

HUNTINGTON BANCSHARES INC/MD

Form 10-Q

April 30, 2012

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

Washington, D.C. 20549

**FORM 10-Q**

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

QUARTERLY PERIOD ENDED March 31, 2012

Commission File Number 1-34073

**Huntington Bancshares Incorporated**

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

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

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41 South High Street, Columbus, Ohio 43287

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 864,674,530 shares of Registrant's common stock (\$0.01 par value) outstanding on March 31, 2012.

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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:

2011 Form 10-K	Annual Report on Form 10-K for the year ended December 31, 2011
ABL	Asset Based Lending
ACL	Allowance for Credit Losses
AFCRE	Automobile Finance and Commercial Real Estate
ALCO	Asset & Liability Management Committee
ALLL	Allowance for Loan and Lease Losses
ARM	Adjustable Rate Mortgage
ARRA	American Recovery and Reinvestment Act of 2009
ASC	Accounting Standards Codification
ASU	Accounting Standards Update
ATM	Automated Teller Machine
AULC	Allowance for Unfunded Loan Commitments
AVM	Automated Valuation Methodology
C&I	Commercial and Industrial
CapPR	Capital Plan Review
CCAR	Comprehensive Capital Analysis and Review
CDARS	Certificate of Deposit Account Registry Service
CDO	Collateralized Debt Obligations
CDs	Certificates of Deposit
CFPB	Bureau of Consumer Financial Protection
CMO	Collateralized Mortgage Obligations
CPP	Capital Purchase Program
CRE	Commercial Real Estate
DDA	Demand Deposit Account
DIF	Deposit Insurance Fund
Dodd-Frank Act	Dodd-Frank Wall Street Reform and Consumer Protection Act
EESA	Emergency Economic Stabilization Act of 2008
EPS	Earnings Per Share
ERISA	Employee Retirement Income Security Act
EVE	Economic Value of Equity
FASB	Financial Accounting Standards Board
FDIC	Federal Deposit Insurance Corporation
FDICIA	Federal Deposit Insurance Corporation Improvement Act of 1991
FFIEC	Federal Financial Institutions Examination Council
FHA	Federal Housing Administration
FHFA	Federal Housing Finance Agency
FHLB	Federal Home Loan Bank
FHLMC	Federal Home Loan Mortgage Corporation
FICA	Federal Insurance Contributions Act
FICO	Fair Isaac Corporation
FOMC	Federal Open Market Committee
FNMA	Federal National Mortgage Association
Franklin	Franklin Credit Management Corporation

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FRB	Federal Reserve Bank
FSP	Financial Stability Plan
FTE	Fully-Taxable Equivalent
FTP	Funds Transfer Pricing
GAAP	Generally Accepted Accounting Principles in the United States of America
GSIFI	Globally Systemically Important Financial Institution
GSE	Government Sponsored Enterprise
HAMP	Home Affordable Modification Program
HARP	Home Affordable Refinance Program
HASP	Homeowner Affordability and Stability Plan
HCER Act	Health Care and Education Reconciliation Act of 2010
IPO	Initial Public Offering
IRS	Internal Revenue Service
ISE	Interest Sensitive Earnings
LIBOR	London Interbank Offered Rate
LGD	Loss-Given-Default
LTV	Loan to Value
MD&A	Management's Discussion and Analysis of Financial Condition and Results of Operations
MRC	Market Risk Committee
MSA	Metropolitan Statistical Area
MSR	Mortgage Servicing Rights
NALs	Nonaccrual Loans
NAV	Net Asset Value
NCO	Net Charge-off
NPAs	Nonperforming Assets
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
Reg E	Regulation E of the Electronic Fund Transfer Act
REIT	Real Estate Investment Trust
SAD	Special Assets Division
SBA	Small Business Administration
SEC	Securities and Exchange Commission
SERP	Supplemental Executive Retirement Plan
SIFIs	Systemically Important Financial Institutions
Sky Financial	Sky Financial Group, Inc.
SRIP	Supplemental Retirement Income Plan
Sky Trust	Sky Bank and Sky Trust, National Association
TAGP	Transaction Account Guarantee Program
TARP	Troubled Asset Relief Program
TARP Capital	Series B Preferred Stock

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TCE	Tangible Common Equity
TDR	Troubled Debt Restructured Loan
TLGP	Temporary Liquidity Guarantee Program
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
WGH	Wealth Advisors, Government Finance, and Home Lending

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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 145 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, customized insurance service programs, and other financial products and services. Our over 650 banking offices are located in Indiana, Kentucky, Michigan, Ohio, Pennsylvania, and West Virginia. 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 2011 Form 10-K should be read in conjunction with this MD&A as this discussion provides only material updates to the 2011 Form 10-K. This MD&A should also be read in conjunction with the financial statements, notes and other information contained in this report.

Our discussion is divided into key segments:

**Executive Overview** Provides a summary of our current financial performance, and business overview, including our thoughts on the impact of the economy, legislative and regulatory initiatives, and recent industry developments. This section also provides our outlook regarding our expectations for the remainder of 2012.

**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, recent accounting pronouncements and developments, and acquisitions.

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 2012 First Quarter Results**

For the quarter, we reported net income of \$153.3 million, or \$0.17 per common share, compared with \$126.9 million, or \$0.14 per common share, in the prior quarter (*see Table 1*).

Fully-taxable equivalent net interest income was \$421.1 million for the quarter, up \$2.6 million, or 1%, from the prior quarter. The increase reflected the benefit of a \$0.6 billion, or 1% (5% annualized), increase in average earning assets, and a 2 basis point increase in the fully-taxable equivalent net interest margin to 3.40% from 3.38%. The 2 basis point increase in the net interest margin reflected the benefits from the 7 basis point reduction in the cost of deposit pricing and an increase in low cost funding, partially offset by a 5 basis point decrease from the mix and yield of earning assets.

The provision for credit losses decreased \$10.9 million, or 24%, from the prior quarter. This reflected a larger reduction of the ACL than in the prior quarter due to the continued improvement in credit quality as we gradually migrate toward normal levels.

Noninterest income increased \$56.0 million, or 24%. This included a \$23.9 million increase in gain on loan sales as the current quarter included a \$23.0 million gain associated with the automobile loan securitization. In addition, the first quarter was positively impacted by a \$22.3 million increase in mortgage banking income. This was driven by an \$11.7 million increase in MSR net hedging income and a \$10.1 million increase in origination and secondary marketing income. Other income included an \$11.4 million bargain purchase gain related to the FDIC-assisted acquisition of Dearborn, Michigan-based Fidelity Bank on March 30, 2012. As part of this transaction, we acquired approximately \$520.6 million of loans, \$713.4 million of deposits, and certain other assets and liabilities of Fidelity Bank from the FDIC. All assets and liabilities were recorded at their estimated fair value.

Noninterest expense increased \$32.4 million, or 8%. This reflected a \$23.5 million addition to litigation reserves in other expense and the absence of a \$9.7 million gain on the early extinguishment of debt (trust preferred securities) recorded last quarter. Personnel costs increased \$15.4 million, or 7%, most notably impacted by approximately \$9 million of costs related to the annual payroll tax resets and other benefit expense. These negative impacts were partially offset by an \$11.4 million decrease in outside data processing and other services, reflecting the absence of \$5.0 million of expenses associated with the conversion to a new debit card processor that were incurred last quarter.

The period end ACL as a percentage of total loans and leases decreased to 2.37%, from 2.60%. The ACL as a percentage of period end NALs increased to 206% from 187% at the end of 2011. NALs declined 14% to \$467.6 million, or 1.15% of total loans. Total NCOs for the 2012 first quarter were \$83.0 million, or an annualized 0.85% of average total loans and leases. This was consistent with \$83.9 million, or an annualized 0.85%, in the prior quarter. The continued improvement in credit quality performance reflected the positive results of the actions taken over the last three years to address credit-related issues in our loan portfolio. Many of our credit quality performance metrics remain elevated compared with historical levels, and we expect continued improvement.

Capital levels continued to be strong. Our Tier 1 common risk-based capital ratio at March 31, 2012, was 10.15%, up from 10.00% at December 31, 2011, with our tangible common equity ratio increasing to 8.33% from 8.30% over this same period. The regulatory Tier 1 risk-based capital ratio at March 31, 2012 was 12.22%, up from 12.11%, at year end, while our Total risk based capital ratio declined slightly to 14.76% from 14.77%. This decline reflected an increase in risk-weighted assets due to balance sheet growth.

The Federal Reserve completed its review of our January 2012 capital plan submission and did not object to our proposed capital actions. This allows us to maintain our common dividend through the first quarter of 2013. It also gives us the potential to repurchase up to \$182 million of common stock. Reinvesting excess capital to grow the business organically remains our first priority. Importantly, through dividends and now share repurchases, we have the flexibility, subject to market conditions, to return a meaningful amount of our earnings to our shareholders.

#### **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, and (4) continue to strengthen risk management, including sustained improvement in credit metrics.

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Consumer checking account households grew at a 14.2% annualized rate during the quarter and were up 11.7% compared to a year ago. The percent of consumer checking account households with four or more products or services was 1.6 percentage points higher, up to 75.1% from 73.5% last quarter. The percent of commercial relationships with four or more products or services at the end of the quarter was 32.7%, up from 31.4% in the prior quarter. These growth and cross-sell rates are why service charges on deposit accounts increased 11% from a year ago and limited the decline in electronic banking income to \$10 million over a similar timeframe. We have already made up 20% of the electronic banking revenue lost due to the Durbin Amendment of the Dodd-Frank Act. These financial results point to the competitive advantage we are building through our Fair Play consumer strategy that is built on simply doing the right thing for our customers.

