority interests in consolidated subsidiaries	(107,154)	—	—
Dividends paid on common stock	(200,628)	(168,075)	(151,023)
Repurchases of common stock	(231,656)	—	(81,061)
Net proceeds from issuance of common stock	39,194	47,239	8,082
<b>Net cash provided by financing activities</b>	<b>2,675</b>	<b>1,424,057</b>	<b>1,652,790</b>
<b>Change in cash and cash equivalents</b>	<b>(464,584)</b>	<b>508,857</b>	<b>(22,260)</b>
Cash and cash equivalents at beginning of year	1,505,360	996,503	1,018,763
<b>Cash and cash equivalents at end of year</b>	<b>\$ 1,040,776</b>	<b>\$ 1,505,360</b>	<b>\$ 996,503</b>
<b>Supplemental disclosures:</b>			
Income taxes paid	\$ 230,186	\$ 34,904	\$ 72,128
Interest paid	640,679	422,060	469,331
Non-cash activities			
Mortgage loans exchanged for mortgage-backed securities	15,058	115,929	354,200
Common stock dividends accrued, paid in subsequent year	28,877	35,662	31,113



## 1. SIGNIFICANT ACCOUNTING POLICIES

- **NATURE OF OPERATIONS** — Huntington Bancshares Incorporated (Huntington) is a multi-state diversified financial holding company organized under Maryland law in 1966 and headquartered in Columbus, Ohio. Through its subsidiaries, Huntington is engaged in providing full-service commercial and consumer banking services, mortgage banking services, automobile financing, equipment leasing, investment management, trust services, and discount brokerage services, as well as reinsuring private mortgage, credit life and disability insurance, and selling other insurance and financial products and services. Huntington's banking offices are located in Ohio, Michigan, West Virginia, Indiana, and Kentucky. Certain activities are also conducted in other states including Arizona, Florida, Georgia, Maryland, Nevada, New Jersey, North Carolina, Pennsylvania, South Carolina, and Tennessee. Huntington has foreign offices in the Cayman Islands and in Hong Kong.
- **BASIS OF PRESENTATION** — The consolidated financial statements include the accounts of Huntington and its majority-owned subsidiaries and are presented in accordance with accounting principles generally accepted in the United States (GAAP). All significant intercompany transactions and balances have been eliminated in consolidation. Companies in which Huntington holds more than a 50% voting equity interest or are a variable interest entity (VIE) in which Huntington absorbs the majority of expected losses are consolidated. VIEs in which Huntington does not absorb the majority of expected losses are not consolidated. For consolidated entities where Huntington holds less than a 100% interest, Huntington recognizes a minority interest liability (included in accrued expenses and other liabilities) for the equity held by others and minority interest expense (included in other non-interest expenses) for the portion of the entity's earnings attributable to minority interests. Investments in companies that are not consolidated are accounted for using the equity method when Huntington has the ability to exert significant influence. Those investments in non-marketable securities for which Huntington does not have the ability to exert significant influence are generally accounted for using the cost method and are periodically evaluated for impairment. Investments in private investment partnerships are carried at fair value. Investments in private investment partnerships and investments that are accounted for under the equity method or the cost method are included in accrued income and other assets and Huntington's proportional interest in the investments' earnings are included in other non-interest income. Huntington evaluates VIEs in which it holds a beneficial interest for consolidation. VIEs, as defined by the Financial Accounting Standards Board (FASB) Interpretation (FIN) No. 46 (Revised 2003), *Consolidation of Variable Interest Entities*, are legal entities with insubstantial equity, whose equity investors lack the ability to make decisions about the entity's activities, or whose equity investors do not have the right to receive the residual returns of the entity if they occur. Huntington adopted FIN 46 (Revised 2003) on July 1, 2003 and, therefore, consolidates these VIEs when it holds a majority of VIEs' beneficial interests. The effect of adopting FIN 46 (Revised 2003) in 2003 resulted in a cumulative effect of change in accounting of \$13.3 million.

The preparation of financial statements in conformity with GAAP requires Management to make estimates and assumptions that affect amounts reported in the financial statements. Actual results could differ from those estimates. Certain prior period amounts have been reclassified to conform to the current year's presentation.

- **SECURITIES** — Securities purchased with the intention of recognizing short-term profits are classified as trading account securities and reported at fair value. The unrealized gains or losses on trading account securities are recorded in other non-interest income. All other securities are designated as investment securities. Investment securities include securities designated as available for sale, non-marketable equity securities, and, prior to 2005, securities held to maturity. Unrealized gains or losses on investment securities designated as available for sale are reported as a separate component of accumulated other comprehensive income/loss in shareholders' equity. Declines in the value of debt and marketable equity securities that are considered other-than-temporary are recorded in non-interest income as a securities loss.

Securities transactions are recognized on the trade date (the date the order to buy or sell is executed). The amortized cost of specific securities sold is used to compute realized gains and losses. Interest and dividends on securities, including amortization of premiums and accretion of discounts using the effective interest method over the period to maturity, are included in interest income.

Non-marketable equity securities include stock acquired for regulatory purposes, such as Federal Home Loan Bank stock and Federal Reserve Bank stock. These securities are generally accounted for at cost and are included in investment securities.

Statement of Financial Accounting Standards (Statement) No. 115, *Accounting for Certain Investments in Debt and Equity Securities*, Securities and Exchange Commission (SEC) Staff Accounting Bulletin (SAB) 59, *Accounting for Noncurrent Marketable Equity Securities*, FASB Staff Position (FSP) FAS 115-1 and FAS 124-1, *The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments*, and EITF Issue No. 99-20, *Recognition of Interest Income and Impairment on Purchased and Retained Beneficial Interests in Securitized Financial Assets*, provide guidance on determining when an investment is other-than-temporarily impaired. Investments are reviewed quarterly for indicators of other-than-temporary



impairment. This determination requires significant judgment. In making this judgment, Management evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost and intent and ability to hold the investment. Investments with an indicator are further evaluated to determine the likelihood of a significant adverse effect on the fair value and amount of the impairment as necessary. If market or economic conditions change, future impairments may occur.

- **LOANS AND LEASES** — Loans are stated at the principal amount outstanding, net of unamortized deferred loan origination fees and costs and net of unearned income. Direct financing leases are reported at the aggregate of lease payments receivable and estimated residual values, net of unearned and deferred income. Interest income is accrued as earned based on unpaid principal balances. Huntington defers the fees it receives from the origination of loans and leases, as well as the direct costs of those activities, and amortizes these fees and costs on a level-yield basis over the estimated lives of the related loans.

Automobile loans and leases include loans secured by automobiles and leases of automobiles that qualify for the direct financing method of accounting. Substantially all of the direct financing leases that qualify for that accounting method do so because the present value of the lease payments and the guaranteed residual value are at least 90% of the cost of the vehicle. Huntington records the residual values of its leases based on estimated future market values of the automobiles as published in the Automotive Lease Guide (ALG), an authoritative industry source. Beginning in October 2000, Huntington purchased residual value insurance for its entire automobile lease portfolio to mitigate the risk of declines in residual values. Residual value insurance provides for the recovery of the vehicle residual value specified by the ALG at the inception of the lease. As a result, the risk associated with market driven declines in used car values is mitigated. Currently, Huntington has three distinct residual value insurance policies in place to address the residual risk in the portfolio. One residual value insurance policy covers all vehicles leased between October 1, 2000 and April 30, 2002, and has an associated total payment cap of \$50 million. Any losses above the cap result in additional depreciation expense. A second policy covers all originations from May 2002 through June 2005, and does not have a cap. A third policy, similar in structure to the referenced second policy, went into effect July 1, 2005, and covers all originations for a period of one year. Leases covered by the last two policies qualify for the direct financing method of accounting. Leases covered by the first policy are accounted for using the operating lease method of accounting and are recorded as operating lease assets in Huntington's consolidated balance sheet.

Residual values on leased automobiles and equipment are evaluated periodically for impairment. Impairment of the residual values of direct financing leases is recognized by writing the leases down to fair value with a charge to other non-interest expense. Residual value losses arise if the market value at the end of the lease term is less than the residual value embedded in the original lease contract. Residual value insurance covers the difference between the recorded residual value and the fair value of the automobile at the end of the lease term as evidenced by ALG Black Book valuations. This insurance, however, does not cover residual losses below ALG Black Book value, which may arise when the automobile has excess wear and tear and/or excess mileage, not reimbursed by the lessee.

Commercial and industrial loans and commercial real estate loans are generally placed on non-accrual status and stop accruing interest when principal or interest payments are 90 days or more past due or the borrower's creditworthiness is in doubt. A loan may remain in accruing status when it is sufficiently collateralized, which means the collateral covers the full repayment of principal and interest, and is in the process of active collection.

Commercial and industrial and commercial real estate loans are evaluated for impairment in accordance with the provisions of Statement No. 114, *Accounting by Creditors for Impairment of a Loan*, as amended. This Statement requires an allowance to be established as a component of the allowance for loan and lease losses when it is probable that all amounts due pursuant to the contractual terms of the loan or lease will not be collected and the recorded investment in the loan or lease exceeds its fair value. Fair value is measured using either the present value of expected future cash flows discounted at the loan's or lease's effective interest rate, the observable market price of the loan or lease, or the fair value of the collateral if the loan or lease is collateral dependent.

Consumer loans and leases, excluding residential mortgage and home equity loans, are subject to mandatory charge-off at a specified delinquency date and are not classified as non-performing prior to being charged off. These loans and leases are generally charged off in full no later than when the loan or lease becomes 120 days past due. Residential mortgage loans are placed on non-accrual status when principal payments are 180 days past due or interest payments are 210 days past due. A charge-off on a residential mortgage loan is recorded when the loan has been foreclosed and the loan balance exceeds the fair value of the collateral. The fair value of the collateral is then recorded as real estate owned and is reflected in other assets in the consolidated balance sheet. (See Note 4 for further information.)

Huntington uses the cost recovery method of accounting for cash received on non-performing loans and leases. Under this method, cash receipts are applied entirely against principal until the loan or lease has been collected in full, after which time any additional cash receipts are recognized as interest income. When, in management's judgment, the borrower's ability to make periodic interest and principal payments resumes and collectibility is no longer in doubt, the loan or lease is returned to accrual 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.

- **SOLD LOANS** — Loans that are sold are accounted for in accordance with Statement No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*. For loan sales with servicing retained, an asset is also recorded for the right to service the loans sold, based on the relative fair value of the servicing rights.

Gains and losses on the loans sold and servicing rights associated with loan sales are determined when the related loans are sold to the trust or third party. Fair values of the servicing rights are based on the present value of expected future cash flows from servicing the underlying loans, net of adequate compensation to service the loans. The present value of expected future cash flows is determined using assumptions for market interest rates, ancillary fees, and prepayment rates. Management also uses these assumptions to assess the servicing rights for impairment periodically. The servicing rights are recorded in other assets in the consolidated balance sheets. Servicing revenues on mortgage and automobile loans, net of the amortization of servicing rights, are included in mortgage banking income and other non-interest income, respectively.

- **ALLOWANCE FOR CREDIT LOSSES** — The allowance for credit losses (ACL) reflects Management's judgment as to the level of the ACL considered appropriate to absorb probable inherent credit losses. This judgment is based on the size and current risk characteristics of the portfolio, a review of individual loans and leases, historical and anticipated loss experience, and a review of individual relationships where applicable. External influences such as general economic conditions, economic conditions in the relevant geographic areas and specific industries, regulatory guidelines, and other factors are also assessed in determining the level of the allowance.

The allowance is determined subjectively, requiring significant estimates, including the timing and amounts of expected future cash flows on impaired loans and leases, consideration of current economic conditions, and historical loss experience pertaining to pools of homogeneous loans and leases, all of which may be susceptible to change. The allowance is increased through a provision that is charged to earnings, based on Management's quarterly evaluation of the factors previously mentioned, and is reduced by charge-offs, net of recoveries, and the allowance associated with securitized or sold loans.

The ACL consists of two components, the transaction reserve, which includes a specific reserve in accordance with Statement No. 114, and the economic reserve. Loan and lease losses related to the transaction reserve are recognized and measured pursuant to Statement No. 5, *Accounting for Contingencies*, and Statement No. 114, while losses related to the economic reserve are recognized and measured pursuant to Statement No. 5. The two components are more fully described below.

#### **Transaction Reserve**

The transaction reserve component of the ACL includes both (a) an estimate of loss based on characteristics of each commercial and consumer loan, lease, or loan commitment in the portfolio and (b) an estimate of loss based on an impairment review of each loan greater than \$500,000 that is considered to be impaired.

For middle market commercial and industrial, middle market commercial real estate, and small business loans, the estimate of loss is based on characteristics of each loan through the use of a standardized loan grading system, which is applied on an individual loan level and updated on a continuous basis. The reserve factors applied to these portfolios were developed based on internal credit migration models that track historical movements of loans between loan ratings over time and a combination of long-term average loss experience of the Company's own portfolio and external industry data.

Management analyzes each middle market commercial and industrial, middle market commercial real estate, or small business loan over \$500,000 for impairment when the loan is non-performing or has a grade of substandard or lower. The impairment tests are done in accordance with applicable accounting standards and regulations. For loans determined to be impaired, an estimate of loss is reserved for the amount of the impairment.

In the case of more homogeneous portfolios, such as consumer loans and leases, and residential mortgage loans, the determination of the transaction reserve is conducted at an aggregate, or pooled, level. For such portfolios, the development of the reserve factors includes the use of forecasting models to measure inherent loss in these portfolios.

Models and analyses are updated frequently to capture the recent behavioral characteristics of the subject portfolios, as well as any changes in loss mitigation or credit origination strategies. Adjustments to the reserve factors are made as needed based on observed results of the portfolio analytics.

#### **Economic Reserve**

Changes in the economic environment are a significant judgmental factor Management considers in determining the appropriate level of the ACL. The economic reserve incorporates Management's determination of the impact on the portfolio of risks associated with the general economic environment. The economic reserve is designed to address economic uncertainties and is determined based on a variety of economic factors that are correlated to the historical performance of the loan portfolio. Because of this more quantitative approach to recognizing risks in the general economy, the economic reserve may fluctuate from period to period.

In an effort to be as quantitative as possible in the ACL calculation, Management developed a revised methodology for calculating the economic reserve portion of the ACL in 2004. The revised methodology is specifically tied to economic indices that have a high correlation to the Company's historic charge-off variability. The indices currently in the model consists of the U.S. Index of Leading Economic Indicators, U.S. Profits Index, U.S. Unemployment Index, and the University of Michigan Current Consumer Confidence Index. Beginning in 2004, the calculated economic reserve was determined based upon the variability of credit losses over a credit cycle. The indices and time frame may be adjusted as actual portfolio performance changes over time. Management has the capability to judgmentally adjust the calculated economic reserve amount by a maximum of +/- 20% to reflect, among other factors, differences in local versus national economic conditions. This adjustment capability is deemed necessary given the newness of the model and the continuing uncertainty of forecasting economic environment changes.

- **RESELL AND REPURCHASE AGREEMENTS** — Securities purchased under agreements to resell and securities sold under agreements to repurchase are generally treated as collateralized financing transactions and are recorded at the amounts at which the securities were acquired or sold plus accrued interest. The fair value of collateral either received from or provided to a third party is continually monitored and additional collateral is obtained or is requested to be returned to Huntington as deemed appropriate.
- **GOODWILL AND OTHER INTANGIBLE ASSETS** — Under the purchase method of accounting, the net assets of entities acquired by Huntington are recorded at their estimated fair value at the date of acquisition. The excess of cost over the fair value of net assets acquired is recorded as goodwill. Other intangible assets are amortized on a straight-line basis over their estimated useful lives through 2011. Goodwill is not amortized, but is evaluated for impairment on an annual basis at September 30th of each year.
- **MORTGAGE BANKING ACTIVITIES** — Loans held for sale include performing 1-to-4 family residential mortgage loans originated for resale and are carried at the lower of cost (net of purchase discounts or premiums and effects of hedge accounting) or fair value as determined on an aggregate basis. Fair value is determined using available secondary market prices for loans with similar coupons, maturities, and credit quality.

Huntington recognizes the rights to service mortgage loans as separate assets, which are included in other assets in the consolidated balance sheets, only when purchased or when servicing is contractually separated from the underlying mortgage loans by sale or securitization of the loans with servicing rights retained. The carrying value of loans sold or securitized is allocated between loans and servicing rights based on the relative fair values of each. Purchased mortgage servicing rights are initially recorded at cost. All servicing rights are subsequently carried at the lower of the initial carrying value, adjusted for amortization, or fair value, and are included in other assets.
- **PREMISES AND EQUIPMENT** — Premises and equipment are stated at cost, less accumulated depreciation and amortization. Depreciation is computed principally by the straight-line method over the estimated useful lives of the related assets. Buildings and building improvements are depreciated over an average of 30 to 40 years and 10 to 20 years, respectively. Land improvements and furniture and fixtures are depreciated over 10 years, while equipment is depreciated over a range of three to seven years. Leasehold improvements are amortized over the lesser of the asset life or term of the related leases. Maintenance and repairs are charged to expense as incurred, while improvements that extend the useful life of an asset are capitalized and depreciated over the remaining useful life.
- **OPERATING LEASE ASSETS** — Operating lease assets consist of automobiles leased to consumers and equipment leased to business customers. These assets are reported at cost, including net deferred origination fees or costs, less accumulated

depreciation. For automobile operating leases, net deferred origination fees or costs include the referral payments Huntington makes to automobile dealers, which are deferred and amortized on a straight-line basis over the life of the lease.

