

HUNTINGTON BANCSHARES INC/MD

Form 10-Q

October 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 September 30, 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 814,453,953 shares of Registrant's common stock (\$0.01 par value) outstanding on September 30, 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
GAAP	Generally Accepted Accounting Principles in the United States of America

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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
NAICS	North American Industry Classification System
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 15), troubled debt restructured loans (Table 16), 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 753 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 Form 8-K filed on May 28, 2014 should be read in conjunction with this MD&A as this discussion provides only material updates to the Form 8-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 Third Quarter Results

For the quarter, we reported net income of \$155.0 million, or \$0.18 per common share, compared with \$178.8 million, or \$0.20 per common share, in the year-ago quarter (*see Table 1*).

Fully-taxable equivalent net interest income was \$473.8 million for the quarter, up \$42.4 million, or 10%, from the year-ago quarter. The results reflected a \$7.5 billion, or 15%, increase in average earning assets, including a \$4.1 billion, or 10%, increase in average loans and leases, as well as a \$3.3 billion, or 38%, increase in average securities. The impact of these balance increases was partially offset by a 14 basis point decrease in net interest margin. The primary items affecting the net interest margin were a 20 basis point negative impact from the mix and yield of earning assets and a 3 basis point reduction in the benefit from the impact of noninterest-bearing funds, partially offset by a 9 basis point reduction in funding costs.

The provision for credit losses was \$5.5 million less than total NCOs for the same period, reflecting continued credit quality improvement. Provision expense increased \$13.1 million, or 115%, from the year-ago quarter. This reflected the implementation of enhancements to our ALLL model in the year-ago quarter. Consistent with our expectations, NCOs decreased \$25.7 million, or 46%, to \$30.0 million. The consumer loan portfolios drove the majority of the decline, continuing the positive trend exhibited over the past three quarters. NCOs were an annualized 0.26% of average loans and leases in the current quarter, compared to 0.53% in the year-ago quarter.

Noninterest income decreased \$6.4 million, or 3%, from the year-ago quarter. The results included a \$6.4 million, or 17%, decrease in other income, primarily related to commercial loan fees and a decline in income from early lease terminations. In addition, service charges on deposit accounts decreased \$3.8 million, or 5%, reflecting the late July 2014 implementation of changes in consumer products that were partially offset by an 11% increase in consumer households and changing customer usage patterns. Capital markets fees decreased \$2.6 million, or 20%, due to lower interest rate derivative sales. These declines were partially offset by a \$3.1 million, or 62%, increase in gain on sale of loans related to strong SBA production and relatively higher premiums and \$3.0 million, or 12%, increase in electronic banking due to higher card related income and underlying customer growth.

Noninterest expense in the current and year-ago quarter included several Significant Items, which are further described in the Discussion of Results of Operations section. Reported noninterest expense increased \$57.0 million, or 13%, from the year-ago quarter. The results included a \$46.1 million, or 20%, increase in personnel costs (excluding the impact of Significant Items, personnel costs increased \$3.4 million, or 1%), a \$4.8 million, or 14%, increase in other expense (excluding the impact of Significant Items, other expenses increased \$3.7 million, or 11%, primarily reflecting higher OREO and loss expense), and a \$3.8 million, or 8%, increase in outside data processing and other services as we continue to invest in technology supporting our products, services, and our Continuous Improvement initiatives.

The tangible common equity to tangible assets ratio was 8.35%, down 65 basis points from a year ago. Our Tier 1 common risk-based capital ratio was 10.31%, down 54 basis points from a year ago. The regulatory Tier 1 risk-based capital ratio was 11.61%, down 75 basis points from a year ago. All capital ratios were impacted by balance sheet growth and share repurchases that were partially offset by increased retained earnings and the stock issued in the Camco acquisition. The decrease in the regulatory Tier 1 risk-based capital ratio also reflected the redemption of \$50 million of qualifying preferred securities on December 31, 2013.

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 year-over-year revenue growth through the third quarter, while maintaining a disciplined balance sheet. Performance highlights include ongoing strength in commercial and auto lending. We are also pleased with deposit growth, which is in part supported by our improved distribution network, as evidenced by 50 in-store locations attaining break-even or better status during the 2014 third quarter, and also the successful conversion of 24 acquired Michigan branches, furthering our presence in markets in our service area. Furthermore, our decision during the 2014 third quarter to consolidate 26 branches by year-end demonstrates the ongoing optimization of our distribution channels.

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Among other key highlights, we also are pleased with our number one ranking in the country for total number of Small Business Administration 7(a) loans for the fiscal year that concluded in September 2014. We continue to prioritize SBA lending as an integral component of our overall business lending strategy and are gratified to attain a top national ranking, particularly since we only make SBA loans within our core six-state footprint.

Economy

Michigan, Ohio, and Indiana, which had the strongest manufacturing growth of our footprint states, also tended to have the strongest overall economic growth as exemplified by the Philadelphia FRB Economic Activity indexes. Housing activity and prices will likely continue on a moderate upward trend in line with long-term historical growth. Home purchase prices have been rising overall in our footprint states. Price gains were especially strong in the first half of 2014 in Michigan, Ohio, and Kentucky. In addition, industrial vacancy rates in our largest footprint Metropolitan Statistical Areas have been at or below the national average reflecting generally healthy industrial real estate markets.

Expectations Fourth Quarter 2014

We continue to be pleased with our healthy lending pipeline and the strength of the economies within our footprint. We are looking forward to a solid finish for 2014, as we remain on track to deliver another year with positive operating leverage. We are not expecting a near-term improvement in the interest rate environment. However, we are committing to delivering positive operating leverage again in 2015 as we will continue to prudently manage expenses in alignment with our revenue growth outlook.

Net interest income is expected to increase slightly in the 2014 fourth quarter. We anticipate an increase in earning assets, as total loans moderately grow and investment securities increase modestly. However, those benefits to net interest income are expected to be partially offset by continued downward pressure on NIM.

Noninterest income, excluding the impact of any net MSR activity, is expected to remain near the current quarter's level.

Noninterest expense, excluding Significant Items, is expected to remain near the 2014 third quarter adjusted level. The 2014 fourth quarter is expected to include approximately \$10 million of Significant Items related to the already announced franchise repositioning activities. We will continue to look for ways to reduce expenses, while not impacting our previously announced growth strategies and our high level of customer service.

Overall, asset quality metrics are expected to remain near current levels, although moderate quarterly volatility also is expected, given the absolute low level of problem assets and credit costs. We anticipate NCOs will remain within or below our long-term normalized range of 35 to 55 basis points.

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, general business credits, and the change in accounting for investments in qualified affordable housing projects.

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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)

	2014			2013	
<i>(dollar amounts in thousands, except per share amounts)</i>	Third	Second	First	Fourth	Third
Interest income	\$ 501,060	\$ 495,322	\$ 472,455	\$ 469,824	\$ 462,912
Interest expense	34,725	35,274	34,949	39,175	38,060
Net interest income	466,335	460,048	437,506	430,649	424,852
Provision for credit losses	24,480	29,385	24,630	24,331	11,400
Net interest income after provision for credit losses	441,855	430,663	412,876	406,318	413,452
Service charges on deposit accounts	69,118	72,633	64,582	69,992	72,918
Mortgage banking income	25,051	22,717	23,089	24,327	23,621
Trust services	28,045	29,581	29,565	30,711	30,470
Electronic banking	27,275	26,491	23,642	24,251	24,282
Insurance income	16,729	15,996	16,496	15,556	17,269
Brokerage income	17,155	17,905	17,167	15,151	16,636
Bank owned life insurance income	14,888	13,865	13,307	13,816	13,740
Capital markets fees	10,246	10,500	9,194	12,332	12,825
Gain on sale of loans	8,199	3,914	3,570	7,144	5,063
Securities gains (losses)	198	490	16,970	1,239	98
Other income	30,445	35,975	30,903	35,373	36,845
Total noninterest income	247,349	250,067	248,485	249,892	253,767
Personnel costs	275,409	260,600	249,477	249,554	229,326
Outside data processing and other services	53,073	54,338	51,490	51,071	49,313
Net occupancy	34,405	28,673	33,433	31,983	35,591
Equipment	30,183	28,749	28,750	28,775	28,191
Marketing	12,576	14,832	10,686	13,704	12,271
Deposit and other insurance expense	11,628	10,599	13,718	10,056	11,155
Amortization of intangibles	9,813	9,520	9,291	10,320	10,362
Professional services	13,763	17,896	12,231	11,567	12,487
Other expense	39,468	33,429	51,045	38,979	34,640
Total noninterest expense	480,318	458,636	460,121	446,009	423,336
Income before income taxes	208,886	222,094	201,240	210,201	243,883
Provision for income taxes	53,870	57,475	52,097	52,029	65,047
Net income	\$ 155,016	\$ 164,619	\$ 149,143	\$ 158,172	\$ 178,836
Dividends on preferred shares	7,964	7,963	7,964	7,965	7,967
Net income applicable to common shares	\$ 147,052	\$ 156,656	\$ 141,179	\$ 150,207	\$ 170,869

