



## **Huntington Bancshares Incorporated and Huntington National Bank Company-Run Capital Stress Test Results Disclosure**

Capital stress testing results covering the time period July 1, 2017 through September 30, 2019 for Huntington Bancshares Incorporated under a hypothetical severely adverse economic scenario.

**November 3, 2017**

*When we refer to “HBI,” “the Company,” “we,” “our,” and “us” in this report, we mean Huntington Bancshares Incorporated and our consolidated subsidiaries. When we refer to “HNB” or “the Bank” in this report, we mean our only bank subsidiary, The Huntington National Bank, and its subsidiaries.*

## **About Huntington Bancshares Incorporated**

Huntington Bancshares Incorporated is a regional bank holding company headquartered in Columbus, Ohio, with \$102 billion of assets and a network of 958 branches and 1,860 ATMs across eight Midwestern states. Founded in 1866, The Huntington National Bank and its affiliates provide consumer, small business, commercial, treasury management, wealth management, brokerage, trust, and insurance services. Huntington also provides auto dealer, equipment finance, national settlement and capital market services that extend beyond its core states. Visit [huntington.com](http://huntington.com) for more information.

## **Background**

We, along with the other financial institutions with total consolidated assets greater than \$50 billion, are subject to certain requirements established by the Dodd-Frank Wall Street Reform and Consumer Protection Act (DFA), including those related to semi-annual (herein referred to as “mid-cycle”) capital stress testing. This disclosure specifically addresses provisions of the DFA requiring that company-run stress test results be made publicly available.

We implement DFA mid-cycle stress testing requirements through our capital adequacy program and stress testing framework. Consistent with DFA requirements, we submitted a series of regulatory filings detailing our pro-forma results for various hypothetical economic scenarios, including baseline, adverse, and severely adverse conditions, to the Federal Reserve on October 5, 2017. Results in this disclosure reflect our revenue, loss, and capital level estimates for the severely adverse economic scenario. This scenario was constructed by Huntington and is described elsewhere in this disclosure. Unless otherwise noted, results span the nine-quarter timeframe beginning July 1, 2017 and ending September 30, 2019. An electronic copy of this disclosure can be found on the Investor Relations section of Huntington’s website in the “Regulatory Disclosures” section under the heading “Publications and Filings”.

## **Considerations**

To foster comparability among financial institutions that publicly disclose results of their company-run stress tests, the DFA sets forth specific parameters and assumptions for all institutions to use regarding capital distribution. For this and other reasons noted below, results contained herein may differ materially from other publications created by us or by regulatory agencies. To better understand the context of these results, the following should be considered:

- Results are based on a hypothetical severely adverse economic forecast that we constructed, with the specific intention of assessing the strength and resilience of capital in stressed economic and financial market environments. Our baseline (expected) economic forecast yields significantly different results.

- For purposes of public disclosure and to facilitate comparison across financial institutions, DFA requires adoption of a common approach that assumes we take into account our actual capital actions as of the quarter-end for the first quarter in the planning horizon (i.e., 3Q17), and that: (1) for remaining quarters, common stock dividends are held constant based on the quarterly average dollar amount of quarterly dividends paid over the prior four quarters; (2) payments on any other instrument that is eligible for inclusion in the numerator of a regulatory capital ratio equal to the stated dividend, interest, or principal due on such instrument during the quarter; and (3) an assumption of no redemption or repurchase of any capital instrument that is eligible for inclusion in the numerator of a regulatory capital ratio. In the event that a severely adverse economic environment comes to fruition, our capital actions could be different than those assumed for this analysis.
- Loan portfolios follow regulatory-defined classifications and in some cases are different than how we internally manage and report via Securities and Exchange Commission (SEC) filings and other public disclosures.

### **Description of the Severely Adverse Economic Scenario**

Results contained in this report are based on a hypothetical severely adverse economic scenario that was developed by the Company and constructed by Moody's Analytics.