Lease payments are recorded as rental income, a component of operating lease income in non-interest income. Net deferred origination fees or costs are amortized over the life of the lease to operating lease income. Depreciation expense is recorded on a straight-line basis over the term of the lease. Leased assets are depreciated to the estimated residual value at the end of the lease term. Depreciation expense is included in operating lease expense in the non-interest expense section of the consolidated income statement. Impairment of residual values of operating leases is evaluated under Statement No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. Under that Statement, when the future cash flows from the operating lease, including the expected realizable fair value of the automobile or equipment at the end of the lease, are less than the book value of the lease, an immediate impairment write-down is recognized. Otherwise, reductions in the expected residual value result in additional depreciation of the leased asset over the remaining term of the lease. Upon disposition, a gain or loss is recorded for any difference between the net book value of the lease and the proceeds from the disposition of the asset, including any insurance proceeds.

On a quarterly basis, Management evaluates the amount of residual value losses that it anticipates will result from the estimated fair value of a leased vehicle being less than the residual value inherent in the lease. Also as part of its quarterly analysis, Management evaluates automobile leases individually for impairment. Fair value includes estimated net proceeds from the sale of the leased vehicle plus expected residual value insurance proceeds and amounts expected to be collected from the lessee for excess mileage and other items that are billable under terms of the lease contract. When estimating the amount of expected insurance proceeds, Management takes into consideration policy caps that exist in one of its residual value insurance policies and whether it expects aggregate claims under such policies to exceed the cap. Residual value losses exceeding any insurance policy cap are reflected in higher depreciation expense over the remaining life of the affected automobile lease.

Credit losses, included in operating lease expense, occur when a lease is terminated early because the lessee cannot make the required lease payments. These credit-generated terminations result in Huntington taking possession of the automobile earlier than expected. When this occurs, the market value of the automobile may be less than Huntington's book value, resulting in a loss upon sale. Rental income payments accrued, but not received, are written off when they reach 120 days past due and at that time, the asset is evaluated for impairment.

- **BANK OWNED LIFE INSURANCE** — Huntington's bank owned life insurance policies are carried at their cash surrender value. Huntington recognizes tax-free income from the periodic increases in the cash surrender value of these policies and from death benefits.
- **DERIVATIVE FINANCIAL INSTRUMENTS** — Derivative financial instruments, primarily interest rate swaps, are accounted for in accordance with Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended. This Statement requires every derivative instrument to be recorded in the consolidated balance sheet as either an asset or liability measured at its fair value and Huntington to formally document, designate, and assess the effectiveness of transactions for which hedge accounting is applied. Depending on the nature of the hedge and the extent to which it is effective, the changes in fair value of the derivative recorded through earnings will either be offset against the change in the fair value of the hedged item in earnings, or recorded in other comprehensive income and subsequently recognized in earnings in the period the hedged item affects earnings. The portion of a hedge that is ineffective and all changes in the fair value of derivatives not designated as hedges, referred to as trading instruments, are recognized immediately in earnings. Deferred gains or losses from derivatives that are terminated are amortized over the shorter of the original remaining term of the derivative or the remaining life of the underlying asset or liability. Trading instruments are carried at fair value with changes in fair value included in other non-interest income. Trading instruments are executed primarily with Huntington's customers to fulfill their needs. Derivative instruments used for trading purposes include interest rate swaps, including callable swaps, interest rate caps and floors, and interest rate and foreign exchange futures, forwards, and options.
- **ADVERTISING COSTS** — Advertising costs are expensed as incurred as a marketing expense, a component of non-interest expense.
- **INCOME TAXES** — Income taxes are accounted for under the asset and liability method. Accordingly, deferred tax assets and liabilities are recognized for the future book and tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are determined using enacted tax rates expected to apply in the year in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income at the time of enactment of such change in tax rates.

- **TREASURY STOCK** — Acquisitions of treasury stock are recorded at cost. The reissuance of shares in treasury for acquisitions, stock option exercises, or for other corporate purposes, is recorded at weighted-average cost.
- **STOCK-BASED COMPENSATION** — Huntington’s stock-based compensation plans are accounted for based on the intrinsic value method promulgated by Accounting Principles Board Opinion 25, *Accounting for Stock Issued to Employees*, and related interpretations. Compensation expense for employee stock options is generally not recognized if the exercise price of the option equals or exceeds the fair value of the stock on the date of grant.

The following pro forma disclosures for net income and earnings per diluted common share is presented as if Huntington had applied the fair value method of accounting of Statement No. 123, *Accounting for Stock-Based Compensation*, in measuring compensation costs for stock options. The fair values of the stock options granted are estimated using the Black-Scholes option-pricing model. This model assumes that the estimated fair value of the options is amortized over the options’ vesting periods and the compensation costs would be included in personnel costs in the consolidated income statement. The following table also includes the weighted-average assumptions that were used in the option-pricing model for options granted in each of the last three years:

	Year Ended December 31,		
(in millions of dollars, except per share amounts)	2005	2004	2003
<b>Assumptions</b>			
Risk-free interest rate	4.07%	3.78%	4.45%
Expected dividend yield	3.34	3.20	3.11
Expected volatility of Huntington’s common stock	26.3	30.9	33.8
Expected option term (years)	6.0	6.0	6.0
<b>Pro forma results</b>			
Net income, as reported	\$ 412.1	\$ 398.9	\$ 372.4
Less pro forma expense related to options granted	(11.9)	(14.4)	(10.9)
<b>Pro forma net income</b>	<b>\$ 400.2</b>	<b>\$ 384.5</b>	<b>\$ 361.5</b>
<b>Net income per common share:</b>			
Basic, as reported	\$ 1.79	\$ 1.74	\$ 1.62
Basic, pro forma	1.74	1.67	1.58
Diluted, as reported	1.77	1.71	1.61
Diluted, pro forma	1.71	1.64	1.56

- **SEGMENT RESULTS** — Accounting policies for the lines of business are the same as those used in the preparation of the consolidated financial statements with respect to activities specifically attributable to each business line. However, the preparation of business line results requires management to establish methodologies to allocate funding costs and benefits, expenses, and other financial elements to each line of business. Changes are made in these methodologies utilized for certain balance sheet and income statement allocations performed by Huntington’s management reporting system, as appropriate. In 2005, the Capital Markets Group was removed from the Treasury/Other segment and combined with the Private Financial Group to form the Private Financial and Capital Markets Group segment. Since the Capital Markets Group is now managed through the Private Financial Group, combining these two segments better reflects the management accountability and decision making structure. Prior periods reflect this change.
- **STATEMENT OF CASH FLOWS** — Cash and cash equivalents are defined as “Cash and due from banks” and “Federal funds sold and securities purchased under resale agreements.”

## 2. NEW ACCOUNTING STANDARDS

- **FASB INTERPRETATION NO. 47, *Accounting for Conditional Asset Retirement Obligations (FIN 47)*** — In March 2005, the FASB issued FIN 47, which clarifies the term “conditional asset retirement obligation” as used in Statement No. 143, *Accounting for Asset Retirement Obligations*. FIN 47 refers to a legal obligation to perform an asset retirement activity in which the timing and/or method of settlement are conditional on a future event that may or may not be within the control of the entity. An entity is required to recognize a liability for the fair value of a conditional asset retirement obligation if the fair value of the liability can be reasonably estimated. The impact of adopting the provisions of FIN 47 in the fourth quarter of 2005 was not material.

- **FINANCIAL ACCOUNTING STANDARDS BOARD (FASB) STATEMENT NO. 154, *Accounting Changes and Error Corrections — a replacement of APB Opinion No. 20 and FASB Statement No. 3 (Statement No. 154)*** — In May 2005, the FASB issued Statement 154, which replaces APB Opinion No. 20, *Accounting Changes*, and Statement No. 3, *Reporting Accounting Changes in Interim Financial Statements*. Statement 154 changes the requirements for the accounting for and reporting of a change in accounting principle. Statement 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The impact of this new pronouncement is not expected to be material to Huntington’s financial condition, results of operations, or cash flows.
- **STATEMENT NO. 123 (REVISED 2004), *Share-Based Payment (STATEMENT NO. 123R)*** — Statement 123R was issued in December 2004, requiring that the compensation cost relating to share-based payment transactions be recognized in the financial statements. That cost will be measured based on the fair value of the equity or liability instruments issued. Statement 123R covers a wide range of share-based compensation arrangements including share options, restricted share plans, performance-based awards, share appreciation rights, and employee share purchase plans. Statement 123R replaces Statement No. 123, *Accounting for Stock-Based Compensation (Statement 123)*, and supersedes Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees (APB 25)*. Statement 123, as originally issued in 1995, established as preferable a fair-value-based method of accounting for share-based payment transactions with employees. However, that Statement permitted entities the option of continuing to apply the guidance in APB 25, as long as the footnotes to financial statements disclosed pro forma net income under the preferable fair-value-based method. Effective January 1, 2006, Huntington has adopted Statement 123R. The impact of adoption to Huntington’s results of operations is similar to the pro forma disclosures presented in Note 1. (*See Note 1 for the current accounting policy on share-based payments and Note 17 for the share-based payment disclosures*).
- **STAFF ACCOUNTING BULLETIN NO. 107, *Share Based Payments (SAB 107)*** — On March 29, 2005, the SEC issued SAB 107 to provide public companies additional guidance in applying the provisions of Statement No. 123R. Among other things, SAB 107 describes the SEC staff’s expectations in determining the assumptions that underlie the fair value estimates and discusses the interaction of Statement 123R with certain existing SEC guidance. Huntington has adopted the provisions of SAB 107 in conjunction with the adoption of Statement 123R beginning January 1, 2006.
- **PROPOSED INTERPRETATION OF STATEMENT NO. 109, *Accounting for Uncertain Tax Positions*** — In July 2005, the FASB issued an exposure draft of a proposed interpretation on accounting for uncertain tax positions under Statement No. 109, *Accounting for Income Taxes*. The exposure draft contains proposed guidance on the recognition and measurement of uncertain tax positions. If adopted as proposed, the Company would be required to recognize, in its financial statements, the best estimate of the impact of a tax position, only if that tax position is probable of being sustained on audit based solely on the technical merits of the position. The proposed effective date for the interpretation was originally scheduled for December 31, 2005, with a cumulative effect of a change in accounting principle to be recorded upon the initial adoption. In January 2006, FASB decided to make forthcoming rules on certain tax positions effective in 2007. FASB also moved to a view that such recognition should be changed from the tax position being “probable of being sustained on audit based solely on the technical merits of the position” to a less stringent benchmark of “more likely than not” that the position would be sustained on audit or final resolution through legal action or settlement. FASB expects to publish the planned rules on uncertain tax positions in March or April of 2006. Huntington is currently evaluating the impact this proposed interpretation will have on its consolidated financial statements.
- **PROPOSED FASB AMENDMENT TO STATEMENT NO. 140, *Servicing Rights*** — In August 2005, the FASB issued an exposure draft, *Accounting for Servicing of Financial Assets, an amendment of FASB Statement No. 140*. This exposure draft would amend Statement No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*, and would require that all separately recognized servicing rights be initially measured at fair value, if practicable. For each class of separately recognized servicing assets and liabilities, this exposure draft would permit Huntington to choose either to report servicing assets and liabilities at fair value or at amortized cost. Under the fair value approach, servicing assets and liabilities will be recorded at fair value at each reporting date with changes in fair value recorded in earnings in the period in which the changes occur. Under the amortized cost method, servicing assets and liabilities are amortized in proportion to and over the period of estimated net servicing income or net servicing loss and are assessed for impairment based on fair value at each reporting date. The statement would be effective for fiscal years beginning after September 15, 2006, and allows early adoption as of the beginning of a fiscal year for which the entity has not previously issued interim financial statements.

## 3. INVESTMENT SECURITIES

Investment securities at December 31 were as follows:

(in thousands of dollars)	Amortized Cost	Unrealized		Fair Value
		Gross Gains	Gross Losses	
<b>2005</b>				
U.S. Treasury	\$ 24,199	\$ 131	\$ (655)	\$ 23,675
Federal agencies				
Mortgage-backed securities	1,309,598	680	(31,256)	1,279,022
Other agencies	349,385	115	(13,034)	336,466
Total Federal agencies	1,658,983	795	(44,290)	1,615,488
Asset-backed securities	1,788,694	4,990	(4,904)	1,788,780
Municipal securities	544,781	5,003	(4,934)	544,850
Private label CMO	402,959	171	(9,561)	393,569
Other securities	159,522	751	(115)	160,158
<b>Total investment securities</b>	<b>\$ 4,579,138</b>	<b>\$ 11,841</b>	<b>\$ (64,459)</b>	<b>\$ 4,526,520</b>

(in thousands of dollars)	Amortized Cost	Unrealized		Fair Value
		Gross Gains	Gross Losses	
<b>2004</b>				
U.S. Treasury	\$ 24,987	\$ 362	\$ (213)	\$ 25,136
Federal agencies				
Mortgage-backed securities	985,846	177	(12,507)	973,516
Other agencies	986,954	1,193	(15,901)	972,246
Total Federal agencies	1,972,800	1,370	(28,408)	1,945,762
Asset-backed securities	1,198,296	2,690	(1,004)	1,199,982
Municipal securities	410,614	7,404	(1,794)	416,224
Private label CMO	462,394	866	(5,233)	458,027
Other securities	189,513	4,962	(661)	193,814
<b>Total investment securities</b>	<b>\$ 4,258,604</b>	<b>\$ 17,654</b>	<b>\$ (37,313)</b>	<b>\$ 4,238,945</b>

There were no securities classified as held to maturity at December 31, 2005. Included in investment securities at December 31, 2004, were \$2.0 million of municipal securities classified as held to maturity. These securities were accounted for at their historical cost. In the first quarter of 2005, Huntington sold \$1.5 million of the securities classified as held to maturity and transferred the remaining securities to available for sale. At the time of the transfer, a nominal unrealized gain on the transferred securities was recognized in other comprehensive income.

Other securities include Federal Home Loan Bank and Federal Reserve Bank stock, corporate debt and marketable equity securities.

Contractual maturities of investment securities as of December 31 were:

(in thousands of dollars)	2005		2004	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Under 1 year	\$ 1,765	\$ 1,765	\$ 8,597	\$ 8,653
1-5 years	394,254	382,549	610,189	606,140
6-10 years	199,670	196,154	584,619	575,399
Over 10 years	3,838,730	3,800,751	2,964,917	2,957,796
Non-marketable equity securities	89,661	89,661	84,756	84,756
Marketable equity securities	55,058	55,640	5,526	6,201
<b>Total investment securities</b>	<b>\$ 4,579,138</b>	<b>\$ 4,526,520</b>	<b>\$ 4,258,604</b>	<b>\$ 4,238,945</b>

At December 31, 2005, the carrying value of investment securities pledged to secure public and trust deposits, trading account liabilities, U.S. Treasury demand notes, and security repurchase agreements totaled \$1.4 billion. There were no securities of a single issuer, which are not governmental or government-sponsored, that exceeded 10% of shareholders' equity at December 31, 2005.

The following table provides the gross unrealized losses and fair value of temporarily impaired securities, aggregated by investment category and length of time the individual securities have been in a continuous loss position, at December 31, 2005.

(in thousands of dollars)	Less than 12 Months		Over 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Treasury	\$ —	\$ —	\$ 19,857	\$ (655)	\$ 19,857	\$ (655)
Federal agencies						
Mortgage-backed securities	658,407	(13,536)	431,877	(17,720)	1,090,284	(31,256)
Other agencies	—	—	334,051	(13,034)	334,051	(13,034)
Total Federal agencies	658,407	(13,536)	765,928	(30,754)	1,424,335	(44,290)
Asset-backed securities	725,215	(4,739)	87,379	(165)	812,594	(4,904)
Municipal securities	214,634	(2,976)	51,334	(1,958)	265,968	(4,934)
Private label CMO	42,501	(750)	336,309	(8,811)	378,810	(9,561)
Other securities	3,219	(32)	2,540	(83)	5,759	(115)
<b>Total temporarily impaired securities</b>	<b>\$ 1,643,976</b>	<b>\$ (22,033)</b>	<b>\$ 1,263,347</b>	<b>\$ (42,426)</b>	<b>\$ 2,907,323</b>	<b>\$ (64,459)</b>

As of December 31, 2005, Management has evaluated these investment securities with unrealized losses and all non-marketable securities for impairment. The unrealized losses were caused by interest rate increases. The contractual terms and/or cash flows of the investments do not permit the issuer to settle the securities at a price less than the amortized cost. Huntington has the intent and ability to hold these investment securities until the fair value is recovered, which may be maturity, and therefore, does not consider them to be other-than-temporarily impaired at December 31, 2005.

In 2004, Management determined that \$11.0 million of equity securities, with unrealized losses of \$0.9 million were other-than-temporarily impaired. Consequently, Huntington recognized the unrealized losses in 2004 as non-interest income. There were no other-than-temporary impairments of any securities recognized in 2005 or 2003.

Gross gains from sales of securities of \$8.5 million, \$34.7 million, and \$14.5 million, were realized in 2005, 2004, and 2003, respectively. Gross losses totaled \$16.6 million in 2005, \$19.0 million in 2004, and \$9.2 million in 2003.

#### 4. LOANS AND LEASES

At December 31, 2005, \$2.4 billion of commercial and industrial loans were pledged to secure potential discount window borrowings from the Federal Reserve Bank. At this same date, \$4.2 billion of real estate qualifying loans were pledged to secure advances from the Federal Home Loan Bank. Real estate qualifying loans are comprised of residential mortgage loans secured by first and second liens.