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Average common shares basic	816,497	821,546	829,659	830,590	830,398
Average common shares diluted	829,623	834,687	842,677	842,324	841,025
Net income per common share basic	\$ 0.18	\$ 0.19	\$ 0.17	\$ 0.18	\$ 0.21
Net income per common share diluted	0.18	0.19	0.17	0.18	0.20
Cash dividends declared per common share	0.05	0.05	0.05	0.05	0.05
Return on average total assets	0.97%	1.07%	1.01%	1.09%	1.27%
Return on average common shareholders equity	9.9	10.8	9.9	10.5	12.3
Return on average tangible common shareholders equity (2)	11.4	12.4	11.4	12.1	14.2
Net interest margin (3)	3.20	3.28	3.27	3.28	3.34
Efficiency ratio (4)	65.3	62.7	66.4	63.4	60.3
Effective tax rate	25.8	25.9	25.9	24.8	26.7
Revenue FTE					
Net interest income	\$ 466,335	\$ 460,048	\$ 437,506	\$ 430,649	\$ 424,852
FTE adjustment	7,506	6,637	5,885	8,196	6,634
Net interest income (3)	473,841	466,685	443,391	438,845	431,486
Noninterest income	247,349	250,067	248,485	249,892	253,767
Total revenue (3)	\$ 721,190	\$ 716,752	\$ 691,876	\$ 688,737	\$ 685,253

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- (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 and goodwill impairment divided by the sum of FTE net interest income and noninterest income excluding securities gains.

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<i>(dollar amounts in thousands, except per share amounts)</i>	Nine Months Ended September 30,		Change	
	2014	2013	Amount	Percent
Interest income	\$ 1,468,837	\$ 1,390,813	\$ 78,024	6%
Interest expense	104,948	116,854	(11,906)	(10)
Net interest income	1,363,889	1,273,959	89,930	7
Provision for credit losses	78,495	65,714	12,781	19
Net interest income after provision for credit losses	1,285,394	1,208,245	77,149	6
Service charges on deposit accounts	206,333	201,810	4,523	2
Mortgage banking income	70,857	102,528	(31,671)	(31)
Trust services	87,191	92,296	(5,105)	(6)
Electronic banking	77,408	68,340	9,068	13
Insurance income	49,221	53,708	(4,487)	(8)
Brokerage income	52,227	54,473	(2,246)	(4)
Bank owned life insurance income	42,060	42,603	(543)	(1)
Capital markets fees	29,940	32,888	(2,948)	(9)
Gain on sale of loans	15,683	11,027	4,656	42
Securities gains (losses)	17,658	(821)	18,479	N.R.
Other income	97,323	103,452	(6,129)	(6)
Total noninterest income	745,901	762,304	(16,403)	(2)
Personnel costs	785,486	752,083	33,403	4
Outside data processing and other services	158,901	148,476	10,425	7
Net occupancy	96,511	93,361	3,150	3
Equipment	87,682	78,018	9,664	12
Marketing	38,094	37,481	613	2
Deposit and other insurance expense	35,945	40,105	(4,160)	(10)
Amortization of intangibles	28,624	31,044	(2,420)	(8)
Professional services	43,890	29,020	14,870	51
Other expense	123,942	102,406	21,536	21
Total noninterest expense	1,399,075	1,311,994	87,081	7
Income before income taxes	632,220	658,555	(26,335)	(4)
Provision for income taxes	163,442	175,445	(12,003)	(7)
Net income	\$ 468,778	\$ 483,110	\$ (14,332)	(3)%
Dividends declared on preferred shares	23,891	23,904	(13)	
Net income applicable to common shares	\$ 444,887	\$ 459,206	\$ (14,319)	(3)%
Average common shares basic	820,884	835,410	(14,526)	(2)%
Average common shares diluted	833,927	844,524	(10,597)	(1)
Per common share				
Net income per common share basic	\$ 0.54	\$ 0.55	\$ (0.01)	(2)%
Net income per common share diluted	0.53	0.54	(0.01)	(2)
Cash dividends declared	0.15	0.14	0.01	7

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Revenue FTE				
Net interest income	\$ 1,363,889	\$ 1,273,959	\$ 89,930	7%
FTE adjustment	20,028	19,144	884	5
Net interest income (2)	1,383,917	1,293,103	90,814	7
Noninterest income	745,901	762,304	(16,403)	(2)
Total revenue (2)	\$ 2,129,818	\$ 2,055,407	\$ 74,411	4%

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

- (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) On a fully taxable equivalent (FTE) basis assuming a 35% tax rate.

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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:

1. **Franchise Repositioning Related Expense.** Significant events relating to franchise repositioning related expense, and the impacts of those events on our reported results, were as follows:

During the 2014 third quarter, \$19.3 million of franchise repositioning related expense was recorded for the consolidation of 26 branches and organizational actions. This resulted in a negative impact of \$0.02 per common share.

During the 2013 third quarter, \$16.6 million of franchise repositioning related expense was recorded. This resulted in a negative impact of \$0.01 per common share.

2. **Merger and Acquisition.** Significant events relating to mergers and acquisitions, and the impacts of those events on our reported results, were as follows:

During the 2014 third quarter, \$3.5 million of net noninterest expense was recorded related to the acquisition of 24 Bank of America branches and Camco Financial.

During the 2014 second quarter, \$0.8 million of merger related costs were recorded related to the acquisition of Bank of America branches.

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During the 2014 first quarter, \$11.8 million of net noninterest expense was recorded related to the acquisition of Camco Financial. This resulted in a negative impact of \$0.01 per common share.

3. **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.
4. **Pension Curtailment Gain.** During the 2013 third quarter, a \$33.9 million pension curtailment gain was recorded in personnel costs. This resulted in a positive impact of \$0.03 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 3 Significant Items Influencing Earnings Performance Comparison

	September 30, 2014		Three Months Ended June 30, 2014		September 30, 2013	
	After-tax	EPS (2)(3)	After-tax	EPS (2)(3)	After-tax	EPS (2)(3)
<i>(dollar amounts in thousands, except per share amounts)</i>						
Net income	\$ 155,016		\$ 164,619		\$ 178,836	
Earnings per share, after-tax		\$ 0.18		\$ 0.19		\$ 0.20
Significant Items favorable (unfavorable) impact:	Earnings (1)	EPS (2)(3)	Earnings (1)	EPS (2)(3)	Earnings (1)	EPS (2)(3)
Pension curtailment gain	\$	\$	\$	\$	\$ 33,926	\$ 0.03
Franchise repositioning related expense	(19,333)	(0.02)			(16,552)	(0.01)
Merger and acquisition	(3,490)		(775)			

(1) Pretax.

