

HUNTINGTON BANCSHARES INC/MD

Form 10-Q

April 28, 2014

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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)**  
**OF THE SECURITIES EXCHANGE ACT OF 1934**

QUARTERLY PERIOD ENDED March 31, 2014

Commission File Number 1-34073

**Huntington Bancshares Incorporated**

**Maryland**  
(State or other jurisdiction of  
incorporation or organization)

41 South High Street, Columbus, Ohio 43287

**31-0724920**  
(I.R.S. Employer  
Identification No.)

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Registrant's telephone number (614) 480-8300

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 and (2) has been subject to such filing requirements for the past 90 days.  Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).  Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company)

Smaller reporting company

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

There were 827,771,805 shares of Registrant's common stock (\$0.01 par value) outstanding on March 31, 2014.

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**Glossary of Acronyms and Terms**

The following listing provides a comprehensive reference of common acronyms and terms used throughout the document:

2013 Form 10-K	Annual Report on Form 10-K for the year ended December 31, 2013
ABL	Asset Based Lending
ACL	Allowance for Credit Losses
AFCRE	Automobile Finance and Commercial Real Estate
AFS	Available-for-Sale
ALCO	Asset-Liability Management Committee
ALLL	Allowance for Loan and Lease Losses
ARM	Adjustable Rate Mortgage
ASC	Accounting Standards Codification
ASU	Accounting Standards Update
ATM	Automated Teller Machine
AULC	Allowance for Unfunded Loan Commitments
AVM	Automated Valuation Methodology
Basel III	Refers to the final rule issued by the FRB and OCC and published in the Federal Register on October 11, 2013
BHC	Bank Holding Companies
C&I	Commercial and Industrial
Camco Financial	Camco Financial Corp.
CCAR	Comprehensive Capital Analysis and Review
CDO	Collateralized Debt Obligations
CDs	Certificate of Deposit
CFPB	Bureau of Consumer Financial Protection
CMO	Collateralized Mortgage Obligations
CRE	Commercial Real Estate
Dodd-Frank Act	Dodd-Frank Wall Street Reform and Consumer Protection Act
EPS	Earnings Per Share
ERISA	Employee Retirement Income Security Act
EVE	Economic Value of Equity
Fannie Mae	(see FNMA)
FASB	Financial Accounting Standards Board
FDIC	Federal Deposit Insurance Corporation
FDICIA	Federal Deposit Insurance Corporation Improvement Act of 1991
FHA	Federal Housing Administration
FHFA	Federal Housing Finance Agency

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FHLB	Federal Home Loan Bank
FHLMC	Federal Home Loan Mortgage Corporation
FICA	Federal Insurance Contributions Act
FICO	Fair Isaac Corporation
FNMA	Federal National Mortgage Association
FRB	Federal Reserve Bank
Freddie Mac	(see FHLMC)
FTE	Fully-Taxable Equivalent
FTP	Funds Transfer Pricing

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GAAP	Generally Accepted Accounting Principles in the United States of America
HAMP	Home Affordable Modification Program
HARP	Home Affordable Refinance Program
HIP	Huntington Investment and Tax Savings Plan
HQLA	High Quality Liquid Asset
HTM	Held-to-Maturity
IRC	Internal Revenue Code of 1986, as amended
IRS	Internal Revenue Service
ISE	Interest Sensitive Earnings
LCR	Liquidity Coverage Ratio
LIBOR	London Interbank Offered Rate
LGD	Loss-Given-Default
LIHTC	Low Income Housing Tax Credit
LTV	Loan to Value
MD&A	Management's Discussion and Analysis of Financial Condition and Results of Operations
MSA	Metropolitan Statistical Area
MSR	Mortgage Servicing Rights
NALs	Nonaccrual Loans
NAV	Net Asset Value
NCO	Net Charge-off
NIM	Net interest margin
NCUA	National Credit Union Administration
NPAs	Nonperforming Assets
NPR	Notice of Proposed Rulemaking
N.R.	Not relevant. Denominator of calculation is a gain in the current period compared with a loss in the prior period, or vice-versa
NSF / OD	Nonsufficient Funds and Overdraft
OCC	Office of the Comptroller of the Currency
OCI	Other Comprehensive Income (Loss)
OCR	Optimal Customer Relationship
OLEM	Other Loans Especially Mentioned
OREO	Other Real Estate Owned
OTTI	Other-Than-Temporary Impairment
PD	Probability-Of-Default
Plan	Huntington Bancshares Retirement Plan
Problem Loans	Includes nonaccrual loans and leases (Table 12), troubled debt restructured loans (Table 13), accruing loans and leases past due 90 days or more (aging analysis section of Footnote 3), and Criticized commercial loans (credit quality indicators section of Footnote 3).

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REIT	Real Estate Investment Trust
Reg E	Regulation E, of the Electronic Fund Transfer Act
RBHPCG	Regional Banking and The Huntington Private Client Group
ROC	Risk Oversight Committee
SAD	Special Assets Division
SBA	Small Business Administration
SEC	Securities and Exchange Commission
SERP	Supplemental Executive Retirement Plan
Sky Financial	Sky Financial Group, Inc.
SRIP	Supplemental Retirement Income Plan

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TCE	Tangible Common Equity
TDR	Troubled Debt Restructured loan
TLGP	Temporary Liquidity Guarantee Program
U.S. Treasury	U.S. Department of the Treasury
UCS	Uniform Classification System
UPB	Unpaid Principal Balance
USDA	U.S. Department of Agriculture
VA	U.S. Department of Veteran Affairs
VIE	Variable Interest Entity



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### PART I. FINANCIAL INFORMATION

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 our only bank subsidiary, The Huntington National Bank, and its subsidiaries.

#### **Item 2: Management's Discussion and Analysis of Financial Condition and Results of Operations**

##### **INTRODUCTION**

We are a multi-state diversified regional bank holding company organized under Maryland law in 1966 and headquartered in Columbus, Ohio. Through the Bank, we have 148 years of servicing the financial needs of our customers. 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, insurance service programs, and other financial products and services. Our 727 branches are located in Ohio, Michigan, Pennsylvania, Indiana, West Virginia, and Kentucky. Selected financial services and other activities are also conducted in various other states. International banking services are available through the headquarters office in Columbus, Ohio and a limited purpose office located in the Cayman Islands and another limited purpose office located in Hong Kong. Our foreign banking activities, in total or with any individual country, are not significant.

This MD&A provides information we believe necessary for understanding our financial condition, changes in financial condition, results of operations, and cash flows. The MD&A included in our 2013 Form 10-K should be read in conjunction with this MD&A as this discussion provides only material updates to the 2013 Form 10-K. This MD&A should also be read in conjunction with the financial statements, notes and other information contained in this report.

Our discussion is divided into key segments:

**Executive Overview** Provides a summary of our current financial performance and business overview, including our thoughts on the impact of the economy, legislative and regulatory initiatives, and recent industry developments. This section also provides our outlook regarding our expectations for the next several quarters.

**Discussion of Results of Operations** Reviews financial performance from a consolidated Company perspective. It also includes a Significant Items section that summarizes key issues helpful for understanding performance trends. Key consolidated average balance sheet and income statement trends are also discussed in this section.

**Risk Management and Capital** Discusses credit, market, liquidity, operational, and compliance risks, including how these are managed, as well as performance trends. It also includes a discussion of liquidity policies, how we obtain funding, 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.

**Business Segment Discussion** Provides an overview of financial performance for each of our major business segments and provides additional discussion of trends underlying consolidated financial performance.

**Additional Disclosures** Provides comments on important matters including forward-looking statements, critical accounting policies and use of significant estimates, and recent accounting pronouncements and developments.

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



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### **EXECUTIVE OVERVIEW**

#### **Summary of 2014 First Quarter Results**

For the quarter, we reported net income of \$149.1 million, or \$0.17 per common share, compared with \$153.3 million, or \$0.17 per common share, in the year-ago quarter (*see Table 1*).

Fully-taxable equivalent net interest income was \$443.4 million for the quarter, up \$13.3 million, or 3%, from the year-ago quarter. The results reflected a \$2.6 billion, or 6%, increase in average loans, as well as a \$1.4 billion, or 14%, increase in other earning assets. These were partially offset by a 15 basis point decrease in the net interest margin. The primary items affecting the net interest margin were a 22 basis point negative impact from the mix and yield of earning assets, partially offset by a 7 basis point reduction in funding costs.

The provision for credit losses decreased \$5.0 million, or 17%, from the year-ago quarter. This reflected the continued decline in classified, criticized and nonaccrual loans. NCOs decreased \$8.7 million, or 17%, to \$43.0 million, primarily due to improvement of the CRE portfolio. Given the absolute low level of C&I and CRE NCOs, there will continue to be some volatility in quarter to quarter comparisons. NCOs were an annualized 0.40% of average loans and leases in the current quarter, compared to 0.51% in the year-ago quarter.

Noninterest income decreased \$8.1 million, or 3%, from the year-ago quarter. Mortgage banking income declined \$22.2 million, or 49%, primarily driven by 41% reduction in volume, lower gain on sale, and a higher percentage of originations held on the balance sheet. Other income declined by \$7.0 million, or 18%, as the year-ago quarter included an \$8.8 million gain on the sale of LIHTC investments. Securities gains increased \$17.5 million, as we adjusted the mix of our securities portfolio to prepare for the Liquidity Coverage Ratio rules. Service charges on deposit accounts increased \$3.7 million, or 6%, which reflected 7% consumer household and 3% commercial relationship growth. This more than offset the negative impact of the February 2013 implementation of a new posting order for consumer transaction accounts. Electronic banking increased \$2.9 million, or 14%, due to continued consumer household growth.

Noninterest expense increased \$17.3 million, or 4%, from the year-ago quarter. The current quarter results were negatively affected by \$12.6 million of one-time merger related expenses related to our acquisition of Camco Financial (see below), \$9.0 million addition to litigation reserves, and \$3.0 million goodwill impairment related to the reorganization of our business segments (see below). Personnel costs decreased \$9.4 million, or 4%, primarily reflecting the curtailment of the pension plan as of the end of 2013. Also, the year-ago quarter included \$6.9 million of franchise repositioning related expense.

The tangible common equity to tangible assets ratio at March 31, 2014, was 8.63%, down 28 basis points from a year ago. Our Tier 1 common risk-based capital ratio was 10.60%, down slightly from 10.62% a year ago. The regulatory Tier 1 risk-based capital ratio at March 31, 2014, was 11.95%, down slightly from 12.16% a year ago. The decrease in the regulatory Tier 1 risk-based capital ratio reflected the redemption of \$50 million of qualifying preferred securities on December 31, 2013 and an increase in risk-weighted assets caused by organic balance sheet growth, as well as assets acquired from Camco Financial. These declines were offset by an increase in retained earnings. All capital ratios were impacted by the repurchase of 27 million common shares over the last four quarters, 15 million of which were repurchased during the 2014 first quarter, as well as the issuance of 9 million common shares in the Camco Financial acquisition.

The Federal Reserve completed its review of our January 2014 capital plan submission and did not object to our proposed capital actions. These actions include a 20% increase in the dividend per common share to \$0.06, potentially starting in the fourth quarter of 2014, and the potential repurchase of up to \$250 million of common stock through the first quarter of 2015. Huntington's proposed capital actions represent an 11% increase in the capital return relative to the dividends paid during the four quarters covered by last year's plan and the recently completed \$227 million share repurchase program. Our capital priorities remain the same, with reinvesting excess capital to organically grow the business our top priority.

### **Business Overview**

#### **General**

Our general business objectives are: (1) grow net interest income and fee income, (2) increase cross-sell and share-of-wallet across all business segments, (3) improve efficiency ratio, (4) continue to strengthen risk management, including sustained improvement in credit metrics, and (5) maintain strong capital and liquidity positions.

We continued to deliver solid financial performance in the 2014 first quarter with strong balance sheet growth that drove increased net interest income year over year. We also invested in key businesses and our distribution network for future growth. We are particularly pleased that we

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have been able to proceed with our ongoing investments, while controlling expenses across the enterprise and achieving positive operating leverage. In addition, we saw significant increases in C&I and automobile lending and our customer base once again expanded.

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### **OTHER HIGHLIGHTS**

*Camco Financial Acquisition* On March 1, 2014, we completed our acquisition of Camco Financial and converted their banking offices to Huntington branches. As a result, we acquired \$0.6 billion of deposits and \$0.6 billion of loans.

*Business Segments* Our business segments are based on our internally-aligned segment leadership structure, which is how we monitor results and assess performance. During the 2014 first quarter, we reorganized our business segments to drive our ongoing growth and leverage the knowledge of our highly experienced team. We now have five major business segments: Retail and Business Banking, Commercial Banking, Automobile Finance and Commercial Real Estate (AFCRE), Regional Banking and The Huntington Private Client Group (RBHPCG), and Home Lending. A Treasury / Other function includes our insurance brokerage business, along with technology and operations, other support groups, other unallocated assets, liabilities, revenue, and expense.

*Accounting Standards Update* We early adopted ASU 2014-01 (see Note 1). The amendments are required to be applied retroactively to all periods presented. We elected to change the method of recognition in investments that previously qualified for the effective yield method to the proportional amortization method. As a result of these changes, we recorded a cumulative-effect adjustment to beginning retained earnings.

*Branch Acquisition Announcement* On April 9, 2014, we announced the signing of a definitive agreement to acquire 11 branches in Central and East Michigan from Bank of America Corporation. We will purchase approximately \$450 million of deposits, with a deposit premium of 3.5% based on deposit balances near the time the transaction closes. The transaction is expected to be completed in the second half of 2014.

### ***Economy***

Our loan pipelines are strong and we see signs that our customers are more confident in the economy. Our Midwestern markets are recovering with downward unemployment trends and ongoing investments by manufacturers and other businesses. Notwithstanding these tailwinds, we continue to face a challenging regulatory and competitive environment.

### **2014 Expectations**

Net interest income is expected to increase moderately. We anticipate an increase in earning assets as total loans moderately grow and investment securities remain near current levels. However, those benefits to net interest income are expected to be mostly offset by continued downward pressure on NIM. While we are maintaining a disciplined approach to loan pricing, asset yields remain under pressure but the continued opportunity of deposit repricing remains, albeit closer to current levels.

The C&I portfolio is expected to see growth consistent with the anticipated increase in customer activity. Our C&I loan pipeline remains robust with much of this reflecting the positive impact from our investments in specialized commercial verticals, automotive dealer relationships, focused OCR sales process, and continued support of middle market and small business lending. Automobile loan originations remain strong and portfolio balances are expected to continue to grow. Residential mortgages, home equity, and CRE loan balances are expected to increase modestly.

We anticipate the increase in total loans will outpace growth in total deposits modestly. This reflects our continued focus on the overall cost of funds, through the issuance of long-term debt as well as the continued shift towards low- and no-cost demand deposits and money market deposit accounts.

Noninterest income, excluding the impact of any net MSR activity and securities gains, is expected to be slightly higher than current seasonally low levels. Beginning in July, we anticipate a change in our consumer checking accounts that is estimated to impact service charges on deposits negatively by \$6 million per quarter.

Noninterest expense is expected to be slightly higher than current levels, excluding the net \$22 million of negative impact from Significant Items we experienced in the 2014 first quarter. The 2014 second quarter is expected to be negatively impacted by annual peak marketing expenses, a full quarter's inclusion of Camco Financial, and annual merit increases to personnel expense. We are committed to delivering positive operating leverage for the 2014 full year.

NPAs are expected to show continued improvement. NCOs are within our expected normalized range of 35 to 55 basis points. The level of provision for credit losses was below our long-term expectation, and we continue to expect moderate quarterly volatility.

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The effective tax rate for the remainder of 2014 is expected to be in the range of 25% to 28%, primarily reflecting the impacts of tax-exempt income, tax-advantaged investments, and general business credits.

