HUNTINGTON BANCSHARES INC/MD
Form 10-Q
July 30, 2018
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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 June 30, 2018
Commission File Number 1-34073
Huntington Bancshares Incorporated

Maryland	31-0724920
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

Registrant's address: 41 South High Street, Columbus, Ohio 43287
Registrant’s telephone number, including area code: (614) 480-2265
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. x Yes ¨ No
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, 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). x Yes ¨ No
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):
Large accelerated filer x Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)
Smaller reporting company ¨
Emerging growth company ¨
If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).
¨ Yes x No
There were 1,104,226,603 shares of the Registrant’s common stock ($0.01 par value) outstanding on June 30, 2018.

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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:

ACL	Allowance for Credit Losses
AFS	Available-for-Sale
ALLL	Allowance for Loan and Lease Losses
AOCI	Accumulated Other Comprehensive Income
ASC	Accounting Standards Codification
AULC	Allowance for Unfunded Loan Commitments
Basel III	Refers to the final rule issued by the FRB and OCC and published in the Federal Register on October 11, 2013
C&I	Commercial and Industrial
CCAR	Comprehensive Capital Analysis and Review
CDs	Certificates of Deposit
CET1	Common equity tier 1 on a transitional Basel III basis
CFPB	Bureau of Consumer Financial Protection
CMO	Collateralized Mortgage Obligations
CRE	Commercial Real Estate
EPS	Earnings Per Share
EVE	Economic Value of Equity
FDIC	Federal Deposit Insurance Corporation
FHLB	Federal Home Loan Bank
FICO	Fair Isaac Corporation
FirstMerit	FirstMerit Corporation
FRB	Federal Reserve Bank
FTE	Fully-Taxable Equivalent
FTP	Funds Transfer Pricing
FVO	Fair Value Option
GAAP	Generally Accepted Accounting Principles in the United States of America
HTM	Held-to-Maturity
IRS	Internal Revenue Service
LCR	Liquidity Coverage Ratio
LIBOR	London Interbank Offered Rate
MBS	Mortgage-Backed Securities
MD&A	Management’s Discussion and Analysis of Financial Condition and Results of Operations
MSR	Mortgage Servicing Right
NAICS	North American Industry Classification System
NALs	Nonaccrual Loans
NCO	Net Charge-off
NII	Noninterest Income
NIM	Net Interest Margin
NPAs	Nonperforming Assets
NSF	Non-sufficient funds
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

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Plan	Huntington Bancshares Retirement Plan
RBHPCG	Regional Banking and The Huntington Private Client Group
ROC	Risk Oversight Committee
SAD	Special Assets Division
SBA	Small Business Administration
SEC	Securities and Exchange Commission
TCJA	H.R. 1, Originally known as the Tax Cuts and Jobs Act
TDR	Troubled Debt Restructuring
U.S. Treasury	U.S. Department of the Treasury
UCS	Uniform Classification System
VIE	Variable Interest Entity
XBRL	eXtensible Business Reporting Language

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PART I. FINANCIAL INFORMATION

When we refer to “we”, “our”, and “us”, "Huntington," and "the Company" 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 over 150 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, recreational vehicle and marine financing, equipment leasing, investment management, trust services, brokerage services, insurance programs, and other financial products and services. Our 968 branches and private client group offices are located in Ohio, Illinois, Indiana, Kentucky, Michigan, Pennsylvania, West Virginia, and Wisconsin. Select financial services and other activities are also conducted in various other states. International banking services are available through the headquarters office in Columbus, Ohio. 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 2017 Form 10-K should be read in conjunction with this MD&A as this discussion provides only material updates to the 2017 Form 10-K. This MD&A should also be read in conjunction with the Unaudited Condensed Consolidated Financial Statements, Notes to Unaudited Condensed Consolidated Financial Statements, and other information contained in this report.

EXECUTIVE OVERVIEW

Summary of 2018 Second Quarter Results Compared to 2017 Second Quarter

For the quarter, we reported net income of $355 million, or $0.30 per common share, compared with $272 million, or $0.23 per common share, in the year-ago quarter (see Table 1).

Fully-taxable equivalent (FTE) net interest income was $791 million, up $34 million, or 4%. The results reflected the benefit from a $4.6 billion, or 5%, increase in average earning assets, partially offset by a two basis point decrease in the FTE net interest margin (NIM) to 3.29%. Average earning asset growth included a $4.5 billion, or 7%, increase in average loans and leases. Average earning asset yields increased 32 basis points year-over-year, driven by a 34 basis point improvement in loan yields. Average funding costs increased 44 basis points, although interest-bearing deposit costs only increased 28 basis points. The cost of short-term borrowings and long-term debt increased 104 basis points and 126 basis points, respectively. Embedded within these yields and costs, FTE net interest income during the 2018 second quarter included $19 million, or approximately 8 basis points, of purchase accounting impact compared to $34 million, or approximately 15 basis points, in the year-ago quarter.

The provision for credit losses increased $31 million year-over-year to $56 million in the 2018 second quarter. NCOs decreased $8 million to $28 million. NCOs represented an annualized 0.16% of average loans and leases, down from 0.21% in the year ago quarter.

Non-interest income was $336 million, up $11 million, or 3%, reflecting ongoing household / relationship acquisition and execution of our Optimal Customer Relationship (OCR) strategy. Trust and investment management services increased $5 million, or 14%, reflecting strong equity market performance. Other income decreased $5 million, or 10%, primarily reflecting a $3 million unfavorable Visa Class B derivative fair value adjustment.

Non-interest expense was $652 million, down $42 million, or 6%, due to the $50 million of acquisition-related Significant Items in the year-ago quarter compared with no Significant Items in the current quarter. Personnel costs increased $4 million, or 1%, primarily reflecting increased incentive compensation and benefits costs, partially offset by an $18 million decrease in acquisition-related Significant Items. Other expense decreased $10 million, or 17%, primarily reflecting a decrease in franchise taxes and $4 million of acquisition-related Significant Items in the year-ago quarter.

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The tangible common equity to tangible assets ratio was 7.78%, up 37 basis points from a year-ago. The CET1 risk-based capital ratio was 10.53% at June 30, 2018, compared to 9.88% a year ago. The regulatory Tier 1 risk-based capital ratio was 11.99% compared to 11.24% at June 30, 2017.

The Company did not repurchase any common stock during the 2018 second quarter. Under the 2017 CCAR capital plan executed over the past four quarters, the Company repurchased $308 million of common stock at an average cost of $13.71 per share.

Business Overview

General

Our general business objectives are:

1. Grow organic revenue across all business segments.
2. Invest in our businesses, particularly technology and risk management.
3. Deliver positive operating leverage.
4. Manage capital and liquidity positions consistent with our risk appetite.

Economy

The economies in our footprint continue to perform well, with strength across geographies, industries, and business stratifications. We are encouraged by the outlook for continued loan and deposit growth in coming quarters. While pipelines are steady and customer sentiment remains strong, some of our customers are monitoring international trade agreements and tariffs that could have a dampening effect on economic growth.

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”.

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Table 1 - Selected Quarterly Income Statement Data (1)
(dollar amounts in millions, except per share amounts)

	Three Months Ended				
	June 30, 2018	March 31, 2018	December 31, 2017	September 30, 2017	June 30, 2017
Interest income	$972	$914	$894	$873	$846
Interest expense	188	144	124	115	101
Net interest income	784	770	770	758	745
Provision for credit losses	56	66	65	43	25
Net interest income after provision for credit losses	728	704	705	715	720
Service charges on deposit accounts	91	86	91	91	88
Cards and payment processing income	56	53	53	54	52
Trust and investment management services	42	44	41	39	37
Mortgage banking income	28	26	33	34	32
Insurance income	21	21	21	18	22
Capital markets fees	21	19	23	22	17
Bank owned life insurance income	17	15	18	16	15
Gain on sale of loans	15	8	17	14	12
Securities gains (losses)	—	—	(4)	—	—
Other income	45	42	47	42	50
Total noninterest income	336	314	340	330	325
Personnel costs	396	376	373	377	392
Outside data processing and other services	69	73	71	80	75
Net occupancy	35	41	36	55	53
Equipment	38	40	36	45	43
Deposit and other insurance expense	18	18	19	19	20
Professional services	15	11	18	15	18
Marketing	18	8	10	17	19
Amortization of intangibles	13	14	14	14	14
Other expense	50	52	56	58	60
Total noninterest expense	652	633	633	680	694
Income before income taxes	412	385	412	365	351
Provision (benefit) for income taxes	57	59	(20)	90	79
Net income	355	326	432	275	272
Dividends on preferred shares	21	12	19	19	19
Net income applicable to common shares	$334	$314	$413	$256	$253
Average common shares—basic	1,103,337	1,083,836	1,077,397	1,086,038	1,088,934
Average common shares—diluted	1,122,612	1,124,778	1,130,117	1,106,491	1,108,527
Net income per common share—basic	$0.30	$0.29	$0.38	$0.24	$0.23
Net income per common share—diluted	0.30	0.28	0.37	0.23	0.23
Cash dividends declared per common share	0.11	0.11	0.11	0.08	0.08
Return on average total assets	1.36 %	1.27 %	1.67 %	1.08 %	1.09 %
Return on average common shareholders' equity	13.2	13.0	17.0	10.5	10.6
Return on average tangible common shareholders' equity (2)	17.6	17.5	22.7	14.1	14.4
Net interest margin (3)	3.29	3.30	3.30	3.29	3.31
Efficiency ratio (4)	56.6	56.8	54.9	60.5	62.9

Effective tax rate	13.8	15.3	(4.8)	24.7	22.4
Revenue—FTE					
Net interest income	$784	$770	$770	$758	$745
FTE adjustment	7	7	12	13	12
Net interest income (3)	791	777	782	771	757
Noninterest income	336	314	340	330	325
Total revenue (3)	$1,127	$1,091	$1,122	$1,101	$1,082

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Table 2 - Selected Year to Date Income Statements (1)

	Six Months Ended June 30,		Change	
(dollar amounts in millions, except per share amounts)	2018	2017	Amount	Percent
Interest income	$1,886	$ 1,667	$219	13 %
Interest expense	332	192	140	73
Net interest income	1,554	1,475	79	5
Provision for credit losses	122	93	29	31
Net interest income after provision for credit losses	1,432	1,382	50	4
Service charges on deposit accounts	177	171	6	4
Cards and payment processing income	109	100	9	9
Trust and investment management services	86	76	10	13
Mortgage banking income	54	64	(10)	(16)
Insurance income	42	42	—	—
Capital markets fees	40	31	9	29
Bank owned life insurance income	32	33	(1)	(3)
Gain on sale of loans	23	25	(2)	(8)
Securities gains (losses)	—	—	—	—
Other noninterest income	87	96	(9)	(9)
Total noninterest income	650	638	12	2
Personnel costs	772	774	(2)	—
Outside data processing and other services	142	162	(20)	(12)
Net occupancy	76	120	(44)	(37)
Equipment	78	90	(12)	(13)
Deposit and other insurance expense	36	41	(5)	(12)
Professional services	26	36	(10)	(28)
Marketing	26	33	(7)	(21)
Amortization of intangibles	27	29	(2)	(7)
Other noninterest expense	102	117	(15)	(13)
Total noninterest expense	1,285	1,402	(117)	(8)
Income before income taxes	797	618	179	29
Provision for income taxes	116	138	(22)	(16)
Net income	681	480	201	42
Dividends declared on preferred shares	33	38	(5)	(13)
Net income applicable to common shares	$648	$ 442	$206	47 %
Average common shares—basic	1,093,587	1,087,654	5,933	1 %
Average common shares—diluted	1,123,646	1,108,572	15,074	1
Net income per common share—basic	$0.59	$ 0.41	$0.18	44
Net income per common share—diluted	0.58	0.40	0.18	45
Cash dividends declared per common share	0.22	0.16	0.06	38
Revenue—FTE				
Net interest income	$1,554	$ 1,475	$79	5 %
FTE adjustment	14	24	(10)	(42)
Net interest income (3)	1,568	1,499	69	5

Noninterest income	650	638	12	2	
Total revenue (3)	$2,218	$ 2,137	$81	4	%

(1) Comparisons for presented periods are impacted by a number of factors. Refer to the “Significant Items” for additional discussion regarding these key factors.

(2) Net income excluding expense for amortization of intangibles for the period divided by average tangible common shareholders’ equity. Average tangible common shareholders’ equity equals average total common shareholders’ equity less average intangible assets and goodwill. Expense for amortization of intangibles and average intangible assets are net of deferred tax liability, and calculated assuming a 21% tax rate and a 35% tax rate for periods prior to December 31, 2017.

(3) On a fully-taxable equivalent (FTE) basis assuming a 21% tax rate and a 35% tax rate for periods prior to January 1, 2018.

(4) Noninterest expense less amortization of intangibles and goodwill impairment divided by the sum of FTE net interest income and noninterest income excluding securities gains.

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Significant Items

There were no Significant Items in the 2018 second quarter.

Earnings comparisons are impacted by the Significant Items summarized below:

Mergers and Acquisitions. Significant events relating to mergers and acquisitions, and the impacts of those events on our reported results, are as follows:

- During the 2017 second quarter, $50 million of noninterest expense was recorded related to the acquisition of FirstMerit. This resulted in a negative impact of $0.03 per common share.

The following table reflects the earnings impact of the above-mentioned Significant Items for the periods affected:

Table 3 - Significant Items Influencing Earnings Performance Comparison

	Three Months Ended					
	June 30, 2018		March 31, 2018		June 30, 2017	
(dollar amounts in millions, except per share amounts)	Amount	EPS (1)	Amount	EPS (1)	Amount	EPS (1)
Net income	$355		$326		$272	
Earnings per share, after-tax		$ 0.30		$ 0.28		$0.23
Significant Items—favorable (unfavorable) impact:	Earnings	EPS (1)	Earnings	EPS (1)	Earnings	EPS (1)
Mergers and acquisitions, net expenses	$—		$—		$(50)	
Tax impact	—		—		17	
Mergers and acquisitions, after-tax	$—	$ —	$—	$ —	$(33)	$(0.03)

(1) Based upon the quarterly average outstanding diluted common shares.

	Six Months Ended			
	June 30, 2018		June 30, 2017	
(dollar amounts in millions, except per share amounts)	Amount	EPS (1)	Amount	EPS (1)
Net income	$681		$480	
Earnings per share, after-tax		$ 0.58		$0.40
Significant Items—favorable (unfavorable) impact:	Earnings	EPS (1)	Earnings	EPS (1)
Mergers and acquisitions, net expenses	$—		$(121)	
Tax impact	—		42	
Mergers and acquisitions, after-tax	$—	$ —	$(79)	$(0.07)

(1) Based upon the year to date average outstanding diluted common shares.