(2) Based on average outstanding diluted common shares.

(3) After-tax.

	September 30, 2014		Nine Months Ended September 30, 2013	
	After-tax	EPS (2)(3)	After-tax	EPS (2)(3)
<i>(dollar amounts in thousands)</i>				
Net income	\$ 468,778		\$ 483,110	
Earnings per share, after-tax		\$ 0.53		\$ 0.54
Significant Items favorable (unfavorable) impact:	Earnings (1)	EPS (2)(3)	Earnings (1)	EPS (2)(3)
Pension curtailment gain	\$	\$	\$ 33,926	\$ 0.03
Franchise repositioning related expense	(19,333)	(0.02)	(16,552)	(0.01)
Merger and acquisition, net	(16,088)	(0.01)		
Additions to Litigation Reserve	(9,000)	(0.01)		

(1) Pretax unless otherwise noted.

(2) Based on average outstanding diluted common shares.

(3) After-tax.

Table of Contents**Net Interest Income / Average Balance Sheet**

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

Table 4 Consolidated Quarterly Average Balance Sheets

(dollar amounts in millions)	Average Balances				Change		
	Third	2014 Second	First	2013 Fourth	Third	3Q14 vs. 3Q13 Amount	Percent
Assets:							
Interest-bearing deposits in banks	\$ 82	\$ 91	\$ 83	\$ 71	\$ 54	\$ 28	52%
Loans held for sale	351	288	279	322	379	(28)	(7)
Securities:							
Available-for-sale and other securities:							
Taxable	6,935	6,662	6,240	5,818	6,040	895	15
Tax-exempt	1,620	1,290	1,115	548	565	1,055	187
Total available-for-sale and other securities	8,555	7,952	7,355	6,366	6,605	1,950	30
Trading account securities	50	45	38	76	76	(26)	(34)
Held-to-maturity securities taxable	3,556	3,677	3,783	3,038	2,139	1,417	66
Total securities	12,161	11,674	11,176	9,480	8,820	3,341	38
Loans and leases: (1)							
Commercial:							
Commercial and industrial	18,581	18,262	17,631	17,671	17,032	1,549	9
Commercial real estate:							
Construction	775	702	612	573	565	210	37
Commercial	4,188	4,345	4,289	4,331	4,345	(157)	(4)
Commercial real estate	4,963	5,047	4,901	4,904	4,910	53	1
Total commercial	23,544	23,309	22,532	22,575	21,942	1,602	7
Consumer:							
Automobile	8,012	7,349	6,786	6,502	6,075	1,937	32
Home equity	8,412	8,376	8,340	8,346	8,341	71	1
Residential mortgage	5,747	5,608	5,379	5,331	5,256	491	9
Other consumer	398	382	386	385	380	18	5
Total consumer	22,569	21,715	20,891	20,564	20,052	2,517	13
Total loans and leases	46,113	45,024	43,423	43,139	41,994	4,119	10
Allowance for loan and lease losses	(633)	(642)	(649)	(668)	(717)	84	(12)
Net loans and leases	45,480	44,382	42,774	42,471	41,277	4,203	10
Total earning assets	58,707	57,077	54,961	53,012	51,247	7,460	15
Cash and due from banks	887	872	904	846	944	(57)	(6)
Intangible assets	583	591	535	542	552	31	6
All other assets	3,929	3,932	3,941	3,917	3,889	40	1

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Total assets	\$ 63,473	\$ 61,830	\$ 59,692	\$ 57,649	\$ 55,915	\$ 7,558	14%
<i>Liabilities and Shareholders' Equity:</i>							
Deposits:							
Demand deposits noninterest-bearing	\$ 14,090	\$ 13,466	\$ 13,192	\$ 13,337	\$ 13,088	\$ 1,002	8%
Demand deposits interest-bearing	5,913	5,945	5,775	5,755	5,763	150	3
Total demand deposits	20,003	19,411	18,967	19,092	18,851	1,152	6
Money market deposits	17,929	17,680	17,648	16,827	15,739	2,190	14
Savings and other domestic deposits	5,020	5,086	4,967	4,912	5,007	13	
Core certificates of deposit	3,167	3,434	3,613	3,916	4,176	(1,009)	(24)
Total core deposits	46,119	45,611	45,195	44,747	43,773	2,346	5
Other domestic time deposits of \$250,000 or more	223	262	284	275	268	(45)	(17)
Brokered deposits and negotiable CDs	2,262	2,070	1,782	1,398	1,553	709	46
Deposits in foreign offices	374	315	328	354	376	(2)	(1)
Total deposits	48,978	48,258	47,589	46,774	45,970	3,008	7
Short-term borrowings	1,092	939	883	629	710	382	54
Federal Home Loan Bank advances	2,489	1,977	1,499	851	549	1,940	353
Subordinated notes and other long-term debt	3,579	3,395	2,503	2,244	1,753	1,826	104
Total interest-bearing liabilities	42,048	41,103	39,282	37,161	35,894	6,154	17
All other liabilities	1,043	1,033	1,035	1,095	1,054	(11)	(1)
Shareholders' equity	6,292	6,228	6,183	6,056	5,879	413	7
Total liabilities and shareholders' equity	\$ 63,473	\$ 61,830	\$ 59,692	\$ 57,649	\$ 55,915	\$ 7,558	14%

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

Table of Contents**Table 5 Consolidated Quarterly Net Interest Margin Analysis**

		Average Rates (2)			
		2014			2013
Fully-taxable equivalent basis (1)	Third	Second	First	Fourth	Third
Assets:					
Interest-bearing deposits in banks	0.19%	0.04%	0.03%	0.04%	0.07%
Loans held for sale	3.98	4.27	3.74	4.46	3.89
Securities:					
Available-for-sale and other securities:					
Taxable	2.48	2.52	2.47	2.38	2.34
Tax-exempt	3.02	3.15	3.03	6.34	4.04
Total available-for-sale and other securities	2.59	2.63	2.55	2.72	2.48
Trading account securities	0.85	0.70	1.12	0.42	0.23
Held-to-maturity securities taxable	2.45	2.46	2.47	2.42	2.29
Total securities	2.54	2.57	2.52	2.60	2.41
Loans and leases: (3)					
Commercial:					
Commercial and industrial	3.45	3.49	3.56	3.54	3.68
Commercial real estate:					
Construction	4.38	4.29	3.99	4.04	3.91
Commercial	3.60	4.16	3.84	3.97	4.10
Commercial real estate	3.72	4.17	3.86	3.98	4.08
Total commercial	3.51	3.64	3.63	3.63	3.77
Consumer:					
Automobile	3.41	3.47	3.54	3.67	3.80
Home equity	4.07	4.12	4.12	4.11	4.10
Residential mortgage	3.78	3.77	3.78	3.77	3.81
Other consumer	7.31	7.34	6.82	6.64	6.98
Total consumer	3.82	3.87	3.89	3.93	3.99
Total loans and leases	3.66	3.75	3.75	3.77	3.87
Total earning assets	3.44%	3.53%	3.53%	3.58%	3.64%
Liabilities:					
Deposits:					
Demand deposits noninterest-bearing	%	%	%	%	%
Demand deposits interest-bearing	0.04	0.04	0.04	0.04	0.04
Total demand deposits	0.01	0.01	0.01	0.01	0.01
Money market deposits	0.23	0.24	0.25	0.27	0.26
Savings and other domestic deposits	0.16	0.17	0.20	0.24	0.25
Core certificates of deposit	0.74	0.81	0.94	1.05	1.05
Total core deposits	0.23	0.25	0.28	0.32	0.32

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Other domestic time deposits of \$250,000 or more	0.44	0.43	0.41	0.39	0.44
Brokered deposits and negotiable CDs	0.20	0.24	0.28	0.39	0.55
Deposits in foreign offices	0.13	0.13	0.13	0.14	0.14
Total deposits	0.23	0.25	0.28	0.32	0.33
Short-term borrowings	0.11	0.12	0.07	0.08	0.09
Federal Home Loan Bank advances	0.15	0.12	0.12	0.14	0.14
Subordinated notes and other long-term debt	1.45	1.48	1.66	2.10	2.29
Total interest-bearing liabilities	0.33 %	0.34 %	0.36 %	0.42%	0.42%
Net interest rate spread	3.11 %	3.19 %	3.17 %	3.16%	3.22%
Impact of noninterest-bearing funds on margin	0.09	0.09	0.10	0.12	0.12
Net interest margin	3.20 %	3.28 %	3.27 %	3.28%	3.34%

(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.