The severely adverse scenario is characterized by a severe global recession brought on by the breakup of the European Union, accompanied by a period of heightened financial market volatility and a weakened U.S. banking system. In this scenario, the level of U.S. Real GDP begins to decline in 3Q17 and reaches a trough that is 4.9% below the pre-recession peak at the beginning of 2019. The unemployment rate increases to 10%, consumer spending declines and, in particular, new car sales fall from 17.1 million to 11 million per year.

As a result of the severe decline in real activity, short-term Treasury rates fall and remain near zero through the end of the scenario period. The 10-year Treasury yield drops to 1.08% in 3Q17, rising gradually thereafter to around 1.30% by 3Q19 and to about 1.50% by 1Q20. Financial conditions in corporate and real estate lending markets are stressed severely. The spread between yields on investment-grade corporate bonds and yields on long-term Treasury securities widens to about 5.0 percentage points by the start of 2018, an increase of 2.8 percentage points relative to 2Q17. The spread between mortgage rates and 10-year Treasury securities yields widens to over 2.3 percentage points over the same time period.

Asset prices drop sharply in this scenario. Equity prices fall by 45% through the end of 2018, accompanied by a surge in equity market volatility, which approaches the levels attained in 2008. Residential and commercial real estate prices also experience large declines, falling by 18% and 26%, respectively, through 1Q19. The recession ends as international financial markets stabilize and European authorities negotiate new trade relationships outside of the European Union (EU) framework.

## Primary Risks to Which We Are Exposed

HBI has eight defined primary risk categories against which we regularly assess ourselves. Each is described below and considered in our capital stress testing process. In general, and for stress testing purposes, the first four categories (credit, market, liquidity, and operational) are assessed through quantitative models, whereas other risk categories generally are assessed via a combination of quantitative and qualitative methods. Our primary risks are:

1. **Credit Risk:** Credit risk is the risk to current or anticipated earnings or capital arising from an obligor's failure to meet the terms of any contract with the Bank or otherwise perform as agreed. Credit risk is found in all activities in which settlement or repayment depends on counterparty, issuer, or borrower performance. It exists any time the Bank's funds are extended, committed, invested, or otherwise exposed through actual or implied contractual agreements, whether reflected on or off the balance sheet.
2. **Market Risk:** Market risk occurs when fluctuations in interest rates impact earnings and capital. Financial impacts are realized through changes in the interest rates of balance sheet assets and liabilities (net interest margin) or directly through valuation changes of capitalized mortgage servicing rights (MSR) and/or trading assets (non-interest income). In addition, changes in the market value of the investment portfolio have a direct impact on tangible common equity (OCI/TCE). Our primary sources of market risk are interest rate risk and price risk.
3. **Liquidity Risk:** Liquidity risk is the risk to current or anticipated earnings or capital arising from an inability to meet obligations when they come due. Liquidity risk includes the inability to access funding sources or manage fluctuations in funding levels. Liquidity risk also results from the failure to recognize or address changes in market conditions that affect the Bank's ability to liquidate assets quickly and with minimal loss in value.
4. **Operational Risk:** Operational risk is the risk to current or anticipated earnings or capital arising from inadequate or failed internal processes or systems, human errors or misconduct, or adverse external events. Operational losses result from internal fraud; external fraud; inadequate or inappropriate employment practices and workplace safety; failure to meet professional obligations involving customers, products, and business practices; damage to physical assets; business disruption and systems failures; and failures in execution, delivery, and process management. Operational losses do not include opportunity costs, forgone revenue, or costs related to risk management and control enhancements implemented to prevent future operational losses.
5. **Legal Risk:** Any current or prospective risk to earnings or capital that arises primarily from any of the following: a defective transaction, legal proceedings, defective legal interpretations, changes in laws or regulations, defective corporate governance, or the failure to adequately protect the Company's intellectual property.