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Net Interest Income / Average Balance Sheet

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

Table 4 - Consolidated Average Balance Sheet and Net Interest Margin Analysis

	Average Balances Three Months Ended					Change	
	June 30,	March 31,	December 31,	September 30,	June 30,	2Q18 vs. 2Q17	
(dollar amounts in millions)	2018	2018	2017	2017	2017	Amount	Percent
Assets:							
Interest-bearing deposits in banks	$84	$90	$90	$102	$102	$(18)	(18)%
Securities:							
Trading account securities	82	87	87	92	91	(9)	(10)
Available-for-sale securities:							
Taxable	10,832	11,158	11,154	11,680	12,570	(1,738)	(14)
Tax-exempt	3,554	3,633	3,404	3,160	3,103	451	15
Total available-for-sale securities	14,386	14,791	14,558	14,840	15,673	(1,287)	(8)
Held-to-maturity securities—taxable	8,706	8,877	9,066	8,264	7,426	1,280	17
Other securities	599	605	598	597	566	33	6
Total securities	23,773	24,360	24,309	23,793	23,756	17	—
Loans held for sale	619	478	598	678	525	94	18
Loans and leases: (3)							
Commercial:							
Commercial and industrial	28,863	28,243	27,445	27,643	27,992	871	3
Commercial real estate:							
Construction	1,126	1,189	1,199	1,152	1,130	(4)	—
Commercial	6,233	6,142	5,997	6,064	5,940	293	5
Commercial real estate	7,359	7,331	7,196	7,216	7,070	289	4
Total commercial	36,222	35,574	34,641	34,859	35,062	1,160	3
Consumer:							
Automobile	12,271	12,100	11,963	11,713	11,324	947	8
Home equity	9,941	10,040	10,027	9,960	9,958	(17)	—
Residential mortgage	9,624	9,174	8,809	8,402	7,979	1,645	21
RV and marine finance	2,667	2,481	2,405	2,296	2,039	628	31
Other consumer	1,162	1,115	1,095	1,046	983	179	18
Total consumer	35,665	34,910	34,299	33,417	32,283	3,382	10
Total loans and leases	71,887	70,484	68,940	68,276	67,345	4,542	7
Allowance for loan and lease losses	(742)	(709)	(688)	(672)	(672)	(70)	(10)
Net loans and leases	71,145	69,775	68,252	67,604	66,673	4,472	7
Total earning assets	96,363	95,412	93,937	92,849	91,728	4,635	5
Cash and due from banks	1,283	1,217	1,226	1,299	1,287	(4)	—
Intangible assets	2,318	2,332	2,346	2,359	2,373	(55)	(2)
All other assets	5,599	5,596	5,481	5,455	5,405	194	4
Total assets	$104,821	$103,848	$102,302	$101,290	$100,121	$4,700	5 %
Liabilities and Shareholders' Equity:							
Deposits:							
Demand deposits—noninterest-bearing	20,382	20,572	21,745	21,723	21,599	$(1,217)	(6)%
Demand deposits—interest-bearing	19,121	18,630	18,175	17,878	17,445	1,676	10
Total demand deposits	39,503	39,202	39,920	39,601	39,044	459	1

Money market deposits	20,943	20,678	20,731	20,314	19,212	1,731	9
Savings and other domestic deposits	11,146	11,219	11,348	11,590	11,889	(743)	(6)
Core certificates of deposit	3,794	2,293	1,947	2,044	2,146	1,648	77
Total core deposits	75,386	73,392	73,946	73,549	72,291	3,095	4
Other domestic time deposits of $250,000 or more	243	247	400	432	479	(236)	(49)
Brokered deposits and negotiable CDs	3,661	3,307	3,391	3,563	3,783	(122)	(3)
Total deposits	79,290	76,946	77,737	77,544	76,553	2,737	4
Short-term borrowings	3,082	5,228	2,837	2,391	2,687	395	15
Long-term debt	9,225	8,958	9,232	8,949	8,730	495	6
Total interest-bearing liabilities	71,215	70,560	68,061	67,161	66,371	4,844	7
All other liabilities	1,891	1,861	1,819	1,661	1,557	334	21
Shareholders’ equity	11,333	10,855	10,677	10,745	10,594	739	7
Total liabilities and shareholders’ equity	$104,821	$103,848	$102,302	$101,290	$100,121	$4,700	5 %

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Table 4 - Consolidated Average Balance Sheet and Net Interest Margin Analysis (Continued)

	Average Yield Rates (2)				
	Three Months Ended				
Fully-taxable equivalent basis (1)	June 30, 2018	March 31, 2018	December 31, 2017	September 30, 2017	June 30, 2017
Assets:					
Interest-bearing deposits in banks	1.95 %	1.97 %	1.92 %	1.77 %	1.53 %
Securities:					
Trading account securities	0.23	0.15	0.21	0.16	0.25
Available-for-sale securities:					
Taxable	2.63	2.51	2.45	2.38	2.35
Tax-exempt	3.35	3.18	3.76	3.62	3.71
Total available-for-sale securities	2.81	2.67	2.75	2.64	2.62
Held-to-maturity securities—taxable	2.42	2.45	2.41	2.36	2.38
Other securities	4.58	3.98	3.86	3.35	3.18
Total securities	2.71	2.62	2.64	2.55	2.55
Loans held for sale	4.17	3.82	3.68	3.83	3.73
Loans and leases: (3)					
Commercial:					
Commercial and industrial	4.52	4.28	4.17	4.05	4.04
Commercial real estate:					
Construction	5.26	4.73	4.47	4.55	4.26
Commercial	4.58	4.24	4.03	4.08	3.97
Commercial real estate	4.68	4.32	4.10	4.16	4.02
Total commercial	4.55	4.29	4.15	4.07	4.04
Consumer:					
Automobile	3.63	3.56	3.61	3.60	3.55
Home equity	5.09	4.90	4.71	4.72	4.61
Residential mortgage	3.69	3.66	3.66	3.65	3.66
RV and marine finance	5.11	5.11	5.25	5.43	5.57
Other consumer	11.90	11.78	11.53	11.59	11.47
Total consumer	4.43	4.34	4.31	4.32	4.27
Total loans and leases	4.49	4.32	4.23	4.20	4.15
Total earning assets	4.07	3.91	3.83	3.78	3.75
Liabilities:					
Deposits:					
Demand deposits—noninterest-bearing	—	—	—	—	—
Demand deposits—interest-bearing	0.38	0.29	0.26	0.23	0.20
Total demand deposits	0.18	0.14	0.12	0.10	0.09
Money market deposits	0.60	0.45	0.40	0.36	0.31
Savings and other domestic deposits	0.21	0.20	0.20	0.20	0.21
Core certificates of deposit	1.56	1.01	0.75	0.73	0.56
Total core deposits	0.51	0.36	0.32	0.30	0.26
Other domestic time deposits of $250,000 or more	1.01	0.69	0.54	0.61	0.49
Brokered deposits and negotiable CDs	1.81	1.47	1.21	1.16	0.95
Total deposits	0.59	0.43	0.37	0.35	0.31
Short-term borrowings	1.82	1.47	1.15	0.95	0.78

Long-term debt	3.75	2.92	2.73	2.65	2.49
Total interest-bearing liabilities	1.05	0.82	0.73	0.68	0.61
Net interest rate spread	3.02	3.09	3.10	3.10	3.14
Impact of noninterest-bearing funds on margin	0.27	0.21	0.20	0.19	0.17
Net interest margin	3.29 %	3.30 %	3.30 %	3.29 %	3.31 %

(1) FTE yields are calculated assuming a 21% tax rate and a 35% tax rate for periods prior to January 1, 2018.
(2) Loan and lease and deposit average rates include impact of applicable derivatives, non-deferrable fees, and amortized fees.
(3) For purposes of this analysis, NALs are reflected in the average balances of loans.

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2018 Second Quarter versus 2017 Second Quarter

FTE net interest income for the 2018 second quarter increased $34 million, or 4%, from the 2017 second quarter. This reflected the benefit from the $4.6 billion, or 5%, increase in average earning assets, partially offset by a two basis point decrease in the FTE NIM to 3.29%. Average earning asset growth reflected a $4.5 billion, or 7%, increase in average loans and leases. Average earning asset yields increased 32 basis points year-over-year, driven by a 34 basis point improvement in loan yields. Average funding costs increased 44 basis points, although interest-bearing deposit costs only increased 28 basis points. The cost of short-term borrowings and long-term debt increased 104 basis points and 126 basis points, respectively. Embedded within these yields and costs, FTE net interest income during the 2018 second quarter included $19 million, or approximately 8 basis points, of purchase accounting impact compared to $34 million, or approximately 15 basis points, in the year-ago quarter.

Average earning assets for the 2018 second quarter increased $4.6 billion, or 5%, from the year-ago quarter, primarily reflecting a $4.5 billion, or 7%, increase in average loans and leases. Average residential mortgage loans increased $1.6 billion, or 21%, driven by an increase in lending officers and expansion into the Chicago market. Average automobile loans increased $0.9 billion, or 8%, driven by $6.2 billion of new production over the past year. Average commercial and industrial (C&I) loans increased $0.9 billion, or 3%, reflecting growth in middle market, asset finance, energy, and corporate banking. Average RV and marine finance loans increased $0.6 billion, or 31%, reflecting the success of the well-managed expansion of the acquired business into 17 new states over the past two years.

Average total interest-bearing liabilities increased $4.8 billion, or 7%, from the year-ago quarter. Average total deposits for the 2018 second quarter increased $2.7 billion, or 4%, from the year-ago quarter, while average total core deposits increased $3.1 billion, or 4%. Average money market deposits increased $1.7 billion, or 9%, primarily reflecting growth in certain specialty commercial deposits and continued shifting commercial customer preferences for higher yielding deposit products. Average core CDs increased $1.6 billion, or 77%, reflecting initiatives to grow fixed-rate, term consumer deposits in light of the rising interest rate environment. Average demand deposits increased $0.5 billion, or 1%, primarily driven by a $0.3 billion, or 1%, increase in average commercial demand deposits. Average long-term debt increased $0.5 billion, or 6%, reflecting the issuance of $2.0 billion and maturity of $1.3 billion of senior debt over the past four quarters. Partially offsetting these increases, average savings and other domestic deposits decreased $0.7 billion, or 6%, reflecting consumer migration into higher yielding deposit products, such as money market and CDs.

2018 Second Quarter versus 2018 First Quarter

Compared to the 2018 first quarter, FTE net interest income increased $14 million, or 2%, primarily reflecting growth in average earning assets and the impact of day count. Average earning assets increased $1.0 billion, or 1%, sequentially, driven by a $1.4 billion or 2%, increase in average loans, partially offset by a $0.6 billion, or 2%, decrease in average securities. The NIM decreased 1 basis point. Average earning asset yields increased 16 basis points sequentially, driven by a 17 basis point increase in loan yields. Average funding costs increased 23 basis points, primarily driven by higher cost of long-term debt (up 83 basis points) and short-term borrowings (up 35 basis points). The increase in long-term debt is primarily driven by higher rates on variable rate hedges against fixed rate debt, some of which were terminated in the quarter, as well as derivative hedging ineffectiveness recognized during the 2018 second quarter. Average interest-bearing deposit costs increased 16 basis points, while noninterest-bearing funding improved 6 basis points. Day count negatively impacted the NIM by 1 basis point on a linked quarter basis. The purchase accounting impact on the net interest margin was approximately 8 basis points in the 2018 second quarter, unchanged from the prior quarter.

Compared to the 2018 first quarter, average earning assets increased $1.0 billion, or 1%, reflecting the $1.4 billion, or 2%, increase in average loans and leases. Average C&I loans increased $0.6 billion, or 2%, reflecting broad-based growth in middle market, asset finance, energy, and specialty. Average residential mortgage loans increased $0.5 billion, or 5%, driven by seasonality and the expansion of our home lending business. Average securities decreased $0.6 billion, or 2%, primarily due to runoff in the portfolio.

Compared to the 2018 first quarter, average total core deposits increased $2.0 billion, or 3%, primarily reflecting a $1.5 billion, or 65%, increase in average core CDs. Average demand deposits increased $0.3 billion, or 1%, primarily driven by a $0.2 billion, or 2%, increase in average consumer demand deposits. Average short-term borrowings decreased $2.1 billion, or 41%, as continued growth in core deposits reduced reliance on wholesale funding.

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Table 5 - Consolidated YTD Average Balance Sheets and Net Interest Margin Analysis
(dollar amounts in millions)

	YTD Average Balances				YTD Average Rates (2)	
	Six months ended June 30,		Change		Six months ended June 30,	
Fully-taxable equivalent basis (1)	2018	2017	Amount	Percent	2018	2017
Assets:						
Interest-bearing deposits in banks	$87	$101	$(14)	(14)%	1.96%	1.31%
Securities:						
Trading account securities	84	114	(30)	(26)	0.19	0.17
Available-for-sale securities:						
Taxable	10,994	12,401	(1,407)	(11)	2.57	2.34
Tax-exempt	3,593	3,075	518	17	3.26	3.74
Total available-for-sale securities	14,587	15,476	(889)	(6)	2.74	2.62
Held-to-maturity securities—taxable	8,791	7,541	1,250	17	2.44	2.37
Other securities	602	569	33	6	4.28	3.23
Total securities	24,064	23,700	364	2	2.67	2.55
Loans held for sale	549	470	79	17	4.02	3.76
Loans and leases: (3)						
Commercial:						
Commercial and industrial	28,555	27,957	598	2	4.40	4.01
Commercial real estate:						
Construction	1,157	1,221	(64)	(5)	4.99	4.09
Commercial	6,188	5,990	198	3	4.41	3.83
Commercial real estate	7,345	7,211	134	2	4.50	3.88
Total commercial	35,900	35,168	732	2	4.42	3.98
Consumer:						
Automobile	12,186	11,194	992	9	3.60	3.55
Home equity	9,986	9,994	(8)	—	4.99	4.54
Residential mortgage	9,401	7,879	1,522	19	3.68	3.65
RV and marine finance	2,574	1,957	617	32	5.11	5.60
Other consumer	1,143	972	171	18	11.80	11.49
Total consumer	35,290	31,996	3,294	10	4.39	4.25
Total loans and leases	71,190	67,164	4,026	6	4.41	4.11
Allowance for loan and lease losses	(726)	(654)	(72)	11		
Net loans and leases	70,464	66,510	3,954	6		
Total earning assets	95,890	91,435	4,455	5	4.00%	3.73%
Cash and due from banks	1,250	1,647	(397)	(24)		
Intangible assets	2,325	2,380	(55)	(2)		
All other assets	5,598	5,424	174	3		
Total assets	$104,337	$100,232	$4,105	4%		
Liabilities and Shareholders' Equity:						
Deposits:						
Demand deposits—noninterest-bearing	$20,477	$21,664	$(1,187)	(5)%	—%	—%
Demand deposits—interest-bearing	18,877	17,127	1,750	10	0.33	0.18
Total demand deposits	39,354	38,791	563	1	0.16	0.08
Money market deposits	20,811	18,934	1,877	10	0.52	0.29
Savings and other domestic deposits	11,182	11,930	(748)	(6)	0.20	0.21

Core certificates of deposit	3,048	2,243	805	36	1.35	0.47
Total core deposits	74,395	71,898	2,497	3	0.44	0.24
Other domestic time deposits of $250,000 or more	245	474	(229)	(48)	0.85	0.47
Brokered deposits and negotiable CDs	3,485	3,876	(391)	(10)	1.65	0.83
Total deposits	78,125	76,248	1,877	2	0.51	0.28
Short-term borrowings	4,149	3,236	913	28	1.60	0.69
Long-term debt	9,092	8,630	462	5	3.34	2.41
Total interest-bearing liabilities	70,889	66,450	4,439	7	0.94	0.58
All other liabilities	1,876	1,609	267	17		
Shareholders’ equity	11,095	10,509	586	6		
Total liabilities and shareholders’ equity	$104,337	$100,232	$4,105	4 %		
Net interest rate spread					3.06	3.15
Impact of noninterest-bearing funds on margin					0.24	0.16
Net interest margin					3.30 %	3.31 %

(1) FTE yields are calculated assuming a 21% tax rate and a 35% tax rate for periods prior to January 1, 2018.

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

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

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2018 First Six Months versus 2017 First Six Months

FTE net interest income for the first six-month period of 2018 increased $69 million, or 5%. This reflected the benefit of a $4.5 billion, or 5%, increase in average total earning assets, partially offset by a basis point decrease in the FTE NIM to 3.30%. Average loans and leases increased $4.0 billion, or 6%, primarily reflecting an increase in C&I, automobile, residential mortgage and RV and marine finance lending. Average earning asset yields increased 27 basis points sequentially, driven by a 30 basis point increase in loan yields. Average funding costs increased 36 basis points, primarily driven by higher cost of short-term borrowings (up 91 basis points) and long-term debt (up 93 basis points). Average interest-bearing deposit costs increased 23 basis points, while noninterest-bearing funding improved 8 basis points.

Provision for Credit Losses

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

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

The provision for credit losses for the 2018 second quarter was $56 million, which increased $31 million, or 124%, compared to the second quarter 2017. On a year-to-date basis, provision for credit losses for the first six-month period of 2018 was $122 million, an increase of $29 million, or 31%, compared to year-ago period. The increase from the 2018 first quarter and prior year-to-date provision for credit losses was primarily the result of allowance growth attributed to portfolio balance expansion and risk rating migration within the commercial loan portfolio, partially offset by lower NCOs.

Noninterest Income

The following table reflects noninterest income for each of the periods presented:

Table 6 - Noninterest Income

	Three Months Ended			2Q18 vs. 2Q17		2Q18 vs. 1Q18	
	June 30,	March 31,	June 30,	Change		Change	
(dollar amounts in millions)	2018	2018	2017	Amount	Percent	Amount	Percent
Service charges on deposit accounts	$91	$ 86	$88	$3	3 %	$5	6 %
Cards and payment processing income	56	53	52	4	8	3	6
Trust and investment management services	42	44	37	5	14	(2)	(5)
Mortgage banking income	28	26	32	(4)	(13)	2	8
Insurance income	21	21	22	(1)	(5)	—	—
Capital markets fees	21	19	17	4	24	2	11
Bank owned life insurance income	17	15	15	2	13	2	13
Gain on sale of loans	15	8	12	3	25	7	88
Securities gains (losses)	—	—	—	—	—	—	—
Other income	45	42	50	(5)	(10)	3	7
Total noninterest income	$336	$ 314	$325	$11	3 %	$22	7 %

2018 Second Quarter versus 2017 Second Quarter

Reported noninterest income for the 2018 second quarter increased $11 million, or 3%, from the year-ago quarter, reflecting ongoing household / relationship acquisition and execution of our Optimal Customer Relationship (OCR) strategy. Trust and investment management services increased $5 million, or 14%, reflecting strong equity market performance. Other income decreased $5 million, or 10%, primarily reflecting a $3 million unfavorable Visa Class B derivative fair value adjustment.

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2018 Second Quarter versus 2018 First Quarter

Compared to the 2018 first quarter, reported noninterest income increased $22 million, or 7%. Gain on sale of loans increased $7 million, or 88%, reflecting $5 million of gains on the sale of asset finance leases and the seasonal increase in SBA loan sales. Service charges on deposit accounts increased $5 million, or 6%, primarily reflecting seasonality in consumer service charges.