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2014 Third Quarter versus 2013 Third Quarter

Fully-taxable equivalent net interest income increased \$42.4 million, or 10%, from the 2013 third quarter. This reflected the benefit from the \$4.1 billion, or 10%, of average loan growth and a \$3.3 billion, or 38%, increase in average securities. This was partially offset by the 14 basis point decrease in the FTE net interest margin to 3.20%. The NIM contraction reflected a 20 basis point decrease related to the mix and yield of earning assets and 3 basis point reduction in benefit from the impact of noninterest-bearing funds, partially offset by the 9 basis point reduction in funding costs.

Average earning assets increased \$7.5 billion, or 15%, from the year-ago quarter, driven by:

\$3.3 billion, or 38%, increase in average securities, reflecting \$2.7 billion of Liquidity Coverage Ratio (LCR) Level 1 qualified securities and \$1.2 billion of direct purchase municipal instruments, which in the year-ago quarter were classified as C&I loans.

\$1.9 billion, or 32%, increase in average Automobile loans, as originations remained strong and we continued to portfolio all of the production.

\$1.5 billion, or 9%, increase in average C&I loans and leases, reflecting growth in trade finance in support of our middle market and corporate customers, business banking, and automobile dealer floorplan lending.

\$0.5 billion, or 9%, increase in average Residential mortgage loans as a result of a decrease in the rate of payoffs due to lower levels of refinancing and the Camco acquisition.

Average total core deposits increased \$2.3 billion, or 5%, from the year-ago quarter, including a \$1.0 billion, or 8%, increase in noninterest bearing deposits. Average interest-bearing liabilities increased \$6.2 billion, or 17%, from the year-ago quarter, reflecting:

\$4.1 billion, or 138%, increase in short- and long-term borrowings, which were used to efficiently finance balance sheet growth while continuing to manage the overall cost of funds. While no additional long-term debt was issued in the 2014 third quarter, this increase included \$2.1 billion of bank-level debt and \$0.4 billion of parent-level debt issued during the prior four quarters.

\$2.2 billion, or 14%, increase in money market deposits, reflecting the strategic focus on customer growth and increased share-of-wallet among both consumer and commercial customers.

\$0.7 billion, or 46%, increase in brokered deposits and negotiated CDs, which are a cost-effective method of funding incremental LCR-related securities growth.

Partially offset by:

\$1.0 billion, or 24%, 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 Third Quarter versus 2014 Second Quarter

Compared to the 2014 second quarter, FTE net interest income increased \$7.2 million, or 6% annualized. While the NIM decreased 8 basis points, earning assets increased \$1.6 billion, or 11% annualized. During the 2014 second quarter, net interest income and the NIM benefitted by \$5.1 million and 4 basis points, respectively, from the unexpected pay-off of an acquired commercial real estate loan.

Table of Contents**Table 6 Consolidated YTD Average Balance Sheets and Net Interest Margin Analysis**

Fully-taxable equivalent basis (1) (dollar amounts in millions)	YTD Average Balances				YTD Average Rates (2)	
	Nine Months Ended September 30, 2014	2013	Change Amount	Percent	Nine Months Ended September 30, 2014	2013
Assets:						
Interest-bearing deposits in banks	\$ 85	\$ 70	\$ 15	21%	0.08%	0.18%
Loans held for sale	306	588	(282)	(48)	3.99	3.47
Securities:						
Available-for-sale and other securities:						
Taxable	6,615	6,574	41	1	2.49	2.31
Tax-exempt	1,344	568	776	137	3.06	3.98
Total available-for-sale and other securities	7,959	7,142	817	11	2.59	2.45
Trading account securities	45	82	(37)	(45)	0.87	0.45
Held-to-maturity securities taxable	3,671	1,857	1,814	98	2.46	2.29
Total securities	11,675	9,081	2,594	29	2.54	2.39
Loans and leases: (3)						
Commercial:						
Commercial and industrial	18,161	17,007	1,154	7	3.50	3.75
Commercial real estate:						
Construction	697	583	114	20	4.24	3.96
Commercial	4,274	4,488	(214)	(5)	3.87	4.08
Commercial real estate	4,971	5,071	(100)	(2)	3.92	4.06
Total commercial	23,132	22,078	1,054	5	3.59	3.82
Consumer:						
Automobile	7,387	5,402	1,985	37	3.47	3.99
Home equity	8,376	8,299	77	1	4.10	4.15
Residential mortgage	5,579	5,154	425	8	3.78	3.86
Other consumer	389	451	(62)	(14)	7.16	6.82
Total consumer	21,731	19,306	2,425	13	3.86	4.09
Total loans and leases	44,863	41,384	3,479	8	3.72	3.95
Allowance for loan and lease losses	(641)	(745)	104	(14)		
Net loans and leases	44,222	40,639	3,583	9		
Total earning assets	56,929	51,123	5,806	11	3.50%	3.69%
Cash and due from banks	888	930	(42)	(5)		
Intangible assets	570	562	8	1		
All other assets	3,934	3,974	(40)	(1)		
Total assets	\$ 61,680	\$ 55,844	\$ 5,836	10%		

Liabilities and Shareholders Equity:

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Deposits:						
Demand deposits noninterest-bearing	\$ 13,586	\$ 12,714	\$ 872	7%	%	%
Demand deposits interest-bearing	5,878	5,888	(10)		0.04	0.04
Total demand deposits	19,464	18,602	862	5	0.01	0.01
Money market deposits	17,753	15,287	2,466	16	0.24	0.24
Savings and other domestic deposits	5,025	5,068	(43)	(1)	0.18	0.27
Core certificates of deposit	3,403	4,761	(1,358)	(29)	0.83	1.13
Total core deposits	45,645	43,718	1,927	4	0.26	0.35
Other domestic time deposits of \$250,000 or more	256	317	(61)	(19)	0.43	0.49
Brokered deposits and negotiable CDs	2,040	1,676	364	22	0.24	0.62
Deposits in foreign offices	339	344	(5)	(1)	0.13	0.15
Total deposits	48,280	46,055	2,225	5	0.26	0.36
Short-term borrowings	972	724	248	34	0.10	0.11
Federal Home Loan Bank advances	1,992	663	1,329	200	0.14	0.15
Subordinated notes and other long-term debt	3,163	1,467	1,696	116	1.51	2.39
Total interest-bearing liabilities	40,821	36,195	4,626	13	0.34	0.43
All other liabilities	1,038	1,068	(30)	(3)		
Shareholders equity	6,235	5,867	368	6		
Total liabilities and shareholders equity	\$ 61,680	\$ 55,844	\$ 5,836	10%		
Net interest rate spread					3.15	3.26
Impact of noninterest-bearing funds on margin					0.10	0.12
Net interest margin					3.25%	3.38%

(1) FTE yields are calculated assuming a 35% tax rate.

(2) Loan, lease, and deposit average rates include the impact of applicable derivatives, non-deferrable fees, and amortized deferred fees.

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

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2014 First Nine Months versus 2013 First Nine Months

Fully-taxable equivalent net interest income for the first nine-month period of 2014 increased \$90.8 million, or 7% reflecting the benefit of a \$5.8 billion, or 11%, increase in average total earning assets. The fully-taxable equivalent net interest margin decreased to 3.25% from 3.38%. The increase in average earning assets reflected:

\$3.5 billion, or 8%, increase in average total loans and leases.