Huntington's loan and lease portfolio includes lease financing receivables consisting of direct financing leases on equipment, which are included in commercial and industrial loans, and on automobiles. Net investment in lease financing receivables by category at December 31 were as follows:

(in thousands of dollars)	At December 31,	
	2005	2004
<b>Commercial and industrial</b>		
Lease payments receivable	\$ 486,488	\$ 389,177
Estimated residual value of leased assets	39,570	37,704
Gross investment in commercial lease financing receivables	526,058	426,881
Deferred origination fees and costs	3,125	1,980
Unearned income	(58,476)	(39,414)
<b>Total net investment in commercial lease financing receivables</b>	<b>\$ 470,707</b>	<b>\$ 389,447</b>
<b>Consumer</b>		
Lease payments receivable	\$ 1,209,088	\$ 1,453,909
Estimated residual value of leased assets	1,296,303	1,258,160
Gross investment in consumer lease financing receivables	2,505,391	2,712,069
Deferred origination fees and costs	(565)	(2,130)
Unearned income	(215,811)	(266,484)
<b>Total net investment in consumer lease financing receivables</b>	<b>\$ 2,289,015</b>	<b>\$ 2,443,455</b>

The future lease rental payments due from customers on direct financing leases at December 31, 2005, totaled \$1.2 billion and were as follows: \$0.5 billion in 2006; \$0.4 billion in 2007; \$0.2 billion in 2008; \$0.1 billion in 2009, and less than \$0.1 billion thereafter. Included in the estimated residual value of leased consumer assets was a valuation reserve of \$5.1 million and \$4.2 million at December 31, 2005 and 2004, respectively, for expected residual value impairment not covered by residual value insurance.

#### RELATED PARTY TRANSACTIONS

Huntington has made loans to its officers, directors, and their associates. These loans were made in the ordinary course of business under normal credit terms, including interest rate and collateralization, and do not represent more than the normal risk of collection. These loans to related parties for the year ended December 31 are summarized as follows:

(in thousands of dollars)	2005
<b>Balance, beginning of year</b>	\$ 89,177
Loans made	219,728
Repayments	(231,814)
Changes due to status of executive officers and directors	(603)
<b>Balance, end of year</b>	<b>\$ 76,488</b>

#### NON-PERFORMING ASSETS AND PAST DUE LOANS

At December 31, 2005 and 2004, loans in non-accrual status and loans past due 90 days or more and still accruing interest, were as follows:

(in thousands of dollars)	At December 31,	
	2005	2004
<b>Commercial and industrial</b>		
Commercial real estate	\$ 55,273	\$ 34,692
Residential mortgage	18,309	8,670
Home equity	17,613	13,545
	10,720	7,055
<b>Total non-performing loans</b>	<b>101,915</b>	<b>63,962</b>
Other real estate, net	15,240	44,606
<b>Total non-performing assets</b>	<b>\$ 117,155</b>	<b>\$ 108,568</b>
<b>Accruing loans past due 90 days or more</b>	<b>\$ 56,138</b>	<b>\$ 54,283</b>

The amount of interest that would have been recorded under the original terms for total loans classified as non-accrual or renegotiated was \$7.7 million for 2005, \$3.3 million for 2004, and \$6.3 million for 2003. Amounts actually collected and recorded as interest income for these loans totaled \$1.9 million, \$1.9 million, and \$3.0 million for 2005, 2004, and 2003, respectively.

## 5. LOAN SALES AND SECURITIZATIONS

### AUTOMOBILE LOANS

Huntington sold \$0.4 billion, \$1.5 billion and \$2.1 billion of automobile loans in 2005, 2004 and 2003, respectively. Pre-tax gains from the sales of automobile loans totaled \$1.2 million, \$14.2 million and \$40.0 million in 2005, 2004 and 2003, respectively.

During 2005, Huntington used the following assumptions to measure fair value of retained servicing rights at the time of the sale: estimated servicing income of 0.55%, requires adequate compensation for servicing of approximately 0.62%, receives other ancillary fees of approximately 0.33%, applies a discount rate of 10% and receives an estimated return on payments prior to remittance to investors. The servicing asset is then amortized against servicing income. Impairment, if any, is recognized when carrying value exceeds the fair value as determined by calculating the present value of expected net future cash flows. The primary risk characteristic for measuring servicing assets is payoff rates of the underlying loan pools. Valuation calculations rely heavily on the predicted payoff assumption, and if actual payoff is quicker than expected, then future value would be impaired. Other impairment concerns would be changes to the other assumptions mentioned above.

Changes in the carrying value of automobile loan servicing rights for the three years ended December 31, 2005, and the fair value at the end of each period were as follows:

(in thousands of dollars)	Year Ended December 31,		
	2005	2004	2003
<b>Carrying value, beginning of year</b>	<b>\$ 20,286</b>	\$ 17,662	\$ 12,676
New servicing assets	<b>2,113</b>	16,249	25,106
Amortization	<b>(11,528)</b>	(13,625)	(8,434)
Impairment charges	<b>(66)</b>	—	—
Adoption of FIN 46	—	—	(11,686)
<b>Carrying value, end of year</b>	<b>\$ 10,805</b>	\$ 20,286	\$ 17,662
<b>Fair value, end of year</b>	<b>\$ 11,658</b>	\$ 21,361	\$ 18,501

Huntington has retained servicing responsibilities and receives annual servicing fees from 0.55% to 1.00% of the outstanding loan balances. Servicing income, net of amortization of capitalized servicing assets, included in other non-interest income amounted to \$12.5 million in 2005, \$10.1 million in 2004, and \$4.3 million in 2003. The unpaid principal balance of automobile loans serviced for third parties was \$1.7 billion, \$2.3 billion, and \$1.8 billion at December 31, 2005, 2004, and 2003, respectively.

There were no automobile loan securitizations in 2005 or 2004. As a result of adopting FIN 46 (subsequently amended as FIN 46R) in the third quarter of 2003, one of the securitization trusts sponsored by Huntington was consolidated. The impact of this consolidation was to reduce the outstanding automobile loans serviced by \$1.0 billion, reduce the retained interest asset by \$142.3 million, and reduce the servicing asset by \$11.7 million. In the second quarter of 2004, Huntington repurchased all the outstanding loans of an unconsolidated trust for \$23.9 million, resulting in a \$1.5 million pre-tax gain. There were no impairment charges related to Huntington's retained interest in automobile loans during 2004 and 2003.

### RESIDENTIAL MORTGAGE LOANS

There were no sales of residential mortgage loans held for investment in 2005 and 2003. During 2004, Huntington sold \$199.8 million of residential mortgage loans held for investment, resulting in a net pre-tax gain of \$0.5 million. Huntington also exchanged for federal agency mortgage-backed securities \$15.1 million, \$115.9 million and \$354.2 million of residential mortgage loans in 2005, 2004 and 2003, respectively, and retained all of the resulting securities. Accordingly, these amounts were reclassified from loans to investment securities.

A mortgage servicing right (MSR) is established only when the loans are sold or when servicing is contractually separated from the underlying mortgage loans by sale or securitization of the loans with servicing rights retained. The initial carrying value of the asset is established based on its relative fair value at the time of sale using assumptions that are consistent with assumptions used at the time to estimate the fair value of the total MSR portfolio. All servicing rights are subsequently carried at the lower of the initial carrying value, adjusted for amortization, or fair value, and are included in other assets. From time to time, loans may be sold with recourse. This recourse may be for a limited period of time or for the life of the loan.

The unpaid principal balance of residential mortgage loans serviced for third parties was \$7.3 billion, \$6.9 billion, and \$6.4 billion at December 31, 2005, 2004, and 2003, respectively.

A summary of loans serviced at December 31, 2005 and for the year ended, were as follows:

(in millions of dollars)	At December 31, 2005	Year Ended December 31, 2005
	Principal Balance	Average Balance
Loans serviced for others	\$ 7,276	\$ 7,013
Loans held in portfolio and held for sale	4,306	4,227
<b>Loans serviced</b>	<b>\$11,582</b>	<b>\$11,240</b>

Changes in the carrying value of mortgage servicing rights and the associated valuation allowance for the three years ended December 31, 2005, and the fair value at the end of each period were as follows:

(in thousands of dollars)	Year Ended December 31,		
	2005	2004	2003
<b>Balance, beginning of year</b>	\$ 77,107	\$ 71,087	\$ 29,271
New servicing assets	28,260	23,738	52,896
Amortization	(18,359)	(19,019)	(25,966)
Impairment recovery	4,371	1,378	14,957
Sales	(120)	(77)	(71)
<b>Balance, end of year</b>	\$ 91,259	\$ 77,107	\$ 71,087
<b>Fair value, end of year</b>	\$ 109,560	\$ 84,084	\$ 74,684

Servicing rights are evaluated quarterly for impairment based on the fair value of those rights, using a disaggregated approach. The fair value of the servicing rights is determined by estimating the present value of future net cash flows, taking into consideration market loan prepayment speeds, discount rates, servicing costs, and other economic factors. Seven risk tranches are used in the evaluation of mortgage servicing rights for impairment: three tranches for servicing rights on 30-year fixed-rate mortgage loans (based on interest rate bands of below 6.00%; 6.00% up to 6.99%; and 7.00% and above), three tranches for servicing rights on 15-year fixed-rate mortgage loans (based on interest rate bands of below 5.50%; 5.50% up to 6.49%; and 6.50% and above), and one tranche encompassing balloon and adjustable rate mortgages. Huntington began using the expanded interest rate bands in the fourth quarter of 2003. Temporary impairment is recognized in a valuation allowance against the mortgage servicing rights. Huntington also analyzes its mortgage servicing rights periodically for other-than-temporary impairment. Other-than-temporary impairment is recognized as a direct reduction of the carrying value of the mortgage servicing right and cannot be recovered. No other-than-temporary impairment was recognized in the three years ended December 31, 2005. Servicing rights are amortized over the period of, and in proportion to, the estimated future net servicing revenue. Amortization is recorded as a reduction of mortgage banking income, which is reflected in non-interest income in Huntington's consolidated income statement.

Changes in the impairment allowance for mortgage servicing rights for the three years ended December 31, 2005, were as follows:

(in thousands of dollars)	Year Ending December 31,		
	2005	2004	2003
<b>Balance, beginning of year</b>	\$ (4,775)	\$ (6,153)	\$ (21,110)
Impairment charges	(15,814)	(18,110)	(10,713)
Impairment recovery	20,185	19,488	25,670
<b>Balance, end of year</b>	\$ (404)	\$ (4,775)	\$ (6,153)

At December 31, 2005, the fair value, assumptions and the sensitivity of the current fair value of Huntington's mortgage servicing rights to immediate 10% and 20% adverse changes in those assumptions were:

(in thousands of dollars)	Actual	Decline in fair value due to	
		10% adverse change	20% adverse change
Constant pre-payment rate	12.76%	\$ (4,900)	\$ (9,500)
Discount rate	9.42	(3,900)	(7,600)

Caution should be used when reading these sensitivities as a change in an individual assumption and its impact on fair value is shown independent of changes in other assumptions. Economic factors are dynamic and may counteract or magnify sensitivities.

#### 6. ALLOWANCES FOR CREDIT LOSSES (ACL)

The Company maintains two reserves, both of which are available to absorb possible credit losses: the allowance for loan and lease losses (ALLL) and the allowance for unfunded loan commitments and letters of credit (AULC). When summed together, these reserves constitute the total allowances for credit losses (ACL). During 2005, the economic reserve associated with unfunded loan commitments was transferred from the ALLL to the AULC. This transfer had no impact on net income. A summary of the transactions in the allowances for credit losses and details regarding impaired loans and leases follows for the three years ended December 31:

(in thousands of dollars)	Year Ended December 31,		
	2005	2004	2003
<b>Allowance for loan and leases losses, beginning of year (ALLL)</b>	\$ 271,211	\$ 299,732	\$ 300,503
Loan and lease losses	(115,848)	(126,115)	(201,534)
Recoveries of loans previously charged off	35,791	47,580	39,725
<b>Net loan and lease losses</b>	<b>(80,057)</b>	<b>(78,535)</b>	<b>(161,809)</b>
Provision for loan and lease losses	83,782	57,397	164,616
Economic reserve transfer	(6,253)	—	—
Allowance for assets sold and securitized <sup>(1)</sup>	(336)	(7,383)	(3,578)
<b>Allowance for loan and lease losses, end of year</b>	<b>\$ 268,347</b>	<b>\$ 271,211</b>	<b>\$ 299,732</b>
<b>Allowance for unfunded loan commitments and letters of credit, beginning of year (AULC)</b>	<b>\$ 33,187</b>	<b>\$ 35,522</b>	<b>\$ 36,145</b>
Provision for unfunded loan commitments and letters of credit losses	(2,483)	(2,335)	(623)
Economic reserve transfer	6,253	—	—
<b>Allowance for unfunded loan commitments and letters of credit, end of year</b>	<b>\$ 36,957</b>	<b>\$ 33,187</b>	<b>\$ 35,522</b>
<b>Total allowances for credit losses (ACL)</b>	<b>\$ 305,304</b>	<b>\$ 304,398</b>	<b>\$ 335,254</b>
<b>Recorded balance of impaired loans, at end of year<sup>(2)</sup> :</b>			
With specific reserves assigned to the loan and lease balances	\$ 41,525	\$ 51,875	\$ 54,853
With no specific reserves assigned to the loan and lease balances	14,032	29,296	—
<b>Total</b>	<b>\$ 55,557</b>	<b>\$ 81,171</b>	<b>\$ 54,853</b>
Average balance of impaired loans for the year <sup>(2)</sup>	\$ 29,441	\$ 54,445	\$ 33,970
Allowance for loan and lease losses on impaired loans <sup>(2)</sup>	14,526	23,447	26,249

(1) In conjunction with the automobile loan sales and securitizations in 2005, 2004, and 2003, an allowance for loan and lease losses attributable to the associated loans sold was included as a component of the loan's carrying value upon their sale.

(2) Includes impaired commercial and industrial loans and commercial real estate loans with outstanding balances greater than \$500,000. A loan is impaired when it is probable that Huntington will be unable to collect all amounts due according to the contractual terms of the loan agreement. Impaired loans are included in non-performing assets. The amount of interest recognized in 2005 and 2004 on impaired loans while they were considered impaired was less than \$0.1 million and \$1.1 million, respectively. There was no interest recognized in 2003 on impaired loans while they were considered impaired.

There is a potential for loan products to contain contractual terms that give rise to a concentration of credit risk that may increase a lending institution's exposure to risk of nonpayment or realization. Examples of these contractual terms include loans that permit negative amortization, a loan-to-value of greater than 100%, and option adjustable-rate mortgages. Huntington does not offer mortgage loan products that contain these terms. Huntington does offer a home equity loan product that is interest only with an introductory rate that is below the market interest rate for the initial period of the loan term and increases when that period ends. Home equity loans totaled \$4.6 billion, or 19%, of total loans at December 31, 2005 and 2004. From a credit risk perspective, 87% of the home equity loans had a loan to value ratio of less than 90% at December 31, 2005. The charge-off policy for home equity loans is described in Note 1.

## 7. OPERATING LEASE ASSETS

For periods before May 2002, Huntington purchased vehicles, primarily automobiles, for lease to consumers under operating lease arrangements. Starting in 2004, Huntington also began purchasing equipment for lease to customers under similar operating lease arrangements. These operating lease arrangements required the lessee to make a fixed monthly rental payment over a specified lease term, typically from 36 to 66 months. The vehicles and equipment, net of accumulated depreciation, are recorded as operating lease assets in the consolidated balance sheet. Rental income is earned by Huntington on the operating lease assets and reported as non-interest income. The assets are depreciated over the term of the lease to the estimated fair value at the end of the lease. The depreciation of these assets is reported as a component of non-interest expense. At the end of the lease, the asset is either purchased by the lessee or returned to Huntington. The following is a summary of operating lease assets at December 31:

(in thousands of dollars)	At December 31,	
	2005	2004
Cost of operating lease assets (including residual values of \$159,070 and \$406,965, respectively)	\$ 506,445	\$ 1,173,616
Deferred origination fees and costs	(272)	(1,138)
Accumulated depreciation	(277,096)	(585,168)
<b>Total</b>	<b>\$ 229,077</b>	<b>\$ 587,310</b>

The future lease rental payments due from customers on operating lease assets at December 31, 2005, totaled \$101.5 million and are due as follows: \$63.8 million in 2006; \$17.6 million in 2007; \$7.4 million in 2008; \$5.6 million in 2009, \$3.3 million in 2010, and \$3.4 million thereafter. Depreciation expense for each of the years ended December 31, 2005, 2004, and 2003 was \$99.3 million, \$216.4 million, and \$350.6 million, respectively.