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### ***Economy***

Some of the encouraging signs seen late last year continued to build throughout the quarter and drove modest economic growth. Parts of the Midwest region are recovering faster than the broader United States, with lower levels of unemployment, resurgence in manufacturing, and budget surpluses for several states for the first time in years. All of our footprint large metropolitan statistical areas (MSA) unemployment rates were below the national average as of February 2012, with the exception of Detroit. However, Michigan's unemployment rate has declined faster than the national average. In addition, our footprint states have continued to be strong export states. For the three-month average ending February 2012, exports from our footprint states were 12.6% greater than the prior period. By comparison, overall U.S. exports were 9.4% higher. However, office vacancy rates in our footprint MSAs were above the national vacancy rate in the prior quarter, with the exception of Pittsburgh. While our footprint has clearly benefitted from certain aspects of this recovery, the United States and global economies continue to experience elevated levels of volatility and uncertainty.

### ***Legislative and Regulatory***

Regulatory reforms continue to be adopted which impose additional restrictions on current business practices. A recent action affecting us was the Federal Reserve capital plans rule.

*Capital Plans Rule / Comprehensive Capital Analysis and Review (CCAR)* In November 2011, the Federal Reserve issued its final rule requiring top-tier U.S. bank holding companies with total consolidated assets of \$50 billion or more, including us, to submit to an annual capital planning review process. The capital planning review process includes reviews of our internal capital adequacy assessment process and our plans to make capital distributions, such as dividend payments or stock repurchases, as well as a supervisory stress test designed to test our capital adequacy.

During 2011, we participated in the Federal Reserve's Capital Plan Review (CapPR) process and made our capital plan submission in January 2012. On March 14, 2012, we announced that the Federal Reserve had completed its review of our capital plan submission and did not object to our proposed capital actions. During 2012, we will transition into the Federal Reserve's more rigorous CCAR or equivalent process, which had previously been required of only the largest 19 bank holding companies.

The Federal Reserve's objective with CCAR is to ensure that large, systemically important banking institutions have forward-looking, risk tailored capital planning processes that provide reasonable assurance that they will have sufficient capital to remain going concerns in times of economic and financial distress. We are expected to have credible two year pro forma plans that illustrate that we will have sufficient capital to operate as usual, under adverse conditions, while still meeting certain regulatory capital thresholds.

Annually, the Federal Reserve will issue detailed instructions outlining the information they are requiring from us, as well as the required timeframes. The instructions will include the Federal Reserve's adverse stress scenario that is required to be used in this exercise and is designed to represent economic conditions that could occur in a prolonged global economic recession. For additional discussion, please see Updates to Risk Factors within the Additional Disclosures section.

### ***Expectations***

For the remainder of 2012, net interest income is expected to be modestly higher than the first quarter level. The momentum we are seeing in total loan and low-cost deposit growth is expected to continue. These benefits are expected to be mostly offset by downward pressure on the net interest margin later in the year due to the anticipated continued mix shift to lower-rate, higher quality loans and lower securities reinvestment rates given the low absolute level of interest rates and shape of the yield curve. The C&I portfolio is expected to continue to show meaningful growth as our sales pipeline remains robust with much of this reflecting the positive impact from strategic initiatives to expand our commercial lending expertise into areas such as specialty banking, asset based lending, and equipment financing. It also reflects our long-standing continued support of middle market and small business lending. For automobile loans, we will continue to evaluate, subject to market conditions, another automobile loan securitization in the second half of the year. Such securitizations allow us to continue to expand this business while generating strong levels of originations that would otherwise limit on-balance sheet automobile loan concentration. Residential mortgages and home equity loans are expected to show modest growth. CRE loans will likely continue to experience low levels of declines, as the runoff in the noncore portion of the portfolio is partially offset by new core originations.

Excluding potential future automobile loan securitizations, we anticipate the increase in total loans to modestly outpace growth in total deposits. This mix change reflects our heightened focus on our overall cost of funding and the continued shift towards low- and no-cost demand deposits and money market deposit accounts.

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Noninterest income is expected to show a modest increase from a normalized 2012 first quarter level, which excludes the impact of the automobile loan securitization gain, the Fidelity Bank related bargain purchase gain, and any net MSR impact. This growth is expected to primarily reflect the benefit of new customers and increased contribution from fee income businesses, including capital markets, treasury management services, and brokerage, as well as the continued positive impact of our cross-sell and product penetration initiatives throughout the company.

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For the full year, we anticipate positive operating leverage and modest improvement in our expense efficiency ratio, resulting primarily from revenue growth more than offsetting expenses. While we continue our focus on expense control throughout the company, additional regulatory costs and strategic actions, including the planned opening of over 40 in-store branches and integration of Fidelity Bank, may offset such improvements.

Nonaccrual loans and net charge-offs are expected to decline from first quarter levels. The level of provision for credit losses is currently at the low end of our long-term expectation, and we expect some quarterly volatility given the absolute low level and the uncertain and uneven nature of the economic recovery.

We anticipate an effective tax rate for 2012 of 24% to 26%, which includes permanent tax benefits primarily related to tax-exempt income, tax-advantaged investments, and general business credits.

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**DISCUSSION OF RESULTS OF OPERATIONS**

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

**Table of Contents****Table 1 - Selected Quarterly Income Statement Data (1)**

<i>(dollar amounts in thousands, except per share amounts)</i>	2012		2011		
	First	Fourth	Third	Second	First
Interest income	\$ 479,937	\$ 485,216	\$ 490,996	\$ 492,137	\$ 501,877
Interest expense	62,728	70,191	84,518	88,800	97,547
Net interest income	417,209	415,025	406,478	403,337	404,330
Provision for credit losses	34,406	45,291	43,586	35,797	49,385
Net interest income after provision for credit losses	382,803	369,734	362,892	367,540	354,945
Service charges on deposit accounts	60,292	63,324	65,184	60,675	54,324
Trust services	30,906	28,775	29,473	30,392	30,742
Electronic banking	18,630	18,282	32,901	31,728	28,786
Mortgage banking income	46,418	24,098	12,791	23,835	22,684
Brokerage income	19,260	18,688	20,349	20,819	20,511
Insurance income	18,875	17,906	17,220	16,399	17,945
Bank owned life insurance income	13,937	14,271	15,644	17,602	14,819
Capital markets fees	9,982	9,811	11,256	8,537	6,936
Gain on sale of loans	26,770	2,884	19,097	2,756	7,207
Automobile operating lease income	3,775	4,727	5,890	7,307	8,847
Securities gains (losses)	(613)	(3,878)	(1,350)	1,507	40
Other income	37,088	30,464	30,104	34,210	24,104
Total noninterest income	285,320	229,352	258,559	255,767	236,945
Personnel costs	243,498	228,101	226,835	218,570	219,028
Outside data processing and other services	42,058	53,422	49,602	43,889	40,282
Net occupancy	29,079	26,841	26,967	26,885	28,436
Equipment	25,545	25,884	22,262	21,921	22,477
Deposit and other insurance expense	20,738	18,481	17,492	23,823	17,896
Marketing	16,776	16,379	22,251	20,102	16,895
Professional services	11,230	16,769	20,281	20,080	13,465
Amortization of intangibles	11,531	13,175	13,387	13,386	13,370
Automobile operating lease expense	2,854	3,362	4,386	5,434	6,836
OREO and foreclosure expense	4,950	5,009	4,668	4,398	3,931
Gain on early extinguishment of debt		(9,697)			
Other expense	54,417	32,548	30,987	29,921	48,083
Total noninterest expense	462,676	430,274	439,118	428,409	430,699
Income before income taxes	205,447	168,812	182,333	194,898	161,191
Provision for income taxes	52,177	41,954	38,942	48,980	34,745
Net income	\$ 153,270	\$ 126,858	\$ 143,391	\$ 145,918	\$ 126,446
Dividends on preferred shares	8,049	7,703	7,703	7,704	7,703
Net income applicable to common shares	\$ 145,221	\$ 119,155	\$ 135,688	\$ 138,214	\$ 118,743
Average common shares basic	864,499	864,136	863,911	863,358	863,359
Average common shares diluted	869,164	868,156	867,633	867,469	867,237

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Net income per common share basic	\$ 0.17	\$ 0.14	\$ 0.16	\$ 0.16	\$ 0.14
Net income per common share diluted	0.17	0.14	0.16	0.16	0.14
Cash dividends declared per common share	0.04	0.04	0.04	0.01	0.01
Return on average total assets	1.13 %	0.92 %	1.05 %	1.11 %	0.96 %
Return on average common shareholders equity	11.4	9.3	10.8	11.6	10.3
Return on average tangible common shareholders equity (2)	13.5	11.2	13.0	13.3	12.7
Net interest margin (3)	3.40	3.38	3.34	3.40	3.42
Efficiency ratio (4)	63.8	64.0	63.5	62.7	64.7
Effective tax rate	25.4	24.9	21.4	25.1	21.6
Revenue FTE					
Net interest income	\$ 417,209	\$ 415,025	\$ 406,478	\$ 403,337	\$ 404,330
FTE adjustment	3,935	3,479	3,658	3,834	3,945
Net interest income (3)	421,144	418,504	410,136	407,171	408,275
Noninterest income	285,320	229,352	258,559	255,767	236,945
Total revenue (3)	\$ 706,464	\$ 647,856	\$ 668,695	\$ 662,938	\$ 645,220

(1) Comparisons for presented periods are impacted by a number of factors. Refer to Significant Items.



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- (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 (losses).