**Table of Contents****DISCUSSION OF RESULTS OF OPERATIONS**

This section provides a review of financial performance from a consolidated perspective. It also includes a Significant Items section that summarizes key issues important for a complete understanding of performance trends. Key Unaudited Condensed Consolidated Balance Sheet and Unaudited Condensed Statement of Income trends are discussed. All earnings per share data are reported on a diluted basis. For additional insight on financial performance, please read this section in conjunction with the Business Segment Discussion.

**Table 1 Selected Quarterly Income Statement Data (1)**

<i>(dollar amounts in thousands, except per share amounts)</i>	2014		2013		
	First	Fourth	Third	Second	First
Interest income	\$ 472,455	\$ 469,824	\$ 462,912	\$ 462,582	\$ 465,319
Interest expense	34,949	39,175	38,060	37,645	41,149
Net interest income	437,506	430,649	424,852	424,937	424,170
Provision for credit losses	24,630	24,331	11,400	24,722	29,592
Net interest income after provision for credit losses	412,876	406,318	413,452	400,215	394,578
Service charges on deposit accounts	64,582	69,992	72,918	68,009	60,883
Mortgage banking income	23,089	24,327	23,621	33,659	45,248
Trust services	29,565	30,711	30,470	30,666	31,160
Electronic banking	23,642	24,251	24,282	23,345	20,713
Insurance income	16,496	15,556	17,269	17,187	19,252
Brokerage income	17,071	15,116	16,532	19,546	17,995
Bank owned life insurance income	13,307	13,816	13,740	15,421	13,442
Capital markets fees	9,194	12,332	12,825	12,229	7,834
Gain on sale of loans	3,570	7,144	5,063	3,348	2,616
Securities gains (losses)	16,970	1,239	98	(410)	(509)
Other income	30,999	35,407	36,950	28,919	37,984
Total noninterest income	248,485	249,891	253,768	251,919	256,618
Personnel costs	249,477	249,554	229,326	263,862	258,895
Outside data processing and other services	51,490	51,071	49,313	49,898	49,265
Net occupancy	33,433	31,983	35,591	27,656	30,114
Equipment	28,750	28,775	28,191	24,947	24,880
Marketing	10,686	13,704	12,271	14,239	10,971
Deposit and other insurance expense	13,718	10,056	11,155	13,460	15,490
Amortization of intangibles	9,291	10,320	10,362	10,362	10,320
Professional services	12,231	11,567	12,487	9,341	7,192
Other expense	51,045	38,979	34,640	32,100	35,666
Total noninterest expense	460,121	446,009	423,336	445,865	442,793
Income before income taxes	201,240	210,200	243,884	206,269	208,403
Provision for income taxes	52,097	52,029	65,047	55,269	55,129
Net income	\$ 149,143	\$ 158,171	\$ 178,837	\$ 151,000	\$ 153,274
Dividends on preferred shares	7,964	7,965	7,967	7,967	7,970
Net income applicable to common shares	\$ 141,179	\$ 150,206	\$ 170,870	\$ 143,033	\$ 145,304

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Average common shares basic	<b>829,659</b>	830,590	830,398	834,730	841,103
Average common shares diluted	<b>842,677</b>	842,324	841,025	843,840	848,708
Net income per common share basic	<b>\$ 0.17</b>	\$ 0.18	\$ 0.21	\$ 0.17	\$ 0.17
Net income per common share diluted	<b>0.17</b>	0.18	0.20	0.17	0.17
Cash dividends declared per common share	<b>0.05</b>	0.05	0.05	0.05	0.04
Return on average total assets	<b>1.01%</b>	1.09%	1.27%	1.08%	1.12%
Return on average common shareholders equity	<b>9.9</b>	10.5	12.3	10.4	10.8
Return on average tangible common shareholders equity (2)	<b>11.3</b>	12.1	14.2	12.1	12.6
Net interest margin (3)	<b>3.27</b>	3.28	3.34	3.38 %	3.42
Efficiency ratio (4)	<b>66.4</b>	63.4	60.3	63.7	62.9
Effective tax rate	<b>25.9</b>	24.8	26.7	26.8	26.5



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Revenue FTE					
Net interest income	\$ 437,506	\$ 430,649	\$ 424,852	\$ 424,937	\$ 424,170
FTE adjustment	5,885	8,196	6,634	6,587	5,923
Net interest income (3)	443,391	438,845	431,486	431,524	430,093
Noninterest income	248,485	249,891	253,768	251,919	256,618
Total revenue (3)	\$ 691,876	\$ 688,736	\$ 685,254	\$ 683,443	\$ 686,711

- (1) Comparisons for presented periods are impacted by a number of factors. Refer to the "Significant Items" for additional discussion regarding these key factors.
- (2) Net income excluding expense for amortization of intangibles for the period divided by average tangible common shareholders' equity. Average tangible common shareholders' equity equals average total common shareholders' equity less average intangible assets and goodwill. Expense for amortization of intangibles and average intangible assets are net of deferred tax liability, and calculated assuming a 35% tax rate.
- (3) On a fully-taxable equivalent (FTE) basis assuming a 35% tax rate.
- (4) Noninterest expense less amortization of intangibles divided by the sum of FTE net interest income and noninterest income excluding securities gains.

**Significant Items****Definition of Significant Items**

From time-to-time, revenue, expenses, or taxes are impacted by items judged by us to be outside of ordinary banking activities and / or by items that, while they may be associated with ordinary banking activities, are so unusually large that their outsized impact is believed by us at that time to be infrequent or short-term in nature. We refer to such items as Significant Items. Most often, these Significant Items result from factors originating outside the company; e.g., regulatory actions / assessments, windfall gains, changes in accounting principles, one-time tax assessments / refunds, litigation actions, etc. In other cases, they may result from our decisions associated with significant corporate actions outside of the ordinary course of business; e.g., merger / restructuring charges, recapitalization actions, goodwill impairment, etc.

Even though certain revenue and expense items are naturally subject to more volatility than others due to changes in market and economic environment conditions, as a general rule volatility alone does not define a Significant Item. For example, changes in the provision for credit losses, gains / losses from investment activities, asset valuation writedowns, etc., reflect ordinary banking activities and are, therefore, typically excluded from consideration as a Significant Item.

We believe the disclosure of Significant Items provides a better understanding of our performance and trends to ascertain which of such items, if any, to include or exclude from an analysis of our performance; i.e., within the context of determining how that performance differed from expectations, as well as how, if at all, to adjust estimates of future performance accordingly. To this end, we adopted a practice of listing Significant Items in our external disclosure documents; e.g., earnings press releases, investor presentations, Forms 10-Q and 10-K.

Significant Items for any particular period are not intended to be a complete list of items that may materially impact current or future period performance.

**Significant Items Influencing Financial Performance Comparisons**

Earnings comparisons were impacted by the Significant Items summarized below:

- Camco Financial Acquisition.** During the 2014 first quarter, \$11.8 million of net one-time merger related costs were recorded related to the acquisition of Camco Financial. This resulted in a negative impact of \$0.01 per common share.

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2. **Litigation Reserve.** During the 2014 first quarter, \$9.0 million of additions to litigation reserves were recorded as other noninterest expense. This resulted in a negative impact of \$0.01 per common share.
  
3. **Franchise Repositioning Related Expense.** During the 2013 fourth quarter, \$6.9 million of franchise repositioning related expense was recorded. This resulted in a negative impact of \$0.01 per common share.

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The following table reflects the earnings impact of the above-mentioned Significant Items for periods affected by this Results of Operations discussion:

**Table 2 Significant Items Influencing Earnings Performance Comparison**

<i>(dollar amounts in thousands, except per share amounts)</i>	<b>March 31, 2014</b>		Three Months Ended December 31, 2013		March 31, 2013	
	<b>After-tax</b>	<b>EPS (2)(3)</b>	After-tax	EPS (2)(3)	After-tax	EPS (2)(3)
Net income	<b>\$ 149,143</b>		\$ 158,171		\$ 153,274	
Earnings per share, after-tax		<b>\$ 0.17</b>		\$ 0.18		\$ 0.17
Significant Items favorable (unfavorable) impact:	<b>Earnings (1)</b>	<b>EPS (2)(3)</b>	Earnings (1)	EPS (2)(3)	Earnings (1)	EPS (2)(3)
Camco Financial Acquisition	<b>(11,823)</b>	<b>(0.01)</b>				
Addition to Litigation Reserve	<b>(9,000)</b>	<b>(0.01)</b>				
Franchise repositioning related expense			(6,909)	(0.01)		

- (1) Pretax.  
(2) Based on average outstanding diluted common shares  
(3) After-tax

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The following tables detail the change in our average balance sheet and the net interest margin:

**Table 3 - Consolidated Quarterly Average Balance Sheets**

<i>(dollar amounts in millions)</i>	<b>2014</b>	Average Balances				Change	
		<b>First</b>	Fourth	Third	Second	First	1Q14 vs. 1Q13
						Amount	Percent
<b>Assets:</b>							
Interest-bearing deposits in banks	\$ 83	\$ 71	\$ 54	\$ 84	\$ 72	\$ 11	15%
Loans held for sale	279	322	379	678	709	(430)	(61)
<b>Securities:</b>							
<b>Available-for-sale and other securities:</b>							
Taxable	6,240	5,818	6,040	6,728	6,964	(724)	(10)
Tax-exempt	1,115	548	565	591	549	566	103
Total available-for-sale and other securities	7,355	6,366	6,605	7,319	7,513	(158)	(2)
Trading account securities	38	76	76	84	85	(47)	(55)
Held-to-maturity securities taxable	3,783	3,038	2,139	1,711	1,717	2,066	120
<b>Total securities</b>	<b>11,176</b>	<b>9,480</b>	<b>8,820</b>	<b>9,114</b>	<b>9,315</b>	<b>1,861</b>	<b>20</b>
<b>Loans and leases: (1)</b>							
<b>Commercial:</b>							
Commercial and industrial	17,631	17,671	17,032	17,033	16,954	677	4
<b>Commercial real estate:</b>							
Construction	612	573	565	586	598	14	2
Commercial	4,289	4,331	4,345	4,429	4,694	(405)	(9)
Commercial real estate	4,901	4,904	4,910	5,015	5,292	(391)	(7)
<b>Total commercial</b>	<b>22,532</b>	<b>22,575</b>	<b>21,942</b>	<b>22,048</b>	<b>22,246</b>	<b>286</b>	<b>1</b>
Automobile	6,786	6,502	6,075	5,283	4,833	1,953	40
Home equity	8,340	8,346	8,341	8,263	8,395	(55)	(1)
Residential mortgage	5,379	5,331	5,256	5,225	4,978	401	8
Other consumer	386	385	380	461	412	(26)	(6)
<b>Total consumer</b>	<b>20,891</b>	<b>20,564</b>	<b>20,052</b>	<b>19,232</b>	<b>18,618</b>	<b>2,273</b>	<b>12</b>
<b>Total loans and leases</b>	<b>43,423</b>	<b>43,139</b>	<b>41,994</b>	<b>41,280</b>	<b>40,864</b>	<b>2,559</b>	<b>6</b>
Allowance for loan and lease losses	(649)	(668)	(717)	(746)	(772)	123	(16)
<b>Net loans and leases</b>	<b>42,774</b>	<b>42,471</b>	<b>41,277</b>	<b>40,534</b>	<b>40,092</b>	<b>2,682</b>	<b>7</b>
<b>Total earning assets</b>	<b>54,961</b>	<b>53,012</b>	<b>51,247</b>	<b>51,156</b>	<b>50,960</b>	<b>4,001</b>	<b>8</b>
Cash and due from banks	904	846	944	940	904		
Intangible assets	535	542	552	563	571	(36)	(6)
All other assets	3,941	3,917	3,889	3,976	4,065	(124)	(3)
<b>Total assets</b>	<b>\$ 59,692</b>	<b>\$ 57,649</b>	<b>\$ 55,915</b>	<b>\$ 55,889</b>	<b>\$ 55,728</b>	<b>\$ 3,964</b>	<b>7%</b>

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<i>Liabilities and Shareholders' Equity:</i>							
Deposits:							
Demand deposits noninterest-bearing	<b>\$ 13,192</b>	\$ 13,337	\$ 13,088	\$ 12,879	\$ 12,165	\$ 1,027	8%
Demand deposits interest-bearing	<b>5,775</b>	5,755	\$ 5,763	\$ 5,927	\$ 5,977	(202)	(3)
Total demand deposits	<b>18,967</b>	19,092	18,851	18,806	18,142	825	5
Money market deposits	<b>17,648</b>	16,827	15,739	15,069	15,045	2,603	17
Savings and other domestic deposits	<b>4,967</b>	4,912	5,007	5,115	5,083	(116)	(2)
Core certificates of deposit	<b>3,613</b>	3,916	4,176	4,778	5,346	(1,733)	(32)
Total core deposits	<b>45,195</b>	44,747	43,773	43,768	43,616	1,579	4
Other domestic time deposits of \$250,000 or more	<b>284</b>	275	268	324	360	(76)	(21)
Brokered deposits and negotiable CDs	<b>1,782</b>	1,398	1,553	1,779	1,697	85	5
Deposits in foreign offices	<b>328</b>	354	376	316	340	(12)	(4)
Total deposits	<b>47,589</b>	46,774	45,970	46,187	46,013	1,576	3
Short-term borrowings	<b>883</b>	629	710	701	762	121	16
Federal Home Loan Bank advances	<b>1,499</b>	851	549	757	686	813	119
Subordinated notes and other long-term debt	<b>2,503</b>	2,244	1,753	1,292	1,348	1,155	86
Total interest-bearing liabilities	<b>39,282</b>	37,161	35,894	36,058	36,644	2,638	7
All other liabilities	<b>1,035</b>	1,095	1,054	1,064	1,085	(50)	(5)
Shareholders' equity	<b>6,183</b>	6,056	5,879	5,888	5,834	349	6
Total liabilities and shareholders' equity	<b>\$ 59,692</b>	\$ 57,649	\$ 55,915	\$ 55,889	\$ 55,728	\$ 3,964	7%

(1) For purposes of this analysis, NALs are reflected in the average balances of loans.