## 8. PREMISES AND EQUIPMENT

At December 31, premises and equipment stated at cost were comprised of the following:

(in thousands of dollars)	At December 31,	
	2005	2004
Land and land improvements	\$ 67,787	\$ 63,406
Buildings	246,745	237,071
Leasehold improvements	149,466	142,764
Equipment	477,192	467,674
<b>Total premises and equipment</b>	<b>941,190</b>	<b>910,915</b>
Less accumulated depreciation and amortization	(580,513)	(555,800)
<b>Net premises and equipment</b>	<b>\$ 360,677</b>	<b>\$ 355,115</b>

Depreciation and amortization charged to expense and rental income credited to occupancy expense for the three years ended December 31, 2005 were:

(in thousands of dollars)	Year Ended December 31,		
	2005	2004	2003
Total depreciation and amortization of premises and equipment	\$ 50,355	\$ 50,097	\$ 46,746
Rental income credited to occupancy expense	11,010	13,081	14,837

## 9. GOODWILL AND OTHER INTANGIBLE ASSETS

At December 31, goodwill and other intangible assets, net of accumulated amortization, were comprised of:

(in thousands of dollars)	At December 31,	
	2005	2004
Goodwill	\$ 212,530	\$ 210,155
Other intangibles	4,956	5,652
<b>Balance, end of period</b>	<b>\$ 217,486</b>	<b>\$ 215,807</b>

At December 31, 2005, none of Huntington's goodwill is deductible for tax purposes. Goodwill and other intangible assets, net of accumulated amortization, and related activity, by segment, for the years ended December 31, 2005 and 2004, were as follows:

(in thousands of dollars)	Regional Banking	Dealer Sales	PFCMG	Treasury/ Other	Huntington Consolidated
<b>Balance, January 1, 2004</b>	\$ 197,593	—	\$ 12,947	\$ 6,469	\$ 217,009
Amortization	—	—	—	(817)	(817)
Adjustments	—	—	(385)	—	(385)
<b>Balance, December 31, 2004</b>	197,593	—	12,562	5,652	215,807
Additions	2,378	—	130	—	2,508
Amortization	—	—	(13)	(816)	(829)
<b>Balance, December 31, 2005</b>	<b>\$ 199,971</b>	<b>\$ —</b>	<b>\$ 12,679</b>	<b>\$ 4,836</b>	<b>\$ 217,486</b>

During 2005 Huntington purchased certain trust relationships for \$0.1 million. Also included in 2005 is \$2.4 million primarily relating to the finalization of the settlement of a purchase price contingency of the LeaseNet acquisition in 2002.

The \$0.4 million adjustment in 2004 relates to goodwill recorded as part of the Haberer Registered Investment Advisor, Inc. acquisition in 2002. No impairment of goodwill was required in accordance with Statement No. 142 in 2005, 2004 or 2003. For the years 2006 through 2010, amortization expense associated with the other intangibles is expected to be \$0.8 million each year.

## 10. SHORT-TERM BORROWINGS

At December 31, short-term borrowings were comprised of the following:

(in thousands of dollars)	At December 31,	
	2005	2004
Federal funds purchased	\$ 931,097	\$ 30,620
Securities sold under agreements to repurchase	888,985	1,093,247
Commercial paper	2,480	1,928
Other borrowings	66,698	81,438
<b>Total short-term borrowings</b>	<b>\$ 1,889,260</b>	<b>\$ 1,207,233</b>

Other borrowings consist of borrowings from the U.S. Treasury, funds held as collateral from swap counterparties, and other notes payable.

Information concerning securities sold under agreements to repurchase for the years ended December 31 is summarized as follows:

(in thousands of dollars)	Year Ended December 31,	
	2005	2004
Average balance during the year	\$ 1,125,159	\$ 1,410,174
Average interest rate during the year	2.17%	0.93%
Maximum month-end balance during the year	\$ 1,356,733	\$ 1,500,267

Commercial paper is issued by Huntington Bancshares Financial Corporation, a non-bank subsidiary, with principal and interest guaranteed by the parent company.

**11. FEDERAL HOME LOAN BANK ADVANCES**

Huntington's long-term advances from the Federal Home Loan Bank had weighted average interest rates of 4.37% and 2.32% at December 31, 2005 and 2004, respectively. These advances, which predominantly had variable interest rates, were collateralized by qualifying real estate loans. As of December 31, 2005 and 2004, Huntington's maximum borrowing capacity was \$1.7 billion and \$1.5 billion, respectively. The advances outstanding at December 31, 2005 of \$1.2 billion mature as follows: \$0.2 billion in 2006; \$0.6 billion in 2007; \$0.4 billion in 2008; and less than \$0.1 billion thereafter. The terms of advances include various restrictive covenants including limitations on the acquisition of additional debt in excess of specified levels, dividend payments, and the disposition of subsidiaries. As of December 31, 2005, Huntington was in compliance with all such covenants.

**12. SUBORDINATED NOTES**

At December 31, Huntington's subordinated notes consisted of the following:

(in thousands of dollars)	At December 31,	
	2005	2004
<b>Parent company:</b>		
4.94% junior subordinated debentures due 2027 <sup>(1)</sup>	\$ 206,186	\$ 206,186
5.12% junior subordinated debentures due 2028 <sup>(2)</sup>	103,093	103,093
<b>The Huntington National Bank:</b>		
8.00% subordinated notes due 2010	158,620	160,692
4.90% subordinated notes due 2014	193,361	199,136
6.60% subordinated notes due 2018	214,277	219,505
5.375% subordinated notes due 2019	147,834	151,181
<b>Total subordinated notes</b>	<b>\$ 1,023,371</b>	<b>\$ 1,039,793</b>

(1) Variable effective rate at December 31, 2005, based on three month LIBOR + 0.70.

(2) Variable effective rate at December 31, 2005, based on three month LIBOR + 0.625.

The weighted-average interest rate for subordinated notes was 5.84% and 5.16% at December 31, 2005 and 2004, respectively.

Amounts above are reported net of unamortized discounts and include values related to hedging with derivative financial instruments. The derivative instruments, principally interest rate swaps, are used to match the funding rates on certain assets by hedging the cash flow variability associated with certain variable-rate debt by converting the debt to fixed-rate and hedging the fair values of certain fixed-rate debt by converting the debt to a variable rate. See Note 21 for more information regarding such financial instruments. All principal is due upon maturity of the note as described in the table above.

**13. OTHER LONG-TERM DEBT**

At December 31, Huntington's other long-term debt consisted of the following:

(in thousands of dollars)	At December 31,	
	2005	2004
The Huntington National Bank	\$ 1,576,033	\$ 3,006,004
Parent company (matured in December 2005)	—	100,000
4.69% Securitization trust note payable due 2012 <sup>(1)</sup>	792,386	860,000
7.88% Class C preferred securities of REIT subsidiary, no maturity	50,000	50,000
<b>Total other long-term debt</b>	<b>\$ 2,418,419</b>	<b>\$ 4,016,004</b>

(1) Variable effective rate at December 31, 2005, based on one month LIBOR + 0.33.

Amounts above include values related to hedging with derivative financial instruments. The derivative instruments, principally interest rate swaps, are used to match the funding rates on certain assets by hedging the cash flow variability associated with certain variable-rate debt by converting the debt to fixed-rate and hedging the fair values of certain fixed-rate debt by converting the debt to a variable rate. See Note 21 for more information regarding such financial instruments.

The weighted-average interest rate for other long-term debt was 4.34% and 2.86% at December 31, 2005 and 2004, respectively. At December 31, 2005, Huntington's other long-term debt included \$50 million of secured borrowings, which had a variable rate of 4.13% based, in part, on three-month LIBOR. The secured borrowings matured in January 2006.

The securitization trust note payable is collateralized by \$855 million in automobile loans held in the automobile trust. The terms of the other long-term debt obligations contain various restrictive covenants including limitations on the acquisition of additional

debt in excess of specified levels, dividend payments, and the disposition of subsidiaries. As of December 31, 2005, Huntington was in compliance with all such covenants.

Other long-term debt maturities for the next five years are as follows: \$0.8 billion in 2006; \$0.1 billion in 2007; \$0.2 billion in 2008; \$0.2 billion in 2009; \$0.3 billion in 2010; and \$0.8 billion in 2011 and thereafter. These maturities are based upon the par values of long-term debt.

#### 14. OTHER COMPREHENSIVE INCOME

The components of Huntington's other comprehensive income in each of the three years ended December 31 were as follows:

(in thousands of dollars)	Year Ended December 31,		
	2005	2004	2003
<b>Unrealized losses on investment securities arising during the year:</b>			
Unrealized net losses	\$ (41,014)	\$ (18,555)	\$ (67,520)
Related tax benefit	14,445	6,689	23,511
<b>Net</b>	<b>(26,569)</b>	<b>(11,866)</b>	<b>(44,009)</b>
<b>Less: Reclassification of net realized losses (gains) from sales of investment securities during the year:</b>			
Realized net losses (gains)	8,055	(15,763)	(5,258)
Related tax (benefit) expense	(2,819)	5,517	1,840
<b>Net</b>	<b>5,236</b>	<b>(10,246)</b>	<b>(3,418)</b>
<b>Total unrealized losses on investment securities arising during the year, net of reclassification of net realized losses (gains)</b>	<b>(21,333)</b>	<b>(22,112)</b>	<b>(47,427)</b>
<b>Unrealized gains (losses) on cash flow hedging derivatives arising during the year:</b>			
Unrealized net gains (losses)	16,852	14,914	(17,048)
Related tax (expense) benefit	(5,898)	(5,220)	5,967
<b>Net</b>	<b>10,954</b>	<b>9,694</b>	<b>(11,081)</b>
<b>Minimum pension liability adjustment:</b>			
Unrealized net loss	(1,248)	(1,789)	(1,714)
Related tax benefit	437	626	600
<b>Net</b>	<b>(811)</b>	<b>(1,163)</b>	<b>(1,114)</b>
<b>Total other comprehensive loss</b>	<b>\$ (11,190)</b>	<b>\$ (13,581)</b>	<b>\$ (59,622)</b>

Activity in accumulated other comprehensive income for the three years ended December 31, 2005 was as follows:

(in thousands of dollars)	Unrealized gains and losses on investment securities	Unrealized gains and losses on cash flow hedging derivatives	Minimum pension liability	Total
Balance, January 1, 2003	\$ 56,856	\$ 5,639	\$ (195)	\$ 62,300
Current period change	(47,427)	(11,081)	(1,114)	(59,622)
Balance, December 31, 2003	9,429	(5,442)	(1,309)	2,678
Current period change	(22,112)	9,694	(1,163)	(13,581)
Balance, December 31, 2004	(12,683)	4,252	(2,472)	(10,903)
Current period change	(21,333)	10,954	(811)	(11,190)
<b>Balance, December 31, 2005</b>	<b>\$ (34,016)</b>	<b>\$ 15,206</b>	<b>\$ (3,283)</b>	<b>\$ (22,093)</b>



## 15. SHAREHOLDERS' EQUITY

Effective April 27, 2004, the board of directors authorized a new share repurchase program (the 2004 Repurchase Program) which cancelled the prior 2003 share repurchase program and authorized Management to repurchase not more than 7.5 million shares of Huntington common stock. On June 9, 2005, Huntington reactivated its share repurchase program upon settlement of the SEC formal investigation.

On October 18, 2005, the Company announced that the board of directors authorized a new program for the repurchase of up to 15 million shares of our common stock (the 2005 Repurchase Program). The 2005 Repurchase Program does not have an expiration date. The 2004 Repurchase Program, with 3.1 million shares remaining, was cancelled and replaced by the 2005 Repurchase Program. The Company expects to repurchase the shares from time to time in the open market or through privately negotiated transactions, depending on market conditions.

Listed below is the share repurchase activity for the year ended December 31, 2005:

Repurchase Programs	Total Number of Shares Purchased	Average Price Paid Per Share
The 2004 Repurchase Program	4,415,700	\$24.58
The 2005 Repurchase Program	5,175,000	23.76
<b>Total Shares Repurchased in 2005</b>	<b>9,590,700</b>	<b>\$24.13</b>

## 16. EARNINGS PER SHARE

Basic earnings per share is the amount of earnings for the period available to each share of common stock outstanding during the reporting period. Diluted earnings per share is the amount of earnings available to each share of common stock outstanding during the reporting period adjusted for the potential issuance of common shares for dilutive stock options. The calculation of basic and diluted earnings per share for each of the three years ended December 31 was as follows:

(in thousands, except per share amounts)	Year ended December 31,		
	2005	2004	2003
Income before cumulative effect of accounting change	\$ 412,091	\$ 398,925	\$ 385,693
Cumulative effect of change in accounting principle, net of tax	—	—	(13,330)
<b>Net income</b>	<b>\$ 412,091</b>	<b>\$ 398,925</b>	<b>\$ 372,363</b>
Average common shares outstanding	230,142	229,913	229,401
Dilutive potential common shares	3,333	3,943	2,181
Diluted average common shares outstanding	233,475	233,856	231,582
<b>Earnings Per Share</b>			
Basic			
Income before cumulative effect of accounting change	\$ 1.79	\$ 1.74	\$ 1.68
Net income	1.79	1.74	1.62
Diluted			
Income before cumulative effect of accounting change	1.77	1.71	1.67
Net income	1.77	1.71	1.61

The average market price of Huntington's common stock for the period was used in determining the dilutive effect of outstanding stock options. Dilutive potential common shares include stock options and options held in deferred compensation plans. Dilutive potential common shares are computed based on the number of shares subject to options that have an exercise price less than the average market price of Huntington's common stock for the period.

Approximately 5.7 million, 2.6 million, and 2.8 million options to purchase shares of common stock outstanding at the end of 2005, 2004, and 2003, respectively, were not included in the computation of diluted earnings per share because the effect would be antidilutive. The weighted average exercise price for these options was \$25.68 per share, \$26.96 per share, and \$26.74 per share at the end of the same respective periods.

On January 7, 2005, Huntington released from escrow 86,118 shares of Huntington common stock, which were previously issued in September 2002, to former shareholders of LeaseNet, Inc. A total of 373,896 common shares, previously held in escrow, was returned to Huntington. All shares in escrow had been accounted for as treasury stock.

### 17. STOCK-BASED COMPENSATION

Huntington sponsors nonqualified and incentive stock option plans. These plans provide for the granting of stock options to officers, directors and other employees at the market price on the date of the grant. Huntington's board of directors has approved all of the plans. Shareholders have approved each of the plans, except for the broad-based Employee Stock Incentive Plan. Of the 26.5 million options to purchase shares of common stock authorized for issuance under the plans at December 31, 2005, 21.0 million are outstanding and 5.5 million were available for future grants. Options granted since 1997 vest ratably over three years or when other conditions are met while those granted in 1994 through 1997 vested ratably over four years. Options granted prior to May 2004 have a maximum term of ten years. All options granted beginning in May 2004 have a maximum term of seven years.

The fair value of the options granted was estimated at the date of grant using a Black-Scholes option-pricing model. Huntington's stock option activity and related information for each of the recent three years ended December 31 was as follows:

	2005		2004		2003	
(in thousands, except per share amounts)	Options	Weighted-Average Exercise Price	Options	Weighted-Average Exercise Price	Options	Weighted-Average Exercise Price
<b>Outstanding at beginning of year</b>	<b>20,017</b>	<b>\$20.25</b>	19,997	\$19.40	18,024	\$18.93
Granted	3,645	24.32	3,200	23.05	3,659	20.38
Exercised	(1,842)	17.89	(2,478)	17.05	(788)	14.40
Forfeited/expired	(816)	21.70	(702)	20.02	(898)	19.32
<b>Outstanding at end of year</b>	<b>21,004</b>	<b>\$21.11</b>	20,017	\$20.25	19,997	\$19.40
Exercisable at end of year	13,048	\$20.13	11,984	\$19.68	9,649	\$19.60
Weighted-average fair value per share of options granted during the year		\$ 5.28		\$ 5.78		\$ 5.64

Additional information regarding options outstanding as of December 31, 2005, was as follows:

(in thousands, except per share amounts)	Options Outstanding			Exercisable Options	
	Shares	Weighted-Average Remaining Contractual Life (Years)	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
<b>Range of Exercise Prices</b>					
\$11.09 to \$15.00	968	3.8	\$14.84	968	\$14.84
\$15.01 to \$20.00	8,017	5.5	18.14	6,540	17.73
\$20.01 to \$25.00	9,731	6.4	22.74	3,270	21.55
\$25.01 to \$28.35	2,288	3.1	27.22	2,270	27.24
<b>Total</b>	<b>21,004</b>	<b>5.6</b>	<b>\$21.11</b>	<b>13,048</b>	<b>\$20.13</b>

On August 27, 2002, common stock options were granted, with certain specified exceptions, to full- and part-time employees under the Huntington Bancshares Incorporated Employee Stock Incentive Plan (the Incentive Plan). Under the terms of the Incentive Plan, these options are to vest on the earlier of August 27, 2007, or at such time as the closing price for Huntington's common stock for five consecutive trading days reached or exceeded \$27.00. As of December 31, 2005, 1.5 million shares under option remain unvested.

