# Huntington Bancshares Incorporated
# Mid-Cycle Company-Run Capital Stress Test Results Disclosure

Capital Stress Testing Results Covering the Time Period April 1, 2015 through June 30, 2017 for Huntington Bancshares Incorporated under a Hypothetical Severely Adverse Economic Scenario.

July 23, 2015

*When we refer to "HBI," "Huntington," "we," "our," and "us" in this report, we mean Huntington Bancshares Incorporated and our consolidated subsidiaries.*

## About Huntington Bancshares Incorporated

Huntington Bancshares Incorporated is a $69 billion asset regional bank holding company headquartered in Columbus, Ohio, with a network of more than 700 branches and almost 1,500 ATMs across six 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 other large 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 mid-cycle stress testing requirements are implemented through the Federal Reserve's stress testing program. Consistent with requirements of this program, we submitted a series of regulatory filings detailing our pro-forma results for various hypothetical economic scenarios, including baseline, adverse, and severely adverse economic conditions, to the Federal Reserve on July 6, 2015. Results in this disclosure reflect our revenue, loss, and capital level estimates for the severely adverse economic scenario constructed by Huntington. Unless otherwise noted, results span the nine-quarter timeframe beginning April 1, 2015 and ending June 30, 2017. 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 constructed by Huntington 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. Unlike the annual stress test exercise for which we also publish results, the mid-cycle stress test relies on economic scenarios constructed individually by each bank holding company, and does not utilize a common scenario published by the Federal Reserve or Office of the Comptroller of the Currency (OCC). Results contained herein are specific to the scenario we constructed, and therefore it is not meaningful to compare our results to results published by other bank holding companies, nor is it meaningful to compare these results to previous stress test disclosures made by Huntington, the Federal Reserve, the OCC, or other bank holding companies.

- For purposes of public disclosure, 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., second quarter 2015), and that (1) for remaining quarters, common stock dividends are held constant based on the average dollar amount of quarterly dividends paid in 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 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 Huntington. The scenario is characterized by a substantial weakening in economic activity, the catalyst of which is geopolitical tensions in energy-producing countries which worsen abruptly and significantly resulting in a sharp cutback in global oil supplies, rising gasoline prices, and a decline in automotive businesses that impact the economy in Huntington footprint states. Among others, key economic drivers we believe would materially impact us include: unemployment, which peaks at 11.2%; GDP, which contracts by over 6%; housing price index, which decreases by 35%; and the S&P stock market price index, which decreases by 68%. These and other economic variables were transformed into the useable inputs for our revenue, expense, and loss models that underlie our capital projections.

## Primary Risks to Which We Are Exposed

Huntington 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:

- *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 bank funds are extended, committed, invested, or otherwise exposed through actual or implied contractual agreements, whether reflected on or off the balance sheet.

- *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 (noninterest 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. Our primary sources of market risk are interest rate risk and price risk.

- *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.

- *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.

- *Legal Risk*. Legal risk includes, but is not limited to, exposure to orders, fines, penalties, or punitive damages resulting from litigation, as well as regulatory actions.

- *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.

- *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.

- *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 continue servicing existing relationships. Reputational risk is inherent in all bank 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- and executive-level risk 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 and credit losses, which help us to project capital levels for the nine-quarter forecast horizon used in this analysis.

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 March 31, 2015 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 pre-provision net revenue (net interest income plus non-interest income less non-interest expense) and credit losses across a nine-quarter forecast horizon. These estimation methodologies come together and dynamically interact with each other 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 stress testing 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 three distinct economic scenarios ranging in levels of severity. Of the three economic scenarios, one represented baseline conditions, one represented adverse conditions, and one represented severely adverse conditions. The subject of this disclosure is the severely adverse scenario.