Table 7 - Noninterest Income—2018 First Six Months vs. 2017 First Six Months

	Six Months Ended June 30,		Change	
(dollar amounts in thousands)	2018	2017	Amount	Percent
Service charges on deposit accounts	$177	$171	$6	4 %
Cards and payment processing income	109	100	9	9
Trust and investment management services	86	76	10	13
Mortgage banking income	54	64	(10)	(16)
Insurance income	42	42	—	—
Capital markets fees	40	31	9	29
Bank owned life insurance income	32	33	(1)	(3)
Gain on sale of loans	23	25	(2)	(8)
Securities gains (losses)	—	—	—	—
Other income	87	96	(9)	(9)
Total noninterest income	$650	$638	$12	2 %

Noninterest income for the first six-month period of 2018 increased $12 million, or 2%, from the year-ago period, primarily reflecting ongoing household / relationship acquisition and execution of our Optimal Customer Relationship (OCR) strategy. Trust and investment management services increased $10 million, or 13%, primarily reflecting continued growth of managed accounts and strong equity market performance. Capital market fees increased $9 million, or 29%, reflecting increased foreign exchange and interest rate derivative activity. Cards and payment processing income increased $9 million, or 9%, due to higher credit and debit card related income and underlying customer growth. Mortgage banking decreased $10 million, or 16%, driven by lower spreads on origination volume. Other income decreased $9 million, or 9%, reflecting an unfavorable Visa Class B derivative fair value adjustment.

Noninterest Expense

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

The following table reflects noninterest expense for each of the periods presented:

Table 8 - Noninterest Expense

	Three Months Ended			2Q18 vs. 2Q17		2Q18 vs. 1Q18	
	June 30,	March 31,	June 30,	Change		Change	
(dollar amounts in millions)	2018	2018	2017	Amount	Percent	Amount	Percent
Personnel costs	$396	$ 376	$ 392	$4	1 %	$20	5 %
Outside data processing and other services	69	73	75	(6)	(8)	(4)	(5)
Net occupancy	35	41	53	(18)	(34)	(6)	(15)
Equipment	38	40	43	(5)	(12)	(2)	(5)
Deposit and other insurance expense	18	18	20	(2)	(10)	—	—
Professional services	15	11	18	(3)	(17)	4	36
Marketing	18	8	19	(1)	(5)	10	125
Amortization of intangibles	13	14	14	(1)	(7)	(1)	(7)

Other noninterest expense	50	52	60	(10)	(17)	(2)	(4)
Total noninterest expense	$652	$ 633	$ 694	$(42)	(6)%	$19	3 %
Number of employees (average full-time equivalent)	15,732	15,599	16,103	(371)	(2)%	133	1 %

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Impacts of Significant Items:

	Three Months Ended		
(dollar amounts in millions)	June 30, 2018	March 31, 2018	June 30, 2017
Personnel costs	$—	$—	$ 18
Outside data processing and other services	—	—	6
Net occupancy	—	—	14
Equipment	—	—	4
Professional services	—	—	4
Marketing	—	—	—
Other noninterest expense	—	—	4
Total noninterest expense adjustments	$—	$—	$ 50

Adjusted Noninterest Expense (See Non-GAAP Financial Measures in the Additional Disclosures section):

	Three Months Ended			2Q18 vs. 2Q17 Change		2Q18 vs. 1Q18 Change	
(dollar amounts in millions)	June 30, 2018	March 31, 2018	June 30, 2017	Amount	Percent	Amount	Percent
Personnel costs	$396	$ 376	$374	$22	6 %	$20	5 %
Outside data processing and other services	69	73	69	—	—	(4)	(5)
Net occupancy	35	41	39	(4)	(10)	(6)	(15)
Equipment	38	40	39	(1)	(3)	(2)	(5)
Deposit and other insurance expense	18	18	20	(2)	(10)	—	—
Professional services	15	11	14	1	7	4	36
Marketing	18	8	19	(1)	(5)	10	125
Amortization of intangibles	13	14	14	(1)	(7)	(1)	(7)
Other noninterest expense	50	52	56	(6)	(11)	(2)	(4)
Total adjusted noninterest expense (Non-GAAP)	$652	$ 633	$644	$8	1 %	$19	3 %

2018 Second Quarter versus 2017 Second Quarter

Reported noninterest expense for the 2018 second quarter decreased $42 million, or 6%, from the year-ago quarter, primarily reflecting the $50 million of acquisition-related Significant Items in the year-ago quarter. Personnel costs increased $4 million, or 1%, primarily reflecting increased incentive compensation and benefits costs, partially offset by an $18 million decrease in acquisition-related Significant Items. Other expense decreased $10 million, or 17%, primarily reflecting a decrease in franchise taxes and $4 million of acquisition-related Significant Items in the year-ago quarter.

2018 Second Quarter versus 2018 First Quarter

Reported noninterest expense increased $19 million, or 3%, from the 2018 first quarter. Personnel costs increased $20 million, or 5%, reflecting the implementation of annual merit increases and grant of annual long-term equity incentive compensation, both in May. Marketing expense increased $10 million, or 125%, reflecting the timing of marketing campaigns and deposit promotions. Net occupancy expense decreased $6 million, or 15%, due to seasonality.

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Table 9 - Noninterest Expense—2018 First Six Months vs. 2017 First Six Months

	Six Months Ended June 30,		Change	
(dollar amounts in thousands)	2018	2017	Amount	Percent
Personnel costs	$772	$774	$(2)	— %
Outside data processing and other services	142	162	(20)	(12)
Net occupancy	76	120	(44)	(37)
Equipment	78	90	(12)	(13)
Deposit and other insurance expense	36	41	(5)	(12)
Professional services	26	36	(10)	(28)
Marketing	26	33	(7)	(21)
Amortization of intangibles	27	29	(2)	(7)
Other noninterest expense	102	117	(15)	(13)
Total noninterest expense	$1,285	$1,402	$(117)	(8)%

Impacts of Significant Items:

	Six Months Ended June 30,	
(dollar amounts in thousands)	2018	2017
Personnel costs	$—	$37
Outside data processing and other services	—	21
Net occupancy	—	38
Equipment	—	10
Professional services	—	8
Marketing	—	1
Other noninterest expense	—	9
Total noninterest expense adjustments	$—	$124

Adjusted Noninterest Expense (See Non-GAAP Financial Measures in Additional Disclosures section):

	Six Months Ended June 30,		Change	
(dollar amounts in thousands)	2018	2017	Amount	Percent
Personnel costs	$772	$737	$35	5 %
Outside data processing and other services	142	141	1	1
Net occupancy	76	82	(6)	(7)
Equipment	78	80	(2)	(3)
Deposit and other insurance expense	36	41	(5)	(12)
Professional services	26	28	(2)	(7)
Marketing	26	32	(6)	(19)
Amortization of intangibles	27	29	(2)	(7)
Other noninterest expense	102	108	(6)	(6)
Total adjusted noninterest expense (Non-GAAP)	$1,285	$1,278	$7	1 %

Reported noninterest expense decreased $117 million, or 8%, from the year-ago period, primarily reflecting the $124 million of acquisition-related Significant Items in the year-ago period. Net occupancy expense decreased $44 million, or 37%, primarily reflecting $38 million of acquisition-related expense. Outside data processing and other services decreased $20 million, or 12%, reflecting $21 million of acquisition-related expense. Other noninterest expense decreased $15 million, or 13%, reflecting $9 million of acquisition-related expense. Equipment expense decreased $12 million, or 13%, primarily due to $10 million of acquisition-related expense. Professional services decreased $10 million, or 28%, primarily reflecting $8 million of acquisition-related expense in the year-ago period.

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Provision for Income Taxes

The provision for income taxes in the 2018 second quarter was $57 million. This compared with a provision for income taxes of $79 million in the 2017 second quarter and $59 million in the 2018 first quarter. The provision for income taxes for the six-month periods ended June 30, 2018 and June 30, 2017 was $116 million and $138 million, respectively. All periods included the benefits from tax-exempt income, tax-advantaged investments, general business credits, investments in qualified affordable housing projects, excess tax deductions for stock-based compensation, and capital losses. The 2018 second quarter and 2018 first quarter also included expense for nondeductible FDIC insurance premiums. The effective tax rates for the 2018 second quarter, 2017 second quarter, and 2018 first quarter were 13.8%, 22.4%, and 15.3%, respectively. The effective tax rates for the six month period ended June 30, 2018 and June 30, 2017 were 14.6% and 22.3%, respectively. The variance between the 2018 second quarter compared to the 2017 second quarter, and the six month period ended June 30, 2018 compared to the six month period ended June 30, 2017 in the provision for income taxes and effective tax rates relates primarily to the impact of the TCJA. The net federal deferred tax liability was $141 million and the net state deferred tax asset was $24 million at June 30, 2018.

We file income tax returns with the IRS and various state, city, and foreign jurisdictions. The IRS is currently examining our 2010 and 2011 consolidated federal income tax returns. While the statute of limitations remains open for tax years 2012 through 2016, the IRS has advised that tax years 2012 through 2014 will not be audited, and has begun the examination of the 2015 federal income tax return in second quarter 2018. Various state and other jurisdictions remain open to examination, including Ohio, Kentucky, Indiana, Michigan, Pennsylvania, West Virginia, Wisconsin, and Illinois.

RISK MANAGEMENT AND CAPITAL

We use a multi-faceted approach to risk governance. It begins with the board of directors defining our risk appetite as aggregate moderate-to-low. Risk awareness, identification and assessment, reporting, and active management are key elements in overall risk management. Controls include, among others, effective segregation of duties, access, authorization and reconciliation procedures, as well as staff education and a disciplined assessment process.

We believe that our primary risk exposures are credit, market, liquidity, operational and compliance. More information on risk can be found in the Risk Factors section included in Item 1A of our 2017 Form 10-K and subsequent filings with the SEC. The MD&A included in our 2017 Form 10-K should be read in conjunction with this MD&A as this discussion provides only material updates to the 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 definition, philosophy, and approach to risk management have not materially changed from the discussion presented in the 2017 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 credit risk associated with our AFS, HTM, and other securities portfolios (see Note 4, Note 5, and Note 6 of the Notes to the Unaudited Condensed Consolidated Financial Statements). We engage with other financial counterparties for a variety of purposes including investing, asset and liability management, mortgage banking, and trading activities. While there is credit risk associated with derivative activity, we believe this exposure is minimal.

We continue to focus on the identification, monitoring, and management 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 quantitative measurement capabilities utilizing external data sources, enhanced 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 solutions for delinquent or stressed borrowers.

Loan and Lease Credit Exposure Mix

Refer to the “Loan and Lease Credit Exposure Mix” section of our 2017 Form 10-K for a brief description of each portfolio segment.

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The table below provides the composition of our total loan and lease portfolio:
Table 10 - Loan and Lease Portfolio Composition

(dollar amounts in millions)	June 30, 2018		March 31, 2018		December 31, 2017		September 30, 2017		June 30, 2017	
Commercial:										
Commercial and industrial	$28,850	40 %	$28,622	40 %	$28,107	40 %	$27,469	40 %	$27,969	41 %
Commercial real estate:										
Construction	1,083	1	1,167	2	1,217	2	1,182	2	1,145	2
Commercial	6,118	8	6,245	9	6,008	9	6,024	9	6,000	9
Commercial real estate	7,201	9	7,412	11	7,225	11	7,206	11	7,145	11
Total commercial	36,051	49	36,034	51	35,332	51	34,675	51	35,114	52
Consumer:										
Automobile	12,390	17	12,146	17	12,100	17	11,876	17	11,555	17
Home equity	9,907	14	9,987	14	10,099	14	9,985	15	9,966	15
Residential mortgage	10,006	14	9,357	13	9,026	13	8,616	13	8,237	12
RV and marine finance	2,846	4	2,549	3	2,438	3	2,371	3	2,178	3
Other consumer	1,206	2	1,090	2	1,122	2	1,064	1	1,009	1
Total consumer	36,355	51	35,129	49	34,785	49	33,912	49	32,945	48
Total loans and leases	$72,406	100%	$71,163	100%	$70,117	100%	$68,587	100%	$68,059	100%

Our loan portfolio is composed of a managed mix of consumer and commercial credits. At the corporate level, we manage the overall credit exposure and portfolio composition in part via a credit concentration policy. The policy designates specific loan types, collateral types, and loan structures to be formally tracked and assigned maximum exposure limits as a percentage of capital. C&I lending by NAICS categories, specific limits for CRE project types, loans secured by residential real estate, shared national credit exposure, and designated high risk loan definitions represent examples of specifically tracked components of our concentration management process. There are no identified concentrations that exceed the assigned exposure limit. Our concentration management policy is approved by the ROC of the Board and is one of the strategies used to ensure a high quality, well diversified portfolio that is consistent with our overall objective of maintaining an aggregate moderate-to-low risk profile. Changes to existing concentration limits require the approval of the ROC prior to implementation, incorporating specific information relating to the potential impact on the overall portfolio composition and performance metrics.

Commercial Credit

Refer to the “Commercial Credit” section of our 2017 Form 10-K for our commercial credit underwriting and on-going credit management processes.

Consumer Credit

Refer to the “Consumer Credit” section of our 2017 Form 10-K for our consumer credit underwriting and on-going credit management processes.

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The table below provides our total loan and lease portfolio segregated by industry type. The changes in the industry composition from December 31, 2017 are consistent with the portfolio growth metrics.

Table 11 - Loan and Lease Portfolio by Industry Type

(dollar amounts in millions)	June 30, 2018		March 31, 2018		December 31, 2017		September 30, 2017		June 30, 2017	
Commercial loans and leases:										
Real estate and rental and leasing	$7,314	10 %	$7,509	11 %	$7,378	11 %	$7,461	11 %	$7,588	12 %
Retail trade (1)	4,886	7	5,034	7	4,886	7	4,643	7	4,805	7
Manufacturing	4,867	7	4,780	7	4,791	7	4,874	7	4,916	7
Finance and insurance	3,188	4	3,216	5	3,044	4	2,900	4	3,051	4
Health care and social assistance	2,589	4	2,649	4	2,664	4	2,727	4	2,699	4
Wholesale trade	2,575	4	2,472	3	2,291	3	2,070	3	2,058	3
Accommodation and food services	1,657	2	1,675	2	1,617	2	1,653	2	1,660	2
Professional, scientific, and technical services	1,303	2	1,293	2	1,257	2	1,230	2	1,232	2
Other services	1,266	2	1,263	2	1,296	2	1,265	2	1,261	2
Transportation and warehousing	1,209	2	1,171	2	1,243	2	1,255	2	1,284	2
Construction	1,010	1	1,030	1	976	1	913	1	928	1
Mining, quarrying, and oil and gas extraction	899	1	780	1	694	1	619	1	501	1
Admin./Support/Waste Mgmt. and Remediation Services	611	1	551	1	561	1	484	1	444	1
Arts, entertainment, and recreation	503	1	525	1	593	1	530	1	469	1
Educational services	493	1	498	1	504	1	509	1	570	1
Utilities	417	—	410	—	389	1	431	1	433	1
Information	395	—	434	1	467	1	468	1	458	1
Unclassified/Other	336	—	244	—	163	—	122	—	183	—
Public administration	255	—	236	—	255	—	262	—	274	—
Agriculture, forestry, fishing and hunting	195	—	164	—	172	—	176	—	203	—
Management of companies and enterprises	83	—	100	—	91	—	83	—	97	—
Total commercial loans and leases by industry category	36,051	49	36,034	51	35,332	51	34,675	51	35,114	52
Automobile	12,390	17	12,146	17	12,100	17	11,876	17	11,555	17
Residential mortgage	10,006	14	9,357	13	9,026	13	8,616	13	8,237	12
Home Equity	9,907	14	9,987	14	10,099	14	9,985	15	9,966	15
RV and marine finance	2,846	4	2,549	3	2,438	3	2,371	3	2,178	3
Other consumer loans	1,206	2	1,090	2	1,122	2	1,064	1	1,009	1
Total loans and leases	$72,406	100%	$71,163	100%	$70,117	100%	$68,587	100%	$68,059	100%

(1) Amounts include \$3.2 billion, \$3.4 billion, \$3.2 billion, \$3.0 billion and \$3.2 billion of auto dealer services loans at June 30, 2018, March 31, 2018, December 31, 2017, September 30, 2017 and June 30, 2017, respectively.

Credit Quality

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

We believe the most meaningful way to assess overall credit quality performance is through an analysis of credit quality performance ratios. This approach forms the basis of most of the discussion in the sections immediately following: NPAs, NALs, and 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.

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Credit quality performance in the 2018 second quarter reflected continued overall positive results with continued low net charge-offs. Total NCOs were $28 million, or 0.16% annualized, of average total loans and leases. Net charge-offs decreased by $10 million from the prior quarter, due to a decrease in net charge-offs in the C&I and consumer portfolios. There was a 2% decline in NPAs from the prior quarter. NPAs to total loans and leases remains low at 0.57%. The ALLL to total loans and leases ratio increased 1 basis points to 1.02%. The ACL to total loans and leases ratio increased 2 basis points to 1.15%.

NPAs, NALs, AND TDRs

(This section should be read in conjunction with Note 3 of the Notes to Unaudited Condensed Consolidated Financial Statements and "Credit Quality" section of our 2017 Form 10-K.)