### 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. **Litigation Reserve.** \$23.5 million and \$17.0 million of additions to litigation reserves were recorded as other noninterest expense in the first quarter of 2012 and 2011, respectively. This resulted in a negative impact of \$0.02 per common share in 2012 and \$0.01 per common share in 2011.
2. **Bargain Purchase Gain.** During the 2012 first quarter, an \$11.4 million bargain purchase gain associated with the FDIC-assisted Fidelity Bank acquisition was recorded in noninterest income. This resulted in a positive impact of \$0.01 per common share.
3. **Early Extinguishment of Debt.** The positive impact relating to the early extinguishment of debt on our reported results was \$9.7 million (\$0.01 per common share) in the 2011 fourth quarter. This amount was recorded as a reduction to noninterest expense.
4. **Visa®-related Derivative Loss.** Prior to the Visa® IPO occurring in March 2008, Visa® was owned by its member banks, which included the Bank. As a result of this ownership, we received Class B shares of Visa® stock at the time of the Visa® IPO, and in the 2009 second quarter, we subsequently sold these Visa® stock shares. In the 2011 fourth quarter, a \$6.4 million derivative loss due to an increase in the liability associated with the sale of these shares was recorded to noninterest income.



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

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

<i>(dollar amounts in thousands, except per share amounts)</i>	March 31, 2012		Three Months Ended December 31, 2011		March 31, 2011	
	After-tax	EPS (2)	After-tax	EPS (2)	After-tax	EPS (2)
Net income - GAAP	<b>\$ 153,270</b>		\$ 126,858		\$ 126,446	
Earnings per share, after-tax		<b>\$ 0.17</b>		\$ 0.14		\$ 0.14
Change from prior quarter - \$		<b>0.03</b>		(0.02)		0.09
Change from prior quarter - %		<b>21%</b>		(13)%		180%
Change from year-ago - \$		<b>\$ 0.03</b>		\$ 0.09		\$ 0.13
Change from year-ago - %		<b>21%</b>		180%		1,300%
Significant Items - favorable (unfavorable) impact:	<b>Earnings (1)</b>	<b>EPS (2)</b>	Earnings (1)	EPS (2)	Earnings (1)	EPS (2)
Bargain purchase gain	<b>\$ 11,409</b>	<b>\$ 0.01</b>	\$	\$	\$	\$
Litigation reserves addition	<b>(23,500)</b>	<b>(0.02)</b>			(17,028)	(0.01)
Gain on early extinguishment of debt			9,697	0.01		
Visa®-related derivative loss			(6,385)			

(1) Pretax unless otherwise noted.

(2) After-tax.

**Net Interest Income / Average Balance Sheet**

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

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

<i>(dollar amounts in millions)</i>	2012 First	Average Balances 2011			
		Fourth	Third	Second	First
<b>Assets</b>					
Interest-bearing deposits in banks	\$ 100	\$ 107	\$ 164	\$ 131	\$ 130
Trading account securities	50	81	92	112	144
Federal funds sold and securities purchased under resale agreement				21	
Loans held for sale	1,265	316	237	181	420
Available-for-sale and other securities:					
Taxable	8,171	8,065	7,902	8,428	9,108
Tax-exempt	404	409	421	436	445
Total available-for-sale and other securities	8,575	8,474	8,323	8,864	9,553
Held-to-maturity securities taxable	632	650	665	174	
<b>Loans and leases: (1)</b>					
<b>Commercial:</b>					
Commercial and industrial	14,824	14,219	13,664	13,370	13,121
<b>Commercial real estate:</b>					
Construction	598	533	670	554	611
Commercial	5,254	5,425	5,441	5,679	5,913
Commercial real estate	5,852	5,958	6,111	6,233	6,524
Total commercial	20,676	20,177	19,775	19,603	19,645
<b>Consumer:</b>					
Automobile	4,576	5,639	6,211	5,954	5,701
Home equity	8,234	8,149	8,002	7,874	7,728
Residential mortgage	5,174	5,043	4,788	4,566	4,465
Other consumer	485	511	521	538	559
Total consumer	18,469	19,342	19,522	18,932	18,453
Total loans and leases	39,145	39,519	39,297	38,535	38,098
Allowance for loan and lease losses	(961)	(1,014)	(1,066)	(1,128)	(1,231)
Net loans and leases	38,184	38,505	38,231	37,407	36,867
Total earning assets	49,767	49,147	48,778	48,018	48,345
Cash and due from banks	1,012	1,671	1,700	1,068	1,299
Intangible assets	613	625	639	652	665
All other assets	4,225	4,221	4,142	4,160	4,291
Total assets	\$ 54,656	\$ 54,650	\$ 54,193	\$ 52,770	\$ 53,369
<b>Liabilities and Shareholders' Equity</b>					
<b>Deposits:</b>					
Demand deposits - noninterest-bearing	\$ 11,273	\$ 10,716	\$ 8,719	\$ 7,806	\$ 7,333
Demand deposits - interest-bearing	5,646	5,570	5,573	5,565	5,357
Money market deposits	13,141	13,594	13,321	12,879	13,492

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Savings and other domestic deposits	4,817	4,706	4,752	4,778	4,701
Core certificates of deposit	6,510	6,769	7,592	8,079	8,391
Total core deposits	41,387	41,355	39,957	39,107	39,274
Other domestic time deposits of \$250,000 or more	347	405	387	467	606
Brokered deposits and negotiable CDs	1,301	1,410	1,533	1,333	1,410
Deposits in foreign offices	430	434	401	347	374
Total deposits	43,465	43,604	42,278	41,254	41,664
Short-term borrowings	1,512	1,728	2,251	2,112	2,134
Federal Home Loan Bank advances	419	29	285	97	30
Subordinated notes and other long-term debt	2,652	2,866	3,030	3,249	3,525
Total interest-bearing liabilities	36,775	37,511	39,125	38,906	40,020
All other liabilities	<b>1,116</b>	978	1,017	913	994
Shareholders' equity	<b>5,492</b>	5,445	5,332	5,145	5,022
Total liabilities and shareholders' equity	<b>\$ 54,656</b>	\$ 54,650	\$ 54,193	\$ 52,770	\$ 53,369

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

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

Fully-taxable equivalent basis (1)	2012 First	Average Rates (2) 2011			
		Fourth	Third	Second	First
<b>Assets</b>					
Interest-bearing deposits in banks	<b>0.05%</b>	0.06%	0.04%	0.22%	0.11%
Trading account securities	<b>1.65</b>	0.97	1.41	1.59	1.37
Federal funds sold and securities purchased under resale agreement				0.09	
Loans held for sale	<b>3.80</b>	3.96	4.46	4.97	4.08
Available-for-sale and other securities:					
Taxable	<b>2.39</b>	2.37	2.43	2.59	2.53
Tax-exempt	<b>4.17</b>	4.22	4.17	4.02	4.70
Total available-for-sale and other securities	<b>2.47</b>	2.46	2.52	2.66	2.63
Held-to-maturity securities taxable	<b>2.98</b>	2.99	3.04	2.96	
Loans and leases: (3)					
Commercial:					
Commercial and industrial	<b>4.01</b>	4.01	4.13	4.31	4.57
Commercial real estate:					
Construction	<b>3.85</b>	4.78	3.87	3.37	3.36
Commercial	<b>3.82</b>	3.91	3.91	3.90	3.93
Commercial real estate	<b>3.82</b>	3.99	3.91	3.84	3.88
Total commercial	<b>3.96</b>	4.01	4.06	4.16	4.34
Consumer:					
Automobile	<b>4.87</b>	4.80	4.89	5.06	5.22
Home equity	<b>4.30</b>	4.41	4.45	4.49	4.54
Residential mortgage	<b>4.17</b>	4.30	4.47	4.62	4.76
Other consumer	<b>7.47</b>	7.32	7.57	7.76	7.85
Total consumer	<b>4.49</b>	4.57	4.68	4.79	4.90
Total loans and leases	<b>4.21</b>	4.28	4.37	4.47	4.61
Total earning assets	<b>3.91%</b>	3.95%	4.02%	4.14%	4.24%
<b>Liabilities</b>					
Deposits:					
Demand deposits - noninterest-bearing		%	%	%	%
Demand deposits - interest-bearing	<b>0.06</b>	0.08	0.10	0.09	0.09
Money market deposits	<b>0.26</b>	0.32	0.41	0.40	0.50
Savings and other domestic deposits	<b>0.45</b>	0.52	0.69	0.74	0.81
Core certificates of deposit	<b>1.60</b>	1.69	1.95	2.04	2.07
Total core deposits	<b>0.54</b>	0.61	0.77	0.82	0.89
Other domestic time deposits of \$250,000 or more	<b>0.68</b>	0.78	0.93	1.01	1.08
Brokered deposits and negotiable CDs	<b>0.79</b>	0.77	0.77	0.89	1.11
Deposits in foreign offices	<b>0.18</b>	0.19	0.26	0.26	0.20
Total deposits	<b>0.55</b>	0.61	0.77	0.82	0.90
Short-term borrowings	<b>0.16</b>	0.18	0.16	0.16	0.18

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Federal Home Loan Bank advances	<b>0.21</b>	2.09	0.32	0.88	2.98
Subordinated notes and other long-term debt	<b>2.74</b>	2.56	2.43	2.39	2.34
Total interest-bearing liabilities	<b>0.68%</b>	0.74%	0.86%	0.91%	0.99%
Net interest rate spread	<b>3.15%</b>	3.15%	3.11%	3.19%	3.21%
Impact of noninterest-bearing funds on margin	<b>0.25</b>	0.23	0.22	0.21	0.22
Net interest margin	<b>3.40%</b>	3.38%	3.34%	3.40%	3.42%