## 18. INCOME TAXES

The following is a summary of the provision for income taxes:

At December 31,			
(in thousands of dollars)	2005	2004	2003
<b>Current tax provision</b>			
Federal	\$ 163,383	\$ 12,779	\$ 138,036
State	210	—	—
<b>Total current tax provision</b>	<b>163,593</b>	<b>12,779</b>	<b>138,036</b>
<b>Deferred tax (benefit) provision</b>			
Federal	(32,681)	140,962	258
State	571	—	—
<b>Total deferred tax (benefit) provision</b>	<b>(32,110)</b>	<b>140,962</b>	<b>258</b>
<b>Provision for income taxes</b>	<b>\$ 131,483</b>	<b>\$ 153,741</b>	<b>\$ 138,294</b>

The following is a reconciliation of provision for income taxes to the amount computed at the statutory rate of 35%:

(in thousands of dollars)	2005		2004		2003	
	Amount	Rate	Amount	Rate	Amount	Rate
Provision for income taxes computed at the statutory rate	\$ 190,251	35.0%	\$ 193,433	35.0%	\$ 183,396	35.0%
Increases (decreases):						
Tax-exempt interest income	(8,741)	(1.6)	(7,640)	(1.4)	(6,381)	(1.2)
Tax-exempt bank owned life insurance income	(14,257)	(2.6)	(14,804)	(2.7)	(15,060)	(2.9)
Asset securitization activities	(6,651)	(1.2)	(6,278)	(1.1)	(5,211)	(1.0)
Federal tax loss carryback	(28,705)	(5.3)	—	—	—	—
General business credits	(6,878)	(1.3)	(7,768)	(1.4)	(11,176)	(2.1)
Repatriation of foreign earnings	5,741	1.1	—	—	—	—
Other, net	723	0.1	(3,202)	(0.6)	(7,274)	(1.4)
<b>Provision for income taxes</b>	<b>\$ 131,483</b>	<b>24.2%</b>	<b>\$ 153,741</b>	<b>27.8%</b>	<b>\$ 138,294</b>	<b>26.4%</b>

The significant components of deferred assets and liabilities at December 31, were as follows:

At December 31,		
(in thousands of dollars)	2005	2004
<b>Deferred tax assets:</b>		
Allowance for credit losses	\$ 123,934	\$ 122,926
Net operating loss & other carryforwards	54,457	22,936
Fair value adjustments	14,082	6,791
Other	74,020	95,527
Total deferred tax assets before valuation allowance	266,493	248,180
Valuation allowance	(40,955)	—
<b>Net deferred tax assets</b>	<b>225,538</b>	<b>248,180</b>
<b>Deferred tax liabilities:</b>		
Lease financing	830,303	861,273
Pension and other employee benefits	41,409	31,822
Mortgage servicing rights	26,375	32,947
Other	71,106	105,766
<b>Total deferred tax liability</b>	<b>969,193</b>	<b>1,031,808</b>
<b>Net deferred tax liability</b>	<b>\$ 743,655</b>	<b>\$ 783,628</b>

At December 31, 2005, Huntington's deferred tax asset related to net operating loss and other credit carry-forwards was \$54.5 million. This was comprised of a charitable contribution carry-forward of \$4.4 million (expires in 2009) and a net operating loss and other carry-forwards of \$9.1 million for U.S. federal tax purposes, which will begin expiring in 2023, and a capital loss carry-forward of \$41.0 million which will expire in 2010. A valuation allowance in the amount of \$41.0 million has been established for the capital loss carry-forward. A valuation allowance is provided when it is more likely than not that some portion of the deferred tax asset will not be realized. In Management's opinion the results of future operations will generate sufficient taxable income to realize the net operating loss and charitable contribution carry-forwards. Consequently, Management has determined that a valuation allowance for deferred tax assets related to these carry-forwards was not required as of December 31, 2005 or 2004.

#### 19. BENEFIT PLANS

Huntington sponsors the Huntington Bancshares Retirement Plan (the Plan), a non-contributory defined benefit pension plan covering substantially all employees. The Plan provides benefits based upon length of service and compensation levels. The funding policy of Huntington is to contribute an annual amount that is at least equal to the minimum funding requirements but not more than that deductible under the Internal Revenue Code.

In addition, Huntington has an unfunded defined benefit post-retirement plan that provides certain health care and life insurance benefits to retired employees who have attained the age of 55 and have at least 10 years of vesting service under this plan. For any employee retiring on or after January 1, 1993, post-retirement health-care benefits are based upon the employee's number of months of service and are limited to the actual cost of coverage. Life insurance benefits are a percentage of the employee's base salary at the time of retirement, with a maximum of \$50,000 of coverage.

The following table shows the weighted-average assumptions used to determine the benefit obligation at December 31, 2005 and 2004, and the net periodic benefit cost for the years then ended. Huntington selected September 30, 2005 as the measurement date for all calculations and contracted an actuary to provide measurement services.

	Pension Benefits		Post-Retirement Benefits	
	2005	2004	2005	2004
<b>Weighted-average assumptions used to determine benefit obligations at December 31</b>				
Discount rate	5.43%	5.81%	5.43%	5.81%
Rate of compensation increase	5.00	5.00	N/A	N/A
<b>Weighted-average assumptions used to determine net periodic benefit cost for the years ended December 31</b>				
Discount rate	5.81%	6.00%	5.81%	6.00%
Expected return on plan assets	7.00	7.00	N/A	N/A
Rate of compensation increase	5.00	5.00	N/A	N/A

N/ A, Not Applicable

The expected long-term rate of return on plan assets is an assumption reflecting the average rate of earnings expected on the funds invested or to be invested to provide for the benefits included in the projected benefit obligation. The expected long-term rate of return is established at the beginning of the plan year based upon historical returns and projected returns on the underlying mix of invested assets. The long-term rate of return assumption to determine the net periodic benefit cost will be 8.00% for the year ending December 31, 2006. The rate was raised one percentage point due to favorable historical and expected future results.

In 2005, Huntington lowered its assumptions for the discount rate from 5.81% to 5.43%. The 5.43% assumed discount rate was based upon the Moody's daily long-term corporate Aa bond yield as of the Plan's measurement date. The impact of lowering this assumption will increase Huntington's future pension expense.

The investment objective of the Plan is to maximize the return on Plan assets over a long time horizon, while meeting the Plan obligations. At September 30, 2005, Plan assets were invested 71.5% in equity investments and 28.5% in bonds, with an average duration of 3.4 years on bond investments. The estimated life of benefit obligations was 12 years. Management believes that this mix is appropriate for the current economic environment.

The following table reconciles the beginning and ending balances of the benefit obligation of the Plan and the post-retirement benefit plan with the amounts recognized in the consolidated balance sheets at December 31:

(in thousands of dollars)	Pension Benefits		Post-Retirement Benefits	
	2005	2004	2005	2004
<b>Projected benefit obligation at beginning of measurement year (September 30)</b>	\$ 336,007	\$ 299,028	\$ 55,504	\$ 55,490
Changes due to:				
Service cost	13,936	11,819	1,377	1,302
Interest cost	19,016	17,482	2,903	3,209
Benefits paid	(6,897)	(6,900)	(3,738)	(2,986)
Settlements	(9,375)	(8,977)	—	—
Actuarial assumptions and gains and losses	65,404	23,555	(12,430)	(1,511)
<b>Total changes</b>	<b>82,084</b>	<b>36,979</b>	<b>(11,888)</b>	<b>14</b>
<b>Projected benefit obligation at end of measurement year (September 30)</b>	<b>\$ 418,091</b>	<b>\$ 336,007</b>	<b>\$ 43,616</b>	<b>\$ 55,504</b>

Changes to certain actuarial assumptions, including a lower discount rate, a decrease in the expected retirement age and the use of an updated mortality table increased the pension benefit obligation at September 30, 2005 by \$65.4 million.

The following table reconciles the beginning and ending balances of the fair value of Plan assets with the amounts recognized in the consolidated balance sheets at the September 30 measurement date:

(in thousands of dollars)	Pension Benefits	
	2005	2004
<b>Fair value of plan assets at beginning of measurement year (September 30)</b>	\$ 353,222	\$ 288,569
Changes due to:		
Actual return on plan assets	40,798	35,962
Employer contributions	63,600	44,667
Settlements	(9,936)	(9,076)
Benefits paid	(6,897)	(6,900)
<b>Total changes</b>	<b>87,565</b>	<b>64,653</b>
<b>Fair value of plan assets at end of measurement year (September 30)</b>	<b>\$ 440,787</b>	<b>\$ 353,222</b>

Huntington's accumulated benefit obligation under the Plan was \$372 million and \$294 million at September 30, 2005 and 2004, respectively. In both years, the fair value of Huntington's plan assets exceeded its accumulated benefit obligation.

The following table presents the funded status of the Plan and the post-retirement benefit plan with the amounts recognized in the consolidated balance sheets at December 31:

(in thousands of dollars)	Pension Benefits		Post-Retirement Benefits	
	2005	2004	2005	2004
Projected benefit obligation less (greater) than plan assets	\$ 22,696	\$ 17,215	\$ (43,616)	\$ (55,504)
Unrecognized net actuarial loss (gain)	153,308	116,744	(11,586)	718
Unrecognized prior service cost	1,788	1,789	3,476	3,856
Unrecognized transition liability, net of amortization	6	—	7,728	8,831
<b>Prepaid (accrued) benefit costs, at measurement date</b>	<b>177,798</b>	<b>135,748</b>	<b>(43,998)</b>	<b>(42,099)</b>
Contribution made after measurement date	—	—	1,018	766
<b>Prepaid (accrued) benefit costs</b>	<b>\$ 177,798</b>	<b>\$ 135,748</b>	<b>\$ (42,980)</b>	<b>\$ (41,333)</b>

The following table shows the components of net periodic benefit cost recognized in the three years ended December 31, 2005:

(in thousands of dollars)	Pension Benefits			Post-Retirement Benefits		
	2005	2004	2003	2005	2004	2003
Service cost	\$ 14,186	\$ 12,159	\$ 9,817	\$ 1,378	\$ 1,302	\$ 1,121
Interest cost	19,016	17,482	16,647	2,903	3,209	3,479
Expected return on plan assets	(25,979)	(21,530)	(25,138)	—	—	—
Amortization of transition asset	(4)	1	(251)	1,104	1,104	1,104
Amortization of prior service cost	1	1	—	379	583	605
Amortization of gain	—	—	—	(126)	—	—
Settlements	3,642	3,151	4,354	—	—	—
Recognized net actuarial loss	10,689	7,936	1,774	—	—	—
<b>Benefit cost</b>	<b>\$ 21,551</b>	<b>\$ 19,200</b>	<b>\$ 7,203</b>	<b>\$ 5,638</b>	<b>\$ 6,198</b>	<b>\$ 6,309</b>

Service costs presented in the above table included \$0.3 million of plan expenses that were recognized in each of the three years ended December 31, 2005. It is Huntington's policy to recognize settlement gains and losses as incurred. Management expects net periodic pension cost to approximate \$23.9 million and net periodic post-retirement benefits cost to approximate \$4.3 million for 2006.

In December 2003, a law was enacted that expands Medicare benefits, primarily adding a prescription drug benefit for Medicare-eligible retirees beginning in 2006. The law also provides a federal subsidy to companies that sponsor post-retirement benefit plans providing prescription drug coverage. Huntington has registered for the Medicare subsidy and a \$15.5 million reduction in the post-retirement obligation is being recognized over a 10-year period beginning October 1, 2005.

At September 30, 2005 and 2004, The Huntington National Bank, as trustee, held all Plan assets. The Plan assets consisted of investments in a variety of Huntington mutual funds and Huntington common stock as follows:

(in thousands of dollars)	2005		2004	
	Balance	%	Balance	%
Cash	\$ —	—%	\$ 300	—%
Huntington funds — money market	164	—	500	—
Huntington funds — equity funds	300,080	68	240,456	68
Huntington funds — fixed income funds	125,971	29	95,837	27
Huntington common stock	14,572	3	16,129	5
<b>Fair value of plan assets (September 30)</b>	<b>\$ 440,787</b>	<b>100%</b>	<b>\$ 353,222</b>	<b>100%</b>

The number of shares of Huntington common stock held by the Plan was 642,364 at December 31, 2005 and 2004. The Plan has acquired and held Huntington common stock in compliance at all times with Section 407 of the Employee Retirement Income Security Act of 1978.

Dividends and interest received by the Plan during 2005 and 2004 were \$18.9 million and \$11.0 million, respectively.

At December 31, 2005, the following table shows when benefit payments, which include expected future service, as appropriate, were expected to be paid:

(in thousands of dollars)	Pension Benefits	Post-Retirement Benefits
2006	\$ 19,204	\$ 4,088
2007	21,704	4,211
2008	23,763	4,295
2009	25,374	4,387
2010	27,593	4,500
2011 through 2015	162,219	23,802

Although not legally required, Huntington made a discretionary contribution to the Plan of \$63.6 million in April 2005. There is no expected minimum contribution for 2006 to the Plan. However, Huntington may choose to make a contribution to the Plan

up to the maximum deductible limit in the 2006 plan year. Expected contributions for 2006 to the post-retirement benefit plan are \$3.3 million.

The assumed health-care cost trend rate has a significant effect on the amounts reported. A one percentage point increase would increase service and interest costs and the post-retirement benefit obligation by less than \$0.1 million and \$2.8 million, respectively. A one-percentage point decrease would reduce service and interest costs by less than \$0.1 million and the post-retirement benefit obligation by \$0.9 million. The 2006 health-care cost trend rate was projected to be 9.78% for pre-65 participants and 9.46% for post-65 participants compared with an estimate of 10.99% for pre-65 participants and 10.86% for post-65 participants in 2005. These rates are assumed to decrease gradually until they reach 5.09% for pre-65 participants and 5.17% for post-65 participants in the year 2017 and remain at that level thereafter. Huntington updated the immediate health-care cost trend rate assumption based on current market data and Huntington's claims experience. This trend rate is expected to decline over time to a trend level consistent with medical inflation and long-term economic assumptions.

Huntington also sponsors other retirement plans, the most significant being the Supplemental Executive Retirement Plan and the Supplemental Retirement Income Plan. These plans are nonqualified plans that provide certain current and former officers and directors of Huntington and its subsidiaries with defined pension benefits in excess of limits imposed by federal tax law. At December 31, 2005 and 2004, the accrued pension liability for these plans totaled \$26.6 million and \$25.1 million, respectively. Pension expense for the plans was \$2.3 million, \$2.1 million, and \$1.7 million in 2005, 2004, and 2003, respectively. Huntington recorded a \$0.8 million and \$1.1 million, net of tax, minimum pension liability adjustment within other comprehensive income associated with these unfunded plans in 2005 and 2004, respectively.

Huntington has a defined contribution plan that is available to eligible employees. Matching contributions by Huntington equal 100% on the first 3%, then 50% on the next 2%, of participant elective deferrals. The cost of providing this plan was \$9.6 million in 2005, \$9.2 million in 2004, and \$8.6 million in 2003. The number of shares of Huntington common stock held by this plan was 7,333,165 at December 31, 2005, and 7,851,365 at the end of the prior year. The market value of these shares was \$174.2 million and \$194.2 million at the same respective dates. Dividends received by the plan were \$13.9 million during 2005 and \$10.1 million during 2004.

## 20. FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amounts and estimated fair values of Huntington's financial instruments at December 31 are presented in the following table:

(in thousands of dollars)	2005		2004	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<b>Financial assets:</b>				
Cash and short-term assets	\$ 1,063,167	\$ 1,063,167	\$ 1,527,758	\$ 1,527,758
Trading account securities	8,619	8,619	309,630	309,630
Loans held for sale	294,344	294,344	223,469	223,469
Investment securities	4,526,520	4,526,520	4,238,945	4,238,945
Net loans and direct financing leases	24,203,819	24,222,819	23,289,066	23,528,066
Customers' acceptance liability	4,536	4,536	11,299	11,299
Derivatives	30,274	30,274	41,809	41,809
<b>Financial liabilities:</b>				
Deposits	(22,409,675)	(21,338,675)	(20,768,161)	(19,915,161)
Short-term borrowings	(1,889,260)	(1,889,260)	(1,207,233)	(1,207,233)
Bank acceptances outstanding	(4,536)	(4,536)	(11,299)	(11,299)
Federal Home Loan Bank advances	(1,155,647)	(1,155,647)	(1,271,088)	(1,271,088)
Subordinated notes	(1,023,371)	(1,023,371)	(1,039,793)	(1,039,793)
Other long-term debt	(2,418,419)	(2,479,419)	(4,016,004)	(4,094,004)
Derivatives	(27,427)	(27,427)	(4,903)	(4,903)

The short-term nature of certain assets and liabilities result in their carrying value approximating fair value. These include trading account securities, customers' acceptance liabilities, short-term borrowings, bank acceptances outstanding, Federal Home Loan Bank Advances and cash and short-term assets, which include cash and due from banks, interest-bearing deposits in banks, and federal funds sold and securities purchased under resale agreements. Loan commitments and letters of credit generally have short-

term, variable-rate features and contain clauses that limit Huntington's exposure to changes in customer credit quality. Accordingly, their carrying values, which are immaterial at the respective balance sheet dates, are reasonable estimates of fair value.

Certain assets, the most significant being operating lease assets, bank owned life insurance, and premises and equipment, do not meet the definition of a financial instrument and are excluded from this disclosure. Similarly, mortgage and non-mortgage servicing rights, deposit base, and other customer relationship intangibles are not considered financial instruments and are not discussed below. Accordingly, this fair value information is not intended to, and does not, represent Huntington's underlying value. Many of the assets and liabilities subject to the disclosure requirements are not actively traded, requiring fair values to be estimated by management. These estimations necessarily involve the use of judgment about a wide variety of factors, including but not limited to, relevancy of market prices of comparable instruments, expected future cash flows, and appropriate discount rates.

The following methods and assumptions were used by Huntington to estimate the fair value of the remaining classes of financial instruments:

- **LOANS HELD FOR SALE** — valued using outstanding commitments from investors.
- **INVESTMENT SECURITIES** — based on quoted market prices, where available. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments. Retained interests in securitized assets are valued using a discounted cash flow analysis. The carrying amount and fair value of securities exclude the fair value of asset/liability management interest rate contracts designated as hedges of securities available for sale.
- **LOANS AND DIRECT FINANCING LEASES** — variable-rate loans that reprice frequently are based on carrying amounts, as adjusted for estimated credit losses. The fair values for other loans and leases are estimated using discounted cash flow analyses and employ interest rates currently being offered for loans and leases with similar terms. The rates take into account the position of the yield curve, as well as an adjustment for prepayment risk, operating costs, and profit. This value is also reduced by an estimate of probable losses in the loan and lease portfolio.
- **DEPOSITS** — demand deposits, savings accounts, and money market deposits are, by definition, equal to the amount payable on demand. The fair values of fixed-rate time deposits are estimated by discounting cash flows using interest rates currently being offered on certificates with similar maturities.
- **DEBT** — fixed-rate, long-term debt is based upon quoted market prices or, in the absence of quoted market prices, discounted cash flows using rates for similar debt with the same maturities. The carrying amount of variable-rate obligations approximates fair value.

