



Huntington Bancshares Incorporated & Huntington National Bank Company-Run Capital Stress Test Results Disclosure

Capital Stress Testing Results Covering the Time Period January 1, 2018 through March 31, 2020 for Huntington Bancshares Incorporated and Huntington National Bank under a Hypothetical Severely Adverse Economic Scenario.

June 21, 2018

When we refer to “Huntington,” “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 (HBI) is a regional bank holding company headquartered in Columbus, Ohio, with \$104 billion of assets and a network of 966 branches and 1,866 ATMs across eight Midwestern states. Founded in 1866, The Huntington National Bank (HNB) 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 for more information.

Background

We, along with 34 other financial institutions with total consolidated assets greater than \$100 billion, are subject to certain requirements established by the Dodd-Frank Wall Street Reform and Consumer Protection Act (DFA), including those related to capital stress testing. This disclosure specifically addresses provisions of the DFA requiring that company-run stress test results be made publically available.

The DFA stress testing requirements are implemented through the Federal Reserve Board’s (FRB) Comprehensive Capital Analysis and Review (CCAR) program, and by the Office of the Comptroller of the Currency (OCC) through their Dodd-Frank Act Stress Testing program (DFAST). Consistent with requirements of these programs, we submitted a comprehensive Annual Capital Plan and a series of regulatory filings detailing our stress testing methodology and pro-forma results for various hypothetical economic scenarios, including baseline, adverse, and severely adverse conditions, to the Federal Reserve and OCC on April 5, 2018. Results in this disclosure reflect our revenue, loss, and capital level estimates for the severely adverse economic scenario that was provided to us by the Federal Reserve and the OCC in February 2018. Unless otherwise noted, results span the nine-quarter timeframe beginning January 1, 2018 and ending March 31, 2020. An electronic copy of this disclosure can be found on the Investor Relations section of Huntington’s website under the “Publications and Filings” tab in the “Regulatory Disclosures” section.

Considerations

To foster comparability between financial institutions that publically disclose results of their company-run stress tests, the DFA sets forth specific parameters and assumptions for bank holding companies, which includes HBI, regarding capital actions over the planning horizon. For this and other reasons noted below, results contained herein may differ materially from other publications made 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 was provided to us (and all financial institutions participating in CCAR and DFAST) by the Federal Reserve and the OCC 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.
- The DFA requires bank holding companies, which includes HBI, to adopt a common approach for assumptions regarding its capital actions over the planning horizon. This common approach assumes we take into account our actual capital actions as of the quarter-end for the first quarter in the planning horizon (i.e., first quarter 2018), and that for the remaining quarters: (1) common stock dividends are held constant based on the quarterly average dollar amount of quarterly dividends paid in the previous year; (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; (3) no redemption or repurchase of any capital instrument that is eligible for inclusion in the numerator of a regulatory capital ratio; and (4) no issuances of common stock or preferred stock, except for issuances related to expensed employee compensation or in connection with a planned merger or acquisition. In the event that a severely adverse economic environment comes to fruition, our capital actions could be different than those assumed for this analysis.
- Given the assumptions used specifically for public disclosure as previously noted, results contained herein are different than those we provided in connection with our Annual Capital Plan.
- The FRB will publish institution-specific stress testing results. While the underlying economic scenario is identical to the one used for this analysis, the FRB utilizes its own stress testing methodology and models, which are different than ours. As such, results published by the FRB may differ.
- 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 constructed by the FRB and the OCC.

The severely adverse scenario is characterized by a severe global recession that is accompanied by a global aversion to long-term fixed-income assets. As a result, long-term rates do not fall and yield curves steepen in the United States and the four countries/country blocks in the scenario. In turn, these developments lead to a broad-based and deep correction in asset prices—including in the corporate bond and real estate markets.

In this scenario, the level of U.S. real GDP begins to decline in the first quarter of 2018 and reaches a trough in the third quarter of 2019 that is 7½ percent below the pre-recession peak. The unemployment rate increases almost 6 percentage points, to 10 percent, by the third quarter of 2019. Headline consumer price inflation falls below 1 percent at an annual rate in the second quarter of 2018 and rises to about 1½ percent at an annual rate by the end of the scenario.

Asset prices drop sharply in this scenario. Equity prices fall 65 percent by early 2019, accompanied by a surge in equity market volatility. The VIX moves above 60 percent in the first half of 2018. Real estate prices also experience large declines, with house prices and commercial real estate prices falling 30 percent and 40 percent, respectively, by the third quarter of 2019.

Primary Risks to which we are Exposed

HBI has eight defined primary risk pillars 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:** is the risk to current or anticipated earnings or capital arising from a counterparty'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:** 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 (and associated changes in Other Comprehensive Income) have a direct impact on tangible common equity (TCE). Our primary sources of market risk are interest rate risk and price risk.
3. **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:** 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 clients, 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:** is current or prospective risk to earnings or capital that arises from unenforceable contracts, lawsuits, or adverse judgments that disrupt or otherwise negatively affect the operations or condition of the institution.
6. **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:** is the risk to current or anticipated earnings, capital, or franchise / 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:** is the risk to current or anticipated earnings, capital, or franchise / 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 extreme caution in dealing with customers, counterparties, correspondents, investors, and the community.