Results for all economic scenarios are carefully reviewed and vetted by our board- and executive-level risk and capital management committees. In our base case scenario, 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 Scenario for the Time Period 4/1/2015 – 6/30/2017

Consistent with DFAST disclosure instructions, results in this section are based on the severely adverse economic scenario. As noted in the "Considerations" section of this disclosure, we assume that common stock dividends are held constant based on the average dollar amount of quarterly dividends paid in the prior four quarters 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 April 1, 2015 and ending June 30, 2017. At the time results were finalized and submitted to the Federal Reserve, 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 2015 second quarter.

*Revenue, Loss, and Net Income*

Table 1 depicts cumulative results for the time period 4/1/2015 – 6/30/2017 for the severely adverse economic scenario.

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

| ($ millions) | $ |
|---|---|
| Pre-Provision Net Revenue | 1,945 |
| Other Revenue | 0 |
| Provision for Loan and Lease Losses | (2,986) |
| Realized Gain/(Loss) on Securities (AFS and HTM) | (111) |
| Trading and Counterparty Losses | (55) |
| Other Gain/Loss | 0 |
| Income/(Loss) Before Taxes [1] | (1,208) |

(1) The sum of the individual line items may not match the 'Income/(Loss) Before Taxes' row due to rounding

*Loan and Lease Losses*

Table 2 depicts cumulative nine-quarter losses for loan and lease categories as defined by the Federal Reserve's Y-14A reporting schedules used in CCAR.

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

| ($ millions) | $ | % (1) |
|---|---|---|
| Commercial and Industrial (2) | 896 | 7.1 |
| Commercial Real Estate | 551 | 8.0 |
| Closed-end First Lien Mortgage | 345 | 4.9 |
| Junior Lien Mortgage and Home Equity Line of Credit | 191 | 3.2 |
| Credit Card | 58 | 20.7 |
| Other Consumer (3) | 193 | 2.0 |
| Other Loans and Leases (4) | 73 | 1.7 |
| Total Loan and Lease Losses (5) | 2,307 | 5.0 |

(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 may not match the 'Total' row due to rounding

*Capital Ratios*

Consistent with assumed capital actions described earlier in this disclosure, Table 3 depicts beginning (3/31/2015), ending (6/30/2017), and minimum capital ratios observed through the nine-quarter horizon for Huntington Bancshares Incorporated. Except where noted, ratios are calculated 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 - | |
|---|---|---|---|
| (%) | 3/31/2015 | 6/30/2017 | Minimum |
| Huntington Bancshares Incorporated | | | |
| Tier 1 Common Equity[1] | 10.00 | 7.23 | 6.87 |
| Common Equity Tier 1 | 9.51 | 7.93 | 7.57 |
| Tier 1 Capital | 10.22 | 8.59 | 8.23 |
| Total Risk-Based Capital | 12.48 | 10.78 | 10.47 |
| Tier 1 Leverage | 9.04 | 7.29 | 6.98 |

(1) Tier 1 Common Equity is calculated using Basel I definitions

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

**Table 4. HBI Sources and Uses of Capital, 3/31/2015 – 6/30/2017**

| ($ millions) | $ | % |
|---|---|---|
| Common Equity Tier 1 (3/31/2015) | 5,501 | 9.51 |
| Pre-Provision Net Revenue | 1,945 | 3.36 |
| Net Charge-Offs | (2,307) | (3.99) |
| Change in Allowance | (679) | (1.17) |
| Taxes/Other | 294 | 0.51 |
| Common & Preferred Dividends | (490) | (0.85) |
| Change in RWA | - | 0.56 |
| Common Equity Tier 1 (6/30/2017) [1] | 4,263 | 7.93 |

(1) The sum of the individual categories may not match the 'Common Equity Tier1 (6/30/2017)' row due to rounding

## Concluding Remarks

Though the focus of this disclosure is on the severely adverse scenario, our minimum capital levels across the nine-quarter planning horizon for all scenarios analyzed in connection with mid-cycle company-run capital stress testing requirements remain above regulatory-defined well-capitalized thresholds, as well as above our more stringent internally-defined capital thresholds.