NPAs and NALs

Of the $232 million of C&I and CRE-related NALs at June 30, 2018, $152 million, or 66%, represented loans that were less than 30-days past due, demonstrating our continued commitment to proactive credit risk management. With the exception of residential mortgage loans guaranteed by government organizations which continue to accrue interest, first-lien loans secured by residential mortgage collateral are placed on nonaccrual status at 150-days past due. Junior-lien home equity loans are placed on nonaccrual status at the earlier of 120-days past due or when the related first-lien loan has been identified as nonaccrual. Automobile, RV and marine finance and other consumer loans are generally charged-off at 120-days past due.

When, in our judgment, the borrower’s ability to make required interest and principal payments has resumed and collectability is no longer in doubt, the loan or lease could be returned to accrual status.

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

Table 12 - Nonaccrual Loans and Leases and Nonperforming Assets

(dollar amounts in millions)	June 30, 2018	March 31, 2018	December 31, 2017	September 30, 2017	June 30, 2017
Nonaccrual loans and leases (NALs):					
Commercial and industrial	$ 207	$ 190	$ 161	$ 170	$ 195
Commercial real estate	25	30	29	18	17
Automobile	4	5	6	4	4
Home equity	68	75	68	71	68
Residential mortgage	73	82	84	75	80
RV and marine finance	1	1	1	—	—
Other consumer	—	—	—	—	—
Total nonaccrual loans and leases	378	383	349	338	364
Other real estate, net:					
Residential	23	23	24	26	27
Commercial	5	7	9	16	17
Total other real estate, net	28	30	33	42	44
Other NPAs (1)	6	7	7	7	7
Total nonperforming assets	$ 412	$ 420	$ 389	$ 387	$ 415
Nonaccrual loans and leases as a % of total loans and leases	0.52 %	0.54 %	0.50 %	0.49 %	0.54 %
NPA ratio (2)	0.57	0.59	0.55	0.56	0.61

(1) Other nonperforming assets represent an investment security backed by a municipal bond for all periods presented.
(2) Nonperforming assets divided by the sum of loans and leases, other real estate owned, and other NPAs.

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2018 Second Quarter versus 2017 Fourth Quarter.

Total NPAs increased by $23 million, or 6%, compared with December 31, 2017 primarily related to an increase in the C&I portfolio, partially offset by a decrease in nonperforming loans secured by residential properties. The commercial increase was centered in a small number of credits from diverse industries.

TDR Loans

(This section should be read in conjunction with Note 3 of the Notes to Unaudited Condensed Consolidated Financial Statements and TDR Loans section of our 2017 Form 10-K.)

Over the past five quarters, the accruing component of the total TDR balance has been approximately 83%, indicating there is no identified credit loss and the borrowers continue to make their monthly payments. In fact, over 75% of the $479 million of accruing TDRs secured by residential real estate (Residential mortgage and Home equity in Table 13) are current on their required payments. In addition, over 60% of the accruing pool have had no delinquency in the past 12 months. There is limited migration from the accruing to non-accruing components, and virtually all of the charge-offs come from the non-accruing TDR balances.

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

Table 13 - Accruing and Nonaccruing Troubled Debt Restructured Loans

(dollar amounts in millions)	June 30, 2018	March 31, 2018	December 31, 2017	September 30, 2017	June 30, 2017
TDRs—accruing:					
Commercial and industrial	$ 314	$ 316	$ 300	$ 268	$ 270
Commercial real estate	65	76	78	80	74
Automobile	32	32	30	29	28
Home equity	258	261	265	265	269
Residential mortgage	221	224	224	235	238
RV and marine finance	1	1	1	1	1
Other consumer	9	6	8	7	4
Total TDRs—accruing	900	916	906	885	884
TDRs—nonaccruing:					
Commercial and industrial	87	83	82	96	90
Commercial real estate	14	16	15	4	4
Automobile	3	3	4	4	4
Home equity	28	31	28	31	29
Residential mortgage	46	52	55	50	56
RV and marine finance	1	—	—	—	—
Other consumer	—	—	—	—	—
Total TDRs—nonaccruing	179	185	184	185	183
Total TDRs	$ 1,079	$ 1,101	$ 1,090	$ 1,070	$ 1,067

Overall TDRs decreased slightly in the quarter. The Commercial accruing TDR level has increased over the five quarter period as Huntington continues to proactively work with our Commercial borrowing relationships that require assistance. The resulting loan structures enable our borrowers to meet their commitments and Huntington to retain earning assets. The accruing component of TDRs meet the well secured definition and have demonstrated a period of satisfactory payment performance.

ACL

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

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

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applying the same quantitative reserve determination process to the unfunded portion of the loan exposures adjusted by an applicable funding expectation.

Loans originated for investment are stated at their principal amount outstanding adjusted for partial charge-offs, and net deferred loan fees and costs.

Our ACL evaluation process includes the on-going assessment of credit quality metrics, and a comparison of certain ACL benchmarks to current performance. While the total ACL balance increased year over year, all of the relevant benchmarks remain strong.

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

Table 14 - Allocation of Allowance for Credit Losses (1)

(dollar amounts in millions)	June 30, 2018		March 31, 2018		December 31, 2017		September 30, 2017		June 30, 2017	
ALLL										
Commercial										
Commercial and industrial	$413	40 %	$402	40 %	$ 377	40 %	$ 374	40 %	$368	41 %
Commercial real estate	118	9	113	11	105	11	100	11	107	11
Total commercial	531	49	515	51	482	51	474	51	475	52
Consumer										
Automobile	52	17	52	17	53	17	50	17	48	17
Home equity	55	14	57	14	60	14	58	15	63	15
Residential mortgage	24	14	24	13	21	13	29	13	33	12
RV and marine finance	17	4	16	3	15	3	13	3	8	3
Other consumer	62	2	57	2	60	2	51	1	41	1
Total consumer	210	51	206	49	209	49	201	49	193	48
Total ALLL	741	100 %	721	100 %	691	100 %	675	100 %	668	100 %
AULC	93		85		87		79		85	
Total ACL	$834		$806		$ 778		$ 754		$753	
Total ALLL as a % of										
Total loans and leases		1.02%		1.01%		0.99%		0.98%		0.98%
Nonaccrual loans and leases		197		188		198		200		183
NPAs		180		172		178		175		161
Total ACL as % of										
Total loans and leases		1.15%		1.13%		1.11%		1.10%		1.11%

(1) Percentages represent the percentage of each loan and lease category to total loans and leases.

2018 Second Quarter versus 2017 Fourth Quarter

At June 30, 2018, the ALLL was $741 million, compared to $691 million at December 31, 2017. The $50 million, or 7%, increase in the ALLL relates to growth in reserve levels associated with new loan originations as well as an increase in NALs in the Commercial portfolio. The ALLL to total loans ratio was 1.02% at June 30, 2018 and 0.99% at December 31, 2017. The ACL to total loans ratio was 1.15% at June 30, 2018 and 1.11% at December 31, 2017. In addition to the ALLL contribution, the ACL increased primarily as the result of increased expectations on future line utilization within our commercial portfolio. We believe these ratios are appropriate given the overall moderate-to-low risk profile of our loan portfolio and its coverage levels reflect the quality of our portfolio and the current operating environment. We continue to focus on early identification of loans with changes in credit metrics and have proactive action plans for these loans.

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NCOs

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

C&I and CRE loans are either charged-off or written down to net realizable value by 90-days past due with the exception of administrative small ticket lease delinquencies. Automobile loans, RV and marine finance, and other consumer loans are generally fully charged-off at 120-days past due. First-lien and junior-lien home equity loans are charged-off to the estimated fair value of the collateral, less anticipated selling costs, at 150-days past due and 120-days past due, respectively. Residential mortgages are charged-off to the estimated fair value of the collateral, less anticipated selling costs, at 150-days past due. The remaining balance is in delinquent status until a modification can be completed, or the loan goes through the foreclosure process.

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Table 15 - Quarterly Net Charge-off Analysis

	Three Months Ended		
(dollar amounts in millions)	June 30, 2018	March 31, 2018	June 30, 2017
Net charge-offs (recoveries) by loan and lease type:			
Commercial:			
Commercial and industrial	$3	$17	$13
Commercial real estate:			
Construction	—	(1)	—
Commercial	(1)	(13)	(4)
Commercial real estate	(1)	(14)	(4)
Total commercial	2	3	9
Consumer:			
Automobile	7	10	9
Home equity	—	3	1
Residential mortgage	1	1	1
RV and marine finance	2	3	2
Other consumer	16	18	14
Total consumer	26	35	27
Total net charge-offs	$28	$38	$36

	Three Months Ended		
	June 30, 2018	March 31, 2018	June 30, 2017
Net charge-offs (recoveries) - annualized percentages:			
Commercial:			
Commercial and industrial	0.04 %	0.24 %	0.18 %
Commercial real estate:			
Construction	(0.22)	(0.18)	0.03
Commercial	(0.06)	(0.80)	(0.24)
Commercial real estate	(0.08)	(0.70)	(0.20)
Total commercial	0.02	0.04	0.11
Consumer:			

Automobile	0.22	0.32	0.29
Home equity	0.01	0.11	0.05
Residential mortgage	0.04	0.04	0.05
RV and marine finance	0.34	0.42	0.37
Other consumer	5.60	6.51	5.81
Total consumer	0.30	0.39	0.33
Net charge-offs as a % of average loans	0.16 %	0.21 %	0.21 %

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In assessing NCO trends, it is helpful to understand the process of how commercial loans are treated as they deteriorate over time. The ALLL is established consistent with the level of risk associated with the commercial portfolio's original underwriting. As a part of our normal portfolio management process for commercial loans, loans within the portfolio are periodically reviewed and the ALLL is increased or decreased based on the updated risk ratings. For TDRs and individually assessed impaired loans, a specific reserve is established based on the discounted projected cash flows or collateral value of the specific loan. Charge-offs, if necessary, are generally recognized in a period after the specific ALLL is established. Consumer loans are treated in much the same manner as commercial loans, with increasing reserve factors applied based on the risk characteristics of the loan, although specific reserves are not identified for consumer loans, except for TDRs. In summary, if loan quality deteriorates, the typical credit sequence would be periods of reserve building, followed by periods of higher NCOs as the previously established ALLL is utilized. Additionally, an increase in the ALLL either precedes or is in conjunction with increases in NALs. When a loan is classified as NAL, it is evaluated for specific ALLL or charge-off. As a result, an increase in NALs does not necessarily result in an increase in the ALLL or an expectation of higher future NCOs.

2018 Second Quarter versus 2018 First Quarter

NCOs were an annualized 0.16% of average loans and leases in the current quarter, a decrease from 0.21% in the 2018 first quarter, and below our average through-the-cycle target range of 0.35% - 0.55%. Annualized NCOs for the C&I portfolio decreased significantly to 0.04% in the current quarter compared to 2018 first quarter based on an increased level of recovery activity. Consumer charge-offs were lower for the quarter, primarily driven by seasonality trends across the consumer portfolio, consistent with our expectations. Given the low level of C&I and CRE NCOs, we have experienced and continue to expect some volatility on a quarter-to-quarter comparison basis.

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The table below reflects NCO detail for the six-month periods ended June 30, 2018 and 2017:

Table 16 - Year to Date Net Charge-off Analysis

	Six Months Ended June 30,	
(dollar amounts in millions)	2018	2017
Net charge-offs (recoveries) by loan and lease type: (1)		
Commercial:		
Commercial and industrial	$20	$21
Commercial real estate:		
Construction	(1)	(3)
Commercial	(14)	(3)
Commercial real estate	(15)	(6)
Total commercial	5	15
Consumer:		
Automobile	17	21
Home equity	3	3
Residential mortgage	2	4
RV and marine finance	5	4
Other consumer	34	28
Total consumer	61	60
Total net charge-offs	$66	$75

	Six Months Ended June 30,	
	2018	2017
Net charge-offs (recoveries) - annualized percentages:		
Commercial:		
Commercial and industrial	0.14 %	0.15 %
Commercial real estate:		
Construction	(0.20)	(0.50)
Commercial	(0.42)	(0.09)
Commercial real estate	(0.39)	(0.16)
Total commercial	0.03	0.09
Consumer:		
Automobile	0.27	0.37
Home equity	0.06	0.06
Residential mortgage	0.04	0.09
RV and marine finance	0.38	0.43
Other consumer	6.02	5.93
Total consumer	0.34	0.38
Net charge-offs as a % of average loans	0.19 %	0.22 %

(1) Amounts presented above exclude write-downs of loans transferred to loans held for sale.

2018 First Six Months versus 2017 First Six Months

NCOs were $66 million, a decline of $9 million when compared with the same period in the prior year. Given the low level of C&I and CRE NCO’s, we expect some continued volatility on a period-to-period comparison basis.

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Market Risk

(This section should be read in conjunction with the “Market Risk” section of our 2017 Form 10-K for our on-going market risk management processes.)

Market risk refers to potential losses arising from changes in interest rates, foreign exchange rates, equity prices and commodity prices, including the correlation among these factors and their volatility. When the value of an instrument is tied to such external factors, the holder faces market risk. We are primarily exposed to interest rate risk as a result of offering a wide array of financial products to our customers and secondarily to price risk from trading securities, securities owned by our broker-dealer subsidiary, foreign exchange positions, equity investments, and investments in securities backed by mortgage loans.

Interest Rate Risk

Table 17 - Net Interest Income at Risk

	Net Interest Income at Risk (%)					
Basis point change scenario	-25		+100		+200	
Board policy limits	—	%	-2.0	%	-4.0	%
June 30, 2018	-0.6	%	2.9	%	5.9	%
December 31, 2017	-0.6	%	2.5	%	4.8	%

The NII at Risk results included in the table above reflect the analysis used monthly by management. It models gradual -25, +100 and +200 basis point parallel shifts in market interest rates, implied by the forward yield curve over the next twelve months.

Our NII at Risk is within our board of director's policy limits for the +100 and +200 basis point scenarios. There is no policy limit for the -25 basis point scenario. The NII at Risk shows that our balance sheet is asset sensitive at both June 30, 2018, and December 31, 2017.

Table 18 - Economic Value of Equity at Risk

	Economic Value of Equity at Risk (%)					
Basis point change scenario	-25		+100		+200	
Board policy limits	—	%	-5.0	%	-12.0	%
June 30, 2018	-0.7	%	1.7	%	2.1	%
December 31, 2017	-0.5	%	1.9	%	1.9	%

The EVE results included in the table above reflect the analysis used monthly by management. It models immediate -25, +100 and +200 basis point parallel shifts in market interest rates.

We are within our board of director's policy limits for the +100 and +200 basis point scenarios. There is no policy limit for the -25 basis point scenario. The EVE depicts a moderate asset sensitive balance sheet profile, positioning us for rising interest rates.

MSRs

(This section should be read in conjunction with Note 7 of Notes to the Unaudited Condensed Consolidated Financial Statements.)

At June 30, 2018, we had a total of $215 million of capitalized MSRs representing the right to service $20 billion in mortgage loans. Of this $215 million, $11 million was recorded using the fair value method and $204 million was recorded using the amortization method.

MSR fair values are sensitive to movements in interest rates as expected future net servicing income depends on the projected outstanding principal balances of the underlying loans, which can be reduced by prepayments. Prepayments usually increase when mortgage interest rates decline and decrease when mortgage interest rates rise. We have employed hedging strategies to reduce the risk of MSR fair value changes or impairment. However, volatile changes in interest rates can diminish the effectiveness of these economic hedges. We report changes in the MSR value net of hedge-related trading activity in the mortgage banking income category of noninterest income. Changes in fair value between reporting dates are recognized as an increase or a decrease in mortgage banking income.

MSRs recorded using the amortization method generally relate to loans originated with historically low interest rates, which may result in a lower probability of prepayments or impairment. MSR assets are included in servicing rights in the Unaudited Condensed Consolidated Financial Statements.

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Price Risk

Price risk represents the risk of loss arising from adverse movements in the prices of financial instruments that are carried at fair value and are subject to fair value accounting. We have price risk from trading securities, securities owned by our broker-dealer subsidiary, foreign exchange positions and equity investments. We have established loss limits on the trading portfolio, on the amount of foreign exchange exposure that can be maintained, and on the amount of marketable equity securities that can be held.

Liquidity Risk

(This section should be read in conjunction with the "Liquidity Risk" section of our 2017 Form 10-K for our on-going liquidity risk management processes.)

Our primary source of liquidity is our core deposit base. Core deposits comprised approximately 96% of total deposits at June 30, 2018. We also have available unused wholesale sources of liquidity, including advances from the FHLB of Cincinnati, issuance through dealers in the capital markets, and access to certificates of deposit issued through brokers. Liquidity is further provided by unencumbered, or unpledged, investment securities that totaled $15.2 billion as of June 30, 2018.

Bank Liquidity and Sources of Funding

Our primary sources of funding for the Bank are retail and commercial core deposits. At June 30, 2018, these core deposits funded 72% of total assets (105% of total loans). Other sources of liquidity include non-core deposits, FHLB advances, wholesale debt instruments, and securitizations. Demand deposit overdrafts that have been reclassified as loan balances were $24 million and $22 million at June 30, 2018 and December 31, 2017, respectively.