## 21. DERIVATIVE FINANCIAL INSTRUMENTS

A variety of derivative financial instruments, principally interest rate swaps, are used in asset and liability management activities to protect against the risk of adverse price or interest rate movements on the value of certain assets and liabilities and on future cash flows. These instruments provide flexibility in adjusting the Company's sensitivity to changes in interest rates without exposure to loss of principal and higher funding requirements. By using derivatives to manage interest rate risk, the effect is a smaller, more efficient balance sheet, with a lower wholesale funding requirement and a higher net interest margin. All derivatives are reflected at fair value in the consolidated balance sheet.

Market risk, which is the possibility that economic value of net assets or net interest income will be adversely affected by changes in interest rates or other economic factors, is managed through the use of derivatives. Derivatives are also sold to meet customers' financing needs and, like other financial instruments, contain an element of credit risk, which is the possibility that Huntington will incur a loss because a counter-party fails to meet its contractual obligations. Notional values of interest rate swaps and other off-balance sheet financial instruments significantly exceed the credit risk associated with these instruments and represent contractual balances on which calculations of amounts to be exchanged are based. Credit exposure is limited to the sum of the aggregate fair value of positions that have become favorable to Huntington, including any accrued interest receivable due from counterparties. Potential credit losses are minimized through careful evaluation of counterparty credit standing, selection of counterparties from a limited group of high quality institutions, collateral agreements, and other contract provisions.

## ASSET AND LIABILITY MANAGEMENT

Derivatives that are used for asset and liability management are classified as fair value hedges or cash flow hedges and are required to meet specific criteria. To qualify as a hedge, the hedge relationship is designated and formally documented at inception, detailing the particular risk management objective and strategy for the hedge. This includes identifying the item and



risk being hedged, the derivative being used, and how the effectiveness of the hedge is being assessed. A derivative must be highly effective in accomplishing the objective of offsetting either changes in fair value or cash flows for the risk being hedged. Correlation is evaluated on a retrospective and prospective basis using quantitative measures. If a hedge relationship is found to be not effective, the derivative no longer qualifies as a hedge and any excess gains or losses attributable to ineffectiveness, as well as subsequent changes in its fair value, are recognized in other income.

For fair value hedges, deposits, short-term borrowings, and long-term debt are effectively converted to variable-rate obligations by entering into interest rate swap contracts whereby fixed-rate interest is received in exchange for variable-rate interest without the exchange of the contract's underlying notional amount. Forward contracts, used primarily in connection with mortgage banking activities, can be settled in cash at a specified future date based on the differential between agreed interest rates applied to a notional amount. The changes in fair value of the hedged item and the hedging instrument are reflected in current earnings. The amounts recognized in connection with the ineffective portion of Huntington's fair value hedging in 2005, 2004, and 2003 were insignificant. No amounts were excluded from the assessment of effectiveness during 2005, 2004, or 2003 for derivatives designated as fair value hedges.

For cash flow hedges, interest rate swap contracts were entered into that pay fixed-rate interest in exchange for the receipt of variable-rate interest without the exchange of the contract's underlying notional amount, which effectively converts a portion of its floating-rate debt to fixed-rate. This reduces the potentially adverse impact of increases in interest rates on future interest expense. In like fashion, certain LIBOR-based commercial and industrial loans were effectively converted to fixed-rate by entering into contracts that swap variable-rate interest for fixed-rate interest over the life of the contracts.

To the extent these derivatives are effective in offsetting the variability of the hedged cash flows, changes in the derivatives' fair value will not be included in current earnings but are reported as a component of accumulated other comprehensive income in shareholders' equity. These changes in fair value will be included in earnings of future periods when earnings are also affected by the changes in the hedged cash flows. To the extent these derivatives are not effective, changes in their fair values are immediately included in earnings. During 2005, 2004, and 2003, a net loss was recognized in connection with the ineffective portion of its cash flow hedging instruments. The amounts were classified in other non-interest income and were considered insignificant. No amounts were excluded from the assessment of effectiveness during 2005, 2004, and 2003 for derivatives designated as cash flow hedges.

Derivatives used to manage Huntington's interest rate risk at December 31, 2005, are shown in the table below:

(in thousands of dollars)	Notional Value	Average Maturity (years)	Fair Value	Weighted-Average Rate	
				Receive	Pay
<b>Asset conversion swaps</b>					
Receive fixed — generic	\$ 350,000	2.3	\$ (8,782)	3.41%	4.27%
<b>Liability conversion swaps</b>					
Receive fixed — generic	1,575,250	5.4	(15,960)	4.21%	4.47%
Receive fixed — callable	665,000	7.2	(19,348)	4.39%	4.22%
Pay fixed — generic	1,301,000	2.1	28,119	4.29%	3.33%
Pay fixed — forward starting	200,000	N/A	2,100	N/A	N/A
<b>Total liability conversion swaps</b>	<b>3,741,250</b>	<b>4.5</b>	<b>(5,089)</b>	<b>4.27%</b>	<b>4.00%</b>
<b>Total swap portfolio</b>	<b>\$ 4,091,250</b>	<b>4.3</b>	<b>\$ (13,871)</b>	<b>4.20%</b>	<b>4.03%</b>

N/A, not applicable

At December 31, 2004, the fair value of the swap portfolio used for asset and liability management was an asset of \$17.9 million. These values must be viewed in the context of the overall financial structure of Huntington, including the aggregate net position of all on- and off-balance sheet financial instruments.

As is the case with cash securities, the fair value of interest rate swaps is largely a function of the financial market's expectations regarding the future direction of interest rates. Accordingly, current market values are not necessarily indicative of the future impact of the swaps on net interest income. This will depend, in large part, on the shape of the yield curve as well as interest rate levels. Management made no assumptions regarding future changes in interest rates with respect to the variable-rate information presented in the table above.

The following table represents the gross notional value of derivatives used to manage interest rate risk at December 31, 2005, identified by the underlying interest rate-sensitive instruments. The notional amounts shown in the tables above and below should be viewed in the context of overall interest rate risk management activities to assess the impact on the net interest margin.

(in thousands of dollars)	Fair Value Hedges	Cash Flow Hedges	Total
<b>Instruments associated with:</b>			
Investment securities	\$ —	\$ 25,000	\$ 25,000
Loans	—	325,000	325,000
Deposits	790,250	—	790,250
Federal Home Loan Bank advances	—	726,000	726,000
Subordinated notes	500,000	—	500,000
Other long-term debt	950,000	775,000	1,725,000
<b>Total notional value at December 31, 2005</b>	<b>\$ 2,240,250</b>	<b>\$ 1,851,000</b>	<b>\$ 4,091,250</b>

A total of \$8.4 million of the unrealized net gain on cash flow hedges is expected to be recognized in 2006.

Collateral agreements are regularly entered into as part of the underlying derivative agreements with its counterparties to mitigate the credit risk associated with both the derivatives used for asset and liability management and used in trading activities. At December 31, 2005 and 2004, aggregate credit risk associated with these derivatives, net of collateral that has been pledged by the counterparty, was \$26.2 million and \$12.3 million, respectively. The credit risk associated with interest rate swaps is calculated after considering master netting agreements.

These derivative financial instruments were entered into for the purpose of altering the interest rate risk embedded in assets and liabilities. Consequently, net amounts receivable or payable on contracts hedging either interest earning assets or interest bearing liabilities were accrued as an adjustment to either interest income or interest expense. The net amount resulted in an increase to net interest income of \$23.6 million, \$24.0 million, and \$51.6 million in 2005, 2004, and 2003, respectively.

#### DERIVATIVES USED IN MORTGAGE BANKING ACTIVITIES

Huntington also uses derivatives, principally loan sale commitments, in the hedging of its mortgage loan commitments and its mortgage loans held for sale. For derivatives that are used in hedging mortgage loans held for sale, ineffective hedge gains and losses are reflected in mortgage banking revenue in the income statement. Mortgage loan commitments and the related interest rate lock commitments are carried at fair value on the consolidated balance sheet with changes in fair value reflected in mortgage banking revenue. The following is a summary of the derivative assets and liabilities that Huntington used in its mortgage banking activities:

(in thousands of dollars)	At December 31,	
	2005	2004
<b>Derivative assets:</b>		
Interest rate lock agreements	\$ 669	\$ 479
Forward trades	172	853
<b>Total derivative assets</b>	<b>841</b>	<b>1,332</b>
<b>Derivative liabilities:</b>		
Interest rate lock agreements	(328)	(993)
Forward trades	(1,947)	(334)
<b>Total derivative liabilities</b>	<b>(2,275)</b>	<b>(1,327)</b>
<b>Net derivative (liability) asset</b>	<b>\$ (1,434)</b>	<b>\$ 5</b>

#### DERIVATIVES USED IN TRADING ACTIVITIES

Various derivative financial instruments are offered to enable customers to meet their financing and investing objectives and for their risk management purposes. Derivative financial instruments held in Huntington's trading portfolio during 2005 and 2004 consisted predominantly of interest rate swaps, but also included interest rate caps, floors, and futures, as well as foreign exchange options. Interest rate options grant the option holder the right to buy or sell an underlying financial instrument for a predetermined price before the contract expires. Interest rate futures are commitments to either purchase or sell a financial

instrument at a future date for a specified price or yield and may be settled in cash or through delivery of the underlying financial instrument. Interest rate caps and floors are option-based contracts that entitle the buyer to receive cash payments based on the difference between a designated reference rate and a strike price, applied to a notional amount. Written options, primarily caps, expose Huntington to market risk but not credit risk. Purchased options contain both credit and market risk. They are used to manage fluctuating interest rates as exposure to loss from interest rate contracts changes.

Supplying these derivatives to customers results in fee income. These instruments are carried at fair value in other assets with gains and losses reflected in other non-interest income. Total trading revenue for customer accommodation was \$8.3 million in 2005, \$8.8 million in 2004, and \$10.3 million in 2003. The total notional value of derivative financial instruments used by Huntington on behalf of customers (for which the related interest rate risk is offset by third parties) was \$4.2 billion at the end of 2005 and \$4.5 billion at the end of the prior year. Huntington's credit risk from interest rate swaps used for trading purposes was \$44.3 million and \$53.8 million at the same dates.

In connection with its securitization activities, interest rate caps were purchased with a notional value totaling \$0.9 billion. These purchased caps were assigned to the securitization trust for the benefit of the security holders. Interest rate caps were also sold totaling \$0.9 billion outside the securitization structure. Both the purchased and sold caps are marked to market through income in accordance with accounting principles generally accepted in the United States.

## 22. COMMITMENTS AND CONTINGENT LIABILITIES

### COMMITMENTS TO EXTEND CREDIT

In the ordinary course of business, Huntington makes various commitments to extend credit that are not reflected in the financial statements. The contract amount of these financial agreements, representing the credit risk, at December 31 were:

(in millions of dollars)	At December 31,	
	2005	2004
Commitments to extend credit		
Commercial	\$ 3,316	\$ 3,453
Consumer	3,046	2,779
Commercial real estate	1,567	854
Standby letters of credit	1,079	945
Commercial letters of credit	47	72

Commitments to extend credit generally have fixed expiration dates, are variable-rate, and contain clauses that permit Huntington to terminate or otherwise renegotiate the contracts in the event of a significant deterioration in the customer's credit quality. These arrangements normally require the payment of a fee by the customer, the pricing of which is based on prevailing market conditions, credit quality, probability of funding, and other relevant factors. Since many of these commitments are expected to expire without being drawn upon, the contract amounts are not necessarily indicative of future cash requirements. The interest rate risk arising from these financial instruments is insignificant as a result of their predominantly short-term, variable-rate nature.

Standby letters of credit are conditional commitments issued to guarantee the performance of a customer to a third party. These guarantees are primarily issued to support public and private borrowing arrangements, including commercial paper, bond financing, and similar transactions. Most of these arrangements mature within two years. At December 31, 2005, approximately 48% of standby letters of credit are collateralized and most are expected to expire without being drawn upon. The carrying amount of deferred revenue associated with these guarantees was \$4.0 million and \$4.1 million at December 31, 2005 and 2004, respectively.

Commercial letters of credit represent short-term, self-liquidating instruments that facilitate customer trade transactions and have maturities of no longer than 90 days. The merchandise or cargo being traded normally secures these instruments.

### COMMITMENTS TO SELL LOANS

Huntington enters into forward contracts relating to its mortgage banking business. At December 31, 2005 and 2004, Huntington had commitments to sell residential real estate loans of \$348.3 million and \$311.3 million, respectively. These contracts mature in less than one year.

During the 2005 second quarter, Huntington entered into a two-year agreement to sell a minimum of 50% of monthly automobile loan production at the cost of such loans, subject to certain limitations, provided the production meets certain

pricing, asset quality, and volume parameters. At December 31, 2005, approximately \$51.6 million of automobile loans related to this commitment were classified as held for sale.

#### LITIGATION

In the ordinary course of business, there are various legal proceedings pending against Huntington and its subsidiaries. In the opinion of management, the aggregate liabilities, if any, arising from such proceedings are not expected to have a material adverse effect on Huntington's consolidated financial position, results of operations, or cash flows.

#### COMMITMENTS UNDER CAPITAL AND OPERATING LEASE OBLIGATIONS

At December 31, 2005, Huntington and its subsidiaries were obligated under noncancelable leases for land, buildings, and equipment. Many of these leases contain renewal options and certain leases provide options to purchase the leased property during or at the expiration of the lease period at specified prices. Some leases contain escalation clauses calling for rentals to be adjusted for increased real estate taxes and other operating expenses or proportionately adjusted for increases in the consumer or other price indices.

The future minimum rental payments required under operating leases that have initial or remaining noncancelable lease terms in excess of one year as of December 31, 2005, were \$31.5 million in 2006, \$30.4 million in 2007, \$28.6 million in 2008, \$27.4 million in 2009, \$25.2 million in 2010, and \$158.4 million thereafter. At December 31, 2005, total minimum lease payments have not been reduced by minimum sublease rentals of \$77.8 million due in the future under noncancelable subleases. At December 31, 2005, the future minimum sublease rental payments that Huntington expects to receive are \$16.7 million in 2006; \$14.2 million in 2007; \$13.1 million in 2008; \$12.5 million in 2009; \$9.3 million in 2010; and \$12.0 million thereafter. The rental expense for all operating leases was \$34.0 million, \$40.4 million, and \$36.1 million for 2005, 2004, and 2003, respectively. Huntington had no material obligations under capital leases.

#### SECURITIES AND EXCHANGE COMMISSION FORMAL INVESTIGATION

On June 2, 2005, Huntington filed a Form 8-K announcing that the Commission approved the settlement of its previously announced formal investigation into certain financial accounting matters. Huntington consented to pay a penalty of \$7.5 million. This civil money penalty had no 2005 financial impact on Huntington's results, as reserves for this amount were established and expensed in 2004.

#### 23. FORMAL REGULATORY SUPERVISORY AGREEMENTS AND OTHER REGULATORY MATTERS

On March 1, 2005, Huntington announced entering into a formal written agreement with the Federal Reserve Bank of Cleveland (FRBC), as well as the Bank entering into a formal written agreement with the Office of the Comptroller of the Currency (OCC), providing for a comprehensive action plan designed to enhance corporate governance, internal audit, risk management, accounting policies and procedures, and financial and regulatory reporting. The agreements called for independent third-party reviews, as well as the submission of written plans and progress reports by Management and remain in effect until terminated by the banking regulators.

On October 6, 2005, Huntington announced that the OCC had terminated its formal written agreement with the Bank dated February 28, 2005, and that the FRBC written agreement remained in effect. Huntington was verbally advised that it was in full compliance with the financial holding company and financial subsidiary requirement under the Gramm-Leach-Bliley Act (GLB Act). This notification reflected that Huntington and the Bank met both the "well-capitalized" and "well-managed" criteria under the GLB Act. Management believes that the changes it has already made, and is in the process of making, will address the FRBC issues fully and comprehensively.

Huntington and its bank subsidiary, The Huntington National Bank, are subject to various regulatory capital requirements administered by federal and state banking agencies. These requirements involve qualitative judgments and quantitative measures of assets, liabilities, capital amounts, and certain off-balance sheet items as calculated under regulatory accounting practices. Failure to meet minimum capital requirements can initiate certain actions by regulators that, if undertaken, could have a material adverse effect on Huntington's and The Huntington National Bank's financial statements. Applicable capital adequacy guidelines require minimum ratios of 4.00% for Tier 1 Risk-based Capital, 8.00% for Total Risk-based Capital, and 4.00% for Tier 1 Leverage Capital. To be considered "well capitalized" under the regulatory framework for prompt corrective action, the ratios must be at least 6.00%, 10.00%, and 5.00%, respectively.

As of December 31, 2005, Huntington and The Huntington National Bank (the Bank) met all capital adequacy requirements and had regulatory capital ratios in excess of the levels established for "well-capitalized" institutions. The period-end capital amounts and capital ratios of Huntington and the Bank are as follows:

(in millions of dollars)	Tier 1		Total Capital		Tier 1 Leverage	
	2005	2004	2005	2004	2005	2004
<b>Huntington Bancshares Incorporated</b>						
Amount	\$ 2,701	\$ 2,683	\$ 3,678	\$ 3,687	\$ 2,701	\$ 2,683
Ratio	9.13%	9.08%	12.42%	12.48%	8.34%	8.42%
<b>The Huntington National Bank</b>						
Amount	\$ 1,902	\$ 1,770	\$ 3,087	\$ 2,955	\$ 1,902	\$ 1,770
Ratio	6.82%	6.08%	10.55%	10.16%	6.21%	5.66%

Tier 1 Risk-based Capital consists of total equity plus qualifying capital securities and minority interest, excluding unrealized gains and losses accumulated in other comprehensive income, and non-qualifying intangible and servicing assets. Total Risk-based Capital is Tier 1 Risk-based Capital plus qualifying subordinated notes and allowable allowances for credit losses (limited to 1.25% of total risk-weighted assets). Tier 1 Leverage Capital is equal to Tier 1 Capital. Both Tier 1 Capital and Total Capital ratios are derived by dividing the respective capital amounts by net risk-weighted assets, which are calculated as prescribed by regulatory agencies. Tier 1 Leverage Capital ratio is calculated by dividing the Tier 1 capital amount by average adjusted total assets for the fourth quarter of 2005 and 2004, less non-qualifying intangibles and other adjustments.