Stress Test Methodology

Overseen by our Board of Directors (Board), Board-level Risk Oversight Committee, and Executive-level Capital Management Committee, 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 December 31, 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 “Summary of 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 the most recent stress testing exercise, we simulated five distinct economic scenarios ranging in levels of severity. Three of the five scenarios simulated were provided to us by the FRB and the OCC and were used by all financial institutions subject to DFA capital stress testing requirements. Of the five economic scenarios, two represented baseline conditions, one represented adverse conditions, and two represented severely adverse conditions. The subject of this disclosure is the severely adverse scenario that was provided to us by the FRB and OCC. As a matter of practice, we also developed and simulated the effects of an internally-developed severely adverse economic scenario.

Results for all economic scenarios are carefully reviewed and vetted by our Board, Board-level Risk Oversight Committee, and Executive-level Capital Management Committee. 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 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.

Additional Considerations

DFA stress test rules require certain firms with large trading operations to include a global market shock in their stress testing process. Huntington does not have significant trading operations and is not one of the six large firms that participated in the global market shock exercise. Importantly, HNB accounts for more than 99% of the consolidated Company’s assets, and as such, we generally rely on the same underlying methodologies when conducting bank-level stress testing.

Summary of Results

Consistent with the DFAST disclosure requirements, results in this section are based on the severely adverse economic scenario as provided to us by the FRB and the OCC for the time period of January 1, 2018 through March 31, 2020. Unless otherwise specified, results are cumulative for the nine-quarter planning horizon. At the time results were finalized and submitted to the FRB and OCC, 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. HBI Cumulative Revenue, Loss, and Net Income before Taxes

(\$ millions)	\$
Pre-Provision Net Revenue	2,998
Other Revenue	0
Provision for Loan and Lease Losses	(4,161)
Realized Gain/(Loss) on Securities (AFS and HTM)	(75)
Trading and Counterparty Losses	(29)
Other Gain/(Loss)	(588)
Income/(Loss) Before Taxes	(1,855)

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 and the OCC's DFAST-14A reporting schedules.

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

(\$ millions)	\$	% ⁽¹⁾
Commercial and Industrial ⁽²⁾	1,190	6.2
Commercial Real Estate	782	7.6
Closed-end First Lien Mortgage	249	2.7
Junior Lien Mortgage and Home Equity Line of Credit	209	2.6
Credit Card	297	44.7
Other Consumer ⁽³⁾	340	2.2
Other Loans and Leases ⁽⁴⁾	258	4.9
Total Loan and Lease Losses	3,325	4.9

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

(2) Includes small business.

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

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

Capital Ratios

As noted in the "Considerations" section of this disclosure, capital ratios for HBI are calculated using assumptions regarding capital actions that have been prescribed by the DFA stress testing requirements. Capital ratios for HNB are calculated using assumptions regarding capital actions that align with internal capital management policies. Table 3 depicts beginning, ending, and minimum capital ratios observed through the nine-quarter horizon for HBI and HNB. All ratios are computed using Basel III definitions. Key drivers of changes to capital levels are discussed below.

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

(%)	Actual	- Stress Forecast -	
	12/31/2017	3/31/2020	Minimum
Huntington Bancshares Incorporated			
Common Equity Tier 1	10.01%	8.25%	8.14%
Tier 1 Capital	11.34%	9.78%	9.69%
Total Risk-Based Capital	13.39%	11.75%	11.74%
Tier 1 Leverage	9.09%	7.83%	7.71%
Huntington National Bank			
Common Equity Tier 1	11.02%	10.25%	9.86%
Tier 1 Capital	12.10%	11.37%	11.00%
Total Risk-Based Capital	14.33%	13.86%	13.53%
Tier 1 Leverage	9.70%	9.09%	8.65%

Projected changes in capital levels for both HBI and HNB 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 (12/31/2017)	8,041	10.01
Pre-Provision Net Revenue	2,998	3.73
Net Charge-Offs	(3,325)	(4.14)
Change in Allowance	(836)	(1.04)
Taxes/Other	755	0.94
Common & Preferred Dividends	(1,125)	(1.40)
Change in RWA	-	0.15
Common Equity Tier 1 (3/31/2020)	6,508	8.25

Concluding Remarks

Although the focus of this disclosure is on the supervisory-provided severely adverse scenario, our minimum capital levels across the nine-quarter planning horizon for baseline (i.e., expected) economic conditions analyzed in connection with annual 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.

Huntington and other financial institutions with consolidated assets greater than \$100 billion that participated in the DFAST 2018 exercise are also required to conduct mid-cycle stress tests. Disclosure of those results is expected to be made in the fourth quarter of 2018.