\$2.6 billion, or 29%, increase in securities that meet the requirement for HQLA as proposed in the LCR rules issued by the regulators in October 2013.

Partially offset by:

\$0.3 billion, or 48%, decrease in loans held for sale.

The \$3.5 billion, or 8%, increase in average total loans and leases reflected:

\$2.0 billion, or 37%, increase in the average automobile portfolio as originations remained strong and we continued to portfolio all of the production. Investments in our automobile lending business throughout the Northeast and upper Midwest continue to grow as planned.

\$1.2 billion, or 7%, increase in the average C&I portfolio, primarily reflecting growth in the international and other specialty lending verticals, automobile dealer floorplan lending, and business banking.

The \$2.2 billion, or 5%, increase in average total deposits reflected:

\$2.5 billion, or 16%, increase in money market deposits, reflecting the strategic focus on customer growth and increased share-of-wallet among both consumer and commercial customers.

\$0.9 billion, or 5%, increase in total demand deposits, reflecting our focus on changing our product mix to reduce the overall cost of deposits.

Partially offset by:

\$1.4 billion, or 29%, decline in 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.

In addition, FHLB advances increased \$1.3 billion, or 200%, along with an increase in short- and long-term borrowings of \$1.9 billion, or 89%, which were used to efficiently finance balance sheet growth while continuing to manage the overall cost of funds. Included in the increase are \$2.1 billion of bank-level debt and \$0.4 billion of parent-level debt.

Provision for Credit Losses

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

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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 third quarter was \$24.5 million and was \$5.5 million less than total NCOs for the same period reflecting continued credit quality improvement. Provision expense increased \$13.1 million, or 115%, compared to the year-ago quarter, reflecting the prior year's implementation of enhancements to our allowance for loan and lease losses (ALLL) model and decreased \$4.9 million, or 17%, from the prior quarter. On a year-to-date basis, provision for credit losses for the first nine-month period of 2014 increased \$12.8 million, or 19%, compared to year-ago period. The provision for credit losses for the first nine-month period of 2014 was \$23.2 million less than total NCOs. (*See Credit Quality discussion*). Given the 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.

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

Table 7 Noninterest Income

<i>(dollar amounts in thousands)</i>	Third	2014 Second	First	2013 Fourth	Third	3Q14 vs 3Q13 Amount	Percent	3Q14 vs 2Q14 Amount	Percent
Service charges on deposit accounts	\$ 69,118	\$ 72,633	\$ 64,582	\$ 69,992	\$ 72,918	\$ (3,800)	(5)%	\$ (3,515)	(5)%
Mortgage banking income	25,051	22,717	23,089	24,327	23,621	1,430	6	2,334	10
Trust services	28,045	29,581	29,565	30,711	30,470	(2,425)	(8)	(1,536)	(5)
Electronic banking	27,275	26,491	23,642	24,251	24,282	2,993	12	784	3
Insurance income	16,729	15,996	16,496	15,556	17,269	(540)	(3)	733	5
Brokerage income	17,155	17,905	17,167	15,151	16,636	519	3	(750)	(4)
Bank owned life insurance income	14,888	13,865	13,307	13,816	13,740	1,148	8	1,023	7
Capital markets fees	10,246	10,500	9,194	12,332	12,825	(2,579)	(20)	(254)	(2)
Gain on sale of loans	8,199	3,914	3,570	7,144	5,063	3,136	62	4,285	109
Securities gains (losses)	198	490	16,970	1,239	98	100	102	(292)	(60)
Other income	30,445	35,975	30,903	35,373	36,845	(6,400)	(17)	(5,530)	(15)
Total noninterest income	\$ 247,349	\$ 250,067	\$ 248,485	\$ 249,892	\$ 253,767	\$ (6,418)	(3)%	\$ (2,718)	(1)%

2014 Third Quarter versus 2013 Third Quarter

Noninterest income decreased \$6.4 million, or 3%, from the year-ago quarter, primarily reflecting:

\$6.4 million, or 17%, decrease in other income, primarily related to commercial loan fees and early lease terminations.

\$3.8 million, or 5%, decrease in service charges on deposit accounts, reflecting the late July 2014 implementation of changes in consumer products that were partially offset by an 11% increase in consumer households and changing customer usage patterns.

\$2.6 million, or 20%, decrease in capital markets fees related to lower interest rate derivative sales.

Partially offset by:

\$3.1 million, or 62%, increase in gain on sale of loans related to strong SBA production and relatively higher premiums.

\$3.0 million, or 12%, increase in electronic banking due to higher card related income and underlying customer growth.

2014 Third Quarter versus 2014 Second Quarter

In the 2014 third quarter, noninterest income decreased \$2.7 million, or 1%, from the 2014 second quarter, primarily reflecting:

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\$5.5 million, or 15%, decrease in other income, reflecting a mezzanine lending gain in the 2014 second quarter.

\$3.5 million, or 5%, decrease in service charges on deposit accounts, reflecting a seasonal increase during the 2014 second quarter and the late July 2014 implementation of changes in consumer products.

Partially offset by:

\$4.3 million, or 109%, increase in gain on sale of loans from SBA and other loan sales.

\$2.3 million, or 10%, increase in mortgage banking income, reflecting a \$1.3 million, or 9%, increase in origination and secondary marketing income and a positive net impact of MSR hedging.

Table of Contents***2014 First Nine Months versus 2013 First Nine Months***

Noninterest income for the first nine-month period of 2014 decreased \$16.4 million, or 2%, from the comparable year-ago period.

Table 8 Noninterest Income 2014 First Nine Months vs. 2013 First Nine Months

<i>(dollar amounts in thousands)</i>	Nine Months Ended September 30,		Change	
	2014	2013	Amount	Percent
Service charges on deposit accounts	\$ 206,333	\$ 201,810	\$ 4,523	2%
Mortgage banking income	70,857	102,528	(31,671)	(31)
Trust services	87,191	92,296	(5,105)	(6)
Electronic banking	77,408	68,340	9,068	13
Insurance income	49,221	53,708	(4,487)	(8)
Brokerage income	52,227	54,473	(2,246)	(4)
Bank owned life insurance income	42,060	42,603	(543)	(1)
Capital markets fees	29,940	32,888	(2,948)	(9)
Gain on sale of loans	15,683	11,027	4,656	42
Securities gains (losses)	17,658	(821)	18,479	N.R.
Other income	97,323	103,452	(6,129)	(6)
Total noninterest income	\$ 745,901	\$ 762,304	\$ (16,403)	(2)%

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

The \$16.4 million, or 2%, decrease in total noninterest income reflected:

\$31.7 million, or 31%, decrease in mortgage banking income. This primarily reflected a \$26.5 million, or 37%, decrease in origination and secondary marketing income as originations decreased 26%, gain-on-sale margin compressed, and the percentage of originations held on the balance sheet was higher.

\$6.1 million, or 6%, decrease in other income, primarily due to a gain on the sale of LIHTC investments in the 2013 first quarter.

\$5.1 million, or 6%, decrease in trust services, primarily related to the institutional trust business.

Partially offset by:

\$18.5 million increase in securities gains, as we adjusted the mix of our securities portfolio to prepare for the LCR requirements.

\$9.1 million, or 13%, increase in electronic banking income, primarily due to continued consumer household growth.

Table of Contents**Noninterest Expense**

(This section should be read in conjunction with Significant Item 1, 2, 3 and 4.)