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

Table 19 - Deposit Composition

(dollar amounts in millions)	June 30, 2018		March 31, 2018		December 31, 2017		September 30, 2017		June 30, 2017	
By Type:										
Demand deposits—noninterest-bearing	$20,353	26 %	$20,807	26 %	$21,546	28 %	$22,225	28 %	$21,420	28 %
Demand deposits—interest-bearing	19,026	24	19,337	25	18,001	23	18,343	23	17,113	23
Money market deposits	20,990	26	20,849	26	20,690	27	20,553	26	19,423	26
Savings and other domestic deposits	10,987	14	11,291	14	11,270	15	11,441	15	11,758	15
Core certificates of deposit	4,402	6	3,157	4	1,934	3	2,009	3	2,088	3
Total core deposits:	75,758	96	75,441	95	73,441	96	74,571	95	71,802	95
Other domestic deposits of $250,000 or more	265	—	228	—	239	—	418	1	441	1
Brokered deposits and negotiable CDs	3,564	4	3,802	5	3,361	4	3,456	4	3,690	4
Total deposits	$79,587	100%	$79,471	100%	$77,041	100%	$78,445	100%	$75,933	100%
Total core deposits:										
Commercial	$34,094	45 %	$34,615	46 %	$34,273	47 %	$35,516	48 %	$32,201	45 %
Consumer	41,664	55	40,826	54	39,168	53	39,055	52	39,601	55
Total core deposits	$75,758	100%	$75,441	100%	$73,441	100%	$74,571	100%	$71,802	100%

The Bank maintains borrowing capacity at the FHLB and the Federal Reserve Bank Discount Window. The Bank does not consider borrowing capacity from the Federal Reserve Bank Discount Window as a primary source of liquidity. Total loans pledged to the Federal Reserve Discount Window and the FHLB are $34.1 billion and $31.7 billion at June 30, 2018 and December 31, 2017, respectively.

To the extent we are unable to obtain sufficient liquidity through core deposits, we may meet our liquidity needs through sources of wholesale funding, asset securitization or sale. Sources of wholesale funding include other domestic deposits of $250,000 or more, brokered deposits and negotiable CDs, short-term borrowings, and long-term debt. At June 30, 2018, total wholesale funding was $16.0 billion, a decrease from $17.9 billion at December 31, 2017. The decrease from year-end primarily relates to a decrease in short-term borrowings.

Liquidity Coverage Ratio

At June 30, 2018, the Bank is in compliance with the LCR requirements and management believes it has sufficient liquidity to meet its cash flow obligations for the foreseeable future.

Parent Company Liquidity

The parent company's funding requirements consist primarily of dividends to shareholders, debt service, income taxes, operating expenses, funding of nonbank subsidiaries, repurchases of our stock, and acquisitions. The parent company obtains funding to meet obligations from dividends and interest received from the Bank, interest and dividends received from direct subsidiaries, net taxes collected from subsidiaries included in the federal consolidated tax return, fees for services provided to subsidiaries, and the issuance of debt and equity securities.

At June 30, 2018 and December 31, 2017, the parent company had $2.9 billion and $1.6 billion, respectively, in cash and cash equivalents.

During the 2018 first quarter, Huntington elected to effect the conversion of all of its outstanding 8.50% Series A Non-Cumulative Perpetual Convertible Preferred Stock into common stock, and issued $500 million of Series E Preferred Stock. See Note 10 for further information.

On July 17, 2018, the board of directors declared a quarterly common stock cash dividend of $0.14 per common share. The dividend is payable on October 1, 2018, to shareholders of record on September 17, 2018. Based on the current quarterly dividend of $0.14 per common share, cash demands required for common stock dividends are estimated to be approximately $155 million per quarter. On July 17, 2018, the board of directors declared a quarterly Series B, Series C, Series D, and Series E Preferred Stock dividend payable on October 15, 2018 to shareholders of record on October 1, 2018. Cash demands required for Series B are expected to be less than $1 million per quarter. Cash demands required for Series C, Series D and Series E are expected to be approximately $2 million, $9 million and $7 million per quarter, respectively.

During the first six months of 2018, the Bank paid a preferred dividend of $22 million and common stock dividend of $549 million to the holding company. To meet any additional liquidity needs, the parent company may issue debt or equity securities from time to time.

Off-Balance Sheet Arrangements

In the normal course of business, we enter into various off-balance sheet arrangements. These arrangements include commitments to extend credit, interest rate swaps, financial guarantees contained in standby letters-of-credit issued by the Bank, and commitments by the Bank to sell mortgage loans.

Operational Risk

Operational risk is the risk of loss due to human error; inadequate or failed internal systems and controls, including the use of financial or other quantitative methodologies that may not adequately predict future results; violations of, or noncompliance with, laws, rules, regulations, prescribed practices, or ethical standards; and external influences such as market conditions, fraudulent activities, disasters, and security risks. We continuously strive to strengthen our system of internal controls to ensure compliance with laws, rules, and regulations, and to improve the oversight of our operational risk. We actively and continuously monitor cyberattacks such as attempts related to online deception and loss of sensitive customer data. We evaluate internal systems, processes and controls to mitigate loss from cyber-attacks and, to date, have not experienced any material losses.

Our objective for managing cyber security risk is to avoid or minimize the impacts of external threat events or other efforts to penetrate our systems. We work to achieve this objective by hardening networks and systems against attack, and by diligently managing visibility and monitoring controls within our data and communications environment to recognize events and respond before the attacker has the opportunity to plan and execute on its own goals. To this end we employ a set of defense in-depth strategies, which include efforts to make us less attractive as a target and less vulnerable to threats, while investing in threat analytic capabilities for rapid detection and response. Potential concerns related to cyber security may be escalated to our board-level Technology Committee, as appropriate. As a complement to the overall cyber security risk management, we use a number of internal training methods, both formally through mandatory courses and informally through written communications and other updates. Internal policies and procedures have been implemented to encourage the reporting of potential phishing attacks or other security risks. We also use third-party services to test the effectiveness of our cyber security risk management framework, and any such

third parties are required to comply with our policies regarding information security and confidentiality.
To mitigate operational risks, we have an Operational Risk Committee, a Legal, Regulatory, and Compliance Committee, and a Third Party Risk Management Committee. The responsibilities of these committees, among other duties, include establishing and maintaining management information systems to monitor material risks and to identify potential concerns, risks, or trends that may have a significant impact and ensuring that recommendations are developed to address the identified

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issues. In addition, we have a Model Risk Oversight Committee that is responsible for policies and procedures describing how model risk is evaluated and managed and the application of the governance process to implement these practices throughout the enterprise. These committees report any significant findings and recommendations to the Risk Management Committee. Potential concerns may be escalated to our ROC of the Board, as appropriate. Significant findings or issues are escalated by the Third Party Risk Management Committee to the Technology Committee of the Board, as appropriate.

The goal of this framework is to implement effective operational risk techniques and strategies; minimize operational, fraud, and legal losses; minimize the impact of inadequately designed models and enhance our overall performance.

Compliance Risk

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

Capital

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

The following table presents certain regulatory capital data at both the consolidated and Bank levels for each of the periods presented:

Table 20 - Regulatory Capital Data

(dollar amounts in millions)		Basel III June 30, 2018	March 31, 2018	June 30, 2017
Total risk-weighted assets	Consolidated	$82,951	$81,365	$78,366
	Bank	83,051	81,478	78,489
CET I risk-based capital	Consolidated	8,737	8,504	7,740
	Bank	9,016	8,751	8,367
Tier 1 risk-based capital	Consolidated	9,944	9,712	8,809
	Bank	9,896	9,632	9,238
Tier 2 risk-based capital	Consolidated	1,643	1,610	1,640
	Bank	1,833	1,803	1,706
Total risk-based capital	Consolidated	11,587	11,322	10,449
	Bank	11,729	11,435	10,944
Tier 1 leverage ratio	Consolidated	9.65 %	9.53 %	8.98 %
	Bank	9.62	9.46	9.43
CET I risk-based capital ratio	Consolidated	10.53	10.45	9.88
	Bank	10.86	10.74	10.66
Tier 1 risk-based capital ratio	Consolidated	11.99	11.94	11.24
	Bank	11.92	11.82	11.77
Total risk-based capital ratio	Consolidated	13.97	13.92	13.33
	Bank	14.12	14.03	13.94

At June 30, 2018, we maintained Basel III transitional capital ratios in excess of the well-capitalized standards established by the FRB.

CET1 risk-based capital ratio was 10.53% at June 30, 2018, up from 10.45% at March 31, 2018. The regulatory Tier 1 risk-based capital ratio was 11.99% compared to 11.94% at March 31, 2018.

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Over the past four quarters, the Company repurchased $308 million of common stock at an average cost of $13.71 per share. In addition, during the 2018 first quarter, $363 million of 8.5% Series A preferred equity was converted into common equity, and subsequently $500 million of 5.7% Series E preferred equity was issued.

Shareholders’ Equity

We generate shareholders’ equity primarily through the retention of earnings, net of dividends and share repurchases. Other potential sources of shareholders’ equity include issuances of common and preferred stock. Our objective is to maintain capital at an amount commensurate with our risk profile and risk tolerance objectives, to meet both regulatory and market expectations, and to provide the flexibility needed for future growth and business opportunities.

Shareholders’ equity totaled $11.5 billion at June 30, 2018, an increase of $0.7 billion when compared with December 31, 2017.

On June 28, 2018, Huntington was notified by the Federal Reserve that it had no objection to Huntington's proposed capital actions included in Huntington's capital plan submitted in the 2018 CCAR. These actions included a 27% increase in quarterly dividend per common share to $0.14, starting in the third quarter of 2018, the repurchase of up to $1.068 billion of common stock over the next four quarters (July 1, 2018 through June 30, 2019), and maintaining dividends on the outstanding classes of preferred stock and trust preferred securities. Any capital actions, including those contemplated in the above announced actions, are subject to consideration and evaluation by Huntington’s Board of Directors.

On July 17, 2018, the Board authorized the repurchase of up to $1.068 billion of common shares over the four quarters through the 2019 second quarter.

On July 27, 2018, Huntington entered into an accelerated share repurchase agreement for the repurchase of approximately $400 million of its outstanding common shares.

Dividends

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

Share Repurchases

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

Huntington repurchased 3.0 million shares during the first six-months of 2018. This completed the remaining repurchase of shares authorized by the Board of Directors on July 19, 2017.

BUSINESS SEGMENT DISCUSSION

Overview

Our business segments are based on our internally-aligned segment leadership structure, which is how we monitor results and assess performance. We have four major business segments: Consumer and Business Banking, Commercial Banking, Vehicle Finance, and Regional Banking and The Huntington Private Client Group (RBHPCG). The Treasury / Other function includes technology and operations, other unallocated assets, liabilities, revenue, and expense.

Business segment results are determined based upon our management practices, which assigns balance sheet and income statement items to each of the business segments. The process is designed around our organizational and management structure and, accordingly, the results derived are not necessarily comparable with similar information published by other financial institutions.

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Revenue Sharing

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

Expense Allocation

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

Funds Transfer Pricing (FTP)

We use an active and centralized FTP methodology to attribute appropriate income to the business segments. The intent of the FTP methodology is to transfer interest rate risk from the business segments by providing matched duration funding of assets and liabilities. The result is to centralize the financial impact, management, and reporting of interest rate risk in the Treasury / Other function where it can be centrally monitored and managed. The Treasury / Other function charges (credits) an internal cost of funds for assets held in (or pays for funding provided by) each business segment. The FTP rate is based on prevailing market interest rates for comparable duration assets (or liabilities). A new methodology for establishing FTP rates was adopted in 2017, therefore, prior period amounts have been restated to reflect the new methodology.

Net Income by Business Segment

Net income by business segment for the six-month periods ending June 30, 2018 and June 30, 2017 is presented in the following table:

Table 21 - Net Income (Loss) by Business Segment

	Six Months Ended June 30,	
(dollar amounts in millions)	2018	2017
Consumer and Business Banking	$213	$154
Commercial Banking	245	217
Vehicle Finance	85	77
RBHPCG	52	34
Treasury / Other	86	(2)
Net income	$681	$480

Treasury / Other

The Treasury / Other function includes revenue and expense related to assets, liabilities, and equity not directly assigned or allocated to one of the four business segments. Assets include investment securities and bank owned life insurance.

Net interest income includes the impact of administering our investment securities portfolios, the net impact of derivatives used to hedge interest rate sensitivity as well as the financial impact associated with our FTP methodology, as described above. Noninterest income includes miscellaneous fee income not allocated to other business segments, such as bank owned life insurance income and securities and trading asset gains or losses. Noninterest expense includes certain corporate administrative, and other miscellaneous expenses not allocated to other business segments. The provision for income taxes for the business segments is calculated at a statutory 21% tax rate and a 35% percent tax rate for periods prior to January 1, 2018, although our overall effective tax rate is lower. As a result, Treasury /

Other reflects a credit for income taxes representing the difference between the lower actual effective tax rate and the statutory tax rate used at the time to allocate income taxes to the business segments.

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Consumer and Business Banking

Table 22 - Key Performance Indicators for Consumer and Business Banking

	Six Months Ended June 30,		Change	
(dollar amounts in millions)	2018	2017	Amount	Percent
Net interest income	$808	$759	$49	6 %
Provision for credit losses	59	51	8	16
Noninterest income	361	355	6	2
Noninterest expense	840	826	14	2
Provision for income taxes	57	83	(26)	(31)
Net income	$213	$154	$59	38 %
Number of employees (average full-time equivalent)	8,430	8,816	(386)	(4)%
Total average assets	$26,449	$25,318	$1,131	4
Total average loans/leases	21,542	20,514	1,028	5
Total average deposits	46,281	45,260	1,021	2
Net interest margin	3.62 %	3.48 %	0.14 %	4
NCOs	$49	$49	$—	—
NCOs as a % of average loans and leases	0.45 %	0.47 %	(0.02)%	(4)

2018 First Six Months versus 2017 First Six Months

Consumer and Business Banking, including Home Lending, reported net income of $213 million in the first six-month period of 2018, an increase of $59 million, or 38%, compared to the year-ago period. Segment net interest income increased $49 million, or 6%, primarily due to an increase in total average loans and deposits. The provision for credit losses increased $8 million, or 16%. Noninterest income increased $6 million, or 2%, due to an increase in card and payment processing income and service charges on deposit accounts, as a result of higher card-related transaction volumes. Noninterest expense increased $14 million, or 2% due to increased personnel costs and allocated expenses.

Home Lending, an operating unit of Consumer and Business Banking, reflects the result of the origination and servicing of mortgage loans less referral fees and net interest income for mortgage banking products distributed by the retail branch network and other business segments. Home Lending reported a loss of $7 million in the first six-month period of 2018, a decrease of $12 million, or 240%, compared to the year-ago period. Noninterest expense increased $15 million, or 22%, as a result of higher allocated indirect costs and higher personnel and loan origination expense. This is the result of higher loan origination volume and increased headcount related to sales expansion initiatives. Total revenues remained largely unchanged due to an improvement in net interest income, offset by a reduction to noninterest income.

Commercial Banking

Table 23 - Key Performance Indicators for Commercial Banking

	Six Months Ended June 30,		Change	
(dollar amounts in millions)	2018	2017	Amount	Percent
Net interest income	$449	$452	$(3)	(1)%
Provision for credit losses	39	16	23	144
Noninterest income	149	134	15	11
Noninterest expense	249	236	13	6
Provision for income taxes	65	117	(52)	(44)
Net income	$245	$217	$28	13 %
Number of employees (average full-time equivalent)	1,238	1,244	(6)	— %

Total average assets	$32,731	$31,338	$1,393	4
Total average loans/leases	26,239	25,354	885	3
Total average deposits	21,675	20,276	1,399	7
Net interest margin	3.15 %	3.36 %	(0.21)%	(6)
NCOs (Recoveries)	$(5)	$1	$(6)	(600)
NCOs as a % of average loans and leases	(0.04)%	0.01 %	(0.05)%	(500)

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2018 First Six Months versus 2017 First Six Months

Commercial Banking reported net income of $245 million in the first six-month period of 2018, an increase of $28 million, or 13%, compared to the year-ago period. Segment net interest income decreased $3 million, or 1%, primarily due to a 21 basis point decrease in net interest margin driven by a decline in loan and lease spreads partially offset by an increase in deposit spreads. Average deposits increased 7% and average loans and leases increased 3% . Noninterest income increased $15 million, or 11%, largely driven by an increase in capital markets related revenues, equipment finance related fee income, and loan commitment and other fees, partially offset by a reduction in operating lease income. Noninterest expense increased $13 million, or 6%, primarily due to personnel expense, allocated overhead, and SAD related losses, partially offset by a decrease in operating lease expense and outside data processing and other services.