Huntington and its subsidiaries are also subject to various regulatory requirements that impose restrictions on cash, debt, and dividends. The Bank is required to maintain cash reserves based on the level of certain of its deposits. This reserve requirement may be met by holding cash in banking offices or on deposit at the Federal Reserve Bank. During 2005 and 2004, the average balance of these deposits were \$57.6 million and \$70.4 million, respectively.

Under current Federal Reserve regulations, the Bank is limited as to the amount and type of loans it may make to the parent company and non-bank subsidiaries. At December 31, 2005, the Bank could lend \$308.7 million to a single affiliate, subject to the qualifying collateral requirements defined in the regulations.

Dividends from the Bank are one of the major sources of funds for Huntington. These funds aid the parent company in the payment of dividends to shareholders, expenses, and other obligations. Payment of dividends to the parent company is subject to various legal and regulatory limitations. Regulatory approval is required prior to the declaration of any dividends in excess of available retained earnings. The amount of dividends that may be declared without regulatory approval is further limited to the sum of net income for the current year and retained net income for the preceding two years, less any required transfers to surplus or common stock. The Bank could declare, without regulatory approval, dividends in 2006 of approximately \$197.0 million plus an additional amount equal to its net income through the date of declaration in 2006.

## 24. PARENT COMPANY FINANCIAL STATEMENTS

The parent company condensed financial statements, which include transactions with subsidiaries, are as follows.

Balance Sheets	December 31,	
(in thousands of dollars)	2005	2004
<b>ASSETS</b>		
<b>Cash and cash equivalents</b>	<b>\$ 227,115</b>	<b>\$ 630,444</b>
Due from The Huntington National Bank	250,771	250,771
Due from non-bank subsidiaries	205,208	204,976
Investment in The Huntington National Bank	1,660,905	1,472,357
Investment in non-bank subsidiaries	574,382	595,233
Goodwill	9,877	9,877
Accrued interest receivable and other assets	128,303	141,284
<b>Total assets</b>	<b>\$ 3,056,561</b>	<b>\$ 3,304,942</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Short-term borrowings</b>	<b>\$ 3,034</b>	<b>\$ —</b>
Long-term borrowings	309,279	411,750
Dividends payable, accrued expenses, and other liabilities	186,747	355,554
<b>Total liabilities</b>	<b>499,060</b>	<b>767,304</b>
<b>Shareholders' equity</b>	<b>2,557,501</b>	<b>2,537,638</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 3,056,561</b>	<b>\$ 3,304,942</b>

The parent company had a \$25 million line of credit to one of its non-bank subsidiaries at December 31, 2005. This was reduced from \$100 million at the end of the prior year. Of the total line of credit available, \$0.5 million remained outstanding at December 31, 2005.

Statements of Income	Year Ended December 31,		
(in thousands of dollars)	2005	2004	2003
<b>Income</b>			
Dividends from			
The Huntington National Bank	\$ 180,000	\$ 400,000	\$ 150,533
Non-bank subsidiaries	3,800	8,202	3,000
Interest from			
The Huntington National Bank	35,253	13,417	20,098
Non-bank subsidiaries	8,770	7,638	7,356
Management fees from subsidiaries	30,539	34,603	34,129
Other	406	(810)	3,214
<b>Total income</b>	<b>258,768</b>	<b>463,050</b>	<b>218,330</b>
<b>Expense</b>			
Personnel costs	25,060	32,227	18,608
Interest on borrowings	22,772	4,317	12,976
Other	24,741	36,738	27,347
<b>Total expense</b>	<b>72,573</b>	<b>73,282</b>	<b>58,931</b>
Income before income taxes and equity in undistributed net income of subsidiaries	186,195	389,768	159,399
Income taxes	(2,499)	(4,223)	(5,130)
Income before equity in undistributed net income of subsidiaries and cumulative effect of change in accounting principle	188,694	393,991	164,529
Cumulative effect of change in accounting principle net of tax of \$1,315	—	—	(2,442)
Income before equity in undistributed net income of subsidiaries	188,694	393,991	162,087
Increase (decrease) in undistributed net income of:			
The Huntington National Bank	208,061	(9,073)	196,659
Non-bank subsidiaries	15,336	14,007	13,617
<b>Net income</b>	<b>\$ 412,091</b>	<b>\$ 398,925</b>	<b>\$ 372,363</b>

Statements of Cash Flows	Year Ended December 31,		
(in thousands of dollars)	2005	2004	2003
<b>Operating activities</b>			
Net income	\$ 412,091	\$ 398,925	\$ 372,363
Adjustments to reconcile net income to net cash provided by operating activities:			
Cumulative effect of change in accounting principle	—	—	2,442
Equity in undistributed net income of subsidiaries	(223,397)	(4,934)	(210,275)
Depreciation and amortization	2,674	2,690	2,211
Gain on sales of securities available for sale	—	—	(5)
Change in other, net	(49,557)	(13,609)	(67,852)
<b>Net cash provided by operating activities</b>	<b>141,811</b>	<b>383,072</b>	<b>98,884</b>
<b>Investing activities</b>			
Repayments from subsidiaries	154,152	117,314	27,001
Advances to subsidiaries	(206,765)	(80,197)	(74,650)
Proceeds from sale of securities available for sale	—	—	46
<b>Net cash provided by (used in) investing activities</b>	<b>(52,613)</b>	<b>37,117</b>	<b>(47,603)</b>
<b>Financing activities</b>			
Proceeds from issuance of long-term borrowings	—	—	100,000
Payment of borrowings	(99,437)	(101,541)	(41,544)
Dividends paid on common stock	(200,628)	(168,075)	(151,023)
Acquisition of treasury stock	(231,656)	—	(81,061)
Proceeds from issuance of common stock	39,194	47,239	8,082
<b>Net cash used for financing activities</b>	<b>(492,527)</b>	<b>(222,377)</b>	<b>(165,546)</b>
Change in cash and cash equivalents	(403,329)	197,812	(114,265)
Cash and cash equivalents at beginning of year	630,444	432,632	546,897
<b>Cash and cash equivalents at end of year</b>	<b>\$ 227,115</b>	<b>\$ 630,444</b>	<b>\$ 432,632</b>
<b>Supplemental disclosure:</b>			
Interest paid	\$ 22,754	\$ 18,495	\$ 13,157

## 25. ACQUISITIONS AND DIVESTITURES

### ACQUISITIONS

On January 27, 2004, Huntington announced the signing of a definitive agreement to acquire Unizan Financial Corp. (Unizan), a financial holding company based in Canton, Ohio. On November 12, 2004, Huntington and Unizan jointly announced entering into an amendment to their January 26, 2004 merger agreement extending the term of the agreement for one year from January 27, 2005 to January 27, 2006. On the same date, Huntington also announced that it withdrew its application with the FRBC to acquire Unizan. On October 24, 2005, Huntington announced that after consultation with the FRBC, it had re-filed its application to acquire Unizan. On January 26, 2006, Huntington announced that the Federal Reserve Board had approved its merger application. The merger is scheduled to close March 1, 2006.

### DIVESTITURES

During 2003, Huntington sold four banking offices located in eastern West Virginia. This sale included approximately \$50 million of loans and \$130 million of deposits. Huntington's pre-tax gain from this sale was \$13.1 million in 2003 and is reflected as a separate component of non-interest income.

## 26. SEGMENT REPORTING

Huntington has three distinct lines of business: Regional Banking, Dealer Sales, and the Private Financial and Capital Markets Group (PFCMG). A fourth segment includes the Company's Treasury function and other unallocated assets, liabilities, revenue, and expense. Lines of business results are determined based upon the Company's management reporting system, which assigns balance sheet and income statement items to each of the business segments. The process is designed around Huntington's organizational and management structure and, accordingly, the results below are not necessarily comparable with similar



information published by other financial institutions. During the second quarter of 2005, the Capital Markets Group was removed from the Treasury/Other segment and combined with the Private Financial Group to form the Private Financial and Capital Markets Group segment. Since the Capital Markets Group is now managed through the Private Financial Group, combining these two segments better reflects the management accountability and decision making structure. Prior periods reflect this change. An overview of this system is provided below, along with a description of each segment and discussion of financial results.

The following provides a brief description of the four operating segments of Huntington:

**Regional Banking:** This segment provides traditional banking products and services to consumer, small business, and commercial customers located in its seven operating regions within the five states of Ohio, Michigan, West Virginia, Indiana, and Kentucky. It provides these services through a banking network of 344 branches, over 900 ATMs, plus on-line and telephone banking channels. Each region is further divided into Retail and Commercial Banking units. Retail products and services include home equity loans and lines of credit, first mortgage loans, direct installment loans, small business loans, personal and business deposit products, as well as sales of investment and insurance services. Retail Banking accounts for 60% and 79% of total Regional Banking loans and deposits, respectively. Commercial Banking serves middle market commercial banking relationships, which use a variety of banking products and services including, but not limited to, commercial loans, international trade, cash management, leasing, interest rate protection products, capital market alternatives, 401(k) plans, and mezzanine investment capabilities.

**Dealer Sales:** This segment provides a variety of banking products and services to more than 3,500 automotive dealerships within our primary banking markets, as well as in Arizona, Florida, Georgia, North Carolina, Pennsylvania, South Carolina and Tennessee. We have been in this business for more than 50 years. Dealer Sales finances the purchase of automobiles by customers of the automotive dealerships, purchases automobiles from dealers and simultaneously leases the automobiles to consumers under long-term leases, finances the dealerships' floor plan inventories, real estate, or working capital needs, and provides other banking services to the automotive dealerships and their owners. Dealer Sales is directly impacted by general automotive sales, including programs initiated by manufacturers to enhance and increase sales directly. Competition from the financing divisions of automobile manufacturers and from other financial institutions is intense.

**Private Financial and Capital Markets Group (PFCMG):** This segment provides products and services designed to meet the needs of our higher net worth customers. Revenue is derived through the sale of trust, asset management, investment advisory, brokerage, insurance, and private banking products and services. It also focuses on financial solutions for corporate and institutional customers that include investment banking, sales and trading of securities, mezzanine capital financing, and risk management products. To serve our customers, a unique distribution model is used that employs a single, unified sales force to deliver products and services mainly through Regional Banking distribution channels. PFCMG provides investment management and custodial services to our 29 proprietary mutual funds, including ten variable annuity funds. The Huntington Investment Company offers brokerage and investment advisory services to both Regional Banking and PFCMG customers through more than 100 licensed investment sales representatives and nearly 700 licensed personal bankers. PFCMG's insurance entities provide a complete array of insurance products including individual life insurance products ranging from basic term life insurance, to estate planning, group life and health insurance, property and casualty insurance, mortgage title insurance, and reinsurance for payment protection products. Income and related expenses from the sale of brokerage and insurance products is shared with the line of business that generated the sale or provided the customer referral, most notably Regional Banking.

**Treasury/Other:** This segment includes revenue and expense related to assets, liabilities, and equity not directly assigned or allocated to one of the other three business segments. Assets included in this segment include investment securities and bank owned life insurance.

#### USE OF OPERATING EARNINGS TO MEASURE SEGMENT PERFORMANCE

Management uses earnings on an operating basis, rather than on a GAAP basis, to measure underlying performance trends for each business segment. Operating earnings represent GAAP earnings adjusted to exclude the impact of certain items listed in the reconciliation table below. Analyzing earnings on an operating basis is very helpful in assessing underlying performance trends, a critical factor used to determine the success of strategies and future earnings capabilities. For the year ending December 31, 2005, operating earnings were the same as reported GAAP earnings.

Listed below is certain operating basis financial information reconciled to Huntington's 2005, 2004, and 2003 reported results by line of business:

INCOME STATEMENTS (in thousands of dollars)	Regional Banking	Dealer Sales	PFCMG	Treasury/ Other	Huntington Consolidated	
<b>2005</b>						
Net interest income	\$ 780,072	\$ 145,578	\$ 72,886	\$ (36,125)	\$ 962,411	
Provision for credit losses	(51,061)	(26,073)	(4,165)	—	(81,299)	
Non-interest income	311,244	169,792	135,102	16,144	632,282	
Non-interest expense	(593,137)	(185,936)	(131,195)	(59,552)	(969,820)	
Income taxes	(156,491)	(36,177)	(25,420)	86,605	(131,483)	
<b>Operating earnings and net income as reported</b>	<b>\$ 290,627</b>	<b>\$ 67,184</b>	<b>\$ 47,208</b>	<b>\$ 7,072</b>	<b>\$ 412,091</b>	
<b>2004</b>						
Net interest income	\$ 678,288	\$ 149,791	\$ 61,763	\$ 21,532	\$ 911,374	
Provision for credit losses	(7,664)	(44,733)	(2,665)	—	(55,062)	
Non-interest income	308,493	320,154	134,005	41,740	804,392	
Non-interest expense	(593,861)	(324,229)	(124,441)	(80,864)	(1,123,395)	
Income taxes	(134,841)	(35,344)	(24,032)	45,851	(148,366)	
Operating earnings	250,415	65,639	44,630	28,259	388,943	
Restructuring releases, net of taxes	—	—	—	748	748	
Gain on sale of automobile loans, net of taxes	—	8,598	—	636	9,234	
Net income	\$ 250,415	\$ 74,237	\$ 44,630	\$ 29,643	\$ 398,925	
<b>2003</b>						
Net interest income	\$ 605,311	\$ 107,223	\$ 50,667	\$ 85,785	\$ 848,986	
Provision for credit losses	(96,735)	(56,612)	(10,646)	—	(163,993)	
Non-interest income	317,771	525,957	123,219	49,055	1,016,002	
Non-interest expense	(562,909)	(481,543)	(116,872)	(60,251)	(1,221,575)	
Income taxes	(92,203)	(33,259)	(16,229)	18,996	(122,695)	
Operating earnings	171,235	61,766	30,139	93,585	356,725	
Restructuring releases, net of tax	—	—	—	4,333	4,333	
Gain on sale of automobile loans, net of tax	—	13,493	—	12,532	26,025	
Cumulative effect of change in accounting principle, net of tax	—	(10,888)	—	(2,442)	(13,330)	
Gain on sale of branch offices, net of tax	—	—	—	8,523	8,523	
Long-term debt extinguishment, net of tax	—	—	—	(9,913)	(9,913)	
Net income	\$ 171,235	\$ 64,371	\$ 30,139	\$ 106,618	\$ 372,363	
<b>BALANCE SHEETS (in millions of dollars)</b>						
	Assets At December 31,			Deposits At December 31,		
	2005	2004	2003	2005	2004	2003
Regional Banking	\$ 18,863	\$ 17,864	\$ 15,042	\$ 17,968	\$ 17,411	\$ 15,473
Dealer Sales	5,612	6,100	7,336	65	75	77
PFCMG	2,005	1,959	1,722	1,169	1,176	1,165
Treasury/Other	6,285	6,642	6,419	3,208	2,106	1,772
<b>Total</b>	<b>\$ 32,765</b>	<b>\$ 32,565</b>	<b>\$ 30,519</b>	<b>\$ 22,410</b>	<b>\$ 20,768</b>	<b>\$ 18,487</b>

## 27. QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)

The following is a summary of the unaudited quarterly results of operations, for the years ended December 31, 2005 and 2004:

		2005			
(in thousands of dollars, except per share data)		Fourth	Third	Second	First
<b>Interest income</b>	<b>\$</b>	<b>442,476</b>	<b>\$ 420,858</b>	<b>\$ 402,326</b>	<b>\$ 376,105</b>
<b>Interest expense</b>		<b>(198,800)</b>	<b>(179,221)</b>	<b>(160,426)</b>	<b>(140,907)</b>
<b>Net interest income</b>		<b>243,676</b>	<b>241,637</b>	<b>241,900</b>	<b>235,198</b>
<b>Provision for credit losses</b>		<b>(30,831)</b>	<b>(17,699)</b>	<b>(12,895)</b>	<b>(19,874)</b>
<b>Non-interest income</b>		<b>147,322</b>	<b>160,740</b>	<b>156,170</b>	<b>168,050</b>
<b>Non-interest expense</b>		<b>(230,355)</b>	<b>(233,052)</b>	<b>(248,136)</b>	<b>(258,277)</b>
<b>Income before income taxes</b>		<b>129,812</b>	<b>151,626</b>	<b>137,039</b>	<b>125,097</b>
<b>Provision for income taxes</b>		<b>(29,239)</b>	<b>(43,052)</b>	<b>(30,614)</b>	<b>(28,578)</b>
<b>Net income</b>	<b>\$</b>	<b>100,573</b>	<b>\$ 108,574</b>	<b>\$ 106,425</b>	<b>\$ 96,519</b>
<b>Net income per common share — Basic</b>		<b>\$0.44</b>	<b>\$0.47</b>	<b>\$0.46</b>	<b>\$0.42</b>
<b>Net income per common share — Diluted</b>		<b>0.44</b>	<b>0.47</b>	<b>0.45</b>	<b>0.41</b>

		2004			
(in thousands of dollars, except per share data)		Fourth	Third	Second	First
<b>Interest income</b>	<b>\$</b>	<b>359,215</b>	<b>\$ 338,002</b>	<b>\$ 324,167</b>	<b>\$ 325,931</b>
<b>Interest expense</b>		<b>(120,147)</b>	<b>(110,944)</b>	<b>(101,604)</b>	<b>(103,246)</b>
<b>Net interest income</b>		<b>239,068</b>	<b>227,058</b>	<b>222,563</b>	<b>222,685</b>
<b>Provision for credit losses</b>		<b>(12,654)</b>	<b>(11,785)</b>	<b>(5,027)</b>	<b>(25,596)</b>
<b>Non-interest income</b>		<b>182,940</b>	<b>189,891</b>	<b>218,128</b>	<b>227,639</b>
<b>Non-interest expense</b>		<b>(281,014)</b>	<b>(273,423)</b>	<b>(282,153)</b>	<b>(285,654)</b>
<b>Income before income taxes</b>		<b>128,340</b>	<b>131,741</b>	<b>153,511</b>	<b>139,074</b>
<b>Provision for income taxes</b>		<b>(37,201)</b>	<b>(38,255)</b>	<b>(43,384)</b>	<b>(34,901)</b>
<b>Net income</b>	<b>\$</b>	<b>91,139</b>	<b>\$ 93,486</b>	<b>\$ 110,127</b>	<b>\$ 104,173</b>
<b>Net income per common share — Basic</b>		<b>\$0.39</b>	<b>\$0.41</b>	<b>\$0.48</b>	<b>\$0.45</b>
<b>Net income per common share — Diluted</b>		<b>0.39</b>	<b>0.40</b>	<b>0.47</b>	<b>0.45</b>

**SUBSIDIARIES OF HUNTINGTON BANCSHARES INCORPORATED**

The direct and indirect subsidiaries of Huntington Bancshares Incorporated at December 31, 2005, are listed below. The state or jurisdiction of incorporation or organization of each subsidiary (unless otherwise noted) is Ohio.