**Table of Contents****Table 4 Consolidated Quarterly Net Interest Margin Analysis**

	2014 First	Average Rates (2) 2013			
		Fourth	Third	Second	First
Fully-taxable equivalent basis (1)					
<b>Assets</b>					
Interest-bearing deposits in banks	<b>0.03%</b>	0.04%	0.07%	0.27%	0.16%
Loans held for sale	<b>3.74</b>	4.46	3.89	3.39	3.22
<b>Securities:</b>					
Available-for-sale and other securities:					
Taxable	<b>2.47</b>	2.38	2.34	2.29	2.31
Tax-exempt	<b>3.03</b>	6.34	4.04	3.94	3.96
Total available-for-sale and other securities	<b>2.55</b>	2.72	2.48	2.42	2.43
Trading account securities	<b>1.12</b>	0.42	0.23	0.60	0.50
Held-to-maturity securities taxable	<b>2.47</b>	2.42	2.29	2.29	2.29
Total securities	<b>2.52</b>	2.60	2.41	2.38	2.39
<b>Loans and leases: (3)</b>					
<b>Commercial:</b>					
Commercial and industrial	<b>3.56</b>	3.54	3.68	3.75	3.83
<b>Commercial real estate:</b>					
Construction	<b>3.99</b>	4.04	3.91	3.93	4.05
Commercial	<b>3.84</b>	3.97	4.10	4.13	4.00
Commercial real estate	<b>3.86</b>	3.98	4.08	4.09	4.01
Total commercial	<b>3.63</b>	3.63	3.77	3.83	3.87
<b>Consumer:</b>					
Automobile	<b>3.54</b>	3.67	3.80	3.96	4.28
Home equity	<b>4.12</b>	4.11	4.10	4.16	4.20
Residential mortgage	<b>3.78</b>	3.77	3.81	3.82	3.97
Other consumer	<b>6.84</b>	6.64	6.98	6.66	7.05
Total consumer	<b>3.89</b>	3.93	3.99	4.07	4.22
Total loans and leases	<b>3.75</b>	3.77	3.87	3.95	4.03
Total earning assets	<b>3.53%</b>	3.58%	3.64%	3.68%	3.75%
<b>Liabilities</b>					
<b>Deposits:</b>					
Demand deposits noninterest-bearing		%	%	%	%
Demand deposits interest-bearing	<b>0.04</b>	0.04	0.04	0.04	0.04
Total demand deposits	<b>0.01</b>	0.01	0.01	0.01	0.01
Money market deposits	<b>0.25</b>	0.27	0.26	0.24	0.23
Savings and other domestic deposits	<b>0.20</b>	0.24	0.25	0.27	0.30
Core certificates of deposit	<b>0.94</b>	1.05	1.05	1.13	1.19
Total core deposits	<b>0.28</b>	0.32	0.32	0.34	0.37

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Other domestic time deposits of \$250,000 or more	<b>0.41</b>	0.39	0.44	0.50	0.52
Brokered deposits and negotiable CDs	<b>0.28</b>	0.39	0.55	0.62	0.67
Deposits in foreign offices	<b>0.13</b>	0.14	0.14	0.14	0.17
Total deposits	<b>0.28</b>	0.32	0.33	0.36	0.38
Short-term borrowings	<b>0.07</b>	0.08	0.09	0.10	0.12
Federal Home Loan Bank advances	<b>0.12</b>	0.14	0.14	0.14	0.18
Subordinated notes and other long-term debt	<b>1.66</b>	2.10	2.29	2.35	2.54
Total interest-bearing liabilities	<b>0.36%</b>	0.42%	0.42%	0.42%	0.45%
Net interest rate spread	<b>3.17%</b>	3.15%	3.20%	3.26%	3.30%
Impact of noninterest-bearing funds on margin	<b>0.10</b>	0.13	0.14	0.12	0.12
Net interest margin	<b>3.27%</b>	3.28%	3.34%	3.38%	3.42%

- (1) FTE yields are calculated assuming a 35% tax rate.
- (2) Loan and lease and deposit average rates include impact of applicable derivatives, non-deferrable fees, and amortized deferred fees.
- (3) For purposes of this analysis, NALs are reflected in the average balances of loans.

**Table of Contents****Table 5 Average Loans/Leases and Deposits**

<i>(dollar amounts in millions)</i>	First Quarter		Fourth Quarter	1Q14 vs 1Q13		1Q14 vs 4Q13	
	2014	2013	2013	Amount	Percent	Amount	Percent
<b>Loans/Leases:</b>							
Commercial and industrial	\$ 17,631	\$ 16,954	\$ 17,671	\$ 677	4%	\$ (40)	(0)%
Commercial real estate	4,901	5,292	4,904	(391)	(7)	(3)	(0)
Total commercial	22,532	22,246	22,575	286	1	(43)	(0)
Automobile	6,786	4,833	6,502	1,953	40	284	4
Home equity	8,340	8,395	8,346	(55)	(1)	(6)	(0)
Residential mortgage	5,379	4,978	5,331	401	8	48	1
Other loans	386	412	385	(26)	(6)	1	0
Total consumer	20,891	18,618	20,564	2,273	12	327	2
Total loans and leases	\$ 43,423	\$ 40,864	43,139	\$ 2,559	6%	\$ 284	1%
<b>Deposits:</b>							
Demand deposits noninterest-bearing	\$ 13,192	\$ 12,165	\$ 13,337	\$ 1,027	8%	\$ (145)	(1)%
Demand deposits interest-bearing	5,775	5,977	5,755	(202)	(3)	20	0
Total demand deposits	18,967	18,142	19,092	825	5	(125)	(1)
Money market deposits	17,648	15,045	16,827	2,603	17	821	5
Savings and other domestic time deposits	4,967	5,083	4,912	(116)	(2)	55	1
Core certificates of deposit	3,613	5,346	3,916	(1,733)	(32)	(303)	(8)
Total core deposits	45,195	43,616	44,747	1,579	4	448	1
Other deposits	2,394	2,397	2,027	(3)	(0)	367	18
Total deposits	\$ 47,589	\$ 46,013	\$ 46,774	\$ 1,576	3%	\$ 815	2%

**2014 First Quarter versus 2013 First Quarter**

Fully-taxable equivalent (FTE) net interest income increased \$13.3 million, or 3%, from the 2013 first quarter. This reflected the benefit from the \$2.6 billion, or 6%, of average loan growth and a \$1.4 billion, or 14%, increase in other earnings assets, the majority of which were investment securities that meet the requirements for HQLA as proposed in the LCR rules issued by the regulators in October 2013. This was partially offset by the 15 basis point decrease in the FTE net interest margin to 3.27%. The 22 basis point negative impact on NIM from the mix and yield of earning assets was partially offset by the 7 basis point reduction in funding costs.

Average loans and leases increased \$2.6 billion, or 6%, from the prior year, driven by:

\$2.0 billion, or 40%, increase in average automobile loans, as originations remained strong and our investments throughout the Northeast and upper Midwest continued to grow as planned.

\$0.7 billion, or 4%, increase in average C&I loans and leases. This reflected the continued growth within Business Banking, dealer floorplan, and domestic subsidiaries of foreign owned companies.

Partially offset by:



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\$0.4 billion, or 7%, decrease in average CRE loans. This decrease reflected continued runoff of the noncore portfolio. Average noninterest bearing deposits increased \$1.0 billion, or 8%, while average interest-bearing liabilities increased \$2.6 billion, or 7%, from the 2013 first quarter, primarily reflecting:

\$2.6 billion, or 17%, increase in money market deposits, reflecting the strategic focus on customer growth and increased share of wallet among both consumer and commercial customers.

\$2.1 billion, or 75%, increase in short- and long-term borrowings, which were used to efficiently finance growth in loans and HQLA securities while continuing to lower the overall cost of funds.

Partially offset by:

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\$1.7 billion, or 32%, decrease in average core certificates of deposit due to the strategic focus on changing the funding sources to no-cost demand deposits and lower cost money market deposits.

**2014 First Quarter versus 2013 Fourth Quarter**

Compared to the 2013 fourth quarter, fully-taxable equivalent net interest income increased \$4.5 million, or 1%, reflecting a \$1.9 billion, or 4% increase in average earnings assets, partially offset by a 1 basis point decrease in NIM. The primary items affecting the NIM were a 5 basis point negative impact from the mix and yield of earning assets, partially offset by a 4 basis point reduction in funding costs.

**Provision for Credit Losses**

*(This section should be read in conjunction with the Credit Risk section.)*

The provision for credit losses is the expense necessary to maintain the ALLL and the AULC at levels appropriate to absorb our estimate of credit losses in the loan and lease portfolio and the portfolio of unfunded loan commitments and letters-of-credit.

The provision for credit losses for the 2014 first quarter was \$24.6 million and increased \$0.3 million, or 1%, from the prior quarter and declined \$5.0 million, or 17%, from the year-ago quarter. The current quarter's provision for credit losses was \$18.4 million less than total NCOs for the same period. *(See Credit Quality discussion)*. Given the absolute low level of the provision for credit losses and the uncertain and uneven nature of the economic recovery, some degree of volatility on a quarter-to-quarter basis is expected.

**Noninterest Income**

The following table reflects noninterest income for each of the past five quarters:

**Table 6 Noninterest Income**

<i>(dollar amounts in thousands)</i>	2014	2013				1Q14 vs 1Q13		1Q14 vs 4Q13	
	First	Fourth	Third	Second	First	Amount	Percent	Amount	Percent
Service charges on deposit accounts	\$ 64,582	\$ 69,992	\$ 72,918	\$ 68,009	\$ 60,883	\$ 3,699	6%	\$ (5,410)	(8)%
Mortgage banking income	23,089	24,327	23,621	33,659	45,248	(22,159)	(49)	(1,238)	(5)
Trust services	29,565	30,711	30,470	30,666	31,160	(1,595)	(5)	(1,146)	(4)
Electronic banking	23,642	24,251	24,282	23,345	20,713	2,929	14	(609)	(3)
Insurance income	16,496	15,556	17,269	17,187	19,252	(2,756)	(14)	940	6
Brokerage income	17,071	15,116	16,532	19,546	17,995	(924)	(5)	1,955	13
Bank owned life insurance income	13,307	13,816	13,740	15,421	13,442	(135)	(1)	(509)	(4)
Capital markets fees	9,194	12,332	12,825	12,229	7,834	1,360	17	(3,138)	(25)
Gain on sale of loans	3,570	7,144	5,063	3,348	2,616	954	36	(3,574)	(50)
Securities gains (losses)	16,970	1,239	98	(410)	(509)	17,479	N.R.	15,731	1,270
Other income	30,999	35,407	36,950	28,919	37,984	(6,985)	(18)	(4,408)	(12)
Total noninterest income	\$ 248,485	\$ 249,891	\$ 253,768	\$ 251,919	\$ 256,618	\$ (8,133)	(3)%	\$ (1,406)	(1)%

N.R. - Not relevant, as denominator of calculation is a loss in prior period compared with income in current period.

**2014 First Quarter versus 2013 First Quarter**

In the 2014 first quarter, noninterest income decreased \$8.1 million, or 3%, from the year-ago quarter, primarily reflecting:

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\$22.2 million, or 49%, decrease in mortgage banking income primarily driven by 41% reduction in volume, lower gain on sale, and a higher percentage of originations held on the balance sheet.

\$7.0 million, or 18%, decrease in other income as the year-ago quarter included an \$8.8 million gain on the sale of LIHTC investments.

Partially offset by:

\$17.5 million increase in securities gains as we adjusted the mix of our securities portfolio to prepare for the LCR.

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\$3.7 million, or 6%, increase in service charges on deposit accounts reflecting 7% consumer household and 3% commercial relationship growth. This more than offset the negative impact of the February 2013 implementation of a new posting order for consumer transaction accounts.

\$2.9 million, or 14%, increase in electronic banking due to continued consumer household growth.

**2014 First Quarter versus 2013 Fourth Quarter**

Compared to the 2013 fourth quarter, noninterest income decreased \$1.4 million, or 1%, reflecting typical seasonality within service charges on deposit accounts, which decreased \$5.4 million. Other linked quarter changes were a \$3.6 million decrease in gain on sale of loans from reduced SBA loan sales, a \$4.4 million decrease in other income, and a \$3.1 million decrease in capital market fees related to customer derivatives. These were partially offset by a \$15.7 million increase in securities gains.

**Noninterest Expense**

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

The following table reflects noninterest expense for each of the past five quarters:

**Table 7 Noninterest Expense**

<i>(dollar amounts in thousands)</i>	2014		2013			1Q14 vs 1Q13		1Q14 vs 4Q13	
	First	Fourth	Third	Second	First	Amount	Percent	Amount	Percent
Personnel costs	\$ 249,477	\$ 249,554	\$ 229,326	\$ 263,862	\$ 258,895	\$ (9,418)	(4)%	\$ (77)	(0)%
Outside data processing and other services	51,490	51,071	49,313	49,898	49,265	2,225	5	419	1
Net occupancy	33,433	31,983	35,591	27,656	30,114	3,319	11	1,450	5
Equipment	28,750	28,775	28,191	24,947	24,880	3,870	16	(25)	(0)
Marketing	10,686	13,704	12,271	14,239	10,971	(285)	(3)	(3,018)	(22)
Deposit and other insurance expense	13,718	10,056	11,155	13,460	15,490	(1,772)	(11)	3,662	36
Amortization of intangibles	9,291	10,320	10,362	10,362	10,320	(1,029)	(10)	(1,029)	(10)
Professional services	12,231	11,567	12,487	9,341	7,192	5,039	70	664	6
Other expense	51,045	38,979	34,640	32,100	35,666	15,379	43	12,066	31
Total noninterest expense	\$ 460,121	\$ 446,009	\$ 423,336	\$ 445,865	\$ 442,793	\$ 17,328	4%	\$ 14,112	3%
Number of employees (average full-time equivalent)	11,848	11,765	12,080	12,063	11,949	(101)	(1)%	83	1%

**2014 First Quarter versus 2013 First Quarter**

In the 2014 first quarter, noninterest expense increased \$17.3 million, or 4%, from the year-ago quarter. When adjusting for the \$21.6 million of Significant Items, noninterest expense decreased \$4.3 million. The \$17.3 million increase in the reported noninterest expenses primarily reflects:

\$15.4 million, or 43%, increase in other expense, reflecting a \$9.0 million addition to litigation reserves and a \$3.0 million goodwill impairment.

\$5.0 million, or 70%, increase in professional services, including \$2.2 million of one-time merger related expenses.

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\$3.9 million, or 16%, increase in equipment expense, reflecting increased depreciation on technology investments.

\$3.3 million, or 11%, increase in net occupancy, reflecting \$1.7 million of one-time merger related expenses.

\$2.2 million, or 5%, increase in outside data processing and other services, reflecting \$4.3 million of one-time merger related expenses.

Partially offset by:

\$9.4 million, or 4%, decrease in personnel costs, primarily reflecting the curtailment of the pension plan of the end of 2013 that was partially offset by \$2.3 million of one-time merger related expenses.

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### ***2014 First Quarter versus 2013 Fourth Quarter***

Noninterest expense of \$460.1 million for the 2014 first quarter included \$21.6 million of Significant Items and was up \$14.1 million, or 3%, from the 2013 fourth quarter noninterest expense of \$446.0 million, which included a \$6.9 million Significant Item. After excluding the impact of Significant Items from both quarters, noninterest expense was essentially unchanged as the remaining \$3.7 million increase in deposit and other insurance was largely offset by the remaining \$3.0 million decline in marketing.

### **Provision for Income Taxes**

The provision for income taxes in the 2014 first quarter was \$52.1 million. This compared with a provision for income taxes of \$52.0 million in the 2013 fourth quarter and \$55.1 million in the 2013 first quarter. All three quarters included the benefits from tax-exempt income, tax-advantaged investments, and general business credits. At March 31, 2014, we had a net federal deferred tax asset of \$123.7 million and a net state deferred tax asset of \$42.3 million. Based on both positive and negative evidence and our level of forecasted future taxable income, we determined no impairment existed to the net federal and state deferred tax asset at March 31, 2014. For regulatory capital purposes, there was no disallowed net deferred tax asset at March 31, 2014.

We file income tax returns with the IRS and various state, city, and foreign jurisdictions. Federal income tax audits have been completed for tax years through 2009. In the first quarter of 2013, the IRS began an examination of our 2010 and 2011 consolidated federal income tax returns. We have appealed certain proposed adjustments resulting from the IRS examination of our 2006, 2007, 2008, 2009, and 2010 tax returns. We believe the tax positions taken related to such proposed adjustments are correct and supported by applicable statutes, regulations, and judicial authority, and intend to vigorously defend them. It is possible the ultimate resolution of the proposed adjustments, if unfavorable, may be material to the results of operations in the period it occurs. Nevertheless, although no assurances can be given, we believe the resolution of these examinations will not, individually or in the aggregate, have a material adverse impact on our consolidated financial position. Various state and other jurisdictions remain open to examination, including Kentucky, Indiana, Michigan, Pennsylvania, West Virginia, and Illinois.