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

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

<i>(dollar amounts in millions)</i>	First Quarter		Fourth Quarter	1Q12 vs 1Q11		1Q12 vs 4Q11	
	2012	2011	2011	Amount	Percent	Amount	Percent
<b>Loans/Leases</b>							
Commercial and industrial	<b>\$ 14,824</b>	\$ 13,121	\$ 14,219	\$ 1,703	13 %	\$ 605	4%
Commercial real estate	<b>5,852</b>	6,524	5,958	(672)	(10)	(106)	(2)
Total commercial	<b>20,676</b>	19,645	20,177	1,031	5	499	2
Automobile	<b>4,576</b>	5,701	5,639	(1,125)	(20)	(1,063)	(19)
Home equity	<b>8,234</b>	7,728	8,149	506	7	85	1
Residential mortgage	<b>5,174</b>	4,465	5,043	709	16	131	3
Other loans	<b>485</b>	559	511	(74)	(13)	(26)	(5)
Total consumer	<b>18,469</b>	18,453	19,342	16		(873)	(5)
Total loans and leases	<b>\$ 39,145</b>	\$ 38,098	\$ 39,519	\$ 1,047	3%	\$ (374)	(1)%
<b>Deposits</b>							
Demand deposits noninterest-bearing	<b>\$ 11,273</b>	\$ 7,333	\$ 10,716	\$ 3,940	54%	\$ 557	5%
Demand deposits interest-bearing	<b>5,646</b>	5,357	5,570	289	5	76	1
Money market deposits	<b>13,141</b>	13,492	13,594	(351)	(3)	(453)	(3)
Savings and other domestic time deposits	<b>4,817</b>	4,701	4,706	116	2	111	2
Core certificates of deposit	<b>6,510</b>	8,391	6,769	(1,881)	(22)	(259)	(4)
Total core deposits	<b>41,387</b>	39,274	41,355	2,113	5	32	
Other deposits	<b>2,078</b>	2,390	2,249	(312)	(13)	(171)	(8)
Total deposits	<b>\$ 43,465</b>	\$ 41,664	\$ 43,604	\$ 1,801	4%	\$ (139)	(0)%

**2012 First Quarter versus 2011 First Quarter**

Fully-taxable equivalent net interest income increased \$12.9 million, or 3%, from the year-ago quarter. This reflected a \$1.4 billion, or 3%, increase in average total earning assets, partially offset by a 2 basis point decline in the FTE net interest margin. The increase in average earning assets reflected:

\$1.0 billion, or 3%, increase in average total loans and leases.

\$0.8 billion, or 201%, increase in average loans held for sale.

\$0.6 billion in average held-to-maturity securities compared with none in the year-ago quarter.  
Partially offset by:

\$1.0 billion, or 10%, decrease in average total available-for-sale and other securities.



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The 2 basis point decline in the FTE net interest margin reflected the reduction in derivatives income, lower loan and securities yields, partially offset by the positive impacts of increases in low cost deposits and improved deposit pricing.

The \$1.0 billion, or 3%, increase in average total loans and leases primarily reflected:

\$1.7 billion, or 13%, growth in the average C&I portfolio reflected a combination of factors including the benefits from our strategic initiatives focusing on large corporate and equipment finance. In addition, we continued to see growth in more traditional middle-market, and business banking loans. This growth was evident despite line utilization rates that remained well below historical norms.

\$0.7 billion, or 16%, increase in average residential mortgages that were predominantly 15-year fixed rate loans.

\$0.5 billion, or 7%, increase in average home equity loans with over 70% of new originations in a first lien position.

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Partially offset by:

\$1.1 billion, or 20%, decrease in the average automobile portfolio. This reflected the securitization and sale of \$1.0 billion of such loans in the 2011 third quarter and the reclassification of automobile loans to loans held for sale related to the securitization and sale in the 2012 first quarter of \$1.3 billion of auto loans.

\$0.7 billion, or 10%, decrease in the average CRE portfolio, reflected the continued execution of our plan to reduce the total CRE exposure, primarily in the noncore CRE portfolio. This reduction is expected to continue, evidenced by the combined impact of amortization, paydowns, refinancing, and restructures.

The \$1.8 billion, or 4%, increase in average total deposits from the year-ago quarter reflected:

\$2.1 billion, or 5%, growth in average total core deposits. The drivers of this change were a \$3.9 billion, or 54%, growth in average noninterest-bearing demand deposits, partially offset by \$1.9 billion, or 22%, decline in average core certificates of deposit, and \$0.4 billion, or 3%, decline in average money market deposits.

Partially offset by:

\$0.3 billion, or 43%, decline in average other domestic deposits of \$250,000 or more, reflecting a strategy of reducing such noncore funding.

***2012 First Quarter versus 2011 Fourth Quarter***

Fully-taxable equivalent net interest income increased \$2.6 million, or 1%, from the 2011 fourth quarter. This reflected a \$0.6 billion, or 1%, increase in average earning assets and a 2 basis point increase in the FTE net interest margin. While average earning assets increased, average total loans and leases declined \$0.4 billion, or 1%. This reflected the reclassification of automobile loans to loans held for sale related to the securitization and sale in the 2012 first quarter of \$1.3 billion of auto loans. The primary items impacting the increase in the fully-taxable equivalent net interest margin were:

7 basis points positive impact from improved deposit pricing and an increase in low cost funding.

Partially offset by:

5 basis points negative impact from lower earning asset yields and a shift to lower-yield, higher quality credits. The \$0.4 billion, or 1% (4% annualized), decrease in average total loans and leases from the 2011 fourth quarter reflected:

\$1.1 billion, or 19% (75% annualized), decline in average automobile loans. Automobile loan origination levels remained strong throughout the quarter. The decline in first quarter average balances reflected the reclassification of \$1.3 billion of auto loans to loans held for sale at the end of the prior quarter, which were subsequently securitized and sold in a transaction on March 8, 2012.

Partially offset by:

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\$0.6 billion, or 4% (17% annualized), growth in the average C&I portfolio. The growth in the C&I portfolio reflected increased activity from several business lines including large corporate, dealer floorplan, and equipment finance.  
The \$0.1 billion, or less than 1% (1% annualized), decrease in average total deposits from the 2011 fourth quarter reflected:

\$0.5 billion, or 3% (13% annualized), decrease in average money market deposits.

\$0.3 billion, or 4% (15% annualized), decrease in core certificates of deposits.  
Partially offset by:

\$0.6 billion, or 5% (21% annualized), increase in noninterest-bearing demand deposits.

**Table of Contents****Provision for Credit Losses**

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

The provision for credit losses is the expense necessary to maintain the ALLL and the AULC at levels appropriate to absorb our estimate of inherent 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 2012 first quarter was \$34.4 million, a decrease of \$10.9 million, or 24%, from the prior quarter, and \$15.0 million, or 30%, from the year-ago quarter. These declines reflected the combination of lower total NCOs, total NPAs, and commercial Criticized loans as a result of improvement in the underlying quality of the loan portfolio. The reduction in commercial Criticized loans reflected the resolution of problem credits for which reserves had been previously established. The current quarter's provision for credit losses was \$48.6 million less than total NCOs. (See *Credit Quality discussion*).

**Noninterest Income**

(This section should be read in conjunction with Significant Items 2 and 4.)

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

**Table 6 - Noninterest Income**

<i>(dollar amounts in thousands)</i>	2012		2011			1Q12 vs 1Q11		1Q12 vs 4Q11	
	First	Fourth	Third	Second	First	Amount	Percent	Amount	Percent
Service charges on deposit accounts	\$ 60,292	\$ 63,324	\$ 65,184	\$ 60,675	\$ 54,324	\$ 5,968	11%	\$ (3,032)	(5)%
Trust services	30,906	28,775	29,473	30,392	30,742	164	1	2,131	7
Electronic banking	18,630	18,282	32,901	31,728	28,786	(10,156)	(35)	348	2
Mortgage banking income	46,418	24,098	12,791	23,835	22,684	23,734	105	22,320	93
Brokerage income	19,260	18,688	20,349	20,819	20,511	(1,251)	(6)	572	3
Insurance income	18,875	17,906	17,220	16,399	17,945	930	5	969	5
Bank owned life insurance income	13,937	14,271	15,644	17,602	14,819	(882)	(6)	(334)	(2)
Capital markets fees	9,982	9,811	11,256	8,537	6,936	3,046	44	171	2
Gain on sale of loans	26,770	2,884	19,097	2,756	7,207	19,563	271	23,886	828
Automobile operating lease income	3,775	4,727	5,890	7,307	8,847	(5,072)	(57)	(952)	(20)
Securities gains (losses)	(613)	(3,878)	(1,350)	1,507	40	(653)	(1,633)	3,265	(84)
Other income	37,088	30,464	30,104	34,210	24,104	12,984	54	6,624	22
<b>Total noninterest income</b>	<b>\$ 285,320</b>	<b>\$ 229,352</b>	<b>\$ 258,559</b>	<b>\$ 255,767</b>	<b>\$ 236,945</b>	<b>\$ 48,375</b>	<b>20%</b>	<b>\$ 55,968</b>	<b>24%</b>

**2012 First Quarter versus 2011 First Quarter**

The \$48.4 million, or 20%, increase in total noninterest income from the year-ago quarter reflected:

\$23.7 million, or 105%, increase in mortgage banking income. This primarily reflected an \$11.5 million increase in origination and secondary marketing income, as originations increased 25% from the year-ago period, and an \$11.1 million increase in MSR net hedging income.