Vehicle Finance

Table 24 - Key Performance Indicators for Vehicle Finance

	Six Months Ended June 30,		Change	
(dollar amounts in millions)	2018	2017	Amount	Percent
Net interest income	$199	$210	$(11)	(5)%
Provision for credit losses	23	26	(3)	(12)
Noninterest income	6	8	(2)	(25)
Noninterest expense	74	74	—	—
Provision for income taxes	23	41	(18)	(44)
Net income	$85	$77	$8	10 %
Number of employees (average full-time equivalent)	262	246	16	7 %
Total average assets	$18,080	$16,529	$1,551	9
Total average loans/leases	18,048	16,495	1,553	9
Total average deposits	338	328	10	3
Net interest margin	2.23 %	2.57 %	(0.34)%	(13)
NCOs	$21	$25	$(4)	(16)
NCOs as a % of average loans and leases	0.23 %	0.30 %	(0.07)%	(23)

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2018 First Six Months versus 2017 First Six Months

Vehicle Finance reported net income of $85 million in the first six-month period of 2018, an increase of $8 million, or 10%, compared to the year-ago period, primarily reflecting the decrease in the provision for income taxes. Segment net interest income decreased $11 million or 5%, due to a 34 basis point decrease in the net interest margin primarily reflecting the continued run off of the acquired loan portfolios and the related purchase accounting impact. This decrease was offset in part by a $1.6 billion increase in average loan balances. Average automobile loans increased $1.0 billion, while average RV and marine finance loans increased $0.6 billion reflecting the expansion of this acquired business into 17 new states. Noninterest income decreased $2 million, or 25%, primarily due to lower recoveries of acquired loans that were charged-off prior to acquisition as well as a decrease in net servicing income on securitized automobile loans. Noninterest expense was unchanged from a year ago.

Regional Banking and The Huntington Private Client Group

Table 25 - Key Performance Indicators for Regional Banking and The Huntington Private Client Group

	Six Months Ended June 30,		Change	
(dollar amounts in millions)	2018	2017	Amount	Percent
Net interest income	$91	$83	$8	10 %
Provision for credit losses	1	—	1	—
Noninterest income	98	94	4	4
Noninterest expense	123	124	(1)	(1)
Provision for income taxes	13	19	(6)	(32)
Net income	$52	$34	$18	53 %
Number of employees (average full-time equivalent)	1,017	1,034	(17)	(2)%
Total average assets	$5,931	$5,404	$527	10
Total average loans/leases	5,268	4,701	567	12
Total average deposits	5,910	6,076	(166)	(3)
Net interest margin	3.18 %	2.82 %	0.36 %	13
NCOs	$—	$1	$(1)	(100)
NCOs as a % of average loans and leases	0.02 %	0.04 %	(0.02)%	(50)
Total assets under management (in billions)—eop	$17.9	$17.6	$0.3	2
Total trust assets (in billions)—eop	122.5	101.6	20.9	21

eop - End of Period.

2018 First Six Months versus 2017 First Six Months

RBHPCG reported net income of $52 million in the first six-month period of 2018, an increase of $18 million, or 53%, compared to the year-ago period. Segment net interest income increased $8 million or 10% due to a 36 basis point increase in net interest margin and a 12% increase in average loans and leases. Noninterest income increased $4 million, or 4%, primarily reflecting increased trust and investment management revenue as a result of an increase in trust assets and assets under management. Noninterest expense decreased $1 million, or 1%, as a result of decreased legal and professional fees and amortization of intangibles.

ADDITIONAL DISCLOSURES

Forward-Looking Statements

This report, including MD&A, contains certain forward-looking statements, including, but not limited to, certain plans, expectations, goals, projections, and statements, which are not historical facts and are subject to numerous assumptions, risks, and uncertainties. Statements that do not describe historical or current facts, including statements about beliefs and expectations, are forward-looking statements. Forward-looking statements may be identified by words such as expect, anticipate, believe, intend, estimate, plan, target, goal, or similar expressions, or future or conditional verbs such as will, may, might, should, would, could, or similar variations. The forward-looking statements are intended to be subject to the safe harbor provided by Section 27A of the Securities Act of 1933, Section 21E of the Securities Exchange Act of 1934, and the Private Securities Litigation Reform Act of 1995.

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While there is no assurance that any list of risks and uncertainties or risk factors is complete, below are certain factors which could cause actual results to differ materially from those contained or implied in the forward-looking statements: changes in general economic, political, or industry conditions; uncertainty in U.S. fiscal and monetary policy, including the interest rate policies of the Federal Reserve Board; volatility and disruptions in global capital and credit markets; movements in interest rates; competitive pressures on product pricing and services; success, impact, and timing of our business strategies, including market acceptance of any new products or services implementing our "Fair Play" banking philosophy; the nature, extent, timing, and results of governmental actions, examinations, reviews, reforms, regulations, and interpretations, including those related to the Dodd-Frank Wall Street Reform and Consumer Protection Act and the Basel III regulatory capital reforms, as well as those involving the OCC, Federal Reserve, FDIC, and CFPB; and other factors that may affect our future results. Additional factors that could cause results to differ materially from those described above can be found in our Annual Report on Form 10-K for the year ended December 31, 2017, and Quarterly Report on Form 10-Q for the quarter ended March 31, 2018, which are on file with the Securities and Exchange Commission (the "SEC") and available in the "Investor Relations" section of our website, http://www.huntington.com, under the heading "Publications and Filings" and in other documents we file with the SEC. All forward-looking statements speak only as of the date they are made and are based on information available at that time. We do not assume any obligation to update forward-looking statements to reflect circumstances or events that occur after the date the forward-looking statements were made or to reflect the occurrence of unanticipated events except as required by federal securities laws. As forward-looking statements involve significant risks and uncertainties, caution should be exercised against placing undue reliance on such statements.

Non-GAAP Financial Measures

This document contains GAAP financial measures and non-GAAP financial measures where management believes it to be helpful in understanding Huntington's results of operations or financial position. Where non-GAAP financial measures are used, the comparable GAAP financial measure, as well as the reconciliation to the comparable GAAP financial measure, can be found herein.

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, 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.

Fully-Taxable Equivalent Basis

Interest income, yields, and ratios on a FTE basis are considered non-GAAP financial measures. Management believes net interest income on a FTE basis provides an insightful picture of the interest margin for comparison purposes. The FTE basis also allows management to assess the comparability of revenue arising from both taxable and tax-exempt sources. The FTE basis assumes a federal statutory tax rate of 21 percent and 35 percent for the 2018 and 2017 periods, respectively. We encourage readers to consider the consolidated financial statements and other financial information contained in this Form 10-Q in their entirety, and not to rely on any single financial measure.

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Non-Regulatory Capital Ratios

In addition to capital ratios defined by banking regulators, the Company considers various other measures when evaluating capital utilization and adequacy, including:

- Tangible common equity to tangible assets, and
- Tangible common equity to risk-weighted assets using Basel III definitions.

These non-regulatory capital ratios are viewed by management as useful additional methods of reflecting the level of capital available to withstand unexpected market conditions. Additionally, presentation of these ratios allows readers to compare the Company's capitalization to other financial services companies. These ratios differ from capital ratios defined by banking regulators principally in that the numerator excludes goodwill and other intangible assets, the nature and extent of which varies among different financial services companies. These ratios are not defined in GAAP or federal banking regulations. As a result, these non-regulatory capital ratios disclosed by the Company are considered non-GAAP financial measures.

Because there are no standardized definitions for these non-regulatory capital ratios, the Company's calculation methods may differ from those used by other financial services companies. Also, there may be limits in the usefulness of these measures to investors. As a result, the Company encourages readers to consider the consolidated financial statements and other financial information contained in this Form 10-Q in their entirety, and not to rely on any single financial measure.

Risk Factors

More information on risk is discussed in the Risk Factors section included in Item 1A of our 2017 Form 10-K. Additional information regarding risk factors can also be found in the Risk Management and Capital discussion of this report.

Critical Accounting Policies and Use of Significant Estimates

Our Consolidated Financial Statements are prepared in accordance with GAAP. The preparation of financial statements in conformity with GAAP requires us to establish accounting policies and make estimates that affect amounts reported in our Consolidated Financial Statements. Note 1 of the Notes to Consolidated Financial Statements included in our December 31, 2017 Form 10-K, as supplemented by this report including this MD&A, describes the significant accounting policies we used in our Consolidated Financial Statements.

An accounting estimate requires assumptions and judgments about uncertain matters that could have a material effect on the Consolidated Financial Statements. Estimates are made under facts and circumstances at a point in time, and changes in those facts and circumstances could produce results substantially different from those estimates. Our most significant accounting estimates relate to our ACL, valuation of financial instruments, contingent liabilities, income taxes, and deferred tax assets/liabilities. These significant accounting estimates and their related application are discussed in our December 31, 2017 Form 10-K.

Recent Accounting Pronouncements and Developments

Note 2 of the Notes to Unaudited Condensed Consolidated Financial Statements discusses new accounting pronouncements adopted during 2018 and the expected impact of accounting pronouncements recently issued but not yet required to be adopted. To the extent the adoption of new accounting standards materially affect financial condition, results of operations, or liquidity, the impacts are discussed in the applicable section of this MD&A and the Notes to Unaudited Condensed Consolidated Financial Statements.

Fair Value

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

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Item 1: Financial Statements
Huntington Bancshares Incorporated
Condensed Consolidated Balance Sheets
(Unaudited)

(dollar amounts in millions, except number of shares)	June 30, 2018	December 31, 2017
Assets		
Cash and due from banks	$ 1,382	$ 1,520
Interest-bearing deposits in banks	41	47
Trading account securities	85	86
Available-for-sale securities	14,070	14,869
Held-to-maturity securities	8,682	9,091
Other securities	597	600
Loans held for sale (includes $643 and $413 respectively, measured at fair value)(1)	709	488
Loans and leases (includes $84 and $93 respectively, measured at fair value)(1)	72,406	70,117
Allowance for loan and lease losses	(741)	(691)
Net loans and leases	71,665	69,426
Bank owned life insurance	2,488	2,466
Premises and equipment	840	864
Goodwill	1,993	1,993
Other intangible assets	319	346
Servicing rights	248	238
Accrued income and other assets	2,239	2,151
Total assets	$ 105,358	$ 104,185
Liabilities and shareholders' equity		
Liabilities		
Deposits	$ 79,587	$ 77,041
Short-term borrowings	2,442	5,056
Long-term debt	9,726	9,206
Accrued expenses and other liabilities	2,131	2,068
Total liabilities	93,886	93,371
Commitments and contingencies (Note 17)		
Shareholders' equity		
Preferred stock	1,203	1,071
Common stock	11	11
Capital surplus	10,038	9,707
Less treasury shares, at cost	(40)	(35)
Accumulated other comprehensive loss	(730)	(528)
Retained earnings	990	588
Total shareholders' equity	11,472	10,814
Total liabilities and shareholders' equity	$ 105,358	$ 104,185
Common shares authorized (par value of $0.01)	1,500,000,000	1,500,000,000
Common shares issued	1,107,817,801	1,075,294,946
Common shares outstanding	1,104,226,603	1,072,026,681
Treasury shares outstanding	3,591,198	3,268,265
Preferred stock, authorized shares	6,617,808	6,617,808
Preferred shares issued	2,707,571	2,702,571
Preferred shares outstanding	740,500	1,098,006

(1) Amounts represent loans for which Huntington has elected the fair value option. See Note 14.

See Notes to Unaudited Condensed Consolidated Financial Statements

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Huntington Bancshares Incorporated
Condensed Consolidated Statements of Income
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
(dollar amounts in millions)	2018	2017	2018	2017
Interest and fee income:				
Loans and leases	$810	$700	$1,566	$1,376
Available-for-sale securities				
Taxable	71	74	141	145
Tax-exempt	24	19	47	38
Held-to-maturity securities—taxable	53	44	107	89
Other securities				
Taxable	7	4	13	9
Other	7	5	12	10
Total interest income	972	846	1,886	1,667
Interest expense:				
Deposits	87	42	147	77
Short-term borrowings	14	5	33	11
Subordinated notes and other long-term debt	87	54	152	104
Total interest expense	188	101	332	192
Net interest income	784	745	1,554	1,475
Provision for credit losses	56	25	122	93
Net interest income after provision for credit losses	728	720	1,432	1,382
Service charges on deposit accounts	91	88	177	171
Cards and payment processing income	56	52	109	100
Trust and investment management services	42	37	86	76
Mortgage banking income	28	32	54	64
Insurance income	21	22	42	42
Capital markets fees	21	17	40	31
Bank owned life insurance income	17	15	32	33
Gain on sale of loans	15	12	23	25
Net gains on sales of securities	—	4	—	4
Impairment losses on available-for-sale securities	—	(4)	—	(4)
Other noninterest income	45	50	87	96
Total noninterest income	336	325	650	638
Personnel costs	396	392	772	774
Outside data processing and other services	69	75	142	162
Net occupancy	35	53	76	120
Equipment	38	43	78	90
Deposit and other insurance expense	18	20	36	41
Professional services	15	18	26	36
Marketing	18	19	26	33
Amortization of intangibles	13	14	27	29
Other noninterest expense	50	60	102	117
Total noninterest expense	652	694	1,285	1,402

Income before income taxes	412	351	797	618
Provision for income taxes	57	79	116	138
Net income	355	272	681	480
Dividends on preferred shares	21	19	33	38
Net income applicable to common shares	$334	$253	$648	$442

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(dollar amounts in millions, except per share amounts)	Three Months Ended June 30, 2018	Three Months Ended June 30, 2017	Six Months Ended June 30, 2018	Six Months Ended June 30, 2017
Average common shares—basic	1,103,337	1,088,934	1,093,580	1,087,654
Average common shares—diluted	1,122,612	1,108,527	1,123,641	1,108,572
Per common share:				
Net income—basic	$0.30	$ 0.23	$0.59	$ 0.41
Net income—diluted	0.30	0.23	0.58	0.40
Cash dividends declared	0.11	0.08	0.22	0.16
OTTI losses for the periods presented:				
Total OTTI losses	$—	$ (4)	$—	$ (4)
Noncredit-related portion of loss recognized in OCI	—	—	—	—
Impairment losses recognized in earnings on available-for-sale securities	$—	$ (4)	$—	$ (4)

See Notes to Unaudited Condensed Consolidated Financial Statements

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Huntington Bancshares Incorporated
Condensed Consolidated Statements of Comprehensive Income
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
(dollar amounts in millions)	2018	2017	2018	2017
Net income	$355	$272	$681	$480
Other comprehensive income, net of tax:				
Unrealized gains (losses) on available-for-sale securities:				
Non-credit-related impairment recoveries (losses) on debt securities not expected to be sold	—	1	—	2
Unrealized net gains (losses) on available-for-sale securities arising during the period, net of reclassification for net realized gains and losses	(53)	37	(203)	47
Total unrealized gains (losses) on available-for-sale securities	(53)	38	(203)	49
Unrealized gains (losses) on cash flow hedging derivatives, net of reclassifications to income	—	1	—	1
Change in accumulated unrealized losses for pension and other post-retirement obligations	1	1	2	1
Other comprehensive income (loss), net of tax	(52)	40	(201)	51
Comprehensive income	$303	$312	$480	$531

See Notes to Unaudited Condensed Consolidated Financial Statements

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Huntington Bancshares Incorporated
Condensed Consolidated Statements of Changes in Shareholders' Equity
(Unaudited)

(dollar amounts in millions, except per share amounts)	Preferred Stock	Common Stock		Capital Surplus	Treasury Stock		Accumulated Other Comprehensive Income (Loss)	Retained Earnings (Deficit)	Total
	Amount	Shares	Amount		Shares	Amount			
Six Months Ended June 30, 2018									
Balance, beginning of period	$ 1,071	1,075,295	$ 11	$ 9,707	(3,268)	$ (35)	$ (528)	$ 588	$ 10,814
Cumulative-effect adjustment (ASU 2016-01)							(1)	1	—
Net income								681	681
Other comprehensive income (loss)							(201)		(201)
Net proceeds from issuance of Preferred Series E Stock	495								495
Repurchases of common stock		(3,007)	—	(48)					(48)
Cash dividends declared:									
Common ($0.22 per share)								(243)	(243)
Preferred Series B ($23.67 per share)								(1)	(1)
Preferred Series C ($29.38 per share)								(3)	(3)
Preferred Series D ($31.25 per share)								(19)	(19)
Preferred Series E ($2042.50 per share)								(10)	(10)
Conversion of Preferred Series A Stock to Common Stock	(363)	30,330		363					—
Recognition of the fair value of share-based compensation				44					44
Other share-based compensation activity		5,199	—	(28)				(4)	(32)
Other				—	—	(5)			(5)
Balance, end of period	$ 1,203	1,107,817	$ 11	$ 10,038	(3,268)	$ (40)	$ (730)	$ 990	$ 11,472
Six Months Ended June 30, 2017									
Balance, beginning of period	$ 1,071	1,088,641	$ 11	$ 9,881	(2,953)	$ (27)	$ (401)	$ (227)	$ 10,308
Net income								480	480
Other comprehensive income (loss)							51		51
Cash dividends declared:									
Common ($0.16 per share)								(174)	(174)
								(15)	(15)

Preferred Series A ($42.50 per share)									
Preferred Series B ($18.95 per share)								(1)	(1)
Preferred Series C ($29.38 per share)								(3)	(3)
Preferred Series D ($31.25 per share)								(19)	(19)
Recognition of the fair value of share-based compensation				52					52
Other share-based compensation activity		4,514	—	(15)				(7)	(22)
Other		7	—	1	(193)	(4)		—	(3)
Balance, end of period	$1,071	1,093,162	$ 11	$9,919	(3,146)	$(31)	$ (350)	$34	$10,654

See Notes to Unaudited Condensed Consolidated Financial Statements

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Huntington Bancshares Incorporated
Condensed Consolidated Statements of Cash Flows
(Unaudited)