6. **Compliance Risk:** Compliance risk is the risk to current or anticipated earnings or capital arising from violations of laws, rules, or regulations, or from nonconformance with prescribed practices, internal policies and procedures, or ethical standards. This risk exposes the Bank to fines, civil money penalties, payment of damages, and the voiding of contracts. Compliance risk can result in diminished reputation, reduced franchise or enterprise value, limited business opportunities, and lessened expansion potential.
7. **Strategic Risk:** Strategic risk is the risk to current or anticipated earnings, capital, or franchise or enterprise value arising from adverse business decisions, poor implementation of business decisions, or lack of responsiveness to changes in the banking industry and operating environment. This risk is a function of the Bank's strategic goals, business strategies, resources, and quality of implementation. The resources needed to carry out business strategies are both tangible and intangible. They include communication channels, operating systems, delivery networks, and managerial capacities and capabilities.
8. **Reputational Risk:** Reputational risk is the risk to current or anticipated earnings, capital, or franchise or enterprise value arising from negative public opinion. This risk may impair the Bank's competitiveness by affecting its ability to establish new relationships or services or to continue servicing existing relationships. Reputational risk is inherent in all the Bank's activities and requires management to exercise an abundance of caution in dealing with customers, counterparties, correspondents, investors, and the community.

## **Stress Test Methodology**

Overseen by our Board of Directors (Board) and Executive-level risk, audit, and capital management committees, our stress-testing framework employs both quantitative and qualitative estimation methodologies. Where applicable and practical, we attempt to use quantitatively-derived econometric models to estimate pre-provision net revenue (PPNR) and credit losses, which help us project capital levels for the nine-quarter forecast horizon used in the DFA stress testing framework.

In determining when to use quantitative models, we review our balance sheet and income statement in terms of the primary risk categories referenced in the previous section. In general, line items determined to be material in nature are estimated using quantitative models. In some cases, however, we use qualitative estimations when statistical correlations to macroeconomic variables are weak or non-existent or in cases where sufficient amounts of historical data are not available to construct a robust model or draw reliable conclusions.

Using our June 30, 2017, balance sheet position as a starting point, we use our quantitative and qualitative estimation methodologies to simulate, among other items, future values for the components of PPNR (net interest income plus non-interest income less non-interest expense) and credit losses for a nine-quarter forecast horizon. These estimation methodologies come together in our internally-developed stress testing system. The output provides the requisite information to estimate our capital levels and other information contained in the "Results" section of this disclosure.

Prior to running the simulation, we program into the system various economic scenarios (i.e., future paths of different economic variables such as unemployment, GDP, housing price index, etc.). For this mid-cycle stress testing exercise, we simulated three distinct economic scenarios ranging in levels of severity, including baseline (i.e., expected) conditions, adverse, and severely adverse. The subject of this disclosure is the severely adverse scenario that we constructed.

Results for all economic scenarios are carefully reviewed and vetted by our Board and Board-level risk and Executive-level capital management committees. In our base case scenarios, some adjustments are made to modeled results to reflect actions we intend or otherwise would take to manage the Company to within our desired risk profile. For example, the size of our auto loan portfolio could be effectively managed through securitization activity. In stress cases, however, adjustments generally are more conservative in nature (i.e., our assumptions or adjustments generally result in more severe outcomes in terms of impact to capital). We believe that taking a more conservative approach in stress case scenarios better aligns with the spirit and intent of stress testing, and further acknowledge that a company’s ability to manage its risk positions can be somewhat diminished when the entire industry and marketplace is experiencing turmoil as a result of the economic environment.

## Results for the Severely Adverse Economic Scenario

Consistent with DFAST disclosure instructions, results in this section are based on the severely adverse economic scenario. Unless otherwise specified, results are cumulative for the nine-quarter planning horizon. At the time results were finalized and submitted to the FRB, the first quarter of the planning horizon was still a projection. The following tables and information have not been adjusted for actual results realized in the first quarter of the nine-quarter planning horizon.