On September 13, 2013, the IRS released final tangible property regulations under Sections 162(a) and 263(a) of the IRC and proposed regulations under Section 168 of the IRC. These regulations generally apply to taxable years beginning on or after January 1, 2014 and will affect all taxpayers that acquire, produce, or improve tangible property. Based upon preliminary analysis, we do not expect that the adoption of these regulations will have a material impact on the Company's Consolidated Financial Statements.

## **RISK MANAGEMENT AND CAPITAL**

Risk awareness, identification and assessment, reporting, and active management are key elements in overall risk management. We manage risk to an aggregate moderate-to-low risk profile through a control framework and by monitoring and responding to identified potential risks. Controls include, among others, effective segregation of duties, access, authorization and reconciliation procedures, as well as staff education and a disciplined assessment process.

We identify primary risks, and the sources of those risks, within each business unit. We utilize Risk and Control Self-Assessments (RCSA) to identify exposure risks. Through this RCSA process, we continually assess the effectiveness of controls associated with the identified risks, regularly monitor risk profiles and material exposure to losses, and identify stress events and scenarios to which we may be exposed. 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 Risk Management Committee, Risk Oversight Committee, and the board of directors, as appropriate. Our internal audit department performs on-going 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 and board of directors.

We believe that our primary risk exposures are credit, market, liquidity, operational, and compliance oriented. More information on risk can be found in the Risk Factors section included in Item 1A of our 2013 Form 10-K and subsequent filings with the SEC. Additionally, the MD&A included in our 2013 Form 10-K should be read in conjunction with this MD&A as this discussion provides only material updates to the 2013 Form 10-K. Our definition, philosophy, and approach to risk management have not materially changed from the discussion presented in the 2013 Form 10-K.

### **Credit Risk**

Credit risk is the risk of financial loss if a counterparty is not able to meet the agreed upon terms of the financial obligation. The majority of our credit risk is associated with lending activities, as the acceptance and management of credit risk is central to profitable lending. We also have significant credit risk associated with our AFS and HTM securities portfolios (*see Note 4 and Note 5 of the Notes to the Unaudited Condensed*

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*Consolidated Financial Statements*). We engage with other financial counterparties for a variety of purposes including investing, asset and liability management, mortgage banking, and trading activities. While there is credit risk associated with derivative activity, we believe this exposure is minimal.

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We continue to focus on the identification, monitoring, and managing of our credit risk. In addition to the traditional credit risk mitigation strategies of credit policies and processes, market risk management activities, and portfolio diversification, we use additional quantitative measurement capabilities utilizing external data sources, enhanced use of modeling technology, and internal stress testing processes. Our portfolio management resources demonstrate our commitment to maintaining an aggregate moderate-to-low risk profile. In our efforts to continue to identify risk mitigation techniques, we have focused on product design features, origination policies, and treatment strategies for delinquent or stressed borrowers.

### ***Loan and Lease Credit Exposure Mix***

At March 31, 2014, loans and leases totaled \$44.4 billion, representing a \$1.2 billion, or 3%, increase compared to \$43.1 billion at December 31, 2013, primarily reflecting growth in the C&I and automobile portfolio. In addition, we added \$559.4 million in loans from our acquisition of Camco Financial during the 2014 first quarter. The Camco Financial portfolio represents approximately 50% of the growth in the quarter, centered in CRE, home equity and residential mortgage.

At March 31, 2014, commercial loans and leases totaled \$23.1 billion and represented 53% of our total loan and lease credit exposure. Our commercial portfolio is diversified along product type, customer size, and geography across our footprint, and is comprised of the following loan types (*see Commercial Credit discussion*).

***C&I*** C&I loans and leases are made to commercial customers for use in normal business operations to finance working capital needs, equipment purchases, or other projects. The majority of these borrowers are customers doing business within our geographic regions. C&I loans and leases are generally underwritten individually and secured with the assets of the company and/or the personal guarantee of the business owners. The financing of owner occupied facilities is considered a C&I loan even though there is improved real estate as collateral. This treatment is a result of the credit decision process, which focuses on cash flow from operations of the business to repay the debt. The operation, sale, rental, or refinancing of the real estate is not considered the primary repayment source for these types of loans. As we have expanded our C&I portfolio, we have developed a series of verticals to ensure that new products or lending types are embedded within a structured, centralized Commercial Lending area with designated experienced credit officers.

***CRE*** CRE loans consist of loans to developers and REITs supporting income-producing or for-sale commercial real estate properties. We mitigate our risk on these loans by requiring collateral values that exceed the loan amount and underwriting the loan with projected cash flow in excess of the debt service requirement. These loans are made to finance properties such as apartment buildings, office and industrial buildings, and retail shopping centers, and are repaid through cash flows related to the operation, sale, or refinance of the property.

***Construction CRE*** Construction CRE loans are loans to developers, companies, or individuals used for the construction of a commercial or residential property for which repayment will be generated by the sale or permanent financing of the property. Our construction CRE portfolio primarily consists of retail, multi family, office, and warehouse project types. Generally, these loans are for construction projects that have been presold or preleased, or have secured permanent financing, as well as loans to real estate companies with significant equity invested in each project. These loans are underwritten and managed by a specialized real estate lending group that actively monitors the construction phase and manages the loan disbursements according to the predetermined construction schedule.

Total consumer loans and leases were \$21.3 billion at March 31, 2014, and represented 47% of our total loan and lease credit exposure. The consumer portfolio is comprised primarily of automobile, home equity loans and lines-of-credit, and residential mortgages (*see Consumer Credit discussion*).

***Automobile*** Automobile loans are comprised primarily of loans made through automotive dealerships and include exposure in selected states outside of our primary banking markets. The exposure outside of our primary banking markets represents 18% of the total exposure, with no individual state representing more than 5%. Applications are underwritten utilizing an automated underwriting system that applies consistent policies and processes across the portfolio.

***Home equity*** Home equity lending includes both home equity loans and lines-of-credit. This type of lending, which is secured by a first-lien or junior-lien on the borrower's residence, allows customers to borrow against the equity in their home or refinance existing mortgage debt. Products include closed-end loans which are generally fixed-rate with principal and interest payments, and variable-rate, interest-only lines-of-credit which do not require payment of principal during the 10-year revolving period. The home equity line of credit may convert to a 20-year amortizing structure at the end of the revolving period. Applications are underwritten centrally in conjunction with an automated underwriting system. The home equity underwriting criteria is based on minimum credit scores, debt-to-income ratios, and LTV ratios, with current collateral valuations.





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*Residential mortgage* Residential mortgage loans represent loans to consumers for the purchase or refinance of a residence. These loans are generally financed over a 15-year to 30-year term, and in most cases, are extended to borrowers to finance their primary residence. Applications are underwritten centrally using consistent credit policies and processes. All residential mortgage loan decisions utilize a full appraisal for collateral valuation. Huntington has not originated or acquired residential mortgages that allow negative amortization or allow the borrower multiple payment options.

*Other consumer* Primarily consists of consumer loans not secured by real estate, including personal unsecured loans. We introduced a consumer credit card product during 2013, utilizing a centralized underwriting system and focusing on existing Huntington customers.

The table below provides the composition of our total loan and lease portfolio:

**Table 8 Loan and Lease Portfolio Composition**

<i>(dollar amounts in millions)</i>	2014		December 31,		2013		June 30,		March 31,	
	March 31,				September 30,					
Commercial: <sup>(1)</sup>										
Commercial and industrial	\$ 18,046	41%	\$ 17,594	41%	\$ 17,335	41%	\$ 17,113	41%	\$ 17,267	42%
Commercial real estate:										
Construction	692	2	557	1	544	1	607	1	574	1
Commercial	4,339	10	4,293	10	4,328	10	4,286	10	4,485	11
Total commercial real estate	5,031	12	4,850	11	4,872	11	4,893	11	5,059	12
Total commercial	23,077	53	22,444	52	22,207	52	22,006	52	22,326	54
Consumer:										
Automobile	6,999	16	6,639	15	6,317	15	5,810	14	5,036	12
Home equity	8,373	19	8,336	18	8,347	20	8,369	20	8,474	21
Residential mortgage	5,542	12	5,321	12	5,307	12	5,168	12	5,051	12
Other consumer	363		380	2	378	1	387	2	397	1
Total consumer	21,277	47	20,676	48	20,349	48	19,734	48	18,958	46
Total loans and leases	\$ 44,354	100%	\$ 43,120	100%	\$ 42,556	100%	\$ 41,740	100%	\$ 41,284	100%

(1) As defined by regulatory guidance, there were no commercial loans outstanding that would be considered a concentration of lending to a particular industry or group of industries.

As shown in the table above, our loan portfolio is diversified by consumer and commercial credit. At the corporate level, we manage the credit exposure via a credit concentration policy. The policy designates specific loan types, collateral types, and loan structures to be formally tracked and assigned limits as a percentage of capital. C&I lending by segment, specific limits for CRE primary project types, loans secured by residential real estate, shared national credit exposure, unsecured lending, and designated high risk loan definitions represent examples of specifically tracked components of our concentration management process. Our concentration management process is approved by our board level Risk Oversight Committee and is one of the strategies utilized to ensure a high quality, well diversified portfolio that is consistent with our overall objective of maintaining an aggregate moderate-to-low risk profile.

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The table below provides our total loan and lease portfolio segregated by the type of collateral securing the loan or lease:

**Table 9 Loan and Lease Portfolio by Collateral Type**

<i>(dollar amounts in millions)</i>	2014		2013							
	March 31,		December 31,		September 30,		June 30,		March 31,	
Secured loans:										
Real estate commercial	\$ 8,612	19%	\$ 8,622	20%	\$ 8,769	21%	\$ 8,749	21%	\$ 9,041	22%
Real estate consumer	13,916	31	13,657	32	13,654	32	13,537	32	13,525	33
Vehicles	9,270	21	8,989	21	8,275	19	7,763	19	6,924	17
Receivables/Inventory	5,717	13	5,534	13	5,367	13	5,260	13	5,383	13
Machinery/Equipment	2,930	7	2,738	6	2,778	7	2,831	7	2,815	7
Securities/Deposits	1,064	2	786	2	905	2	924	2	840	2
Other	870	3	1,016	2	948	2	1,020	2	1,014	2
Total secured loans and leases	42,379	96	41,342	96	40,696	96	40,084	96	39,542	96
Unsecured loans and leases	1,975	4	1,778	4	1,860	4	1,656	4	1,742	4
Total loans and leases	\$ 44,354	100%	\$ 43,120	100%	\$ 42,556	100%	\$ 41,740	100%	\$ 41,284	100%

***Commercial Credit***

Refer to the Commercial Credit section of our 2013 Form 10-K for our commercial credit underwriting and on-going credit management processes.

**C&I PORTFOLIO**

The C&I portfolio continues to have strong origination activity as evidenced by the growth over the past 12 months. The credit quality of the portfolio continues to improve as we maintain focus on high quality originations. Problem loans have trended downward, reflecting a combination of proactive risk identification and effective workout strategies implemented by the SAD. We continue to maintain a proactive approach to identifying borrowers that may be facing financial difficulty in order to maximize the potential solutions.

**CRE PORTFOLIO**

We manage the risks inherent in this portfolio specific to CRE lending, focusing on the quality of the developer and the specifics associated with each project. Generally, we: (1) limit our loans to 80% of the appraised value of the commercial real estate at origination, (2) require net operating cash flows to be 125% of required interest and principal payments, and (3) if the commercial real estate is nonowner occupied, require that at least 50% of the space of the project be preleased. We actively monitor both geographic and project-type concentrations and performance metrics of all CRE loan types, with a focus on loans identified as higher risk based on the risk rating methodology. Both macro-level and loan-level stress-test scenarios based on existing and forecast market conditions are part of the on-going portfolio management process for the CRE portfolio.

Dedicated real estate professionals originated the majority of the portfolio, with the remainder obtained from prior bank acquisitions. Appraisals are obtained from approved vendors, and are reviewed by an internal appraisal review group comprised of certified appraisers to ensure the quality of the valuation used in the underwriting process. The portfolio is diversified by project type and loan size, and this diversification represents a significant portion of the credit risk management strategies employed for this portfolio. Subsequent to the origination of the loan, the Credit Review group provides an independent review and assessment of the quality of the underwriting and/or risk of new loan originations.

Appraisal values are obtained in conjunction with all originations and renewals, and on an as needed basis, in compliance with regulatory requirements. We continue to perform on-going portfolio level reviews within the CRE portfolio. These reviews generate action plans based on occupancy levels or sales volume associated with the projects being reviewed. Property values are updated using appraisals on a regular basis to ensure appropriate decisions regarding the on-going management of the portfolio reflect the changing market conditions. This highly individualized process requires working closely with all of our borrowers, as well as an in-depth knowledge of CRE project lending and the market environment.

*Consumer Credit*

Refer to the Consumer Credit section of our 2013 Form 10-K for our consumer credit underwriting and on-going credit management processes.

**Table of Contents****AUTOMOBILE PORTFOLIO**

Our strategy in the automobile portfolio continued to focus on high quality borrowers as measured by both FICO and internal custom scores, combined with appropriate LTVs, terms, and profitability. Our strategy and operational capabilities allow us to appropriately manage the origination quality across the entire portfolio, including our newer markets. Although increased origination volume and entering new markets can be associated with increased risk levels, we believe our disciplined strategy and operational processes significantly mitigate these risks.

We have continued to consistently execute our value proposition and take advantage of available market opportunities. Importantly, we have maintained our high credit quality standards while expanding the portfolio.

**RESIDENTIAL REAL ESTATE SECURED PORTFOLIOS**

The properties securing our residential mortgage and home equity portfolios are primarily located within our geographic footprint. While home prices have rebounded from the 2009-2010 levels, they remain below the peak. Huntington continues to support our local markets with consistent underwriting across all residential secured products. The residential-secured portfolio originations continue to be of high quality, with the majority of the negative credit impact coming from loans originated in 2006 and earlier. Our portfolio management strategies associated with our Home Savers group allows us to focus on effectively helping our customers with appropriate solutions for their specific circumstances.

**Table 10 Selected Home Equity and Residential Mortgage Portfolio Data**

(dollar amounts in millions)

	Home Equity				Residential Mortgage	
	Secured by first-lien		Secured by junior-lien		03/31/14	12/31/13
	03/31/14	12/31/13	03/31/14	12/31/13		
Ending balance	\$ 4,886	\$ 4,842	\$ 3,487	\$ 3,494	\$ 5,542	\$ 5,321
Portfolio weighted average LTV ratio <sup>(1)</sup>	71%	71%	81%	81%	74%	74%
Portfolio weighted average FICO score <sup>(2)</sup>	757	758	746	741	745	743

	Home Equity				Residential Mortgage (3)	
	Secured by first-lien		Secured by junior-lien		2014	2013
	Three Months Ended March 31,					
	2014	2013	2014	2013		
Originations	\$ 300	\$ 548	\$ 163	\$ 106	\$ 198	\$ 319
Origination weighted average LTV ratio <sup>(1)</sup>	72%	66%	83%	81%	81%	75%
Origination weighted average FICO score <sup>(2)</sup>	763	778	756	751	752	759

- (1) The LTV ratios for home equity loans and home equity lines-of-credit are cumulative and reflect the balance of any senior loans. LTV ratios reflect collateral values at the time of loan origination.
- (2) Portfolio weighted average FICO scores reflect currently updated customer credit scores whereas origination weighted average FICO scores reflect the customer credit scores at the time of loan origination.
- (3) Represents only owned-portfolio originations.

**Home Equity Portfolio**

Within the home equity portfolio, the standard product is a 10-year interest-only draw period with a 20-year fully amortizing term at the end of the draw period. Prior to 2007, the standard product was a 10-year draw period with a balloon payment. After the 10-year draw period, the borrower must reapply to extend the existing structure or begin repaying the debt in a traditional term structure.