	Six Months Ended June 30,	
(dollar amounts in millions)	2018	2017
Operating activities		
Net income	$ 681	$ 480
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Provision for credit losses	122	93
Depreciation and amortization	228	211
Share-based compensation expense	44	52
Deferred income tax expense	139	12
Net change in:		
Trading account securities	1	39
Loans held for sale	(274)	(221)
Accrued income and other assets	(170)	(58)
Accrued expense and other liabilities	(33)	(60)
Other, net	(136)	11
Net cash provided by (used in) operating activities	602	559
Investing activities		
Change in interest bearing deposits in banks	56	19
Proceeds from:		
Maturities and calls of available-for-sale securities	1,014	716
Maturities of held-to-maturity securities	350	523
Maturities and calls of other securities	5	—
Sales of available-for-sale securities	381	406
Sales of other securities	—	6
Purchases of available-for-sale securities	(771)	(1,850)
Purchases of held-to-maturity securities	(71)	(9)
Purchases of other securities	(2)	(41)
Net proceeds from sales of portfolio loans	310	259
	(2,619)	(1,429)

Net loan and lease activity, excluding sales and purchases						
Purchases of premises and equipment	(38		)	(113		)
Proceeds from sales of other real estate	13			18		
Purchases of loans and leases	(104		)	(94		)
Other, net	18			9		
Net cash provided by (used in) investing activities	(1,458		)	(1,580		)
Financing activities						
Increase (decrease) in deposits	2,546			326		
Increase (decrease) in short-term borrowings	(2,579		)	838		
Net proceeds from issuance of long-term debt	1,331			1,061		
Maturity/redemption of long-term debt	(734		)	(843		)
Dividends paid on preferred stock	(30		)	(38		)
Dividends paid on common stock	(240		)	(174		)
Repurchases of common stock	(48		)	—		
Proceeds from stock options exercised	4			6		
Net proceeds from issuance of preferred stock	495			—		
Payments related to tax-withholding for share based compensation awards	(27		)	(25		)
Other, net	—			—		
Net cash provided by (used for) financing activities	718			1,151		
Increase (decrease) in cash a cash equivalents	(138		)	130		
Cash and cash equivalents at beginning of period	1,520			1,385		
Cash and cash equivalents at end of period	$	1,382		$	1,515	

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	Six Months Ended June 30,	
(dollar amounts in millions)	2018	2017
Supplemental disclosures:		
Interest paid	$320	$185
Income taxes paid (refunded)	(113)	54
Non-cash activities		
Loans transferred to held-for-sale from portfolio	316	298
Loans transferred to portfolio from held-for-sale	34	1
Transfer of loans to OREO	10	17
Transfer of securities from held-to-maturity to available-for-sale	2,833	—
Transfer of securities from available-for-sale to held-to-maturity	2,707	993

See Notes to Unaudited Condensed Consolidated Financial Statements

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Huntington Bancshares Incorporated
Notes to Unaudited Condensed Consolidated Financial Statements

1. BASIS OF PRESENTATION

The accompanying Unaudited Condensed Consolidated Financial Statements of Huntington reflect all adjustments consisting of normal recurring accruals which are, in the opinion of Management, necessary for a fair statement of the consolidated financial position, the results of operations, and cash flows for the periods presented. These Unaudited Condensed Consolidated Financial Statements have been prepared according to the rules and regulations of the SEC and, therefore, certain information and footnote disclosures normally included in annual financial statements prepared in accordance with GAAP have been omitted. The Notes to Consolidated Financial Statements appearing in Huntington's 2017 Form 10-K, which include descriptions of significant accounting policies, as updated by the information contained in this report, should be read in conjunction with these interim financial statements.

For statement of cash flow purposes, cash and cash equivalents are defined as the sum of "Cash and due from banks" which includes amounts on deposit with the Federal Reserve and "Federal funds sold and securities purchased under resale agreements."

In conjunction with applicable accounting standards, all material subsequent events have been either recognized in the Unaudited Condensed Consolidated Financial Statements or disclosed in the Notes to Unaudited Condensed Consolidated Financial Statements.

Certain amounts reported in prior periods have been reclassified to conform to the current period presentation.

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2. ACCOUNTING STANDARDS UPDATE

Accounting standards adopted in current period

Standard	Summary of guidance	Effects on financial statements
ASU 2014-09 - Revenue from Contracts with Customers (Topic 606): Issued May 2014	- Topic 606 supersedes the revenue recognition requirements in Topic 605, Revenue Recognition, and most industry-specific guidance. - Requires an entity to recognize revenue upon the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. - Also requires additional qualitative and quantitative disclosures relating to the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers - Guidance sets forth a five step approach for revenue recognition.	- Huntington adopted the new guidance on January 1, 2018 using the modified retrospective approach. - The update did not have a significant impact on Huntington's Unaudited Condensed Consolidated Financial Statements. - See Footnote 12 for further detail impact on adoption.
ASU 2016-01 - Recognition and Measurement of Financial Assets and Financial Liabilities. Issued January 2016	- Improvements to GAAP disclosures including requiring an entity to: (a) Measure its equity investments with changes in the fair value recognized in the income statement. (b) Present separately in OCI the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments (i.e., FVO liability). (c) Use the exit price notion when measuring the fair value of financial instruments for disclosure purposes. (d) Assess deferred tax assets related to a net unrealized loss on AFS securities in combination with the entity’s other deferred tax assets.	- Huntington adopted the new guidance in the on January 1, 2018 using the modified retrospective approach. - Amendments are applied as a cumulative-effect adjustment to the balance sheet as of the beginning of the fiscal year of adoption. - Huntington reclassified $19 million of equity securities from AFS Securities to Other Securities on the Unaudited Condensed Consolidated Balance Sheets and reclassified unrealized gains of $1 million from AOCI to Retained Earnings. Prior periods have been adjusted to present these securities as Other Securities to facilitate comparison.
ASU 2016-15 - Classification of Certain Cash Receipts and Cash	- Clarifies guidance on the classification of certain cash receipts and payments in the statement of cash flows.	- Huntington adopted the new guidance on January 1, 2018.

Payments. Issued August 2016	- Provides consistent principles for evaluating the classification of cash payments and receipts in the statement of cash flows to reduce diversity in practice with respect to several types of cash flows.	- The update did not have a significant impact on Huntington's Unaudited Condensed Consolidated Financial Statements.
ASU 2017-07 - Improving the Presentation of Net Periodic Pension Cost and Periodic Postretirement Benefit Cost. Issued March 2017	- Requires that an employer report the service cost component of the pension cost and postretirement benefit cost in the same line items as other compensation costs arising from services rendered by the pertinent employees during the period. - Other components of the net benefit cost should be presented or disclosed separately in the income statement from the service cost component.	- Huntington adopted the new guidance on January 1, 2018. - The update did not have a significant impact on Huntington's Unaudited Condensed Consolidated Financial Statements.

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Standard	Summary of guidance	Effects on financial statements
ASU 2017-09 - Stock Compensation Modification Accounting. Issued May 2017	- Reduces the current diversity in practice and provides explicit guidance pertaining to the provisions of modification accounting. - Clarifies that an entity should account for effects of modification unless the fair value, vesting conditions and the classification of the modified award are the same as the original awards immediately before the original award is modified.	- Huntington adopted the new guidance on January 1, 2018. - The update did not have a significant impact on Huntington's Unaudited Condensed Consolidated Financial Statements.
ASU 2017-12 - Derivatives and Hedging - Targeted Improvements to Accounting for Hedging Activities. Issued August 2017	- Aligns the entity's risk management activities and financial reporting for hedging relationships. - Requires an entity to present the earnings effect of the hedging instrument in the same income statement line item in which the earnings effect of the hedged item is reported. - Refines measurement techniques for hedges of benchmark interest rate risk. - Eliminates the separate measurement and reporting of hedge ineffectiveness. - Allows stated amount of assets in a closed portfolio to be fair value hedged by excluding proportion of hedged item related to prepayments, defaults and other events. - Eases hedge effectiveness testing including an option to perform qualitative testing.	- For cash flow and net investment hedges, the cumulative-effect adjustment related to eliminating the separate measurement of ineffectiveness should be recognized in AOCI with a corresponding adjustment to retained earnings. - Huntington adopted the new guidance on January 1, 2018. Except as mentioned in the paragraph below, the update did not have a significant impact on Huntington's Unaudited Condensed Consolidated Financial Statements. - Huntington reclassified $2.8 billion securities eligible to be hedged under the last-of-layer method from held-to-maturity to available-for-sale and recognized $26 million of fair value loss (net of tax) within OCI.
ASU 2018-02 - Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income (Topic 220) Issued Feb 2018	- Allows an entity to elect a reclassification from AOCI to retained earnings for stranded tax effects resulting from TCJA. - The amount of that reclassification should include the effect of changes of tax rate on the deferred tax amount, any related valuation allowance and other income tax effects on the items in AOCI. - Requires an entity to state if an election to reclassify the tax effect to retained earnings is made along with the description of other income tax effects that are reclassified from	- Effective for fiscal years beginning after December 15, 2018 and interim periods within those fiscal years with early adoption permitted. - Huntington early adopted the guidance effective 4Q 2017.

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Accounting standards yet to be adopted

Standard	Summary of guidance	Effects on financial statements
ASU 2016-02 - Leases. Issued February 2016	- New lease accounting model for lessors and lessees. For lessees, virtually all leases will be required to be recognized on the balance sheet by recording a right-of-use asset and lease liability. Subsequent accounting for leases varies depending on whether the lease is classified as an operating lease or a finance lease. - Accounting applied by a lessor is largely unchanged from that applied under the existing guidance. - Requires additional qualitative and quantitative disclosures with the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases.	- Effective for the fiscal period beginning after December 15, 2018, with early application permitted. - Management intends to adopt the guidance on January 1, 2019, and has formed a working group comprised of associates from different disciplines, including Procurement, Real Estate, and Credit Administration, to evaluate the impact of the standard where Huntington is a lessee or lessor, as well as any impact to borrower’s financial statements. - Management is currently assessing the impact of the new guidance on Huntington's Unaudited Condensed Consolidated Financial Statements, including working with associates engaged in the procurement of goods and services used in the entity’s operations, and reviewing contractual arrangements for embedded leases in an effort to identify Huntington’s full lease population. - Huntington will recognize right-of-use assets and lease liabilities for virtually all of its operating lease commitments. The amounts of right-of-use assets and corresponding lease liabilities recorded upon adoption will be based, primarily, on the present value of unpaid future minimum lease payments as of January 1, 2019. Those amounts will also be impacted by assumptions around renewals and/or extensions, and the interest rate used to discount those future lease obligations. As of December 31, 2017, the Company reported approximately $315 million in minimum lease payments due under such agreements January 1, 2019 forward. While these leases represent a majority of the leases within the scope of the standard, the lease portfolio is subject to change as a result of the execution of new leases and termination of existing leases prior to the effective date, as well as the identification of potential embedded and other leases.
ASU 2016-13 - Financial Instruments - Credit Losses. Issued June 2016	- Eliminates the probable recognition threshold for credit losses on financial assets measured at amortized cost. - Requires those financial assets to be presented at the net amount expected to be collected (i.e., net of expected credit losses). - Measurement of expected credit losses should be based	- Effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption is permitted for fiscal years beginning after December 15, 2018. - Adoption will be applied through a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective. - Management intends to adopt the guidance on January 1, 2020 and has formed a working group comprised of teams from different disciplines including credit, finance, and risk management to evaluate the requirements of the new standard and the impact it will have on our processes.

on relevant information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectibility of the reported amount.	- Huntington is currently in the process of developing credit models as well as accounting, reporting, and governance processes to comply with the new credit reserve requirements.

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Standard	Summary of guidance	Effects on financial statements
ASU 2017-04 - Simplifying the Test for Goodwill Impairment. Issued January 2017	- Simplifies the goodwill impairment test by eliminating Step 2 of the goodwill impairment process, which requires an entity to determine the implied fair value of its goodwill by assigning fair value to all its assets and liabilities. - Entities will instead recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value. - Entities will still have the option to perform the qualitative assessment for a reporting unit to determine if the quantitative impairment test is necessary.	- Effective for annual and interim goodwill tests performed in fiscal years beginning after December 15, 2019. Early adoption is permitted. - The amendment is not expected to have a significant impact on Huntington's Unaudited Condensed Consolidated Financial Statements.

3. LOANS / LEASES AND ALLOWANCE FOR CREDIT LOSSES

Loans and leases which Huntington has the intent and ability to hold for the foreseeable future, or until maturity or payoff, are classified in the Unaudited Condensed Consolidated Balance Sheets as loans and leases. The total balance that is netted against the loans pertaining to unamortized premiums, discounts, fees, and costs are $372 million and $334 million at June 30, 2018 and December 31, 2017, respectively.

Loan and Lease Portfolio Composition

The following table provides a detailed listing of Huntington’s loan and lease portfolio at June 30, 2018 and December 31, 2017.

(dollar amounts in millions)	June 30, 2018	December 31, 2017
Loans and leases:		
Commercial and industrial	$28,850	$ 28,107
Commercial real estate	7,201	7,225
Automobile	12,390	12,100
Home equity	9,907	10,099
Residential mortgage	10,006	9,026
RV and marine finance	2,846	2,438
Other consumer	1,206	1,122
Loans and leases	$72,406	$ 70,117
Allowance for loan and lease losses	(741)	(691)
Net loans and leases	$71,665	$ 69,426

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Nonaccrual and Past Due Loans

Loans are considered past due when the contractual amounts due with respect to principal and interest are not received within 30 days of the contractual due date. See Note 1 “Significant Accounting Policies” to the consolidated financial statements of the Annual Report on Form 10-K for the year ended December 31, 2017 for a description of the accounting policies related to the NALs.

The following table presents NALs by loan class at June 30, 2018 and December 31, 2017.

(dollar amounts in millions)	June 30, 2018	December 31, 2017
Commercial and industrial	$ 207	$ 161
Commercial real estate	25	29
Automobile	4	6
Home equity	68	68
Residential mortgage	73	84
RV and marine finance	1	1
Other consumer	—	—
Total nonaccrual loans	$ 378	$ 349

The following table presents an aging analysis of loans and leases, including past due loans and leases, by loan class at June 30, 2018 and December 31, 2017:

	June 30, 2018								
	Past Due (1)								
(dollar amounts in millions)	30-59 Days	60-89 Days	90 or more days	Total	Current	Loans Accounted for Under FVO	Total Loans and Leases	90 or more days past due and accruing	
Commercial and industrial	$47	$28	$ 63	$138	$28,712	$ —	$28,850	$ 9	(2)
Commercial real estate	2	12	6	20	7,181	—	7,201	—	
Automobile	71	15	7	93	12,297	—	12,390	6	
Home equity	44	19	59	122	9,783	2	9,907	16	
Residential mortgage	108	40	133	281	9,644	81	10,006	96	(3)
RV and marine finance	8	2	1	11	2,834	1	2,846	1	
Other consumer	12	6	4	22	1,184	—	1,206	4	
Total loans and leases	$292	$122	$ 273	$687	$71,635	$ 84	$72,406	$ 132	

	December 31, 2017									
	Past Due (1)									
(dollar amounts in millions)	30-59 Days	60-89 Days	90 or more days	Total	Current	Purchased Credit Impaired	Loans Accounted for Under FVO	Total Loans and Leases	90 or more days past due and accruing	
Commercial and industrial	35	14	65	114	27,954	39	—	28,107	9	(2)
Commercial real estate	10	1	11	22	7,201	2	—	7,225	3	
Automobile	89	18	10	117	11,982	—	1	12,100	7	
Home equity	49	19	60	128	9,969	—	2	10,099	18	
Residential mortgage	129	48	118	295	8,642	—	89	9,026	72	(3)
RV and marine finance	11	3	2	16	2,421	—	1	2,438	1	
Other consumer	12	5	5	22	1,100	—	—	1,122	5	
Total loans and leases	$335	$108	$ 271	$714	$69,269	$ 41	$ 93	$70,117	$ 115	

(1) NALs are included in this aging analysis based on the loan's past due status.

(2) Amounts include Huntington Technology Finance administrative lease delinquencies.
(3) Amounts include mortgage loans insured by U.S. government agencies.

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Allowance for Credit Losses

Huntington maintains two reserves, both of which reflect Management's judgment regarding the appropriate level necessary to absorb probable and estimable credit losses inherent in our loan and lease portfolio as of the balance sheet date: the ALLL and the AULC. Combined, these reserves comprise the total ACL. The determination of the ACL requires significant estimates, including the timing and amounts of expected future cash flows on impaired loans and leases, consideration of current economic conditions, and historical loss experience pertaining to pools of homogeneous loans and leases, all of which may be susceptible to change. See Note 1 "Significant Accounting Policies" to the consolidated financial statements of the Annual Report on Form 10-K for the year ended December 31, 2017 for a description of the accounting policies related to the ACL.

The ALLL is increased through a provision for credit losses that is charged to earnings, based on Management's quarterly evaluation and is reduced by charge-offs, net of recoveries.

The following table presents ALLL and AULC activity by portfolio segment for the three-month and six-month periods ended June 30, 2018 and 2017.