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\$19.6 million, or 271%, increase in gain on sale of loans, as the current quarter included a \$23.0 million automobile loan securitization gain.

\$13.0 million, or 54%, increase in other income, which reflected the \$11.4 million bargain purchase gain associated with the FDIC-assisted Fidelity Bank acquisition.

\$6.0 million, or 11%, increase in service charges on deposits, primarily reflecting continued strong customer growth.

Partially offset by:

\$10.2 million, or 35%, decrease in electronic banking income, related to implementing the lower debit card interchange fee structure mandated in the Durbin Amendment of the Dodd-Frank Act.

\$5.1 million, or 57%, decline in automobile operating lease income reflecting the impact of a declining portfolio as a result of having exited that business in 2008.

**Table of Contents****2012 First Quarter versus 2011 Fourth Quarter**

The \$56.0 million, or 24%, increase in total noninterest income from the prior quarter reflected:

\$23.9 million, or 828%, increase in gain on sale of loans, as the current quarter included a \$23.0 million automobile loan securitization gain.

\$22.3 million, or 93%, increase in mortgage banking income. This primarily reflected a \$10.1 million increase in origination and secondary marketing income and an \$11.7 million increase in net MSR hedging income.

\$6.6 million, or 22%, increase in other income, which reflected the \$11.4 million bargain purchase gain associated with the FDIC-assisted Fidelity Bank acquisition and the absence of a \$6.4 million Visa®-related derivative loss compared to the 2011 fourth quarter, partially offset by a \$7.2 million reduction in mezzanine gains.

**Noninterest Expense**

(This section should be read in conjunction with Significant Items 1 and 3.)

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

**Table 7 - Noninterest Expense**

<i>(dollar amounts in thousands)</i>	2012	2011				1Q12 vs 1Q11		1Q12 vs 4Q11	
	First	Fourth	Third	Second	First	Amount	Percent	Amount	Percent
Personnel costs	\$ 243,498	\$ 228,101	\$ 226,835	\$ 218,570	\$ 219,028	\$ 24,470	11%	\$ 15,397	7%
Outside data processing and other services	42,058	53,422	49,602	43,889	40,282	1,776	4	(11,364)	(21)
Net occupancy	29,079	26,841	26,967	26,885	28,436	643	2	2,238	8
Equipment	25,545	25,884	22,262	21,921	22,477	3,068	14	(339)	(1)
Deposit and other insurance expense	20,738	18,481	17,492	23,823	17,896	2,842	16	2,257	12
Marketing	16,776	16,379	22,251	20,102	16,895	(119)	(1)	397	2
Professional services	11,230	16,769	20,281	20,080	13,465	(2,235)	(17)	(5,539)	(33)
Amortization of intangibles	11,531	13,175	13,387	13,386	13,370	(1,839)	(14)	(1,644)	(12)
Automobile operating lease expense	2,854	3,362	4,386	5,434	6,836	(3,982)	(58)	(508)	(15)
OREO and foreclosure expense	4,950	5,009	4,668	4,398	3,931	1,019	26	(59)	(1)
Gain on early extinguishment of debt		(9,697)						9,697	(100)
Other expense	54,417	32,548	30,987	29,921	48,083	6,334	13	21,869	67
<b>Total noninterest expense</b>	<b>\$ 462,676</b>	<b>\$ 430,274</b>	<b>\$ 439,118</b>	<b>\$ 428,409</b>	<b>\$ 430,699</b>	<b>\$ 31,977</b>	<b>7%</b>	<b>\$ 32,402</b>	<b>8%</b>
Number of employees (full-time equivalent), at period-end	11,166	11,245	11,473	11,457	11,319	(153)	(1)%	(79)	(1)%

**2012 First Quarter versus 2011 First Quarter**

The \$32.0 million, or 7%, increase in total noninterest expense from the year-ago quarter reflected:

\$24.5 million, or 11%, increase in personnel costs, which primarily reflected increased salaries and benefits, including an increase in commissions and incentive compensation expense due to improved performance metrics and results.

\$6.3 million, or 13%, increase in other expense, which reflected a \$6.5 million increase in the addition to litigation reserves.  
***2012 First Quarter versus 2011 Fourth Quarter***

The \$32.4 million, or 8%, increase in total noninterest expense from the prior quarter reflected:

\$21.9 million, or 67%, increase in other expense, which reflected the \$23.5 million addition to litigation reserves.

\$15.4 million, or 7%, increase in personnel costs, which was impacted by approximately \$9 million of costs related to the annual payroll tax resets, other benefit expenses, and an increase in incentive compensation due to improved metrics and results.

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\$9.7 million gain on the early extinguishment of debt related to the exchange of certain trust preferred securities in the prior quarter. Partially offset by:

\$11.4 million, or 21%, decrease in outside data processing and other services, which reflected the fourth quarter 2011 completion of the conversion to a new debit card processor.

\$5.5 million, or 33%, decline professional services, which reflected lower legal and consulting related expenses.

**Provision for Income Taxes**

The provision for income taxes in the 2012 first quarter was \$52.2 million. This compared with a provision for income taxes of \$42.0 million in the 2011 fourth quarter and \$34.7 million in the 2011 first quarter. All three quarters included the benefits from tax-exempt income, tax-advantaged investments, and general business credits. At March 31, 2012, we had a net deferred tax asset of \$302.4 million. Based on both positive and negative evidence and our level of forecasted future taxable income, there was no impairment to the deferred tax asset at March 31, 2012. As of March 31, 2012, there is no disallowed deferred tax asset for regulatory capital purposes compared to \$39.1 million and \$89.9 million at December 31, 2011 and March 31, 2011, respectively.

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 2007. We have appealed certain proposed adjustments resulting from the IRS examination of our 2006 and 2007 tax returns. We believe our positions related to such proposed adjustments are correct and supported by applicable statutes, regulations, and judicial authority, and intend to vigorously defend them. In 2011, we entered into discussions with the Appeals Division of the IRS. 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 that the resolution of these examinations will not, individually or in the aggregate, have a material adverse impact on our consolidated financial position. In the 2011 third quarter, the IRS began its examination of our 2008 and 2009 consolidated federal income tax returns. Various state and other jurisdictions remain open to examination, including 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 and the board of directors, as appropriate. Our internal audit department performs on-going independent reviews of the risk management process and ensures the adequacy of documentation. The results of these reviews are reported regularly to the audit committee and board of directors.

We believe that our primary risk exposures are credit, market, liquidity, operational, and compliance oriented. More information on risk can be found in the Risk Factors section included in Item 1A of our 2011 Form 10-K and subsequent filings with the SEC. Additionally, the MD&A included in our 2011 Form 10-K should be read in conjunction with this MD&A as this discussion provides only material updates to the 2011 Form 10-K. Our definition, philosophy, and approach to risk management have not materially changed from the discussion presented in the 2011 Form 10-K.

#### **Credit Risk**

Credit risk is the risk of financial loss if a counterparty is not able to meet the agreed upon terms of the financial obligation. The majority of our credit risk is associated with lending activities, as the acceptance and management of credit risk is central to profitable lending. We also have significant credit risk associated with our available-for-sale and other investment and held-to-maturity 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 for trading activities. While there is credit risk associated with derivative activity, we believe this exposure is minimal. The significant change in the economic conditions and the resulting changes in borrower behavior over the past several years resulted in our continuing focus on the identification, monitoring, and managing of our credit risk. In addition to the traditional credit risk mitigation strategies of credit policies and processes, market risk management activities, and portfolio diversification, we use additional quantitative measurement capabilities utilizing external data sources, enhanced use of modeling technology, and internal stress testing processes. Our portfolio management resources demonstrate our commitment to maintaining an aggregate moderate-to-low risk profile. In our efforts to continue to identify risk mitigation techniques, we have focused on product design features, origination policies, and treatment strategies for delinquent or stressed borrowers.

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

At March 31, 2012, our loans and leases totaled \$40.7 billion, representing a \$1.8 billion, or 5%, increase compared to \$38.9 billion at December 31, 2011, primarily reflecting growth in the C&I portfolio. This C&I loan growth included a \$0.1 billion impact from the FDIC-assisted purchase of Fidelity Bank and a \$0.4 billion impact from the purchase of a portfolio of high quality municipal equipment leases. In addition to these impacts, the C&I loan portfolio reflected a continuation of growth experienced over recent quarters. Also, the automobile portfolio increased \$0.3 billion (*see Automobile Portfolio discussion*).

At March 31, 2012, commercial loans and leases totaled \$21.9 billion, and represented 53% of our total credit exposure. Our commercial loan portfolio represents a higher percentage of our overall loan and lease portfolio compared to recent quarters as a result of the transactions noted above. Our commercial portfolio is diversified along product type, customer size, and geography within our footprint, and is comprised of the following (*see Commercial Credit discussion*):

*C&I* C&I loans and leases are made to commercial customers for use in normal business operations to finance working capital needs, equipment purchases, or other projects. The majority of these borrowers are customers doing business within our geographic regions. C&I loans and leases are generally underwritten individually and secured with the assets of the company and/or the personal guarantee of the business owners. The financing of owner occupied facilities is considered a C&I loan even though there is improved real estate as collateral. This treatment is a result of the credit decision process, which focuses on cash flow from operations of the business to repay the debt. The operation, sale, rental, or refinancing of the real estate is not considered the primary repayment source for these types of loans. As we look to grow our C&I portfolio, we have further developed our ABL capabilities by adding experienced ABL professionals to take advantage of market opportunities resulting in

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better leveraging of the manufacturing base in our primary markets. Also, our Equipment Finance area is targeting larger equipment financings in the manufacturing sector in addition to our core products. We also expanded our Large Corporate Banking area with sufficient resources to ensure we appropriately recognize and manage the risks associated with this type of lending.