### Revenue, Loss, and Net Income

Table 1 depicts cumulative results for the nine-quarter planning horizon for the severely adverse economic scenario.

**Table 1. Cumulative Revenue, Loss, and Net Income Before Taxes**

(\$ millions)	\$
Pre-Provision Net Revenue	2,294
Other Revenue	0
Provision for Loan and Lease Losses	-3,966
Realized Gain/(Loss) on Securities (AFS and HTM)	-88
Trading and Counterparty Losses	-34
Other Gain/Loss	0
Income/(Loss) Before Taxes <sup>(1)</sup>	-1,793

(1) The sum of line items does not match the ‘Income/(Loss) Before Taxes’ due to rounding

### Loan and Lease Losses

Table 2 depicts cumulative nine-quarter loan and lease losses for the severely adverse economic scenario. The loan and lease categories presented are as defined by the FRB’s FR Y-14A reporting schedules.

**Table 2. Cumulative Credit Losses for Loan and Lease Portfolios**

(\$ millions)	\$	% <sup>(1)</sup>
Commercial and Industrial <sup>(2)</sup>	1,067	5.5
Commercial Real Estate	764	7.2
Closed-end First Lien Mortgage	136	1.9
Junior Lien Mortgage and Home Equity Line of Credit	154	1.9
Credit Card	233	36.7
Other Consumer <sup>(3)</sup>	317	2.1
Other Loans and Leases <sup>(4)</sup>	212	4.9
<b>Total Loan and Lease Losses <sup>(5)</sup></b>	<b>2,884</b>	<b>4.4</b>

(1) Denominator of loss rate is based on the average of the nine quarters' balances

(2) Includes small business

(3) Other Consumer includes auto loans and leases, student loans, and other miscellaneous consumer-purpose loans

(4) Other Loans and Leases primarily consist of Equipment Lease and Overdraft losses

(5) The sum of portfolios depicted in the table does not match the 'Total' row due to rounding

### Capital Ratios

Consistent with assumed capital actions described earlier in this disclosure, Table 3 depicts beginning, ending, and minimum capital ratios observed through the nine-quarter horizon for Huntington Bancshares Incorporated. All ratios are computed using Basel III definitions. Key drivers of changes to capital levels are listed below.

**Table 3. Capital Ratios: Beginning, Ending, and Minimum Values**

(%)	Actual	- Stress Forecast -	
	6/30/2017	9/30/2019	Minimum
Huntington Bancshares Incorporated			
Common Equity Tier 1	9.88%	7.36%	7.36%
Tier 1 Capital	11.24%	8.76%	8.76%
Total Risk-Based Capital	13.33%	10.86%	10.86%
Tier 1 Leverage	8.98%	7.10%	7.10%

Changes in our capital levels in the severely adverse economic scenario are primarily driven by PPNR and provision for credit losses. Table 4 reconciles the starting and ending Common Equity Tier 1 position for HBI in terms of our sources and uses of capital.

**Table 4. HBI Sources and Uses of Capital**

(\$ millions)	\$	%
Common Equity Tier 1 (beginning)	7,740	9.88
Pre-Provision Net Revenue	2,294	2.93
Net Charge-Offs	-2,884	-3.68
Change in Allowance	-1,082	-1.38
Taxes/Other	521	0.66
Common & Preferred Dividends	-958	-1.22
Change in RWA		0.17
<b>Common Equity Tier 1 (ending) <sup>(1)</sup></b>	<b>5,631</b>	<b>7.36</b>

(1) The sum of the individual \$ categories does not match the 'Common Equity Tier 1 (ending)' row due to rounding

## **Concluding Remarks**

Although the focus of this disclosure is the severely adverse scenario, our minimum capital levels across the nine-quarter planning horizon for baseline (i.e., expected) economic conditions analyzed in connection with mid-cycle company-run capital stress-testing requirements remain significantly above regulatory-defined well-capitalized thresholds, as well as above our more stringent internally-defined capital thresholds.