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

Capital Stress Testing Results Covering the Time Period January 1, 2017 through March 31, 2019 for Huntington Bancshares Incorporated and Huntington National Bank under a Hypothetical Severely Adverse Economic Scenario.

## June 22, 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 $100 billion of assets and a network of 996 branches and 1,855 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 for more information.

## Background

We, along with 34 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 capital stress testing. This disclosure specifically addresses provisions of DFA requiring that company-run stress test results be made publically available.

DFA stress testing requirements are implemented through the Federal Reserve's 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 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, 2017. 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 2017. Unless otherwise noted, results span the nine-quarter timeframe beginning January 1, 2017 and ending March 31, 2019. An electronic copy of this disclosure can be found on Huntington's Investor Relations website in the "Regulatory Disclosures" section under the heading "Publications and Filings" (http://huntington-ir.com/main/Regulatory.htm).

## Considerations

To foster comparability between financial institutions that publically disclose results of their company-run stress tests, DFA sets forth specific parameters and assumptions for all institutions to use regarding capital distributions. 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.

- 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., first quarter 2017), and that: (1) for remaining quarters, common stock dividends are held constant based on the quarterly average dollar amount of quarterly dividends paid in 2016; (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.

- 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 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, accompanied by a period of heightened stress in corporate loan markets and commercial real estate markets. In this scenario, the level of U.S. real GDP begins to decline in the first quarter of 2017 and reaches a trough that is 6.5% below the pre-recession peak. The unemployment rate increases to 10%, and headline consumer price inflation rises to about 1.25% at an annual rate by the second quarter of 2017 and then rises to about 1.75% at an annual rate by the middle of 2018.

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 0.75% in the first quarter of 2017, rising gradually thereafter to around 1.5% by the first quarter of 2019 and to about 1.75% by the first quarter of 2020. 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 5.5 percentage points by the end of 2017, an increase of 3.5 percentage points relative to the fourth quarter of 2016. The spread between mortgage rates and 10-year Treasury yields widens to over 3.5 percentage points over the same time period.

Asset prices drop sharply in this scenario. Equity prices fall by 50% through the end of 2017, accompanied by a surge in equity market volatility, which approaches the levels attained in 2008. House prices and commercial real estate prices also experience large declines, with house prices and commercial real estate prices falling by 25% and 35%, respectively, through the first quarter of 2019.

## 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 Huntington'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 December 31, 2016 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 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 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.

### *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, the Bank 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.

## Results for the Severely Adverse Economic Scenario for the Time Period January 1, 2017 through March 31, 2019

Consistent with DFAST disclosure instructions, results in this section are based on the severely adverse economic scenario as provided to us by the FRB and the OCC. As noted in the "Interpreting Results" section of this disclosure, the requirement is that we assume that common stock dividends are held constant with levels paid in 2016 and further assume there is no redemption or repurchase of any capital instrument that is eligible for inclusion in the numerator of a regulatory capital ratio. Unless otherwise specified, results are cumulative for the nine-quarter planning horizon beginning January 1, 2017 and ending March 31, 2019. 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 2017.

***Revenue, Loss, and Net Income***

Table 1 depicts cumulative results for the time period January 1, 2017 through March 31, 2019 for the severely adverse economic scenario.

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

| ($ millions) | $ |
|---|---|
| Pre-Provision Net Revenue | 2,419 |
| Other Revenue | 0 |
| Provision for Loan and Lease Losses | (3,513) |
| Realized Gain/(Loss) on Securities (AFS and HTM) | (69) |
| Trading and Counterparty Losses | (30) |
| Other Gain/Loss | 0 |
| Income/(Loss) Before Taxes | (1,193) |

***Loan and Lease Losses***

Table 2 depicts cumulative nine-quarter loan and lease losses for the time period January 1, 2017 through March 31, 2019 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. Cumulative Credit Losses for Loan and Lease Portfolios**

| ($ millions) | $ | %(1) |
|---|---|---|
| Commercial and Industrial (2) | 1,008 | 4.8 |
| Commercial Real Estate | 680 | 7.4 |
| Closed-end First Lien Mortgage | 149 | 1.9 |
| Junior Lien Mortgage and Home Equity Line of Credit | 150 | 1.7 |
| Credit Card | 154 | 25.3 |
| Other Consumer (3) | 231 | 1.7 |
| Other Loans and Leases (4) | 145 | 3.6 |
| Total Loan and Lease Losses (5) | 2,517 | 3.9 |

(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 (12/31/2016), ending (3/31/2019), and minimum capital ratios observed through the nine-quarter horizon for Huntington Bancshares Incorporated and Huntington National Bank. 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 - | |
|---|---|---|---|
| (%) | 12/31/2016 | 3/31/2019 | Minimum |
| Huntington Bancshares Incorporated | | | |
| Common Equity Tier 1 | 9.56% | 7.82% | 7.80% |
| Tier 1 Capital | 10.92% | 9.21% | 9.21% |
| Total Risk-Based Capital | 13.05% | 11.29% | 11.29% |
| Tier 1 Leverage | 8.70% | 7.46% | 7.40% |
| Huntington National Bank | | | |
| Common Equity Tier 1 | 10.42% | 9.70% | 9.06% |
| Tier 1 Capital | 11.61% | 10.71% | 10.08% |
| Total Risk-Based Capital | 13.83% | 13.20% | 12.58% |
| Tier 1 Leverage | 9.29% | 8.65% | 8.10% |

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. Sources and uses of capital for the Bank are proportionately similar.

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

| ($ millions) | $ | % |
|---|---|---|
| Common Equity Tier 1 (12/31/2016) | 7,486 | 9.56 |
| Pre-Provision Net Revenue | 2,419 | 3.09 |
| Net Charge-Offs | (2,517) | (3.22) |
| Change in Allowance | (996) | (1.27) |
| Taxes/Other | 530 | 0.68 |
| Common & Preferred Dividends | (913) | (1.17) |
| Change in RWA | - | 0.15 |
| Common Equity Tier 1 (3/31/2019) | 6,009 | 7.82 |

## Concluding Remarks

Though 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 $50 billion that participated in the DFAST 2017 exercise are also required to conduct mid-cycle stress tests. Disclosure of those results is expected to be made in the fourth quarter of 2017.