The principal and interest payment associated with the term structure will be higher than the interest-only payment, resulting in maturity risk. Our maturity risk can be segregated into two distinct segments: (1) home equity lines-of-credit underwritten with a balloon payment at maturity and (2) home equity lines-of-credit with an automatic conversion to a 20-year amortizing loan. We manage this risk based on both the actual maturity date of the line-of-credit structure and at the end of the 10-year draw period. This maturity risk is embedded in the portfolio which we address with proactive contact strategies beginning one year prior to maturity. In certain circumstances, our Home Saver group is able to provide

payment and structure relief to borrowers experiencing significant financial hardship associated with the payment adjustment.

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The table below summarizes our home equity line-of-credit portfolio by maturity date:

**Table 11 Maturity Schedule of Home Equity Line-of-Credit Portfolio**

<i>(dollar amounts in millions)</i>	March 31, 2014					Total
	1 year or less	1 to 2 years	2 to 3 years	3 to 4 years	More than 4 years	
Secured by first-lien	\$ 53	\$ 20	\$ 3	\$ 2	\$ 2,472	\$ 2,550
Secured by junior-lien	237	183	135	92	2,337	2,984
<b>Total home equity line-of-credit</b>	<b>\$ 290</b>	<b>\$ 203</b>	<b>\$ 138</b>	<b>\$ 94</b>	<b>\$ 4,809</b>	<b>\$ 5,534</b>

The amounts in the above table maturing in four years or less primarily consist of balloon payment structures and represent the most significant maturity risk. The amounts maturing in more than four years primarily consist of exposure with a 20-year amortization period after the 10-year draw period.

Historically, less than 30% of our home equity lines-of-credit that are one year or less from maturity actually reach the maturity date, and we anticipate this percentage will decline in future periods as our proactive approach to managing maturity risk continues to evolve.

**Residential Mortgages Portfolio**

We focus on higher quality borrowers and underwrite all applications centrally. We do not originate residential mortgages that allow negative amortization or allow the borrower multiple payment options. We have incorporated regulatory requirements and guidance into our underwriting process. All residential mortgages are originated based on a completed full appraisal during the credit underwriting process. We update values on a regular basis in compliance with applicable regulations to facilitate our portfolio management, as well as our workout and loss mitigation functions.

Several government programs continued to impact the residential mortgage portfolio, including various refinance programs such as HARP and HAMP, which positively affected the availability of credit for the industry. During the period ended March 31, 2014, we closed \$96 million in HARP residential mortgages. The HARP and HAMP residential mortgage loans are part of our residential mortgage portfolio or serviced for others.

We are subject to repurchase risk associated with residential mortgage loans sold in the secondary market. An appropriate level of reserve for representations and warranties related to residential mortgage loans sold has been established to address this repurchase risk inherent in the portfolio (*see Operational Risk discussion*).

**Credit Quality**

*(This section should be read in conjunction with Note 3 of the Notes to Unaudited Condensed Consolidated Financial Statements.)*

We believe the most meaningful way to assess overall credit quality performance is through an analysis of credit quality performance ratios. This approach forms the basis of most of the discussion in the sections immediately following: NPAs and NALs, TDRs, ACL, and NCOs. In addition, we utilize delinquency rates, risk distribution and migration patterns, and product segmentation in the analysis of our credit quality performance.

Credit quality performance in the 2014 first quarter reflected continued overall improvement. However, the level of NPAs increased 4% to \$365.3 million compared to the prior quarter, primarily attributable to the Camco Financial acquisition. The level of Consumer OREO increased over the prior quarter as there were relatively few sales in the first quarter. We expect the sales activity in the second quarter to be substantially stronger. NCOs decreased by \$3.5 million or 7% in the quarter, primarily as a result of recovery levels in the CRE and home equity portfolios. Commercial criticized loans increased compared to the prior quarter, again driven by the impact of Camco Financial, and reflecting our continued focus on proactively identifying potential problem credits. There was no specific industry or region that drove the increase in the quarter. Commercial classified loans declined, reflecting the continued improvement across the portfolio. The ACL to total loans ratio declined to 1.56%, but our coverage ratios as demonstrated by the ACL to NAL ratio of 211% remained strong.

NPAs, NALs, AND TDRs

*(This section should be read in conjunction with Note 3 of the Notes to Unaudited Condensed Consolidated Financial Statements.)*



**Table of Contents****NPAs and NALs**

NPAs consist of (1) NALs, which represent loans and leases no longer accruing interest, (2) impaired loans held for sale, (3) OREO properties, and (4) other NPAs. Any loan in our portfolio may be placed on nonaccrual status prior to the policies described below when collection of principal or interest is in doubt. Also, when a borrower with discharged non-reaffirmed debt in a Chapter 7 bankruptcy is identified and the loan is determined to be collateral dependent, the consumer loan is placed on nonaccrual status.

C&I and CRE loans are placed on nonaccrual status at 90-days past due, or earlier if repayment of principal and interest is in doubt.

Of the \$128.4 million of CRE and C&I-related NALs at March 31, 2014, \$55.9 million, or 44%, represented loans that were less than 30 days past due, demonstrating our continued commitment to proactive credit risk management. With the exception of residential mortgage loans guaranteed by government organizations which continue to accrue interest, residential mortgage loans are placed on nonaccrual status at 150-days past due. First-lien home equity loans are placed on nonaccrual status at 150-days past due. Junior-lien home equity loans are placed on nonaccrual status at the earlier of 120-days past due or when the related first-lien loan has been identified as nonaccrual. Automobile and other consumer loans are generally charged-off when the loan is 120-days past due.

When loans are placed on nonaccrual, accrued interest income is reversed with current year accruals charged to earnings and prior year amounts generally charged-off as a credit loss. When, in our judgment, the borrower's ability to make required interest and principal payments has resumed and collectability is no longer in doubt, the loan or lease is returned to accrual status.

The following table reflects period-end NALs and NPAs detail for each of the last five quarters:

**Table 12 Nonaccrual Loans and Leases and Nonperforming Assets**

<i>(dollar amounts in thousands)</i>	2014	2013			
	March 31,	December 31,	September 30,	June 30,	March 31,
<b>Nonaccrual loans and leases:</b>					
Commercial and industrial	\$ 57,053	\$ 56,615	\$ 68,034	\$ 80,037	\$ 80,928
Commercial real estate	71,344	73,417	80,295	93,643	110,803
Automobile	6,218	6,303	5,972	7,743	6,770
Residential mortgage	121,681	119,532	116,260	122,040	118,405
Home equity	70,862	66,189	62,545	60,083	63,405
<b>Total nonaccrual loans and leases</b>	<b>327,158</b>	<b>322,056</b>	<b>333,106</b>	<b>363,546</b>	<b>380,311</b>
Other real estate owned, net					
Residential	30,581	23,447	16,610	17,353	19,538
Commercial	5,110	4,217	12,544	3,713	5,601
<b>Total other real estate owned, net</b>	<b>35,691</b>	<b>27,664</b>	<b>29,154</b>	<b>21,066</b>	<b>25,139</b>
Other nonperforming assets <sup>(1)</sup>	2,440	2,440	12,000	12,087	10,045
<b>Total nonperforming assets</b>	<b>\$ 365,289</b>	<b>\$ 352,160</b>	<b>\$ 374,260</b>	<b>\$ 396,699</b>	<b>\$ 415,495</b>
Nonaccrual loans as a % of total loans and leases	0.74%	0.75%	0.78%	0.87%	0.92%
Nonperforming assets ratio <sup>(2)</sup>	0.82	0.82	0.88	0.95	1.01
(NPA+90days)/(Loan+OREO) <sup>(3)</sup>	1.17	1.20	1.29	1.38	1.48

(1) Other nonperforming assets includes certain impaired investment securities.

(2) This ratio is calculated as nonperforming assets divided by the sum of loans and leases, other nonperforming assets, and net other real estate owned.

(3) This ratio is calculated as the sum of nonperforming assets and total accruing loans and leases past due 90 days or more divided by the sum of loans and leases and net other real estate owned.

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The \$13.1 million, or 4%, increase in NPAs compared with December 31, 2013, primarily reflected the impact of the acquisition of the Camco Financial portfolio:

\$8.0 million, or 29%, increase in net OREO properties was primarily related to consumer OREO, reflecting limited sales in the first quarter and the addition of \$3.0 million of properties from Camco Financial.

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\$4.7 million, or 7%, increase in home equity NALs was related to the addition of Camco Financial. Additionally, while the number of nonaccrual home equity lines/loans is flat to slightly down, the NAL balances are increasing due to new NALs having a relatively higher balance than in prior periods, as a result of the improving home values.

\$2.2 million, or 2%, increase in residential mortgage NALs, reflecting the addition of Camco Financial.  
Partially offset by:

\$2.1 million, or 3%, decline in CRE NALs, reflecting both NCO activity and problem credit resolutions, including borrower payments and payoffs partially resulting from successful workout strategies implemented by our commercial loan workout group.

**TDR Loans**

*(This section should be read in conjunction with Note 3 of the Notes to Unaudited Condensed Consolidated Financial Statements.)*

TDRs are modified loans in which a concession is provided to a borrower experiencing financial difficulties. TDRs can be classified as either accrual or nonaccrual loans. Nonaccrual TDRs are included in NALs whereas accruing TDRs are excluded from NALs, as it is probable that all contractual principal and interest due under the restructured terms will be collected. TDRs primarily reflect our loss mitigation efforts to proactively work with borrowers having difficulty making their payments.

The table below presents our accruing and nonaccruing TDRs at period-end for each of the past five quarters:

**Table 13 Accruing and Nonaccruing Troubled Debt Restructured Loans**

<i>(dollar amounts in thousands)</i>	2014		2013		
	March 31,	December 31,	September 30,	June 30,	March 31,
Troubled debt restructured loans accruing:					
Commercial and industrial	\$ 102,970	\$ 83,857	\$ 85,687	\$ 94,583	\$ 90,642
Commercial real estate	210,876	204,668	204,597	184,372	192,167
Automobile	27,393	30,781	30,981	32,768	34,379
Home equity	202,044	188,266	153,591	135,759	162,087 <sup>(1)</sup>
Residential mortgage	284,194	305,059	300,809	293,933	288,041
Other consumer	1,727	1,041	959	3,383	2,514
Total troubled debt restructured loans accruing	829,204	813,672	776,624	744,798	769,830
Troubled debt restructured loans nonaccruing:					
Commercial and industrial	7,197	7,291	8,643	14,541	14,970
Commercial real estate	27,972	23,981	22,695	26,118	26,588
Automobile	5,676	6,303	5,972	7,743	6,770
Home equity	20,992	20,715	11,434	10,227	11,235
Residential mortgage	84,441	82,879	77,525	80,563	84,317
Other consumer	120				
Total troubled debt restructured loans nonaccruing	146,398	141,169	126,269	139,192	143,880
Total troubled debt restructured loans	\$ 975,602	\$ 954,841	\$ 902,893	\$ 883,990	\$ 913,710

(1) Included \$46,031 thousand incorrectly reflected as TDRs in the 2013 first quarter.

Our strategy is to structure commercial TDRs in a manner that avoids new concessions subsequent to the initial TDR terms. However, there are times when subsequent modifications are required, such as when the modified loan matures. Often the loans are performing in accordance with

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the TDR terms, and a new note is originated with similar modified terms. These loans are subjected to the normal underwriting standards and processes for other similar credit extensions, both new and existing. If the loan is not performing in accordance with the existing TDR terms, typically an individualized approach to repayment is established. In accordance with ASC 310-20-35, the refinanced note is evaluated to determine if it is considered a new loan or a continuation of the prior loan. A new loan is considered for removal of the TDR designation. A continuation of the prior note requires the continuation of the TDR designation, and because the refinanced note constitutes a new or amended debt instrument, it is included in our TDR activity table (below) as a new TDR and a restructured TDR removal during the period.

The types of concessions granted are consistent with those granted on new TDRs and include interest rate reductions, amortization or maturity date changes beyond what the collateral supports, and principal forgiveness based on the borrower's specific needs at a point in time. Our policy does not limit the number of times a loan may be modified. A loan may be modified multiple times if it is considered to be in the best interest of both the borrower and us.

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Loans are not automatically considered to be accruing TDRs upon the granting of a new concession. If the loan is in accruing status and no loss is expected based on the modified terms, the modified TDR remains in accruing status. For loans that are on nonaccrual status before the modification, collection of both principal and interest must not be in doubt, and the borrower must be able to exhibit sufficient cash flows for a six-month period of time to service the debt in order to return to accruing status. This six-month period could extend before or after the restructure date.

TDRs in the home equity and residential mortgage portfolio may continue to increase for a time as we continue to appropriately manage the portfolio. Any granted change in terms or conditions that are not readily available in the market for that borrower, requires the designation as a TDR.

The following table reflects TDR activity for each of the past five quarters:

**Table 14 Troubled Debt Restructured Loan Activity**

<i>(dollar amounts in thousands)</i>	2014		2013		
	First	Fourth	Third	Second	First
TDRs, beginning of period	\$ 954,841	\$ 902,893	\$ 883,990	\$ 913,710	\$ 875,625
New TDRs	219,656	169,383	161,812	115,955	164,407 <sup>(2)</sup>
Payments	(55,130)	(46,974)	(60,392)	(39,818)	(44,183)
Charge-offs	(10,774)	(5,980)	(10,439)	(8,083)	(5,395)
Sales	(14,169)	(613)	(2,999)	(2,738)	(4,814)
Transfer to OREO	(2,597)	(2,609)	(2,056)	(2,453)	(1,124)
Restructured TDRs accruing <sup>(1)</sup>	(86,012)	(51,709)	(58,499)	(46,987)	(53,936)
Restructured TDRs nonaccruing <sup>(1)</sup>	(23,038)	(7,415)	(6,163)	(2,520)	(10,674)
Other	(7,175)	(2,135)	(2,361)	(43,076) <sup>(2)</sup>	(6,196)
TDRs, end of period	\$ 975,602	\$ 954,841	\$ 902,893	\$ 883,990	\$ 913,710

(1) Represents existing TDRs that were re-underwritten with new terms providing a concession. A corresponding amount is included in the New TDRs amount above.

(2) Included \$46,031 thousand of home equity TDRs incorrectly reflected as new TDRs in the 2013 first quarter.

**ACL**

*(This section should be read in conjunction with Note 3 of the Notes to Unaudited Condensed Consolidated Financial Statements.)*

Our total credit reserve is comprised of two different components, both of which in our judgment are appropriate to absorb credit losses inherent in our loan and lease portfolio: the ALLL and the AULC. Combined, these reserves comprise the total ACL. Our Credit Administration group is responsible for developing the methodology assumptions and estimates used in the calculation, as well as determining the appropriateness of the ACL. The ALLL represents the estimate of losses inherent in the loan portfolio at the reported date. Additions to the ALLL result from recording provision expense for loan losses or increased risk levels resulting from loan risk-rating downgrades, while reductions reflect charge-offs (net of recoveries), decreased risk levels resulting from loan risk-rating upgrades, or the sale of loans. The AULC is determined by applying the transaction reserve process to the unfunded portion of the loan exposures adjusted by an applicable funding expectation.

A provision for credit losses is recorded to adjust the ACL to the level we have determined to be appropriate to absorb credit losses inherent in our loan and lease portfolio. The provision for credit losses in the 2014 first quarter was \$24.6 million, compared with \$24.3 million in the prior quarter and \$29.6 million in the year-ago quarter. *(See Provision for Credit Losses discussion within Results of Operations section).*

We regularly evaluate the appropriateness of the ACL by performing on-going evaluations of the loan and lease portfolio, including such factors as the differing economic risks associated with each loan category, the financial condition of specific borrowers, the level of delinquent loans, the value of any collateral and, where applicable, the existence of any guarantees or other documented support. We evaluate the impact of changes in interest rates and overall economic conditions on the ability of borrowers to meet their financial obligations when quantifying our exposure to credit losses and assessing the appropriateness of our ACL at each reporting date. In addition to general economic conditions and the

other factors described above, we also consider the impact of collateral value trends and portfolio diversification.