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**CRE** CRE loans consist of loans for income-producing real estate properties, real estate investment trusts, and real estate developers. 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 individuals, companies, or developers 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, residential (land, single family, and condominiums), 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 \$18.8 billion at March 31, 2012, and represented 47% of our total loan and lease credit exposure. The consumer portfolio was primarily diversified among automobile, home equity loans and lines-of-credit, and residential mortgages (*see Consumer Credit discussion*).

**Automobile** Automobile loans are primarily comprised of loans made through automotive dealerships and include exposure in selected states outside of our primary banking markets. No state outside of our primary banking markets represented more than 3% of our total automobile portfolio at March 31, 2012. We have successfully implemented a loan securitization strategy to maintain our established portfolio concentration limits.

**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 second-lien on the borrower's residence, allows customers to borrow against the equity in their home. Given the current low interest rate environment, many borrowers have utilized the line-of-credit home equity product as the primary source of financing their home versus residential mortgages. As a result, the proportion of the home equity portfolio secured by a first-lien has increased significantly over the past three years, positively impacting the portfolio's risk profile. The portfolio's credit risk profile is substantially reduced when we hold a first-lien position. During the first three-month period of 2012, 74% of our home equity portfolio originations were secured by a first-lien. The first-lien position, combined with continued high average FICO scores, significantly reduces the PD associated with these loans. The combination provides a strong base when assessing the expected future performance of this portfolio. Real estate market values at the time of origination directly affect the amount of credit extended and, in the event of default, subsequent changes in these values impact the severity of losses. We actively manage the extension of credit and the amount of credit extended through a combination of criteria including financial position, debt-to-income policies, and LTV policy limits.

**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. Generally, our practice is to sell a significant portion of our fixed-rate originations in the secondary market. As such, at March 31, 2012, 51% of our total residential mortgage portfolio were ARMs. These ARMs primarily consist of a fixed-rate of interest for the first 3 to 5 years, and then adjust annually. We are subject to repurchase risk associated with residential mortgage loans sold in the secondary market. An appropriate level of accounting reserve for representations and warranties related to residential mortgage loans sold has been established to address the repurchase risk inherent in the portfolio (*see Operational Risk section*).

**Other consumer** Primarily consists of consumer loans not secured by real estate, including personal unsecured loans.

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

**Table of Contents****Table 8 - Loan and Lease Portfolio Composition**

<i>(dollar amounts in millions)</i>	2012		2011							
	March 31, (1)		December 31,	September 30,	June 30,	March 31,				
Commercial: <sup>(2)</sup>										
Commercial and industrial	\$ 15,838	39%	\$ 14,699	38%	\$ 13,939	36%	\$ 13,544	34%	\$ 13,299	35%
Commercial real estate:										
Construction	597	1	580	1	520	1	591	2	587	2
Commercial	5,443	13	5,246	13	5,414	14	5,573	14	5,711	15
Total commercial real estate	6,040	14	5,826	14	5,934	15	6,164	16	6,298	17
Total commercial	21,878	53	20,525	52	19,873	51	19,708	50	19,597	52
Consumer:										
Automobile	4,787	12	4,458	11	5,558	14	6,190	16	5,802	15
Home equity	8,261	20	8,215	21	8,079	21	7,952	20	7,784	20
Residential mortgage	5,284	13	5,228	13	4,986	13	4,751	12	4,517	12
Other consumer	469	2	498	3	516	1	525	2	546	1
Total consumer	18,801	47	18,399	48	19,139	49	19,418	50	18,649	48
Total loans and leases	\$ 40,679	100%	\$ 38,924	100%	\$ 39,012	100%	\$ 39,126	100%	\$ 38,246	100%

(1) Includes \$521 million of loans recorded at fair value related to the FDIC-assisted Fidelity Bank acquisition.

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

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

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

<i>(dollar amounts in millions)</i>	2012		2011							
	March 31, (1)		December 31,	September 30,	June 30,	March 31,				
Secured loans:										
Real estate - commercial	\$ 9,326	24%	\$ 9,557	25%	\$ 9,554	24%	\$ 9,781	25%	\$ 9,931	26%
Real estate - consumer	13,470	34	13,444	35	13,065	33	12,703	32	12,300	32
Vehicles	6,623	16	6,021	16	6,898	18	7,594	19	7,333	19
Receivables/Inventory	4,749	12	4,450	12	4,297	11	4,171	11	3,819	10
Machinery/Equipment	2,536	6	1,994	5	1,864	5	1,784	5	1,787	5
Securities/Deposits	733	2	800	2	805	2	802	2	778	2
Other	983	2	1,018	1	1,103	3	1,095	3	1,139	3
Total secured loans and leases	38,420	96	\$ 37,284	96%	37,586	96	37,930	97	37,087	97
Unsecured loans and leases	1,738	4	1,640	4	1,426	4	1,196	3	1,159	3
Total loans and leases	\$ 40,158	100%	38,924	100%	\$ 39,012	100%	\$ 39,126	100%	\$ 38,246	100%

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(1) Excludes \$521 million of loans acquired in the FDIC-assisted Fidelity Bank acquisition on March 30, 2012.

### ***Commercial Credit***

The primary factors considered in commercial credit approvals are the financial strength of the borrower, assessment of the borrower's management capabilities, cash flows from operations, industry sector trends, type and sufficiency of collateral, type of exposure, transaction structure, and the general economic outlook. While these are the primary factors considered, there are a number of other factors that may be considered in the decision process. For all loans exceeding \$5.0 million, we utilize a centralized senior loan committee, led by our chief credit officer. For loans less than \$5.0 million, with the exception of small business loans, credit officers who understand each local region and are experienced in the industries and loan structures of the requested credit exposure are involved in all loan decisions and have the primary credit authority. For small business loans, we utilize a centralized loan approval process for standard products and structures. In this centralized decision environment, certain individuals who understand each local region may make credit-extension decisions to preserve our commitment to the communities we operate in. In addition to disciplined and consistent judgmental factors, a sophisticated credit scoring process is used as a primary evaluation tool in the determination of approving a loan within the centralized loan approval process.

In commercial lending, on-going credit management is dependent on the type and nature of the loan. We monitor all significant exposures on an on-going basis. All commercial credit extensions are assigned internal risk ratings reflecting the borrower's PD and LGD (severity of loss). This two-dimensional rating methodology provides granularity in the portfolio management process. The PD is rated and applied at the borrower level. The LGD is rated and applied based on the specific type of credit extension and the quality and lien position associated with the underlying collateral. The internal risk ratings are assessed at origination and updated at each periodic monitoring event. There is also extensive macro portfolio management analysis on an on-going basis. We continually review and adjust our risk-rating criteria based on actual experience, which provides us with the current risk level in the portfolio and is the basis for determining an appropriate ALLL amount for the commercial portfolio. A centralized portfolio management team monitors and reports on the performance of the entire commercial portfolio, including small business loans, to provide consistent oversight.

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In addition to the initial credit analysis conducted during the approval process, our Credit Review group performs testing to provide an independent review and assessment of the quality and / or risk of new loan originations. This group is part of our Risk Management area, and conducts portfolio reviews on a risk-based cycle to evaluate individual loans, validate risk ratings, as well as test the consistency of credit processes.

Our standardized loan grading system considers many components that directly correlate to loan quality and likelihood of repayment, one of which is guarantor support. On an annual basis, or more frequently if warranted, we consider, among other things, the guarantor's reputation and creditworthiness, along with various key financial metrics such as liquidity and net worth, assuming such information is available. Our assessment of the guarantor's credit strength, or lack thereof, is reflected in our risk ratings for such loans, which is directly tied to, and an integral component of, our ALLL methodology. When a loan goes to impaired status, viable guarantor support is considered in the determination of the recognition of a loan loss.

If our assessment of the guarantor's credit strength yields an inherent capacity to perform, we will seek repayment from the guarantor as part of the collection process and have done so successfully. However, we do not formally track the repayment success from guarantors.

Substantially all loans categorized as Classified (*see Note 3 of Notes to Unaudited Condensed Consolidated Financial Statements*) are managed by our SAD. The SAD is a specialized group of credit professionals that handle the day-to-day management of workouts, commercial recoveries, and problem loan sales. Its responsibilities include developing and implementing action plans, assessing risk ratings, and determining the appropriateness of the allowance, the accrual status, and the ultimate collectability of the Classified loan portfolio.

Our commercial portfolio is diversified by product type, customer size, and geography throughout our footprint. No outstanding commercial loans and leases comprised an industry or geographic concentration of lending. Certain segments of our commercial portfolio are discussed in further detail below.

### C&I PORTFOLIO

The C&I portfolio is comprised of loans to businesses where the source of repayment is associated with the on-going operations of the business. Generally, the loans are secured with the financing of the borrower's assets, such as equipment, accounts receivable, and/or inventory. In many cases, the loans are secured by real estate, although the operation, sale, or refinancing of the real estate is not a primary source of repayment for the loan. For loans secured by real estate, appropriate appraisals are obtained at origination and updated on an as needed basis in compliance with regulatory requirements.

There were no commercial loan segments considered an industry or geographic concentration of lending. Currently, higher-risk segments of the C&I portfolio include loans to borrowers supporting the home building industry, contractors, and transportation. We manage the risks inherent in this portfolio through origination policies, a defined loan concentration policy with established limits, on-going loan level reviews and portfolio level reviews, recourse requirements, and continuous portfolio risk management activities. Our origination policies for this portfolio include loan product-type specific policies such as LTV and debt service coverage ratios, as applicable.