The Huntington National Bank (United States)  
 41 South High Ltd.\*\*  
 7575 Corporation  
 Allen Edwin Home Mortgage, LLC \*\*  
 Bosgraaf Capital Company, LLC\*\*  
 Distinctive Mortgage Company, LLC\*\*  
 East Sound Realty, Inc.  
 First Sunset Development, Inc.  
 Forty-One Corporation  
 Fourteen Corporation  
 HMC Reinsurance Company (Vermont)  
 HNB 2000-B (NQ) LLC (Delaware)  
 HNB 2000-B (Q) LLC (Delaware)  
 HNB Clearing, Inc.  
 HNB I LLC (Delaware)  
 HPCDS, Inc. (Nevada)  
 HPCKAL, LLC (Nevada)  
 HPCLI, Inc.  
 Huntington Asset Advisors, Inc.  
 Huntington Auto Trust 2000-B (Delaware)\*\*\*  
 Huntington Capital Financing Holdings I, Inc. (Nevada)  
 Huntington Capital Financing Holdings II, Inc. (Nevada)  
 Huntington Capital Financing Holdings III, Inc. (Nevada)  
 Huntington Capital Financing, LLC (Nevada)  
 Huntington Kentucky, LLC (Kentucky)  
 Huntington LT (Delaware)  
 Huntington Merchant Services, L.L.C. (Delaware)\*\*  
 Huntington Municipal Fund I, Inc.  
 Huntington Municipal Fund II, Inc.  
 Huntington Municipal Securities, Inc. (Nevada)\*  
 Huntington Mortgage Capital Holdings, Inc.  
 Huntington Mortgage Capital, LLC\*\*  
 Huntington Preferred Capital Holdings, Inc. (Indiana)\*  
 Huntington Preferred Capital II, Inc.  
 Huntington Preferred Capital, Inc.  
 Huntington Residential Mortgage Securities, Inc.  
 Huntington Trade Services, Asia, Limited (Hong Kong)\*  
 Huntington Trade Services, Inc.  
 Huntington West, Inc. (Delaware)  
 Huntington West II, Inc. (Nevada)  
 Inner City Partnerships, LLC\*\*  
 Joshua Financial Services, LLC\*\*  
 LeaseNet Group, LLC  
 Lodestone Realty Management, Inc.  
 Rate Risk Management Advisors, LLC  
 SFA Holding, Inc.  
 STB Auto Exchange, LLC  
 The Check Exchange System Co.\*\*  
 The Huntington Investment Company  
 The Huntington Leasing Company  
 Thirty-Seven Corporation  
 Traverse West, Inc. (Michigan)

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Vehicle Reliance Company  
Village Communities Financial Services, LLC\*\*  
WS Realty, Inc.  
Arbors Apartments LLC  
Arbors of Dublin LLC  
CB&T Capital Investment Company (West Virginia)  
Cheyenne Mountain/DEC LLC  
Cheyenne Mountain Apartments LLC  
Haberer Registered Investment Advisor, Inc.  
HBI Title Services, Inc.  
Heritage Service Corporation  
HPC Holdings-II, Inc. (Indiana)  
HREIC Arbors, LLC  
HREIC Cheyenne, LLC  
HREIC Sterling, LLC  
Huntington Bancshares Financial Corporation  
Huntington Bancshares Florida, Inc.  
Huntington Capital Corp.  
Huntington Capital I (Delaware)  
Huntington Capital II (Delaware)  
Huntington Capital III (Delaware)  
Huntington Capital IV (Delaware)  
Huntington Capital V (Delaware)  
Huntington Capital VI (Delaware)  
Huntington Credit Reinsurance Company (Arizona)\*\*  
Huntington Insurance Agency Services, Inc.  
Huntington Life Insurance Agency, Inc.  
Huntington Mezzanine Opportunities Inc.  
Huntington Property and Casualty Insurance Agency, Inc.  
Huntington Title Services, Inc. (Florida)  
Mezzanine Opportunities LLC\*\*  
Planeton LP (Cayman Islands)  
Synoran LLC (Delaware)\*\*  
The Huntington Capital Investment Company  
The Huntington Community Development Corporation  
The Huntington National Life Insurance Company (Arizona)\*\*  
The Huntington Real Estate Investment Company  
WMR e-Banc Holdings LLC\*\*  
WMR e-PIN LLC\*\*

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\* - Owned jointly between The Huntington National Bank and Huntington Bancshares Incorporated.

\*\* - Less than 100% owned.

\*\*\* - Owned by HNB 2000-B (Q) LLC and HNB 2000-B (NQ) LLC in proportion to assets sold.

**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We consent to the incorporation by reference in the following Registration Statements of Huntington Bancshares Incorporated and subsidiaries (the "Company") of our reports dated February 14, 2006, relating to the financial statements of the Company and management's report on the effectiveness of internal control over financial reporting, incorporated by reference in this Annual Report on Form 10-K of the Company for the year ended December 31, 2005.

Form S-3 No. 33-63175 pertaining to the registration of Medium Term Notes, Series B dated October 3, 1995;

Form S-3 Nos. 333-53579, 333-53579-01, 333-53579-02, 333-53579-03, 333-53579-04, and 333-53579-05 pertaining to Huntington Bancshares Incorporated and Huntington Capital II, III, IV, V, and VI, respectively, in connection with the registration of capital securities dated May 26, 1998 and amended June 5, 1998.

Form S-3 No. 33-52569 pertaining to Huntington Bancshares Incorporated Dividend Reinvestment and Common Stock Purchase Plan Post-Effective Amendment No. 2 dated September 25, 1998;

Form S-8 No. 33-37373 pertaining to Huntington Bancshares Incorporated 1990 Stock Option Plan dated October 18, 1990;

Form S-8 No. 33-38784 pertaining to Huntington Bancshares Incorporated 1990 Stock Option Plan dated January 28, 1991;

Form S-8 No. 33-10546 pertaining to Huntington Bancshares Incorporated Deferred Compensation Plan for Directors Post-Effective Amendment No. 2 dated January 28, 1991;

Form S-8 No. 33-41774 pertaining to Huntington Bancshares Incorporated Deferred Compensation Plan for Huntington Bancshares Incorporated Directors dated July 19, 1991;

Form S-8 No. 33-52553 pertaining to Huntington Bancshares Incorporated 1994 Stock Option Plan dated March 8, 1994;

Form S-8 No. 33-46327 pertaining to Huntington Investment and Tax Savings Plan Post-Effective Amendment No. 1 dated April 1, 1998;

Form S-8 No. 33-44208 pertaining to Huntington Supplemental Executive Stock Purchase and Tax Savings Plan and Trust Post-Effective Amendment No. 1 dated April 1, 1998;

Form S-8 No. 333-52394 pertaining to Huntington Bancshares Incorporated Long Term Incentive Compensation Plan dated December 21, 2000;

Form S-8 No. 333-61074 pertaining to Huntington Bancshares Incorporated 2001 Stock and Long-Term Incentive Plan Post-Effective Amendment No. 1 dated June 30, 2005;

Form S-8 No. 333-75032 pertaining to Huntington Bancshares Incorporated Employee Stock Incentive Plan dated December 13, 2001;

Form S-11 (no file number) filed with the Office of the Comptroller of the Currency in connection with the potential future issuance of Class C or Class D preferred securities of Huntington National Bank on May 18, 2001.

Information Memorandum, dated April 1, 2004, pertaining to Huntington Bancshares Incorporated's global notes registered with the Luxembourg Stock Exchange.

Form S-8 No. 333-126256 pertaining to Huntington Bancshares Incorporated securities to be offered to employees in employee benefit plans dated June 30, 2005.

Form S-3 ASR No. 333-133143 pertaining to Huntington Bancshares Incorporated automatic shelf registration statement of securities of well-known seasoned issuers dated January 19, 2006.

/s/ Deloitte & Touche LLP

Columbus, Ohio  
February 22, 2006

**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We consent to the incorporation by reference of our report dated January 16, 2004, except for Note 25, as to which the date is January 27, 2004, with respect to the consolidated financial statements of Huntington Bancshares Incorporated and subsidiaries incorporated by reference in this Annual Report on Form 10-K for the year ended December 31, 2005, filed with the Securities and Exchange Commission in the following Registration Statements and in the related prospectuses:

Form S-3 No. 33-63175 pertaining to the registration of Medium Term Notes, Series B dated October 3, 1995;

Form S-3 Nos. 333-53579, 333-53579-01, 333-53579-02, 333-53579-03, 333-53579-04, and 333-53579-05 pertaining to Huntington Bancshares Incorporated and Huntington Capital II, III, IV, V, and VI, respectively, in connection with the registration of capital securities dated May 26, 1998 and amended June 5, 1998.

Form S-3 No. 33-52569 pertaining to Huntington Bancshares Incorporated Dividend Reinvestment and Common Stock Purchase Plan Post-Effective Amendment No. 2 dated September 25, 1998;

Form S-8 No. 33-37373 pertaining to Huntington Bancshares Incorporated 1990 Stock Option Plan dated October 18, 1990;

Form S-8 No. 33-38784 pertaining to Huntington Bancshares Incorporated 1990 Stock Option Plan dated January 28, 1991;

Form S-8 No. 33-10546 pertaining to Huntington Bancshares Incorporated Deferred Compensation Plan for Directors Post-Effective Amendment No. 2 dated January 28, 1991;

Form S-8 No. 33-41774 pertaining to Huntington Bancshares Incorporated Deferred Compensation Plan for Huntington Bancshares Incorporated Directors dated July 19, 1991;

Form S-8 No. 33-52553 pertaining to Huntington Bancshares Incorporated 1994 Stock Option Plan dated March 8, 1994;

Form S-8 No. 33-46327 pertaining to Huntington Investment and Tax Savings Plan Post-Effective Amendment No. 1 dated April 1, 1998;

Form S-8 No. 33-44208 pertaining to Huntington Supplemental Executive Stock Purchase and Tax Savings Plan and Trust Post-Effective Amendment No. 1 dated April 1, 1998;

Form S-8 No. 333-52394 pertaining to Huntington Bancshares Incorporated Long Term Incentive Compensation Plan dated December 21, 2000;

Form S-8 No. 333-61074 pertaining to Huntington Bancshares Incorporated 2001 Stock and Long-Term Incentive Plan Post-Effective Amendment No. 1 dated June 30, 2005;

Form S-8 No. 333-75032 pertaining to Huntington Bancshares Incorporated Employee Stock Incentive Plan dated December 13, 2001;

Form S-11 (no file number) filed with the Office of the Comptroller of the Currency in connection with the potential future issuance of Class C or Class D preferred securities of Huntington National Bank on May 18, 2001.

Information Memorandum, dated April 1, 2004, pertaining to Huntington Bancshares Incorporated's global notes registered with the Luxembourg Stock Exchange.

Form S-8 No. 333-126256 pertaining to Huntington Bancshares Incorporated securities to be offered to employees in employee benefit plans dated June 30, 2005.

Form S-3 ASR No. 333-133143 pertaining to Huntington Bancshares Incorporated automatic shelf registration statement of securities of well-known seasoned issuers dated January 19, 2006.

/s/ Ernst & Young LLP

Columbus, Ohio  
February 22, 2006

**POWER OF ATTORNEY**

Each director and officer of Huntington Bancshares Incorporated (the "Corporation"), whose signature appears below hereby appoints Richard A. Cheap, Thomas E. Hoaglin, and Donald R. Kimble, or any of them, as his or her attorney-in-fact, to sign, in his or her name and behalf and in any and all capacities stated below, and to cause to be filed with the Securities and Exchange Commission, the Corporation's Annual Report on Form 10-K (the "Annual Report") for the fiscal year ended December 31, 2005, and likewise to sign and file any amendments, including post-effective amendments, to the Annual Report, and the Corporation hereby also appoints such persons as its attorneys-in-fact and each of them as its attorney-in-fact with like authority to sign and file the Annual Report and any amendments thereto in its name and behalf, each such person and the Corporation hereby granting to such attorney-in-fact full power of substitution and revocation, and hereby ratifying all that such attorney-in-fact or his substitute may do by virtue hereof.

IN WITNESS WHEREOF, the undersigned have executed this Power of Attorney, in counterparts if necessary, effective as of February 14, 2006.

## DIRECTORS/OFFICERS:

<u>Signatures</u>	<u>Title</u>
/s/ <u>Thomas E. Hoaglin</u> Thomas E. Hoaglin	Chairman, President, Chief Executive Officer, and Director (Principal Executive Officer)
/s/ <u>Donald R. Kimble</u> Donald R. Kimble	Chief Financial Officer and Controller (Principal Financial and Accounting Officer)
/s/ <u>Raymond J. Biggs</u> Raymond J. Biggs	Director
/s/ <u>Don M. Casto III</u> Don M. Casto III	Director
/s/ <u>Michael J. Endres</u> Michael J. Endres	Director
/s/ <u>John B. Gerlach, Jr.</u> John B. Gerlach, Jr.	Director
/s/ <u>Karen A. Holbrook</u> Karen A. Holbrook	Director
/s/ <u>David P. Lauer</u> David P. Lauer	Director
/s/ <u>Wm. J. Lhota</u> Wm. J. Lhota	Director
/s/ <u>David L. Porteous</u> David L. Porteous	Director
/s/ <u>Kathleen H. Ransier</u> Kathleen H. Ransier	Director
<u>Robert H. Schottenstein</u>	Director



## CERTIFICATION

I, Thomas E. Hoaglin, certify that:

1. I have reviewed this Annual Report on Form 10-K of Huntington Bancshares Incorporated;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations, and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f), for the registrant and have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared; and
  - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles; and
  - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize, and report financial information; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 23, 2006

/s/ Thomas E. Hoaglin

Thomas E. Hoaglin  
Chief Executive Officer

**CERTIFICATION**

I, Donald R. Kimble, certify that:

1. I have reviewed this Annual Report on Form 10-K of Huntington Bancshares Incorporated;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations, and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f), for the registrant and have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared; and
  - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles; and
  - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize, and report financial information; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 23, 2006

/s/ Donald R. Kimble  
Donald R. Kimble  
Chief Financial Officer and Controller

**SECTION 1350 CERTIFICATION**

In connection with the Annual Report of Huntington Bancshares Incorporated (the "Company") on Form 10-K for the year ended December 31, 2005, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Thomas E. Hoaglin, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Thomas E. Hoaglin

Thomas E. Hoaglin  
Chief Executive Officer  
February 23, 2006

**SECTION 1350 CERTIFICATION**

In connection with the Annual Report of Huntington Bancshares Incorporated (the "Company") on Form 10-K for the year ended December 31, 2005, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Donald R. Kimble, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Donald R. Kimble

Donald R. Kimble  
Chief Financial Officer and Controller  
February 23, 2006

**Report of Independent Registered Public Accounting Firm**

**To the Board of Directors and Shareholders  
Huntington Bancshares Incorporated**

We have audited the accompanying consolidated statements of income, changes in shareholders' equity, and cash flows of Huntington Bancshares Incorporated and subsidiaries for the year ended December 31, 2003. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the accompanying consolidated statements of income, changes in shareholders' equity, and cash flows of Huntington Bancshares Incorporated and subsidiaries, present fairly, in all material respects, the results of their operations and their cash flows for the year ended December 31, 2003, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 1 to the Consolidated Financial Statements, Huntington Bancshares Incorporated and Subsidiaries changed its method of accounting for variable interest entities in 2003, in accordance with FASB Interpretation No. 46, *Consolidation of Variable Interest Entities*.

/s/ Ernst & Young LLP

Columbus, Ohio

January 16, 2004, except for Note 25,  
as to which the date is January 27, 2004