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Our ACL evaluation process includes the on-going assessment of credit quality metrics, and a comparison of certain ACL benchmarks to current performance. While the total ACL balance has declined in recent quarters, all of the relevant benchmarks remain strong.

The table below reflects the allocation of our ACL among our various loan categories during each of the past five quarters:

**Table 15 Allocation of Allowance for Credit Losses (1)**

<i>(dollar amounts in thousands)</i>	2014		2013							
	March 31,		December 31,		September 30,		June 30,		March 31,	
<b>Commercial</b>										
Commercial and industrial	\$ 266,979	41%	\$ 265,801	41%	\$ 262,048	41%	\$ 233,679	41%	\$ 238,098	42%
Commercial real estate	160,306	12	162,557	11	164,522	11	255,849	11	267,436	12
Total commercial	427,285	53	428,358	52	426,570	52	489,528	52	505,534	54
<b>Consumer</b>										
Automobile	25,178	16	31,053	15	27,087	15	39,990	14	35,973	12
Home equity	113,177	19	111,131	19	124,068	20	115,626	20	115,858	21
Residential mortgage	39,068	12	39,577	12	51,252	12	63,802	12	63,062	12
Other consumer	27,210		37,751	2	37,053	1	24,130	2	26,342	1
Total consumer	204,633	47	219,512	48	239,460	48	243,548	48	241,235	46
Total allowance for loan and lease losses	631,918	100%	647,870	100%	666,030	100%	733,076	100%	746,769	100%
Allowance for unfunded loan commitments	59,368		62,899		66,857		44,223		40,855	
Total allowance for credit losses	\$ 691,286		\$ 710,769		\$ 732,887		\$ 777,299		\$ 787,624	
Total allowance for loan and leases losses as % of:										
Total loans and leases		1.42%		1.50%		1.57%		1.76%		1.81%
Nonaccrual loans and leases		193		201		200		202		196
Nonperforming assets		174		184		178		185		180
Total allowance for credit losses as % of:										
Total loans and leases		1.56%		1.65%		1.72%		1.86%		1.91%
Nonaccrual loans and leases		211		221		220		214		207
Nonperforming assets		191		202		196		196		190

(1) Percentages represent the percentage of each loan and lease category to total loans and leases. The \$19.4 million, or 3%, decline in ACL compared with December 31, 2013, primarily reflected:

\$10.5 million, or 28%, decline in other consumer, reflecting the changing risk profile of the overdraft portfolio and the seasonal reduction in the overall exposure. The ALLL for the other consumer portfolio is consistent with expectations given the level of overdraft exposure.

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\$5.9 million, or 19%, decline in automobile, reflecting the continued positive performance metrics and the high quality origination strategy.

\$3.5 million, or 6%, decline in AULC, reflecting lower risk exposures.

The ACL to total loans declined to 1.56% at March 31, 2014, compared to 1.65% at December 31, 2013. We believe the decline in the ratio is appropriate given the significant continued improvement in the risk profile of our loan portfolio. Further, we believe that early identification of loans with changes in credit metrics and proactive action plans for these loans, combined with originating high quality new loans will contribute to continued improvement in our key credit quality metrics.



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We have significant exposure to loans secured by residential real estate and continue to be an active lender in our communities. The impact of the downturn in real estate values over the past several years has had a significant impact on some of our borrowers as evidenced by the higher delinquencies and NCOs since late 2007. Recently, real estate values have begun to rebound from their 2007 levels in our primary markets.

Given the combination of these noted positive and negative factors, we believe that our ACL is appropriate and its coverage level is reflective of the quality of our portfolio and the current operating environment.

**NCOs**

Any loan in any portfolio may be charged-off prior to the policies described below if a loss confirming event has occurred. Loss confirming events include, but are not limited to, bankruptcy (unsecured), continued delinquency, foreclosure, or receipt of an asset valuation indicating a collateral deficiency and that asset is the sole source of repayment. Additionally, discharged, collateral dependent non-reaffirmed debt in Chapter 7 bankruptcy filings will result in a charge-off to estimated collateral value, less anticipated selling costs at the time of the modification.

C&I and CRE loans are either charged-off or written down to net realizable value at 90-days past due. Automobile loans and other consumer loans are charged-off at 120-days past due. First-lien and junior-lien home equity loans are charged-off to the estimated fair value of the collateral, less anticipated selling costs, at 150-days past due and 120-days past due, respectively. Residential mortgages are charged-off to the estimated fair value of the collateral, less anticipated selling costs, at 150-days past due.

The following table reflects NCO detail for each of the last five quarters:

**Table 16 Quarterly Net Charge-off Analysis**

<i>(dollar amounts in thousands)</i>	2014	Fourth	Third	2013	
	First			Second	First
Net charge-offs by loan and lease type:					
Commercial:					
Commercial and industrial	\$ 8,606	\$ 9,826	\$ 1,661	\$ 1,586	\$ 3,317
Commercial real estate:					
Construction	918	(88)	6,165	1,079	(798)
Commercial	(1,905)	(2,783)	6,398	1,305	13,575
Commercial real estate	(987)	(2,871)	12,563	2,384	12,777
Total commercial	7,619	6,955	14,224	3,970	16,094
Consumer:					
Automobile	4,642	3,759	2,721	1,463	2,594
Home equity	15,687	20,451	27,175	14,654	19,983
Residential mortgage	7,859	7,605	4,789	8,620	6,148
Other consumer	7,179	7,677	6,833	6,083	6,868
Total consumer	35,367	39,492	41,518	30,820	35,593
Total net charge-offs	\$ 42,986	\$ 46,447	\$ 55,742	\$ 34,790	\$ 51,687
Net charge-offs annualized percentages:					
Commercial:					
Commercial and industrial	0.20%	0.22%	0.04%	0.04%	0.08%
Commercial real estate:					
Construction	0.60	(0.06)	4.36	0.74	(0.53)
Commercial	(0.18)	(0.26)	0.59	0.12	1.16

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Commercial real estate	<b>(0.08)</b>	(0.23)	1.02	0.19	0.97
<b>Total commercial</b>	<b>0.14</b>	0.12	0.26	0.07	0.29
Consumer:					
Automobile	<b>0.27</b>	0.23	0.18	0.11	0.21
Home equity	<b>0.75</b>	0.98	1.30	0.71	0.95
Residential mortgage	<b>0.58</b>	0.57	0.36	0.66	0.49
Other consumer	<b>7.44</b>	7.98	7.19	5.28	6.67
<b>Total consumer</b>	<b>0.68</b>	0.77	0.83	0.64	0.76
Net charge-offs as a % of average loans	<b>0.40%</b>	0.43%	0.53%	0.34%	0.51%

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In assessing NCO trends, it is helpful to understand the process of how commercial loans are treated as they deteriorate over time. The ALLL established is consistent with the level of risk associated with the original underwriting. As a part of our normal portfolio management process for commercial loans, the loan is periodically reviewed and the ALLL is increased or decreased based on the enhanced risk rating. In certain cases, the standard ALLL is determined to not be appropriate, and a specific reserve is established based on the projected cash flow or collateral value of the specific loan. Charge-offs, if necessary, are generally recognized in a period after the specific ALLL was established. If the previously established ALLL exceeds that necessary to satisfactorily resolve the problem loan, a reduction in the overall level of the ALLL could be recognized. Consumer loans are treated in much the same manner as commercial loans, with increasing reserve factors applied based on the risk characteristics of the loan, although specific reserves are not identified for consumer loans. In summary, if loan quality deteriorates, the typical credit sequence would be periods of reserve building, followed by periods of higher NCOs as the previously established ALLL is utilized. Additionally, an increase in the ALLL either precedes or is in conjunction with increases in NALs. When a loan is classified as NAL, it is evaluated for specific ALLL or charge-off. As a result, an increase in NALs does not necessarily result in an increase in the ALLL or an expectation of higher future NCOs.

Our overall NCOs are returning to normal levels, however, we anticipate NCO levels for both the residential mortgage and home equity portfolios will remain at elevated levels in the near future. The home equity portfolio will continue to be impacted by borrowers that are seeking to refinance, but are in a negative equity position because of the junior-lien loan. Right-sizing and debt forgiveness associated with these situations are becoming more frequent as borrowers realize the impact to their credit is minor, and that a default on a junior-lien loan is not likely to cause borrowers to lose their home.

All residential mortgage loans greater than 150-days past due are charged-down to the estimated value of the collateral, less anticipated selling costs. The remaining balance is in delinquent status until a modification can be completed, or the loan goes through the foreclosure process. For the home equity portfolio, virtually all of the defaults represent full charge-offs, as there is no remaining equity, creating a lower delinquency rate but a higher NCO impact.

**2014 First Quarter versus 2013 Fourth Quarter**

NCOs decreased \$3.5 million in the current quarter to \$43.0 million, primarily as a result of continued expected improvement and the impact of recovery activity in the quarter for the home equity and other consumer portfolios. NCOs were an annualized 0.40% of average loans and leases in the current quarter, down from 0.43% in the 2013 fourth quarter, and still within our long term expectation of 0.35% - 0.55%. Automobile NCOs increased in the quarter, reflecting a more normalized charge-off level for the portfolio. Given the absolute low level of C&I and CRE NCOs, there will continue to be some volatility on a quarter to quarter comparison basis.

**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, and credit spreads. We have identified two primary sources of market risk: interest rate risk and price risk.

***Interest Rate Risk*****OVERVIEW**

Huntington actively manages interest rate risk, as changes in market interest rates can have a significant impact on reported earnings. The interest rate risk process is designed to compare income simulations in market scenarios designed to alter the direction, magnitude, and speed of interest rate changes, as well as the slope of the yield curve. These scenarios are designed to illustrate the embedded optionality in the balance sheet from, among other things, faster or slower mortgage prepayments and changes in deposit mix.

**INCOME SIMULATION AND ECONOMIC VALUE ANALYSIS**

Interest rate risk measurement is calculated and reported to the ALCO monthly and ROC at least quarterly. The information reported includes period-end results and identifies any policy limits exceeded, along with an assessment of the policy limit breach and the action plan and timeline for resolution, mitigation, or assumption of the risk.

Huntington uses two approaches to model interest rate risk: Net Interest Income at Risk (NII at Risk) and Economic Value of Equity (EVE). Under NII at Risk, net interest income is modeled utilizing various assumptions for assets, liabilities, and derivative positions under various interest rate scenarios over a one-year time horizon. EVE measures the market value of assets minus the market value of liabilities and the

change in this value as rates change.

**Table of Contents****Table 17 Net Interest Income at Risk**

Basis point change scenario	Interest Sensitive Earnings at Risk (%)		
	-25	+100	+200
Board policy limits		-2.0%	-4.0%
<b>March 31, 2014</b>	<b>-0.5%</b>	<b>0.3%</b>	<b>0.1%</b>

In previous quarters, we reported ISE at Risk. We now report NII at Risk to isolate the change in income related solely to interest earning assets and interest bearing liabilities. The difference between the results for ISE at Risk and NII at Risk are not significant for this or any previous quarterly period.

The NII at Risk results included in the table above reflect the analysis used monthly by management. It models gradual -25, +100 and +200 basis point parallel shifts in market interest rates, implied by the forward yield curve over the next one-year period. Due to the current low level of short-term interest rates, the analysis reflects a declining interest rate scenario of 25 basis points, the point at which many assets and liabilities reach zero percent.

Huntington is within Board policy limits for the +100 and +200 basis point scenarios. There is no policy limit for the -25 basis point scenario. The NII at Risk reported at March 31, 2014, shows that Huntington's earnings are not sensitive to changes in interest rates over the next year. In recent periods, the amount of fixed rate assets, primarily indirect auto loans and securities, increased resulting in a reduction in asset sensitivity. This reduction is somewhat accentuated by our portfolio of mortgage-related loans and securities, whose expected maturities lengthen as rates rise. The reduced asset sensitivity for the +200 basis points scenario relates to the modeled migration of money market accounts balances into CDs thereby shifting from variable to fixed rate.

**Table 18 Economic Value of Equity at Risk**

Basis point change scenario	Economic Value of Equity at Risk (%)		
	-25	+100	+200
Board policy limits		-5.0%	-12.0%
<b>March 31, 2014</b>	<b>0.5%</b>	<b>-3.5%</b>	<b>-8.8%</b>

The EVE results included in the table above reflect the analysis used monthly by management. It models immediate -25, +100 and +200 basis point parallel shifts in market interest rates. Due to the current low level of short-term interest rates, the analysis reflects a declining interest rate scenario of 25 basis points, the point at which many assets and liabilities reach zero percent.

Huntington is within Board policy limits for the +100 and +200 basis point scenarios. There is no policy limit for the -25 basis point scenario. The EVE reported at March 31, 2014 shows that as interest rates increase (decrease) immediately, the economic value of equity position will decrease (increase). When interest rates rise, fixed rate assets generally lose economic value; the longer the duration, the greater the value lost. The opposite is true when interest rates fall. Compared to recent periods, the EVE results for March 31, 2014, reflect the impact of HQLA, added to our investment portfolio to prepare for the LCR rules.

**MSRs**

*(This section should be read in conjunction with Note 6 of Notes to Unaudited Condensed Consolidated Financial Statements.)*

At March 31, 2014 we had a total of \$ 163.3 million of capitalized MSRs representing the right to service \$ 15.4 billion in mortgage loans. Of this \$ 163.3 million, \$30.6 million was recorded using the fair value method and \$132.7 million was recorded using the amortization method.

MSR fair 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

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rates decline and decrease when mortgage interest rates rise. We have employed strategies to reduce the risk of MSR fair value changes or impairment. In addition, we engage a third party to provide valuation tools and assistance with our strategies with the objective to decrease the volatility from MSR fair value changes. However, volatile changes in interest rates can diminish the effectiveness of these hedges. We typically report MSR fair value adjustments net of hedge-related trading activity in the mortgage banking income category of noninterest income. Changes in fair value between reporting dates are recorded as an increase or a decrease in mortgage banking income.

MSRs recorded using the amortization method generally relate to loans originated with historically low interest rates, resulting in a lower probability of prepayments and, ultimately, impairment. MSR assets are included in accrued income and other assets in the Unaudited Condensed Consolidated Financial Statements.

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### *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 fair value accounting. We have price risk from trading securities, securities owned by our broker-dealer subsidiaries, foreign exchange positions, equity investments, investments in securities backed by mortgage loans, and marketable equity securities held by our insurance subsidiaries. We have established loss limits on the trading portfolio, on the amount of foreign exchange exposure that can be maintained, and on the amount of marketable equity securities that can be held by the insurance subsidiaries.

### **Liquidity Risk**

Liquidity risk is the risk of loss due to the possibility that funds may not be available to satisfy current or future commitments resulting from external macro market issues, investor and customer perception of financial strength, and events unrelated to us, such as war, terrorism, or financial institution market specific issues. In addition, the mix and maturity structure of Huntington's balance sheet, the amount of on-hand cash and unencumbered securities, and the availability of contingent sources of funding can have an impact on Huntington's ability to satisfy current or future funding commitments. We manage liquidity risk at both the Bank and the parent company.

The overall objective of liquidity risk management is to ensure that we can obtain cost-effective funding to meet current and future obligations, and can maintain sufficient levels of on-hand liquidity, under both normal business-as-usual and unanticipated stressed circumstances. The ALCO was appointed by the ROC to oversee liquidity risk management and the establishment of liquidity risk policies and limits. Contingency funding plans are in place, which measure forecasted sources and uses of funds under various scenarios in order to prepare for unexpected liquidity shortages. Liquidity risk is reviewed monthly for the Bank and the parent company, as well as its subsidiaries. In addition, liquidity working groups meet regularly to identify and monitor liquidity positions, provide policy guidance, review funding strategies, and oversee the adherence to, and maintenance of, the contingency funding plans.