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

Table 9 Noninterest Expense

(dollar amounts in thousands)	Third	2014 Second	First	2013 Fourth	Third	3Q14 vs 3Q13 Amount	Percent	3Q14 vs 2Q14 Amount	Percent
Personnel costs	\$ 275,409	\$ 260,600	\$ 249,477	\$ 249,554	\$ 229,326	\$ 46,083	20%	\$ 14,809	6%
Outside data processing and other services	53,073	54,338	51,490	51,071	49,313	3,760	8	(1,265)	(2)
Net occupancy	34,405	28,673	33,433	31,983	35,591	(1,186)	(3)	5,732	20
Equipment	30,183	28,749	28,750	28,775	28,191	1,992	7	1,434	5
Marketing	12,576	14,832	10,686	13,704	12,271	305	2	(2,256)	(15)
Deposit and other insurance expense	11,628	10,599	13,718	10,056	11,155	473	4	1,029	10
Amortization of intangibles	9,813	9,520	9,291	10,320	10,362	(549)	(5)	293	3
Professional services	13,763	17,896	12,231	11,567	12,487	1,276	10	(4,133)	(23)
Other expense	39,468	33,429	51,045	38,979	34,640	4,828	14	6,039	18
Total noninterest expense	\$ 480,318	\$ 458,636	\$ 460,121	\$ 446,009	\$ 423,336	\$ 56,982	13%	\$ 21,682	5%
Number of employees (average full-time equivalent)	11,946	12,000	11,848	11,765	12,080	(134)	(1)	(54)	

Impacts of Significant Items:

(dollar amounts in thousands)	2014 Third	2014 Second	2013 Third
Personnel costs	\$ 15,344	\$ 1	\$ (27,301)
Outside data processing and other services	292	618	470
Net occupancy	5,202	60	7,939
Equipment	110		1,518
Marketing	783	29	
Professional services	6	50	
Other expense	1,086	17	
Total noninterest expense adjustments	\$ 22,823	\$ 775	\$ (17,374)

Adjusted Noninterest Expense (Non-GAAP):

(dollar amounts in thousands)	2014 Third	2014 Second	2013 Third	3Q14 vs 3Q13 Amount	Percent	3Q14 vs 2Q14 Amount	Percent
Personnel costs	\$ 260,065	\$ 260,599	\$ 256,627	\$ 3,438	1%	\$ (534)	%
Outside data processing and other services	52,781	53,720	48,843	3,938	8	(939)	(2)
Net occupancy	29,203	28,613	27,652	1,551	6	590	2
Equipment	30,073	28,749	26,673	3,400	13	1,324	5
Marketing	11,793	14,803	12,271	(478)	(4)	(3,010)	(20)

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Deposit and other insurance expense	11,628	10,599	11,155	473	4	1,029	10
Amortization of intangibles	9,813	9,520	10,362	(549)	(5)	293	3
Professional services	13,757	17,846	12,487	1,270	10	(4,089)	(23)
Other expense	38,382	33,412	34,640	3,742	11	4,970	15
Total adjusted noninterest expense	\$ 457,495	\$ 457,861	\$ 440,710	\$ 16,785	4%	\$ (366)	%

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2014 Third Quarter versus 2013 Third Quarter

Reported noninterest expense increased \$57.0 million, or 13%, from the year-ago quarter, reflecting:

\$46.1 million, or 20%, increase in personnel costs. Excluding the impact of Significant Items, personnel costs increased \$3.4 million, or 1%, related to annual compensation increases.

\$4.8 million, or 14%, increase in other expense. Excluding the impact of Significant Items, other expenses increased \$3.7 million, or 11%, primarily reflecting higher OREO and litigation expense.

\$3.8 million, or 8%, increase in outside data processing and other services as we continue to invest in technology supporting our products, services, and our Continuous Improvement initiatives.

2014 Third Quarter versus 2014 Second Quarter

Noninterest expense increased \$21.7 million, or 5%, from the 2014 second quarter. When adjusting for the \$22.8 million of Significant Items in the 2014 third quarter, noninterest expense decreased \$0.4 million. Personnel costs increased \$14.8 million, or 6%, reflecting the franchise repositioning actions. Other expense increased \$6.0 million, or 18%, reflecting higher OREO and litigation and settlement expense. Net occupancy expense increased \$5.7 million, or 20%, primarily related to \$5.2 million of franchise repositioning actions. Partially offsetting these increases was a \$4.1 million, or 23%, decrease in professional services primarily related to reduced consulting expense.

2014 First Nine Months versus 2013 First Nine Months

Noninterest expense for the first nine-month period of 2014 increased \$87.1 million, or 7%, from the comparable year-ago period.

Table 10 Noninterest Expense 2014 First Nine Months vs. 2013 First Nine Months

(dollar amounts in thousands)	Nine Months Ended September 30,		Change	
	2014	2013	Amount	Percent
Personnel costs	\$ 785,486	\$ 752,083	\$ 33,403	4%
Outside data processing and other services	158,901	148,476	10,425	7
Net occupancy	96,511	93,361	3,150	3
Equipment	87,682	78,018	9,664	12
Marketing	38,094	37,481	613	2
Deposit and other insurance expense	35,945	40,105	(4,160)	(10)
Amortization of intangibles	28,624	31,044	(2,420)	(8)
Professional services	43,890	29,020	14,870	51
Other expense	123,942	102,406	21,536	21
Total noninterest expense	\$ 1,399,075	\$ 1,311,994	\$ 87,081	7%

Impacts of Significant Items:

(dollar amounts in thousands)	Nine Months Ended September 30,	
	2014	2013
Personnel costs	\$ 17,685	\$ (27,301)
Outside data processing and other services	5,201	470

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Net occupancy	7,003	7,939
Equipment	245	1,518
Marketing	1,343	
Professional services	2,228	
Other expense	11,496	
Total noninterest expense adjustments	\$ 45,201	\$ (17,374)

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Adjusted Noninterest Expense (Non-GAAP):

(dollar amounts in thousands)	Nine Months Ended September 30,		Change	
	2014	2013	Amount	Percent
Personnel costs	\$ 767,801	\$ 779,384	\$ (11,583)	(1)%
Outside data processing and other services	153,700	148,006	5,694	4
Net occupancy	89,508	85,422	4,086	5
Equipment	87,437	76,500	10,937	14
Marketing	36,751	37,481	(730)	(2)
Deposit and other insurance expense	35,945	40,105	(4,160)	(10)
Amortization of intangibles	28,624	31,044	(2,420)	(8)
Professional services	41,662	29,020	12,642	44
Other expense	112,446	102,406	10,040	10
Total noninterest expense adjustments	\$ 1,353,874	\$ 1,329,368	\$ 24,506	2%

The \$87.1 million, or 7%, increase in total noninterest expense reflected:

\$33.4 million, or 4%, increase in personnel costs. Excluding the impact of significant items, personnel expense decreased \$11.6 million, or 1%, primarily related to a reduction in benefit costs, partially offset by an increase in technology salary expense.

\$21.5 million, or 21%, increase in other expense. Excluding the impact of significant items, other expense increased \$10.0 million, or 10%, primarily related to an increase in franchise taxes, protective advances, and litigation expense.

\$14.9 million, or 51%, increase in professional services, of which \$9.0 million is consulting expenses related to strategic planning.

\$10.4 million, or 7%, increase in outside data processing and other services, reflecting higher debit and credit card processing costs and other technology expenses.

\$9.7 million, or 12%, increase in equipment, primarily due to technology investments and the near-complete rollout of enhanced ATMs.

Provision for Income Taxes

The provision for income taxes in the 2014 third quarter was \$53.9 million and \$65.0 million in the 2013 third quarter. The provision for income taxes for the nine month periods ended September 30, 2014 and September 30, 2013 was \$163.4 million and \$175.4 million, respectively. Both quarters included the benefits from tax-exempt income, tax-advantaged investments, general business credits, and the change in accounting for investments in qualified affordable housing projects. At September 30, 2014, we had a net federal deferred tax asset of \$70.9 million and a net state deferred tax asset of \$48.0 million. For regulatory capital purposes, there was no disallowed net deferred tax asset at September 30, 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 Ohio, Kentucky, Indiana, Michigan, Pennsylvania, West Virginia, and Illinois.