While C&I borrowers have been challenged by the weak economy, problem loans have trended downward, reflecting a combination of proactive risk identification as well as some relative improvement in the economic conditions. Nevertheless, some borrowers may no longer have sufficient capital to withstand the extended stress. As a result, these borrowers may not be able to comply with the original terms of their credit agreements. We continue to focus attention on the portfolio management process to proactively identify borrowers that may be facing financial difficulty to assess all potential solutions. The impact of the economic environment is further evidenced by the level of line-of-credit activity, as borrowers continued to maintain relatively low utilization percentages.

### 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, (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. Additionally, we established a limit to our CRE exposure of no more than the amount of Tier 1 risk-based capital plus the ACL. We have been actively reducing our CRE exposure during the past several years, and our CRE exposure met this established limit at March 31, 2012. We actively monitor both geographic and project-type concentrations and performance metrics of all CRE loan types, with a focus on higher-risk classes. 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.



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Each CRE loan is classified as either core or noncore. We believe segregating the noncore CRE from core CRE improves our ability to understand the nature, performance prospects, and problem resolution opportunities of these segments, thus allowing us to continue to deal proactively with any emerging credit issues.

A CRE loan is generally considered core when the borrower is an experienced, well-capitalized developer in our Midwest footprint, and has either an established meaningful relationship with us that generates an acceptable return on capital or demonstrates the prospect of becoming one. The core CRE portfolio was \$3.9 billion at March 31, 2012, representing 70% of total CRE loans. The performance of the core portfolio met our expectations based on the consistency of the asset quality metrics within the portfolio. Based on our extensive project level assessment process, including forward-looking collateral valuations, we continue to believe the credit quality of the core portfolio is stable. Loans are not reclassified between the core and noncore segments based on performance, and as such, we do not anticipate an elevated level of problem loans in the core portfolio.

A CRE loan is generally considered noncore based on the lack of a substantive relationship outside of the loan product, with no immediate prospects for meeting the core relationship criteria. The noncore CRE portfolio declined from \$1.8 billion at December 31, 2011, to \$1.7 billion at March 31, 2012, and represented 30% of total CRE loans. Of the loans in the noncore portfolio at March 31, 2012, 69% were categorized as Pass, 95% had guarantors, nearly 100% were secured, and 89% were located within our geographic footprint. However, it is within the noncore portfolio where most of the credit quality challenges exist. For example, \$0.2 billion, or 11%, of related outstanding balances, are classified as NALs. SAD administered \$0.7 billion, or 40%, of total noncore CRE loans at March 31, 2012. We expect to exit the majority of noncore CRE relationships over time through normal repayments and refinancings, possible sales should economically attractive opportunities arise, or the reclassification to a core CRE relationship if it expands to meet the core criteria.

Credit quality data regarding the ACL and NALs, segregated by core CRE loans and noncore CRE loans, is presented in the following table:

**Table 10 - Commercial Real Estate - Core vs. Noncore Portfolios (1)**

<i>(dollar amounts in millions)</i>	Ending Balance	Prior NCOs	March 31, 2012			Nonaccrual Loans
			ACL \$	ACL %	Credit Mark (2)	
Total core	\$ 3,947	\$ 14	\$ 110	2.79%	3.13%	\$ 24
Noncore - SAD (3)	694	237	168	24.21	43.50	173
Noncore - Other	1,020	17	67	6.57	8.10	8
Total noncore	1,714	254	235	13.71	24.85	181
Total commercial real estate	\$ 5,661	\$ 268	\$ 345	6.09%	10.34%	\$ 205
			December 31, 2011			
Total core	\$ 3,978	\$ 25	\$ 125	3.14%	3.75 %	\$ 26
Noncore - SAD (3)	735	253	182	24.76	44.03	195
Noncore - Other	1,113	17	88	7.91	9.29	9
Total noncore	1,848	270	270	14.61	25.50	204
Total commercial real estate	\$ 5,826	\$ 295	\$ 395	6.78%	11.27%	\$ 230

(1) Excludes \$378 million of commercial real estate loans acquired in the FDIC-assisted Fidelity Bank acquisition on March 30, 2012.

(2) Calculated as (Prior NCOs + ACL \$) / (Ending Balance + Prior NCOs).

(3) Noncore loans managed by SAD, the area responsible for managing loans and relationships designated as Classified Loans.



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As shown in the above table, the ending balance of the CRE portfolio at March 31, 2012, declined \$0.2 billion, or 3%, compared with December 31, 2011. Of this decline, 81% occurred in the noncore segment, and was a result of payoffs and NCOs as we actively focus on the noncore portfolio to reduce our overall CRE exposure. This reduction demonstrates our continued commitment to achieving a materially lower risk profile in the CRE portfolio, consistent with our overall objective of maintaining an aggregate moderate-to-low risk profile. The reduction in the core segment is a result of normal portfolio attrition combined with limited origination activity. We will continue to support our core developer customers as appropriate, however, we do not believe that significant additional CRE activity is appropriate given our current exposure in CRE lending and the current economic conditions. We anticipate CRE loans will continue to experience low levels of declines from current levels as the runoff in the noncore portfolio is partially offset by limited new core originations.

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Also, as shown above, substantial reserves for the noncore portfolio have been established. At March 31, 2012, the ACL related to the noncore portfolio was 13.71%. The combination of the existing ACL and prior NCOs represents the total credit actions taken on each segment of the portfolio. From this data, we calculate a credit mark that provides a consistent measurement of the cumulative credit actions taken against a specific portfolio segment. The 43.50% credit mark associated with the SAD-managed noncore portfolio is an indicator of the aggressive portfolio management strategy employed for this portfolio.

**Consumer Credit**

Consumer credit approvals are based on, among other factors, the financial strength and payment history of the borrower, type of exposure, and the transaction structure. We make extensive use of portfolio assessment models to continuously monitor the quality of the portfolio, which may result in changes to future origination strategies. The on-going analysis and review process results in a determination of an appropriate allowance for our consumer loan and lease portfolio.

**AUTOMOBILE PORTFOLIO**

Our strategy in the automobile portfolio continued to focus on high quality borrowers as measured by both FICO and internal custom scores, combined with appropriate LTVs, terms, and a reasonable level of 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 strategy and operational capabilities 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 standard while growing the portfolio. We have developed and implemented a loan securitization strategy to ensure we remain within our established portfolio concentration limits.

During the 2012 first quarter, we transferred automobile loans totaling \$1.3 billion to a trust in a securitization transaction. The securitization and resulting sale of all underlying securities qualified for sale accounting. As a result of this transaction, we recognized a \$23.0 million gain on sale which is reflected in other noninterest income and recorded a \$19.9 million servicing asset which is reflected in accrued income and other assets.

**RESIDENTIAL REAL ESTATE SECURED PORTFOLIOS**

The properties securing our residential mortgage and home equity portfolios are primarily located within our geographic footprint. The continued stress on home prices has caused the performance in these portfolios to remain weaker than historical levels. 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. We continue to evaluate all of our policies and processes associated with managing these portfolios. Our loss mitigation and foreclosure activities are consolidated in one location under common management. This structure allows us to focus on effectively helping our customers with the appropriate solution for their specific circumstances.

**Table 11 - Selected Home Equity and Residential Mortgage Portfolio****Data**

<i>(dollar amounts in millions)</i>	Home Equity				Residential Mortgage	
	Secured by first-lien		Secured by second-lien		03/31/12	12/31/11
	03/31/12	12/31/11	03/31/12	12/31/11		
Ending balance <sup>(1)</sup>	\$ 3,967	\$ 3,815	\$ 4,281	\$ 4,400	\$ 5,222	\$ 5,228
Portfolio weighted average LTV ratio <sup>(1), (2)</sup>	71%	71%	81%	81%	77%	77%
Portfolio weighted average FICO score <sup>(1), (3)</sup>	749	749	732	734	733	731

  

	Home Equity				Residential Mortgage (4)	
	Secured by first-lien		Secured by second-lien		2012	2011
	2012	2011	Three Months Ended March 31,			
	2012	2011	2012	2011	2012	2011

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Originations	\$ 427	\$ 404	\$ 147	\$ 194	\$ 202	\$ 304
Origination weighted average LTV ratio <sup>(2)</sup>	71%	71%	81%	82%	78%	82%
Origination weighted average FICO score <sup>(3)</sup>	772	767	757	756	755	755

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- (1) Excludes \$62 million of residential mortgage loans and \$13 million of home equity loans acquired in the FDIC-assisted Fidelity Bank acquisition on March 30, 2012.
- (2) 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.
- (3) 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.
- (4) Represents only owned-portfolio originations.

**Home Equity Portfolio**

Our home equity portfolio (loans and lines-of-credit) consists of both first-lien and second-lien mortgage loans with underwriting criteria based on minimum credit scores, debt-to-income ratios, and LTV ratios. We offer closed-end home equity loans which are generally fixed-rate with principal and interest payments, and variable-rate interest-only home equity lines-of-credit which do not require payment of principal during the 10-year revolving period of the line-of-credit. Applications are underwritten centrally in conjunction with an automated underwriting system.