### *Investment securities portfolio*

The expected weighted average maturities of our AFS and HTM portfolios are significantly shorter than their contractual maturities as reflected in Note 4 and Note 5 of the Notes to Unaudited Condensed Consolidated Financial Statements. Particularly regarding the MBS and ABS, prepayments of principal and interest that historically occur in advance of scheduled maturities will shorten the expected life of these portfolios. The expected weighted average maturities, which take into account expected prepayments of principal and interest under existing interest rate conditions, are shown in the following table:

**Table 19 Expected life of investment securities**

	March 31, 2014			
	Available-for-Sale & Other Securities		Held-to-Maturity Securities	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
<i>(dollar amounts in thousands)</i>				
Under 1 year	\$ 631,398	\$ 628,655	\$	\$
1 - 5 years	3,559,423	3,604,150	586,445	580,470
6 - 10 years	2,902,205	2,875,486	3,148,278	3,121,026
Over 10 years	363,875	306,286		
Other securities	339,711	340,213		
Total	\$ 7,796,612	\$ 7,754,790	\$ 3,734,723	\$ 3,701,496

### *Bank Liquidity and Sources of Liquidity*

Our primary sources of funding for the Bank are retail and commercial core deposits. At March 31, 2014, these core deposits funded 76% of total assets (105% of total loans). At March 31, 2014 and December 31, 2013, total core deposits represented 94% and 95% of total deposits, respectively.

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Core deposits are comprised of interest-bearing and noninterest-bearing demand deposits, money market deposits, savings and other domestic deposits, consumer certificates of deposit both over and under \$250,000, and nonconsumer certificates of deposit less than \$250,000. Noncore deposits consist of brokered money market deposits and certificates of deposit, foreign time deposits, and other domestic deposits of \$250,000 or more comprised primarily of public fund certificates of deposit more than \$250,000.



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Core deposits may increase our need for liquidity as certificates of deposit mature or are withdrawn before maturity and as nonmaturity deposits, such as checking and savings account balances, are withdrawn. Noninterest-bearing demand deposits increased \$ 0.7 billion from December 31, 2013, but include certain large commercial deposits that may be more short-term in nature.

Demand deposit overdrafts that have been reclassified as loan balances were \$15.7 million and \$19.3 million at March 31, 2014 and December 31, 2013, respectively. Other domestic time deposits of \$250,000 or more and brokered deposits and negotiable CDs totaled \$ 2.4 billion and \$ 1.9 billion at March 31, 2014 and December 31, 2013, respectively.

The following tables reflect deposit composition and short-term borrowings detail for each of the last five quarters:

**Table 20 Deposit Composition**

<i>(dollar amounts in millions)</i>	2014		December 31,		September 30,		2013		June 30,		March 31,	
	March 31,											
By Type												
Demand deposits noninterest-bearing	\$ 14,314	29%	\$ 13,650	29%	\$ 13,421	29%	\$ 13,491	29%	12,757	27%		
Demand deposits interest-bearing	5,970	12	5,880	12	5,856	13	5,977	13	6,135	13		
Money market deposits	17,693	36	17,213	36	16,212	34	15,131	33	15,165	32		
Savings and other domestic deposits	5,115	10	4,871	10	4,946	11	5,054	11	5,174	11		
Core certificates of deposit	3,557	7	3,723	8	4,108	9	4,353	9	5,170	11		
Total core deposits	46,649	94	45,337	95	44,543	96	44,006	95	44,401	94		
Other domestic deposits of \$250,000 or more	289	1	274	1	268	1	283	1	355	1		
Brokered deposits and negotiable CDs	2,074	4	1,580	3	1,366	3	1,695	4	1,807	4		
Deposits in foreign offices	337	1	316	1	387		347		304	1		
Total deposits	\$ 49,349	100%	\$ 47,507	100%	\$ 46,564	100%	\$ 46,331	100%	\$ 46,867	100%		
Total core deposits:												
Commercial	\$ 20,507	44%	\$ 19,982	44%	\$ 19,526	44%	\$ 18,922	43%	\$ 18,502	42%		
Consumer	26,142	56	25,355	56	25,017	56	25,084		25,899	58		
Total core deposits	\$ 46,649	100%	\$ 45,337	100%	\$ 44,543	100%	\$ 44,006	43%	\$ 44,401	100%		

**Table of Contents****Table 21 Federal Funds Purchased and Repurchase Agreements**

<i>(dollar amounts in millions)</i>	<b>2014</b>			<b>2013</b>	
	<b>March 31,</b>	December 31,	September 30,	June 30,	March 31,
<b>Balance at period-end</b>					
Federal Funds purchased and securities sold under agreements to repurchase	<b>\$ 1,342</b>	\$ 549	\$ 655	\$ 627	\$ 725
Other short-term borrowings	<b>56</b>	4	6	3	8
<b>Weighted average interest rate at period-end</b>					
Federal Funds purchased and securities sold under agreements to repurchase	<b>0.06%</b>	0.06%	0.07%	0.09%	0.09%
Other short-term borrowings	<b>0.26</b>	2.59	1.41	3.63	2.50
<b>Maximum amount outstanding at month-end during the period</b>					
Federal Funds purchased and securities sold under agreements to repurchase	<b>\$ 1,342</b>	\$ 787	\$ 787	\$ 757	\$ 781
Other short-term borrowings	<b>56</b>	19	9	10	9
<b>Average amount outstanding during the period</b>					
Federal Funds purchased and securities sold under agreements to repurchase	<b>\$ 875</b>	\$ 692	\$ 703	\$ 693	\$ 752
Other short-term borrowings	<b>8</b>	8	7	9	10
<b>Weighted average interest rate during the period</b>					
Federal Funds purchased and securities sold under agreements to repurchase	<b>0.06%</b>	0.08%	0.08%	0.08%	0.10%
Other short-term borrowings	<b>1.06</b>	1.79	1.32	1.91	2.13

To the extent we are unable to obtain sufficient liquidity through core deposits, we may meet our liquidity needs through sources of wholesale funding or asset securitization or sale. Sources of wholesale funding include other domestic time deposits of \$250,000 or more, brokered deposits and negotiable CDs, deposits in foreign offices, short-term borrowings, FHLB advances, other long-term debt, and subordinated notes. In February 2014, the Bank issued \$500.0 million of senior notes at 99.842% of face value. The senior bank note issuances mature on April 1, 2019 and have a fixed coupon rate of 2.20%. The senior note issuance may be redeemed one month prior to the maturity date at 100% of principal plus accrued and unpaid interest. At March 31, 2014, total wholesale funding was \$7.3 billion, an increase from \$7.0 billion at December 31, 2013. The increase from prior quarter-end primarily relates to an increase in other long-term debt and short-term borrowings, partially offset by a decrease in subordinated notes and FHLB borrowings.

We can also obtain funding through other methods including: (1) purchasing federal funds, (2) selling securities under repurchase agreements, (3) selling or maturity of investment securities, (4) selling or securitization of loans, (5) selling of national market certificates of deposit, (6) the relatively shorter-term structure of our commercial loans and automobile loans, and (7) issuing of common and preferred stock.

The Bank also has access to the Federal Reserve's discount window. These borrowings are secured by non-real estate related commercial loans. The Bank is also a member of the FHLB, and as such, has access to advances from the FHLB. These advances are may be secured by residential mortgages, other mortgage-related loans, and available-for-sale securities.

On October 24, 2013, the OCC, U.S. Treasury, FRB, and the FDIC, issued an NPR regarding the implementation of a quantitative liquidity requirement consistent with the LCR standard established by the Basel Committee on Banking Supervision. The requirements are designed to promote the short term resilience of the liquidity risk profile of banks to which it applies. If implemented as proposed, among other things, the requirement will likely cause some banks, including us, to purchase additional amounts of unencumbered, high quality liquid assets, which can easily be converted into cash. In preparation for the January 2015 LCR requirements, we sold securities that will not qualify for liquidity coverage and reinvested the proceeds into High Quality Liquid Assets.

At March 31, 2014, we believe the Bank had sufficient liquidity to meet its cash flow obligations for the foreseeable future.



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### ***Parent Company Liquidity***

The parent company's funding requirements consist primarily of dividends to shareholders, debt service, income taxes, operating expenses, funding of nonbank subsidiaries, repurchases of our stock, and acquisitions. The parent company obtains funding to meet obligations from interest received from the Bank, interest and 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.

At March 31, 2014 and December 31, 2013, the parent company had \$0.8 billion and \$1.0 billion, respectively, in cash and cash equivalents.

On April 16, 2014, we announced that the board of directors had declared a quarterly common stock cash dividend of \$0.05 per common share. The dividend is payable on July 1, 2014, to shareholders of record on June 17, 2014. Based on the current quarterly dividend of \$0.05 per common share, cash demands required for common stock dividends are estimated to be approximately \$41.4 million per quarter. Based on the current dividend, cash demands required for Series A Preferred Stock are estimated to be approximately \$7.7 million per quarter. Cash demands required for Series B Preferred Stock are expected to be approximately \$0.3 million per quarter.

At March 31, 2014, the Bank no longer has a regulatory dividend limitation due to the deficit position of its undivided profits. We anticipate that the Bank will declare dividends to the holding company during the first half of 2014. To help meet any additional liquidity needs, we have an open-ended, automatic shelf registration statement filed and effective with the SEC, which permits us to issue an unspecified amount of debt or equity securities.

With the exception of the items discussed above, the parent company does not have any significant cash demands. It is our policy to keep operating cash on hand at the parent company to satisfy cash demands for the next 18 months.

Considering the factors discussed above, and other analyses that we have performed, we believe the parent company has sufficient liquidity to meet its cash flow obligations for the foreseeable future.

### ***Off-Balance Sheet Arrangements***

In the normal course of business, we enter into various off-balance sheet arrangements. These arrangements include interest rate swaps, 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 and are expected to expire without being drawn upon. Standby letters-of-credit are included in the determination of the amount of risk-based capital that the parent company and the Bank are required to hold.

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, a loss is recognized in the provision for credit losses. At March 31, 2014, we had \$470.3 million of standby letters-of-credit outstanding, of which 84% were collateralized. Included in this \$470.3 million are letters-of-credit issued by the Bank that support securities that were issued by our customers and remarketed by The Huntington Investment Company, our broker-dealer subsidiary.

We enter into forward contracts relating to the mortgage banking business to hedge the exposures we have from commitments to extend new residential mortgage loans to our customers and from our mortgage loans held for sale. At March 31, 2014 and December 31, 2013, we had commitments to sell residential real estate loans of \$523.0 million and \$452.6 million, respectively. These contracts mature in less than one year.

We do not believe that off-balance sheet arrangements will have a material impact on our liquidity or capital resources.

### **Operational Risk**

As with all companies, we are subject to operational risk. Operational risk is the risk of loss due to human error; inadequate or failed internal systems and controls; violations of, or noncompliance with, laws, rules, regulations, prescribed practices, or ethical standards; and external influences such as market conditions, fraudulent activities, disasters, and security risks. We continuously strive to strengthen our system of internal controls to ensure compliance with laws, rules, and regulations, and to improve the oversight of our operational risk. For example, we actively and continuously monitor cyber-attacks such as attempts related to eFraud and loss of sensitive customer data. We evaluate internal systems, processes and controls to mitigate loss from cyber-attacks and, to date, have not experienced any material losses.



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To mitigate operational risks, we have established a senior management Operational Risk Committee and a senior management Legal, Regulatory, and Compliance Committee. The responsibilities of these committees, among other duties, include establishing and maintaining management information systems to monitor material risks and to identify potential concerns, risks, or trends that may have a significant impact and ensuring that recommendations are developed to address the identified issues. Both of these committees report any significant findings and recommendations to the Risk Management Committee. Additionally, potential concerns may be escalated to our ROC, as appropriate.

The goal of this framework is to implement effective operational risk techniques and strategies, minimize operational and fraud losses, and enhance our overall performance.

**Representation and Warranty Reserve**

We primarily conduct our mortgage loan sale and securitization activity with FNMA and FHLMC. In connection with these and other securitization transactions, we make certain representations and warranties that the loans meet certain criteria, such as collateral type and underwriting standards. We may be required to repurchase individual loans and / or indemnify these organizations against losses due to a loan not meeting the established criteria. We have a reserve for such losses and exposure, which is included in accrued expenses and other liabilities. The reserves are estimated based on historical and expected repurchase activity, average loss rates, and current economic trends. The level of mortgage loan repurchase losses depends upon economic factors, investor demand strategies and other external conditions containing a level of uncertainty and risk that may change over the life of the underlying loans. We currently do not have sufficient information to estimate the range of reasonably possible loss related to representation and warranty exposure.

The tables below reflect activity in the representations and warranties reserve:

**Table 22 Summary of Reserve for Representations and Warranties on Mortgage Loans Serviced for Others**

<i>(dollar amounts in thousands)</i>	2014	2013			
	First	Fourth	Third	Second	First
Reserve for representations and warranties, beginning of period	\$ 22,027	\$ 27,502	\$ 28,039	\$ 28,932	\$ 28,588
Reserve charges	(6,132)	(6,024)	(2,490)	(1,531)	(2,470)
Provision for representations and warranties	1,199	549	1,952	638	2,814
Reserve for representations and warranties, end of period	\$ 17,094	\$ 22,027	\$ 27,501	\$ 28,039	\$ 28,932

**Table 23 Mortgage Loan Repurchase Statistics**

<i>(dollar amounts in thousands)</i>	2014	2013			
	First	Fourth	Third	Second	First
Number of loans sold	3,882	4,856	5,839	5,747	5,798
Amount of loans sold (UPB)	\$ 487,822	\$ 625,958	\$ 861,897	\$ 921,458	\$ 846,419
Number of loans repurchased (1)	89	41	40	32	46
Amount of loans repurchased (UPB) (1)	\$ 10,557	\$ 5,204	\$ 4,055	\$ 2,969	\$ 5,874
Number of claims received	35	341	222	71	146
Successful dispute rate (2)	34%	40%	36%	45%	62
Number of make whole payments (3)	91	91	28	19	29
Amount of make whole payments (3)	\$ 5,693	\$ 5,742	\$ 2,125	\$ 1,304	\$ 2,274

(1) Loans repurchased are loans that fail to meet the purchaser's terms.

(2) Successful disputes are a percent of close out requests.

(3) Make whole payments are payments to reimburse for losses on foreclosed properties.



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### ***Foreclosure Documentation***

Compared to the high volume servicers, we service a relatively low volume of residential mortgage foreclosures. We have reviewed our residential foreclosure process. We have not found evidence of financial injury to any borrowers from any foreclosure by the Bank that should not have proceeded. We continuously review our processes and controls to ensure that our foreclosure processes are appropriate.

### **Compliance Risk**

Financial institutions are subject to several laws, rules, and regulations at both the federal and state levels. These broad-based mandates include, but are not limited to, expectations relating to anti-money laundering, lending limits, client privacy, fair lending, and community reinvestment. Additionally, the volume and complexity of recent regulatory changes have increased our overall compliance risk. As such, we utilize various resources to help ensure expectations are met, including a team of compliance experts dedicated to ensuring our conformance with all applicable laws, rules, and regulations. Our colleagues receive training for several broad-based laws and regulations including, but not limited to, anti-money laundering and customer privacy. Additionally, colleagues engaged in lending activities receive training for laws and regulations related to flood disaster protection, equal credit opportunity, fair lending, and / or other courses related to the extension of credit. We set a high standard of expectation for adherence to compliance management and seek to continuously enhance our performance.