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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 regularly reported 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. The MD&A included in our Form 8-K filed on May 28, 2014 should be read in conjunction with this MD&A as this discussion provides only material updates to the Form 8-K. This MD&A should also be read in conjunction with the financial statements, notes and other information contained in this report. Our definition, philosophy, and approach to risk management have not materially changed from the discussion presented in this report.

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 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.

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 September 30, 2014, loans and leases totaled \$46.7 billion, representing a \$3.6 billion, or 8%, increase compared to \$43.1 billion at December 31, 2013, primarily reflecting growth in the automobile and C&I portfolios. The growth included \$559 million in loans from our acquisition of Camco Financial during the 2014 first quarter. The Camco Financial portfolio composition was centered in CRE, home equity, and residential mortgage.

At September 30, 2014, commercial loans and leases totaled \$23.8 billion and represented 51% of our total loans and leases. The increase compared to December 31, 2013 primarily reflects growth in the international and other specialty lending verticals, automobile dealer floorplan lending, and business banking. 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*).

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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 vertical specialties to ensure that new products or lending types are embedded within a structured, centralized Commercial Lending area with designated experienced credit officers. These specialties comprise of either targeted industries (for example, Healthcare, Food & Agribusiness, Energy, etc) and/or lending disciplines (Rail, Aircraft, ABL, etc), all of which requires a high degree of expertise and oversight to effectively mitigate and monitor risk. As such, we have dedicated colleagues and teams focused on bringing value added expertise to these specialty clients.

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 \$22.9 billion at September 30, 2014, and represented 49% of our total loan and leases. The consumer portfolio is comprised primarily of automobile, home equity loans and lines-of-credit, and residential mortgages (*see Consumer Credit discussion*). The increase from December 31, 2013 primarily relates to strong consumer demand for automobile originations and adjustable rate residential mortgages (ARMs). ARMs primarily consist of a fixed-rate of interest for the first 3 to 5 years, and then adjust annually.

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 20% of the total exposure, with no individual state representing more than 6%. 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.

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, overdraft balances, and credit cards. We introduced a consumer credit card product during 2013, utilizing a centralized underwriting system and focusing on existing Huntington customers.

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

Table 11 Loan and Lease Portfolio Composition

<i>(dollar amounts in millions)</i>	September 30,		2014 June 30,		March 31,		December 31,		2013 September 30,	
Commercial:										
Commercial and industrial	\$ 18,791	40%	\$ 18,899	41%	\$ 18,046	41%	\$ 17,594	41%	\$ 17,335	41%
Commercial real estate:										
Construction	850	2	757	2	692	2	557	1	544	1
Commercial	4,141	9	4,233	9	4,339	10	4,293	10	4,328	10
Total commercial real estate	4,991	11	4,990	11	5,031	12	4,850	11	4,872	11
Total commercial	23,782	51	23,889	52	23,077	53	22,444	52	22,207	52
Consumer:										
Automobile	8,322	18	7,686	17	6,999	16	6,639	15	6,317	15
Home equity	8,436	18	8,405	18	8,373	19	8,336	18	8,347	20
Residential mortgage	5,788	12	5,707	12	5,542	12	5,321	12	5,307	12
Other consumer	395	1	393	1	363		380	2	378	1
Total consumer	22,941	49	22,191	48	21,277	47	20,676	48	20,349	48
Total loans and leases	\$ 46,723	100%	\$ 46,080	100%	\$ 44,354	100%	\$ 43,120	100%	\$ 42,556	100%

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 in part 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 NAICS categories, specific limits for CRE primary project types, loans secured by residential real estate, shared national credit exposure, and designated high risk loan definitions represent examples of specifically tracked components of our concentration management process. Currently there are no identified concentrations that exceed the established limit. 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.

The table below provides our total loan and lease portfolio segregated by the type of collateral securing the loan or lease: The changes in the collateral composition are consistent with the portfolio growth metrics, with increases noted in the residential and vehicle categories. The increase in the unsecured exposure is centered in high quality commercial credit customers.

Table 12 Loan and Lease Portfolio by Collateral Type

<i>(dollar amounts in millions)</i>	September 30,		2014 June 30,		March 31,		December 31,		2013 September 30,	
Secured loans:										
Real estate commercial	\$ 8,628	18%	\$ 8,617	19%	\$ 8,612	19%	\$ 8,622	20%	\$ 8,769	21%
Real estate consumer	14,224	30	14,113	31	13,916	31	13,657	32	13,654	32
Vehicles	10,268	22	9,782	21	9,270	21	8,989	21	8,275	19
Receivables/Inventory	6,023	13	5,932	13	5,717	13	5,534	13	5,367	13
Machinery/Equipment	3,305	7	3,267	7	2,930	7	2,738	6	2,778	7
Securities/Deposits	1,232	3	1,349	3	1,064	2	786	2	905	2
Other	918	2	940	2	870	3	1,016	2	948	2

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Total secured loans and leases	44,598	95	44,000	96	42,379	96	41,342	96	40,696	96
Unsecured loans and leases	2,125	5	2,080	4	1,975	4	1,778	4	1,860	4
Total loans and leases	\$ 46,723	100%	\$ 46,080	100%	\$ 44,354	100%	\$ 43,120	100%	\$ 42,556	100%

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Commercial Credit

Refer to the **Commercial Credit** section of our Form 8-K filed on May 28, 2014 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 remains strong as we maintain a 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 originate and manage the majority of the portfolio, with the remainder sourced from prior bank acquisitions. 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. 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. 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 Form 8-K filed on May 28, 2014 for our consumer credit underwriting and on-going credit management processes.

AUTOMOBILE PORTFOLIO

Our strategy in the automobile portfolio continues 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.

Table of Contents**RESIDENTIAL REAL ESTATE SECURED PORTFOLIOS**

The properties securing our residential mortgage and home equity portfolios are primarily located within our geographic footprint. 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 allow us to focus on effectively helping our customers with appropriate solutions for their specific circumstances.

Table 13 Selected Home Equity and Residential Mortgage Portfolio Data

(dollar amounts in millions)

	Home Equity		Residential Mortgage	
	Secured by first-lien	Secured by junior-lien		
	09/30/14	12/31/13	09/30/14	12/31/13
Ending balance	\$ 5,028	\$ 4,842	\$ 3,408	\$ 3,494
Portfolio weighted average LTV ratio ⁽¹⁾	71%	71%	81%	81%
Portfolio weighted average FICO score ⁽²⁾	758	758	751	741

	Home Equity		Residential Mortgage (3)	
	Secured by first-lien	Secured by junior-lien		
	2014	2013	2014	2013
Originations	\$ 1,139	\$ 1,342	\$ 654	\$ 346
Origination weighted average LTV ratio ⁽¹⁾	74%	67%	83%	81%
Origination weighted average FICO score ⁽²⁾	756	775	746	755

- (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. In either case, after the 10-year draw period, the borrower must reapply to continue with the interest only revolving structure or begin repaying the debt in a 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. Our existing HELOC maturity strategy is consistent with the recent regulatory guidance.

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

Table 14 Maturity Schedule of Home Equity Line-of-Credit Portfolio

(dollar amounts in millions)	September 30, 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	\$ 44	\$ 3	\$ 2	\$ 2	\$ 2,741	\$ 2,792
Secured by junior-lien	236	118	129	25	2,487	2,995
Total home equity line-of-credit	\$ 280	\$ 121	\$ 131	\$ 27	\$ 5,228	\$ 5,787

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.