At March 31, 2012, 48% of our home equity portfolio was secured by first-lien mortgages. The credit risk profile is substantially reduced when we hold a first-lien position. During the first three-month period of 2012, 74% of our home equity portfolio originations were secured by a first-lien mortgage. We focus on high quality borrowers primarily located within our footprint. The majority of our home equity line-of-credit borrowers consistently pay more than the minimum payment required in any given month. Additionally, since we focus on developing complete relationships with our customers, many of our home equity borrowers are utilizing other products and services. The combination of high quality borrowers as measured by financial condition and FICO score, as well as the lien position, provide a high degree of confidence regarding the performance of the 2009-2011 originations.

Within the home equity line-of-credit portfolio, the standard product is a 10-year interest-only draw period with a balloon payment and represents a majority of the line-of-credit portfolio at March 31, 2012. As previously discussed, a significant portion of recent originations are secured by first-liens on the underlying property as high quality borrowers take advantage of the low variable-rates available with a line-of-credit. If the current 30-year fixed-rate declines substantially from its already low level, we would anticipate some portion of these first-lien line-of-credit borrowers to refinance to a more traditional residential mortgage at a fixed-rate.

We believe we have underwritten credit conservatively within this portfolio. We have not originated home equity loans or lines-of-credit with an LTV at origination greater than 100%, except for infrequent situations with high quality borrowers. However, continued declines in housing prices have decreased the value of the collateral for this portfolio and have caused a portion of the portfolio to have an LTV greater than 100%. These higher LTV ratios are directly correlated with borrower payment patterns and are a particular focus of our Loss Mitigation and Home Saver groups.

We obtain a property valuation for every loan or line-of-credit. The type of property valuation obtained is based on a series of credit parameters, and ranges from an AVM to a complete walkthrough appraisal. While we believe an AVM estimate is an appropriate valuation source for a portion of our home equity lending activities, we continue to re-evaluate all of our policies on an on-going basis with the intent of ensuring complete independence in the requesting and reviewing of real estate valuations associated with loan decisions. We update values as appropriate, and in compliance with applicable regulations, for loans identified as higher risk. Loans are identified as higher risk based on performance indicators and the updated values are utilized to facilitate our portfolio management processes, as well as our workout and loss mitigation functions.

We continue to make origination policy adjustments based on our assessment of an appropriate risk profile, as well as industry actions. In addition to origination policy adjustments, we take actions, as necessary, to manage the risk profile of this portfolio. Regulatory guidance published in January 2012 addressed specific risks and required actions within the home equity portfolio associated with second-lien loans. At March 31, 2012, 52% of our home equity portfolio is secured by second-lien mortgages. We believe our Credit Risk Management systems allow for effective portfolio analysis and segmentation to identify the highest risk exposures in the portfolio. Our disclosures regarding lien position, FICO distribution, and geographical distribution are examples of segmentation analysis. The collateral value assessment is an important component of the overall credit risk analysis, although from a practical standpoint, there are very few instances of available equity in second-lien default situations. We have established a 100% LGD for second-lien exposures. We have identified an emerging trend where borrowers are making a purposeful financial decision to stop making required payments on the second-lien, and in some cases, the first-lien. This strategic default scenario is generally associated with borrowers that have very limited or no history of delinquency. These accounts also tend to migrate quickly from a current status to charge-off without the historical stops at each delinquency stage. The resulting increase in the relative speed of the migration from current status to charge-off represents a negative impact to the longer term performance of the portfolio. Effective with the 2012 first quarter, any second-lien loan associated with a nonaccruing first-lien loan is also placed on nonaccrual status. This action resulted in an increase in home equity NALs of \$8.7 million in the 2012 first quarter. Also contained in the regulatory guidance was an item associated with maturing HELOCs. Even in situations where the product contains an amortization period at the conclusion of the draw period, there will likely

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be a payment shock to the borrower. This is a risk embedded in the portfolio that we address with proactive contact strategies beginning 180 days prior to maturity. In certain circumstances, our Home Savers team is able to provide payment and structure relief to borrowers experiencing significant financial hardship associated with the payment adjustment.

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### **Residential Mortgage Portfolio**

We focus on higher quality borrowers and underwrite all applications centrally. We do not originate residential mortgages that allow negative amortization or allow the borrower multiple payment options.

All residential mortgages are originated based on a completed full appraisal during the credit underwriting process. We update values on a regular basis in compliance with applicable regulations to facilitate our portfolio management, as well as our workout and loss mitigation functions.

At March 31, 2012, 51% of our total residential mortgage loan portfolio had adjustable rates. At March 31, 2012, ARM loans that were expected to have rates reset totaled \$1.8 billion through 2015. These loans scheduled to reset are primarily associated with loans originated subsequent to 2007, and as such, are not subject to the most significant declines in underlying property value. Given the quality of our borrowers, the relatively low current interest rates, and the results of our continued analysis (including possible impacts of changes in interest rates), we believe that we have a relatively limited exposure to ARM reset risk. Nonetheless, we have taken actions to mitigate our risk exposure. We initiate borrower contact at least six months prior to the interest rate resetting, and have been successful in converting many ARMs to fixed-rate loans through this process. Given the relatively low current interest rates, many fixed-rate products currently offer a better interest rate to our ARM borrowers.

Several government programs continued to impact the residential mortgage portfolio, including various refinance programs such as HAMP and HARP, which positively affected the availability of credit for the industry. During the first three-month period of 2012, we closed \$228 million in HARP residential mortgages and \$6 million in HAMP residential mortgages that are either in our residential mortgage portfolio or serviced for others. We utilize these programs to enhance our existing strategies of working closely with our customers. As the majority of these refinancings are associated with residential mortgages that are serviced for others, our exposure to redefault risk is minimal.

### ***Credit Quality***

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 2012 first quarter reflected a continued improvement in the overall loan portfolio relating to NCO activity, as well as in key credit quality metrics, including an 11% decline in NPAs and an 8% decline in the level of commercial criticized loans. Also, our ACL coverage ratios improved compared to the prior quarter. Our ACL as a percentage of NPAs improved to 183% at March 31, 2012 compared with 172% at December 31, 2011.

### **NPAs, NALs, AND TDRs**

*(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.

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C&I and CRE loans are placed on nonaccrual status at 90-days past due. With the exception of residential mortgage loans guaranteed by government organizations which continue to accrue interest, residential mortgage loans are placed on nonaccrual status at 150-days past due. First-lien home equity loans are placed on nonaccrual status at 150-days past due. Second-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 not placed on nonaccrual status, but are generally charged-off when the loan is 120-days past due. When interest accruals are suspended, accrued interest income is reversed with current year accruals charged to earnings and prior year amounts generally charged-off as a credit loss. When, in our judgment, the borrower's ability to make required interest and principal payments has resumed and collectability is no longer in doubt, the loan or lease is returned to accrual status.

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

**Table of Contents****Table 12 - Nonaccrual Loans and Leases and Nonperforming Assets**

<i>(dollar amounts in thousands)</i>	2012	December 31,	September 30,	2011	
	March 31,			June 30,	March 31,
<b>Nonaccrual loans and leases:</b>					
Commercial and industrial	<b>\$ 142,492</b>	\$ 201,846	\$ 209,632	\$ 229,327	\$ 260,397
Commercial real estate	<b>205,105</b>	229,889	257,086	291,500	305,793
Residential mortgage	<b>74,114</b>	68,658	61,129	59,853	44,812
Home equity	<b>45,847</b>	40,687	37,156	33,545	25,255
Total nonaccrual loans and leases <sup>(1)</sup>	<b>467,558</b>	541,080	565,003	614,225	636,257
Other real estate owned, net					
Residential <sup>(2)</sup>	<b>31,850</b>	20,330	18,588	20,803	28,668
Commercial	<b>16,897</b>	18,094	19,418	17,909	25,961
Total other real estate owned, net	<b>48,747</b>	38,424	38,006	38,712	54,629
Other nonperforming assets <sup>(3)</sup>	<b>10,772</b>	10,772	10,972		
Total nonperforming assets	<b>\$ 527,077</b>	\$ 590,276	\$ 613,981	\$ 652,937	\$ 690,886
Nonaccrual loans as a % of total loans and leases	1.15 %	1.39 %	1.45 %	1.57 %	1.66 %
Nonperforming assets ratio <sup>(4)</sup>	1.29	1.51	1.57	1.67	1.80

- (1) All loans acquired as part of the FDIC-assisted Fidelity Bank acquisition accrue interest as performing loans or as purchased impaired loans in accordance with ASC 310-30; therefore, none of the acquired loans were reported as nonaccrual at March 31, 2012.
- (2) Nonperforming assets include \$7,986 thousand of residential real estate owned acquired as part of the FDIC-assisted Fidelity Bank acquisition on March 30, 2012.
- (3) Other nonperforming assets represent an investment security backed by a municipal bond.
- (4) This ratio is calculated as nonperforming assets divided by the sum of loans and leases, other nonperforming assets, and net other real estate.

The \$63.2 million, or 11%, decline in NPAs compared with December 31, 2011, primarily reflected:

\$59.4 million, or 29%, decline in C&I NALs, reflecting both NCO activity and problem credit resolutions, including payoffs. The decline was associated with loans throughout our footprint, with no specific industry concentration.

\$24.8 million, or 11%, decline in CRE NALs, reflecting both NCO activity and problem credit resolutions, including borrower payments and payoffs. This activity represents the continuation of an improving trend evident over the past several quarters. We continue to focus on early recognition of risks and targeted actions through our on-going portfolio management processes.

Partially offset by:

\$10.3 million, or 27%, increase in OREO, primarily reflecting the impact of the FDIC-assisted acquisition of Fidelity Bank.

\$5.5 million, or 8%, increase in NALs secured by residential mortgages, primarily reflecting the current weak economic conditions and the decline of residential real estate property values. The NAL balances have been written down to