### **Capital**

Both regulatory capital and shareholders' equity are managed at the Bank and on a consolidated basis. We have an active program for managing capital and maintain a comprehensive process for assessing the Company's overall capital adequacy. We believe our current levels of both regulatory capital and shareholders' equity are adequate.



**Table of Contents****Regulatory Capital**

The following table presents risk-weighted assets and other financial data necessary to calculate certain financial ratios, including the Tier 1 common equity ratio, which we use to measure capital adequacy.

**Table 24 Capital Adequacy**

<i>(dollar amounts in millions)</i>	2014	2013			
	March 31,	December 31,	September 30,	June 30,	March 31,
<b>Consolidated capital calculations:</b>					
Common shareholders equity	\$ 5,790	\$ 5,704	\$ 5,566	\$ 5,388	\$ 5,471
Preferred shareholders equity	386	386	386	386	386
Total shareholders equity	6,176	6,090	5,952	5,774	5,857
Goodwill	(505)	(444)	(444)	(444)	(444)
Other intangible assets	(91)	(93)	(104)	(114)	(124)
Other intangible assets deferred tax liability (1)	32	33	36	40	43
Total tangible equity (2)	5,612	5,586	5,440	5,256	5,332
Preferred shareholders equity	(386)	(386)	(386)	(386)	(386)
Total tangible common equity (2)	\$ 5,226	\$ 5,200	\$ 5,054	\$ 4,870	\$ 4,946
Total assets	\$ 61,146	\$ 59,467	\$ 56,639	\$ 56,104	\$ 56,045
Goodwill	(505)	(444)	(444)	(444)	(444)
Other intangible assets	(91)	(93)	(104)	(114)	(124)
Other intangible assets deferred tax liability (1)	32	33	36	40	43
Total tangible assets (2)	\$ 60,582	\$ 58,963	\$ 56,127	\$ 55,586	\$ 55,520
Tier 1 capital	\$ 6,107	\$ 6,100	\$ 6,018	\$ 5,885	\$ 5,829
Preferred shareholders equity	(386)	(386)	(386)	(386)	(386)
Trust preferred securities	(304)	(299)	(299)	(299)	(299)
REIT preferred stock			(50)	(50)	(50)
Tier 1 common equity (2)	\$ 5,417	\$ 5,415	\$ 5,283	\$ 5,150	\$ 5,094
Risk-weighted assets (RWA)	\$ 51,120	\$ 49,690	\$ 48,687	\$ 48,080	\$ 47,937
Tier 1 common equity / RWA ratio (2)	10.60%	10.90%	10.85%	10.71%	10.62%
Tangible equity / tangible asset ratio (2)	9.26	9.47	9.69	9.46	9.60
Tangible common equity / tangible asset ratio (2)	8.63	8.82	9.01	8.76	8.91
Tangible common equity / RWA ratio (2)	10.22	10.46	10.38	10.13	10.32

(1) Other intangible assets are net of deferred tax liability, and calculated assuming a 35% tax rate.

(2) Tangible equity, Tier 1 common equity, tangible common equity, and tangible assets are non-GAAP financial measures. Additionally, any ratios utilizing these financial measures are also non-GAAP. These financial measures have been included as they are considered to be critical metrics with which to analyze and evaluate financial condition and capital strength. Other companies may calculate these financial measures differently.

Our Tier 1 common equity risk-based ratio declined 30 basis points to 10.60% at March 31, 2014, compared with 10.90% at December 31, 2013. This decrease primarily reflected the repurchase of 14.6 million common shares and the impacts related to the increase in risk-weighted assets, partially offset by an increase in retained earnings, as well as the issuance of 8.7 million common shares in the Camco Financial acquisition.



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The following table presents certain regulatory capital data at both the consolidated and Bank levels for each of the past five quarters:

**Table 25 Regulatory Capital Data**

<i>(dollar amounts in millions)</i>		2014		2013		
		March 31,	December 31,	September 30,	June 30,	March 31,
Total risk-weighted assets	Consolidated	\$ 51,120	\$ 49,690	\$ 48,687	\$ 48,080	\$ 47,937
	Bank	51,021	49,609	48,570	48,026	47,842
Tier 1 risk-based capital	Consolidated	6,107	6,100	6,017	5,885	5,829
	Bank	5,872	5,682	5,540	5,343	5,162
Tier 2 risk-based capital	Consolidated	1,118	1,139	1,127	1,120	1,144
	Bank	817	838	825	819	947
Total risk-based capital	Consolidated	7,225	7,239	7,144	7,005	6,973
	Bank	6,689	6,520	6,365	6,162	6,109
Tier 1 leverage ratio	Consolidated	10.32%	10.67%	10.85%	10.64%	10.57%
	Bank	9.96	9.97	10.01	9.68	9.38
Tier 1 risk-based capital ratio	Consolidated	11.95	12.28	12.36	12.24	12.16
	Bank	11.51	11.45	11.41	11.13	10.79
Total risk-based capital ratio	Consolidated	14.13	14.57	14.67	14.57	14.55
	Bank	13.11	13.14	13.11	12.83	12.77

The decrease in our consolidated Tier 1 risk-based capital ratios compared with December 31, 2013, primarily reflected the repurchase of 14.6 million common shares and the impacts related to the increase in risk-weighted assets, partially offset by an increase in retained earnings, as well as the issuance of 8.7 million common shares in the Camco Financial acquisition.

**Shareholders Equity**

We generate shareholders equity primarily through the retention of earnings, net of dividends. Other potential sources of shareholders equity include issuances of common and preferred stock. Our objective is to maintain capital at an amount commensurate with our risk profile and risk tolerance objectives, to meet both regulatory and market expectations, and to provide the flexibility needed for future growth and business opportunities. Shareholders equity totaled \$6.2 billion at March 31, 2014, an increase of \$0.1 billion when compared with December 31, 2013.

**Dividends**

We consider disciplined capital management as a key objective, with dividends representing one component. Our strong capital ratios and expectations for continued earnings growth positions us to continue to actively explore additional capital management opportunities.

On April 16, 2014, our board of directors declared a quarterly cash dividend of \$0.05 per common share, payable on July 1, 2014. Also, cash dividends of \$0.05 per share were declared on January 16, 2014.

On April 16, 2014, our board of directors also declared a quarterly cash dividend on our 8.50% Series A Non-Cumulative Perpetual Convertible Preferred Stock of \$21.25 per share. The dividend is payable on July 15, 2014. Also, cash dividends of \$21.25 per share were declared on January 16, 2014.

On April 16, 2014, our board of directors also declared a quarterly cash dividend on our Floating Rate Series B Non-Cumulative Perpetual Preferred Stock of \$7.32 per share. The dividend is payable on July 15, 2014. Also, cash dividends of \$7.35 per share were declared on January 16, 2014.

**Share Repurchases**

From time to time the board of directors authorizes the Company to repurchase shares of our common stock. Although we announce when the board of directors authorizes share repurchases, we typically do not give any public notice before we repurchase our shares. Future stock repurchases may be private or open-market repurchases, including block transactions, accelerated or delayed block transactions, forward transactions, and similar transactions. Various factors determine the amount and timing of our share repurchases, including our capital requirements, the number of shares we expect to issue for employee benefit plans and acquisitions, market conditions (including the trading

price of our stock), and regulatory and legal considerations, including the FRB's response to our capital plan.

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In 2013, our board of directors has authorized a share repurchase program consistent with our capital plan submitted in January of that year of the potential repurchase of up to \$227 million of common stock. During the 2014 first quarter, we concluded our share repurchase activity under this program resulting in 14.6 million common shares repurchased at a weighted average share price of \$9.32.

On March 26, 2014, Huntington announced that the Federal Reserve did not object to Huntington's proposed capital actions included in Huntington's capital plan submitted to the Federal Reserve in January 2014. These actions included a potential repurchase of up to \$250 million of common stock through the first quarter of 2015. The new repurchase authorization represents a \$23 million, or 10%, increase from the recently completed common stock repurchase authorization. Purchases of common stock may include open market purchases, privately negotiated transactions, and accelerated repurchase programs. Huntington's board of directors authorized a share repurchase program consistent with Huntington's capital plan.

### **Fair Value**

#### ***Fair Value Measurements***

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. Assets and liabilities carried at fair value inherently result in a higher degree of financial statement volatility. 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. We characterize active markets as those where transaction volumes are sufficient to provide objective pricing information, with reasonably narrow bid/ask spreads, and where received quoted prices do not vary widely. When the financial instruments are not actively traded, other observable market inputs, such as quoted prices of securities with similar characteristics, may be used, if available, to determine fair value. Inactive markets are characterized by low transaction volumes, price quotations that vary substantially among market participants, or in which minimal information is released publicly. When observable market prices do not exist, we estimate fair value primarily by using cash flow and other financial modeling methods. 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. Changes in these underlying factors, assumptions, or estimates in any of these areas could materially impact the amount of revenue or loss recorded.

The FASB ASC Topic 820, Fair Value Measurements, establishes a framework for measuring the fair value of financial instruments that considers the attributes specific to particular assets or liabilities and establishes a three-level hierarchy for determining fair value based on the transparency of inputs to each valuation as of the fair value measurement date. The three levels are defined as follows:

Level 1 quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 inputs include quoted prices for similar assets and liabilities in active markets, quoted prices of identical or similar assets or liabilities in markets that are not active, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

Level 3 inputs that are unobservable and significant to the fair value measurement. Financial instruments are considered Level 3 when values are determined using pricing models, discounted cash flow methodologies, or similar techniques, and at least one significant model assumption or input is unobservable.

At the end of each quarter, we assess the valuation hierarchy for each asset or liability measured. As necessary, assets or liabilities may be transferred within hierarchy levels due to changes in availability of observable market inputs at the measurement date. The fair values measured at each level of the fair value hierarchy, additional discussion regarding fair value measurements, and a brief description of how fair value is determined for categories that have unobservable inputs, can be found in Note 14 of the Notes to Unaudited Condensed Consolidated Financial Statements.

**Table of Contents****BUSINESS SEGMENT DISCUSSION****Overview**

Our business segments are based on our internally-aligned segment leadership structure, which is how we monitor results and assess performance. During the 2014 first quarter, we reorganized our business segments to drive our ongoing growth and leverage the knowledge of our highly experienced team. We now have five major business segments: Retail and Business Banking, Commercial Banking, Automobile Finance and Commercial Real Estate (AFCRE), Regional Banking and The Huntington Private Client Group (RBHPCG), and Home Lending. A Treasury / Other function includes our insurance brokerage business, along with technology and operations, other unallocated assets, liabilities, revenue, and expense. All periods presented have been reclassified to conform to the current period classification.

Business segment 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 derived are not necessarily comparable with similar information published by other financial institutions.

**Revenue Sharing**

Revenue is recorded in the business segment responsible for the related product or service. Fee sharing is recorded to allocate portions of such revenue to other business segments involved in selling to, or providing service to, customers. Results of operations for the business segments reflect these fee sharing allocations.

**Expense Allocation**

The management accounting process that develops the business segment reporting utilizes various estimates and allocation methodologies to measure the performance of the business segments. Expenses are allocated to business segments using a two-phase approach. The first phase consists of measuring and assigning unit costs (activity-based costs) to activities related to product origination and servicing. These activity-based costs are then extended, based on volumes, with the resulting amount allocated to business segments that own the related products. The second phase consists of the allocation of overhead costs to all five business segments from Treasury / Other. We utilize a full-allocation methodology, where all Treasury / Other expenses, except those related to our insurance business, reported Significant Items (except for the goodwill impairment), and a small amount of other residual unallocated expenses, are allocated to the five business segments.

**Funds Transfer Pricing (FTP)**

We use an active and centralized FTP methodology to attribute appropriate income to the business segments. The intent of the FTP methodology is to transfer interest rate risk from the business segments by providing matched duration funding of assets and liabilities. The result is to centralize the financial impact, management, and reporting of interest rate risk in the Treasury / Other function where it can be centrally monitored and managed. The Treasury / Other function charges (credits) an internal cost of funds for assets held in (or pays for funding provided by) each business segment. The FTP rate is based on prevailing market interest rates for comparable duration assets (or liabilities).

**Net Income by Business Segment**

The segregation of net income by business segment for the quarters ended March 31, 2014 and March 31, 2013 is presented in the following table:

**Table 26 Net Income (Loss) by Business Segment**

<i>(dollar amounts in thousands)</i>	Three Months Ended March 31,	
	2014	2013
Retail and Business Banking	\$ 45,544	\$ 26,606
Commercial Banking	28,735	38,847
AFCRE	43,194	46,049
RBHPCG	6,416	8,897
Home Lending	(8,919)	8,328

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Treasury/Other	<b>34,173</b>	24,547
Total net income	<b>\$ 149,143</b>	\$ 153,274

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### ***Treasury / Other***

The Treasury / Other function includes revenue and expense related to our insurance business, and assets, liabilities, and equity not directly assigned or allocated to one of the four business segments. Other assets include investment securities and bank owned life insurance. The financial impact associated with our FTP methodology, as described above, is also included.

Net interest income includes the impact of administering our investment securities portfolios and the net impact of derivatives used to hedge interest rate sensitivity. Noninterest income includes insurance income, miscellaneous fee income not allocated to other business segments, such as bank owned life insurance income and any investment security and trading asset gains or losses. Noninterest expense includes any insurance-related expenses, as well as certain corporate administrative, merger, and other miscellaneous expenses not allocated to other business segments. The provision for income taxes for the business segments is calculated at a statutory 35% tax rate, though our overall effective tax rate is lower. As a result, Treasury / Other reflects a credit for income taxes representing the difference between the lower actual effective tax rate and the statutory tax rate used to allocate income taxes to the business segments.

The \$9.6 million, or 39%, year over year increase in net income for Treasury/Other was primarily the result of the FTP process described above. The FTP process produced increased net income for Treasury/Other as the sustained low market interest rate environment, combined with a shift in funding mix to include additional wholesale sources, resulted in lower FTP credits paid to the business segments.

### ***Optimal Customer Relationship (OCR)***

Our OCR strategy is focused on building and deepening relationships with our customers through superior interactions, product penetration, and quality of service. We will deliver high-quality customer and prospect interactions through a fully integrated sales culture which will include all partners necessary to deliver a total Huntington solution. The quality of our relationships will lead to our ability to be the Primary Bank for our customers, yielding quality, annuitized revenue and profitable share of customers overall financial services revenue. We believe our relationship oriented approach will drive a competitive advantage through our local market delivery channels.

### **CONSUMER OCR PERFORMANCE**

For both consumer and commercial OCR performance there are three key performance metrics: (1) the number of checking account households, (2) the number of product penetration per consumer checking household, and (3) the revenue generated from the consumer households of all business segments.

The growth in consumer checking account number of households is a result of both new sales of checking accounts and improved retention of existing checking account households. The overall objective is to grow the number of households, along with an increase in product penetration.

We use the checking account since it typically represents the primary banking relationship product. We count additional services by type, not number of services. For example, a household that has one checking account and one mortgage, we count as having two services. A household with four checking accounts, we count as having one service. The household relationship utilizing four or more services is viewed to be more profitable and loyal. The overall objective, therefore, is to decrease the percentage of 1-3 services per consumer checking account household, while increasing the percentage of those with 4 or more services. Since we have made significant strides toward having the vast majority of our customers with 4+ services, during the 2013 second quarter, we changed our measurement to 6+ services. We are holding ourselves to a higher performance standard.



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The following table presents consumer checking account household OCR metrics:

**Table 27 Consumer Checking Household OCR Cross-sell Report**

	2014 First	Fourth	2013 Third	Second	First
	<b>1,359,158</b>	1,324,971	1,314,587	1,291,177	&nbsp;