Residential Mortgages Portfolio

Huntington underwrites all applications centrally, with a focus on higher quality borrowers. We do not originate residential mortgages that allow negative amortization or allow the borrower multiple payment options and 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 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 nine-month period ended September 30, 2014, we closed \$209 million in HARP residential mortgages and \$1.7 million in HAMP 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 third quarter reflected continued overall improvement. Total NPAs were \$364.5 million at September 30, 2014. While the overall level was essentially flat with prior quarter, the C&I portfolio showed an increase, with offsetting declines in CRE and residential. NCOs increased by \$1.4 million or 5% from the prior quarter, as a result of increases in other consumer and residential portfolios, partially offset by recoveries in the CRE portfolio. Total criticized loans continued to decline, across both the commercial and consumer segments. The ACL to total loans ratio declined by 3 basis points to 1.47%, and our coverage ratios as demonstrated by the ACL to NAL ratio of 211% also remained strong.

NPAs, NALs, AND TDRs

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

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 loan is placed on nonaccrual status.

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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 \$150.1 million of CRE and C&I-related NALs at September 30, 2014, \$84.1 million, or 56%, 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, first-lien loans secured by residential mortgage collateral 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 prior to the loan reaching 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 could be returned to accrual status.

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

Table 15 Nonaccrual Loans and Leases and Nonperforming Assets

<i>(dollar amounts in thousands)</i>	September 30,	2014 June 30,	March 31,	2013 December 31,	September 30,
Nonaccrual loans and leases:					
Commercial and industrial	\$ 90,265	\$ 75,274	\$ 57,053	\$ 56,615	\$ 68,034
Commercial real estate	59,812	65,398	71,344	73,417	80,295
Automobile	4,834	4,384	6,218	6,303	5,972
Residential mortgage	98,139	110,635	121,681	119,532	116,260
Home equity	72,715	69,266	70,862	66,189	62,545
Total nonaccrual loans and leases	325,765	324,957	327,158	322,056	333,106
Other real estate owned, net					
Residential	30,661	31,761	30,581	23,447	16,610
Commercial	5,609	2,934	5,110	4,217	12,544
Total other real estate owned, net	36,270	34,695	35,691	27,664	29,154
Other nonperforming assets ⁽¹⁾	2,440	2,440	2,440	2,440	12,000
Total nonperforming assets	\$ 364,475	\$ 362,092	\$ 365,289	\$ 352,160	\$ 374,260
Nonaccrual loans as a % of total loans and leases	0.70%	0.71%	0.74%	0.75%	0.78%
Nonperforming assets ratio ⁽²⁾	0.78	0.79	0.82	0.82	0.88
(NPA+90days)/(Loan+OREO) ⁽³⁾	1.08	1.08	1.17	1.20	1.29

(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.

2014 Third Quarter versus 2014 Second Quarter

The \$2.4 million, or 1%, increase in NPAs compared with June 30, 2014, represents the net impact of increases in the commercial portfolio offset by decreases across the consumer portfolios:

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\$15.0 million, or 20%, increase in C&I NALs, primarily reflecting the impact of a specific credit relationship.
Partially offset by:

\$12.5 million, or 11%, decrease in residential mortgage NALs, reflecting resolutions of foreclosures and improved delinquency results.

Table of Contents**2014 Third Quarter versus 2013 Fourth Quarter**

Compared with December 31, 2013, NPAs increased \$12.3 million, or 4%, primarily reflecting:

\$33.7 million, or 59%, increase in C&I NALs, primarily due to two credit relationships.

\$8.6 million, or 31%, increase in net OREO properties primarily related to consumer OREO, reflecting the impact from Camco Financial, and a single CRE property.

Partially offset by:

\$21.4 million, or 18%, decline in residential mortgage NALs, reflecting resolution of foreclosure processes and improved delinquency trends.

\$13.6 million, or 19%, 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 SAD group.

TDR Loans

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

TDRs are loans to which a financial 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 in financial difficulty.

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

Table 16 Accruing and Nonaccruing Troubled Debt Restructured Loans

		2014		2013	
<i>(dollar amounts in thousands)</i>	September 30,	June 30,	March 31,	December 31,	September 30,
Troubled debt restructured loans accruing:					
Commercial and industrial	\$ 89,783	\$ 90,604	\$ 102,970	\$ 83,857	\$ 85,687
Commercial real estate	186,542	212,736	210,876	204,668	204,597
Automobile	31,480	31,833	27,393	30,781	30,981
Home equity	229,500	221,539	202,044	188,266	153,591
Residential mortgage	271,762	289,239	284,194	305,059	300,809
Other consumer	3,313	3,496	1,727	1,041	959
Total troubled debt restructured loans accruing	812,380	849,447	829,204	813,672	776,624
Troubled debt restructured loans nonaccruing:					
Commercial and industrial	19,110	6,677	7,197	7,291	8,643
Commercial real estate	28,618	24,396	27,972	23,981	22,695
Automobile	4,817	4,287	5,676	6,303	5,972
Home equity	25,149	22,264	20,992	20,715	11,434
Residential mortgage	72,729	81,546	84,441	82,879	77,525
Other consumer	74	120	120		

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Total troubled debt restructured loans nonaccruing	150,497	139,290	146,398	141,169	126,269
Total troubled debt restructured loans	\$ 962,877	\$ 988,737	\$ 975,602	\$ 954,841	\$ 902,893

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The decline in the accruing TDRs was associated with payoffs and paydowns in both the CRE and residential portfolios. Our strategy is to structure 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 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 Huntington.

Commercial 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 in the near term as we continue to appropriately manage the portfolio and work with our borrowers. Any granted change in terms or conditions that are not readily available in the market for that borrower, requires the designation as a TDR. There are no provisions for the removal of the TDR designation based on payment activity for consumer loans.

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

Table 17 Troubled Debt Restructured Loan Activity

	2014				
	Third	Second	First	Fourth	Third
<i>(dollar amounts in thousands)</i>					
TDRs, beginning of period	\$ 988,737	\$ 975,602	\$ 954,841	\$ 902,893	\$ 883,990
New TDRs	126,238	184,024	219,656	169,383	161,812
Payments	(78,717)	(66,530)	(55,130)	(46,974)	(60,392)
Charge-offs	(10,631)	(5,134)	(10,774)	(5,980)	(10,439)
Sales	(1,951)	(4,001)	(14,169)	(613)	(2,999)
Transfer to OREO	(3,554)	(3,539)	(2,597)	(2,609)	(2,056)
Restructured TDRs accruing ⁽¹⁾	(47,277)	(83,586)	(86,012)	(51,709)	(58,499)
Restructured TDRs nonaccruing ⁽¹⁾	(2,212)	(4,146)	(23,038)	(7,415)	(6,163)
Other	(7,756)	(3,953)	(7,175)	(2,135)	(2,361)
TDRs, end of period	\$ 962,877	\$ 988,737	\$ 975,602	\$ 954,841	\$ 902,893

(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.

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

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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.

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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. 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.

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 18 Allocation of Allowance for Credit Losses (1)

<i>(dollar amounts in thousands)</i>	September 30,		2014 June 30,		March 31,		2013 December 31,		September 30,	
Commercial										
Commercial and industrial	\$ 291,401	40%	\$ 278,512	41%	\$ 266,979	41%	\$ 265,801	41%	\$ 262,048	41%
Commercial real estate	115,472	11	137,346	11	160,306	12	162,557	11	164,522	11
Total commercial	406,873	51	415,858	52	427,285	53	428,358	52	426,570	52
Consumer										
Automobile	30,732	18	27,158	17	25,178	16	31,053	15	27,087	15
Home equity	100,375	18	105,943	18	113,177	19	111,131	19	124,068	20
Residential mortgage	52,658	12	47,191	12	39,068	12	39,577	12	51,252	12
Other consumer	40,398	1	38,951	1	27,210		37,751	2	37,053	1
Total consumer	224,163	49	219,243	48	204,633	47	219,512	48	239,460	48
Total allowance for loan and lease losses	631,036	100%	635,101	100%	631,918	100%	647,870	100%	666,030	100%
Allowance for unfunded loan commitments	55,449		56,927		59,368		62,899		66,857	
Total allowance for credit losses	\$ 686,485		\$ 692,028		\$ 691,286		\$ 710,769			