(dollar amounts in millions)	Commercial	Consumer	Total
Three-month period ended June 30, 2018:			
ALLL balance, beginning of period	$ 515	$ 206	$721
Loan charge-offs	(12)	(41)	(53)
Recoveries of loans previously charged-off	10	15	25
Provision for loan and lease losses	18	30	48
ALLL balance, end of period	$ 531	$ 210	$741
AULC balance, beginning of period	$ 82	$ 3	$85
Provision (reduction in allowance) for unfunded loan commitments and letters of credit	8	—	8
AULC balance, end of period	$ 90	$ 3	$93
ACL balance, end of period	$ 621	$ 213	$834
Six-month period ended June 30, 2018:			
ALLL balance, beginning of period	$ 482	$ 209	$691
Loan charge-offs	(35)	(91)	(126)
Recoveries of loans previously charged-off	30	30	60
Provision for loan and lease losses	54	62	116
ALLL balance, end of period	$ 531	$ 210	$741
AULC balance, beginning of period	$ 84	$ 3	$87
Provision (reduction in allowance) for unfunded loan commitments and letters of credit	6	—	6
AULC balance, end of period	$ 90	$ 3	$93
ACL balance, end of period	$ 621	$ 213	$834

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(dollar amounts in millions)	Commercial	Consumer	Total
Three-month period ended June 30, 2017:			
ALLL balance, beginning of period	$ 480	$ 193	$673
Loan charge-offs	(15)	(42)	(57)
Recoveries of loans previously charged-off	6	15	21
Provision for loan and lease losses	4	27	31
ALLL balance, end of period	$ 475	$ 193	$668
AULC balance, beginning of period	$ 89	$ 3	$92
Provision (reduction in allowance) for unfunded loan commitments and letters of credit	(7)	—	(7)
AULC balance, end of period	$ 82	$ 3	$85
ACL balance, end of period	$ 557	$ 196	$753
Six-month period ended June 30, 2017:			
ALLL balance, beginning of period	$ 451	$ 187	$638
Loan charge-offs	(39)	(88)	(127)
Recoveries of loans previously charged-off	24	28	52
Provision for loan and lease losses	39	66	105
ALLL balance, end of period	$ 475	$ 193	$668
AULC balance, beginning of period	$ 87	$ 11	$98
Provision (reduction in allowance) for unfunded loan commitments and letters of credit	(5)	(8)	(13)
AULC balance, end of period	$ 82	$ 3	$85
ACL balance, end of period	$ 557	$ 196	$753

Credit Quality Indicators

See Note 4 “Loans / Leases and Allowance for Credit Losses” to the consolidated financial statements of the Annual Report on Form 10-K for the year ended December 31, 2017 for a description of the credit quality indicators Huntington utilizes for monitoring credit quality and for determining an appropriate ACL level.

To facilitate the monitoring of credit quality for C&I and CRE loans, and for purposes of determining an appropriate ACL level for these loans, Huntington utilizes the following internally defined categories of credit grades:

- Pass - Higher quality loans that do not fit any of the other categories described below.
- OLEM - The credit risk may be relatively minor yet represents a risk given certain specific circumstances. If the potential weaknesses are not monitored or mitigated, the loan may weaken or the collateral may be inadequate to protect Huntington’s position in the future. For these reasons, Huntington considers the loans to be potential problem loans.
- Substandard - Inadequately protected loans by the borrower’s ability to repay, equity, and/or the collateral pledged to secure the loan. These loans have identified weaknesses that could hinder normal repayment or collection of the debt. It is likely Huntington will sustain some loss if any identified weaknesses are not mitigated.
- Doubtful - Loans that have all of the weaknesses inherent in those loans classified as Substandard, with the added elements of the full collection of the loan is improbable and that the possibility of loss is high.

Loans are generally assigned a category of "Pass" rating upon initial approval and subsequently updated as appropriate based on the borrowers financial performance.

Commercial loans categorized as OLEM, Substandard, or Doubtful are considered Criticized loans. Commercial loans categorized as Substandard or Doubtful are both considered Classified loans.

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The following table presents each loan and lease class by credit quality indicator at June 30, 2018 and December 31, 2017.

	June 30, 2018				
(dollar amounts in millions)	Credit Risk Profile by UCS Classification				
Commercial	Pass	OLEM	Substandard	Doubtful	Total
Commercial and industrial	$26,940	$784	$ 1,115	$ 11	$28,850
Commercial real estate	6,895	181	123	2	7,201
	Credit Risk Profile by FICO Score (1), (2)				
Consumer	750+	650-749	<650	Other (3)	Total
Automobile	$6,338	$4,469	$ 1,296	$ 287	$12,390
Home equity	6,219	3,014	601	71	9,905
Residential mortgage	6,579	2,598	592	156	9,925
RV and marine finance	1,805	887	96	57	2,845
Other consumer	452	580	116	58	1,206

	December 31, 2017				
(dollar amounts in millions)	Credit Risk Profile by UCS Classification				
Commercial	Pass	OLEM	Substandard	Doubtful	Total
Commercial and industrial	$26,268	$694	$ 1,116	$ 29	$28,107
Commercial real estate	6,909	200	115	1	7,225
	Credit Risk Profile by FICO Score (1), (2)				
Consumer	750+	650-749	<650	Other (3)	Total
Automobile	$6,102	$4,312	$ 1,390	$ 295	$12,099
Home equity	6,352	3,024	617	104	10,097
Residential mortgage	5,697	2,581	605	54	8,937
RV and marine finance	1,433	863	96	45	2,437
Other consumer	428	540	143	11	1,122

(1) Excludes loans accounted for under the fair value option.
(2) Reflects updated customer credit scores.
(3) Reflects deferred fees and costs, loans in process, etc.

Impaired Loans

See Note 1 “Significant Accounting Policies” to the consolidated financial statements of the Annual Report on Form 10-K for the year ended December 31, 2017 for a description of accounting policies related to impaired loans.

The following tables present the balance of the ALLL attributable to loans by portfolio segment individually and collectively evaluated for impairment and the related loan and lease balance at June 30, 2018 and December 31, 2017.

(dollar amounts in millions)	Commercial	Consumer	Total
ALLL at June 30, 2018:			
Portion of ALLL balance:			
Attributable to loans individually evaluated for impairment	$ 39	$ 10	$49
Attributable to loans collectively evaluated for impairment	492	200	692
Total ALLL balance	$ 531	$ 210	$741
Loan and Lease Ending Balances at June 30, 2018: (1)			
Portion of loan and lease ending balance:			
Individually evaluated for impairment	$ 642	$ 599	$1,241
Collectively evaluated for impairment	35,409	35,672	71,081
Total loans and leases evaluated for impairment	$ 36,051	$ 36,271	$72,322

(1) Excludes loans accounted for under the fair value option.

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(dollar amounts in millions)	Commercial	Consumer	Total
ALLL at December 31, 2017:			
Portion of ALLL balance:			
Attributable to loans individually evaluated for impairment	$ 32	$ 9	$41
Attributable to loans collectively evaluated for impairment	450	200	650
Total ALLL balance:	$ 482	$ 209	$691
Loan and Lease Ending Balances at December 31, 2017: (1)			
Portion of loan and lease ending balances:			
Attributable to purchased credit-impaired loans	$ 41	$ —	$41
Individually evaluated for impairment	607	616	1,223
Collectively evaluated for impairment	34,684	34,076	68,760
Total loans and leases evaluated for impairment	$ 35,332	$ 34,692	$70,024

(1) Excludes loans accounted for under the fair value option.

The following tables present by class the ending, unpaid principal balance, and the related ALLL, along with the average balance and interest income recognized only for impaired loans and leases: (1)

	June 30, 2018			Three Months Ended June 30, 2018		Six Months Ended June 30, 2018	
(dollar amounts in millions)	Ending Balance	Unpaid Principal Balance (6)	Related Allowance	Average Balance	Interest Income Recognized	Average Balance	Interest Income Recognized
With no related allowance recorded:							
Commercial and industrial	$276	$ 305	$ —	$259	$ 6	$268	$ 10
Commercial real estate	39	58	—	55	2	55	4
Automobile	—	—	—	—	—	—	—
Home equity	—	—	—	—	—	—	—
Residential mortgage	—	—	—	—	—	—	—
RV and marine finance	—	—	—	—	—	—	—
Other consumer	—	—	—	—	—	—	—
With an allowance recorded:							
Commercial and industrial	277	311	37	295	3	283	6
Commercial real estate	50	56	2	46	—	48	1
Automobile	36	40	2	37	1	36	1
Home equity	327	372	13	331	4	332	7
Residential mortgage	294	327	4	300	3	303	5
RV and marine finance	2	2	—	2	—	2	—
Other consumer	9	9	3	7	—	7	—
Total							
Commercial and industrial (3)	553	616	37	554	9	551	16
Commercial real estate (4)	89	114	2	101	2	103	5
Automobile (2)	36	40	2	37	1	36	1
Home equity (5)	327	372	13	331	4	332	7
Residential mortgage (5)	294	327	4	300	3	303	5
RV and marine finance (2)	2	2	—	2	—	2	—
Other consumer (2)	9	9	3	7	—	7	—

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(dollar amounts in millions)	December 31, 2017			Three Months Ended June 30, 2017		Six Months Ended June 30, 2017	
	Ending Balance	Unpaid Principal Balance (6)	Related Allowance	Average Balance	Interest Income Recognized	Average Balance	Interest Income Recognized
With no related allowance recorded:							
Commercial and industrial	$284	$ 311	$ —	$263	$ 5	$268	$ 9
Commercial real estate	56	81	—	82	2	85	4
Automobile	—	—	—	—	—	—	—
Home equity	—	—	—	—	—	—	—
Residential mortgage	—	—	—	—	—	—	—
RV and marine finance	—	—	—	—	—	—	—
Other consumer	—	—	—	—	—	—	—
With an allowance recorded:							
Commercial and industrial	257	280	29	258	2	311	4
Commercial real estate	51	51	3	39	—	58	1
Automobile	36	40	2	33	1	32	1
Home equity	334	385	14	326	4	324	8
Residential mortgage	308	338	4	339	3	335	6
RV and marine finance	2	3	—	1	—	1	—
Other consumer	8	8	2	4	—	4	—
Total							
Commercial and industrial (3)	541	591	29	521	7	579	13
Commercial real estate (4)	107	132	3	121	2	143	5
Automobile (2)	36	40	2	33	1	32	1
Home equity (5)	334	385	14	326	4	324	8
Residential mortgage (5)	308	338	4	339	3	335	6
RV and marine finance (2)	2	3	—	1	—	1	—
Other consumer (2)	8	8	2	4	—	4	—

(1) These tables do not include loans fully charged-off.

(2) All automobile, RV and marine finance and other consumer impaired loans included in these tables are considered impaired due to their status as a TDR.

(3) At June 30, 2018 and December 31, 2017, C&I loans of $401 million and $382 million, respectively, were considered impaired due to their status as a TDR.

(4) At June 30, 2018 and December 31, 2017, CRE loans of $79 million and $93 million, respectively, were considered impaired due to their status as a TDR.

(5) Includes home equity and residential mortgages considered to be collateral dependent due to their non-accrual status as well as home equity and mortgage loans considered impaired due to their status as a TDR.

(6) The differences between the ending balance and unpaid principal balance amounts represent partial charge-offs.

TDR Loans

TDRs are modified loans where a concession was provided to a borrower experiencing financial difficulties. Loan modifications are considered TDRs when the concessions provided are not available to the borrower through either normal channels or other sources. However, not all loan modifications are TDRs. See Note 4 “Loans / Leases and Allowance for Credit Losses” to the consolidated financial statements of the Annual Report on Form 10-K for the year ended December 31, 2017 for an additional discussion of TDRs.

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The following table presents, by class and modification type, the number of contracts, post-modification outstanding balance, and the financial effects of the modification for the three-month and six-month periods ended June 30, 2018 and 2017.

	New Troubled Debt Restructurings During The Three-Month Period Ended (1)					
	June 30, 2018			June 30, 2017		
(dollar amounts in millions)	Number of Contracts	Post-modification Outstanding Balance (2)	Financial effects of modification (3)	Number of Contracts	Post-modification Outstanding Balance (2)	Financial effects of modification (3)
Commercial and industrial:						
Interest rate reduction	4	—	—	1	$ —	$ —
Amortization or maturity date change	264	171	(6)	228	168	(7)
Other	1	—	—	1	—	—
Total Commercial and industrial	269	171	(6)	230	168	(7)
Commercial real estate:						
Interest rate reduction	—	—	—	—	—	—
Amortization or maturity date change	36	43	(1)	19	25	—
Other	2	—	—	—	—	—
Total commercial real estate:	38	43	(1)	19	25	—
Automobile:						
Interest rate reduction	10	—	—	5	—	—
Amortization or maturity date change	382	3	—	334	3	—
Chapter 7 bankruptcy	221	2	—	198	1	—
Other	—	—	—	—	—	—
Total Automobile	613	5	—	537	4	—
Home equity:						
Interest rate reduction	—	—	—	9	—	—
Amortization or maturity date change	113	8	—	135	8	(1)
Chapter 7 bankruptcy	56	2	—	77	3	1
Other	—	—	—	12	1	—
Total Home equity	169	10	—	233	12	—
Residential mortgage:						
Interest rate reduction	4	—	—	—	—	—
Amortization or maturity date change	107	12	—	81	8	(1)
Chapter 7 bankruptcy	7	—	—	25	2	—
Other	1	—	—	5	1	—
Total Residential mortgage	119	12	—	111	11	(1)
RV and marine finance:						
Interest rate reduction	—	—	—	—	—	—
Amortization or maturity date change	14	—	—	10	—	—
Chapter 7 bankruptcy	26	—	—	34	1	—
Other	—	—	—	—	—	—
Total RV and marine finance	40	—	—	44	1	—
Other consumer:						

Interest rate reduction	491	4	—	—	—	—
Amortization or maturity date change	1	—	—	2	—	—
Chapter 7 bankruptcy	1	—	—	2	—	—
Other	—	—	—	—	—	—
Total Other consumer	493	4	—	4	—	—
Total new troubled debt restructurings	1,741	245	(7)	1,178	$ 221	$ (8)

(1) TDRs may include multiple concessions and the disclosure classifications are based on the primary concession provided to the borrower.

(2) Post-modification balances approximate pre-modification balances. The aggregate amount of charge-offs as a result of a restructuring are not significant.

(3) Amount represents the financial impact via provision for loan and lease losses as a result of the modification.

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(dollar amounts in millions)	New Troubled Debt Restructurings During The Six-Month Period Ended (1)					
	June 30, 2018			June 30, 2017		
	Number of Contracts	Post-modification Outstanding Ending Balance (2)	Financial effects of modification (3)	Number of Contracts	Post-modification Outstanding Ending Balance (2)	Financial effects of modification (3)
Commercial and industrial:						
Interest rate reduction	5	—	—	2	$ —	$ —
Amortization or maturity date change	502	267	(8)	464	281	(8)
Other	3	—	—	4	—	—
Total Commercial and industrial	510	267	(8)	470	281	(8)
Commercial real estate:						
Interest rate reduction	—	—	—	—	—	—
Amortization or maturity date change	84	74	(1)	43	56	(1)
Other	2	—	—	—	—	—
Total commercial real estate:	86	74	(1)	43	56	(1)
Automobile:						
Interest rate reduction	26	—	—	19	—	—
Amortization or maturity date change	793	7	—	811	7	—
Chapter 7 bankruptcy	421	4	—	438	4	—
Other	—	—	—	—	—	—
Total Automobile	1,240	11	—	1,268	11	—
Home equity:						
Interest rate reduction	1	—	—	17	1	—
Amortization or maturity date change	212	14	(1)	241	14	(1)
Chapter 7 bankruptcy	105	5	—	164	6	1
Other	7	1	—	70	4	—
Total Home equity	325	20	(1)	492	25	—
Residential mortgage:						
Interest rate reduction	4	—	—	2	—	—
Amortization or maturity date change	179	20	—	180	19	—
Chapter 7 bankruptcy	17	1	—	49	5	—
Other	2	—	—	21	3	—
Total Residential mortgage	202	21	—	252	27	—
RV and marine finance:						
Interest rate reduction	—	—	—	—	—	—
Amortization or maturity date change	17	—	—	24	—	—
Chapter 7 bankruptcy	42	1	—	49	1	—
Other	—	—	—	—	—	—
Total RV and marine finance	59	1	—	73	1	—
Other consumer:						
Interest rate reduction	931	4	—	1	—	—

Amortization or maturity date change	1	—	—	4	—	—
Chapter 7 bankruptcy	2	—	—	3	—	—
Other	—	—	—	—	—	—
Total Other consumer	934	4	—	8	—	—
Total new troubled debt restructurings	3,356	398	(10)	2,606	$ 401	$ (9)

(1) TDRs may include multiple concessions and the disclosure classifications are based on the primary concession provided to the borrower.

(2) Post-modification balances approximate pre-modification balances. The aggregate amount of charge-offs as a result of a restructuring are not significant.

(3) Amount represents the financial impact via provision for loan and lease losses as a result of the modification.

Pledged Loans and Leases

The Bank has access to the Federal Reserve's discount window and advances from the FHLB of Cincinnati. As of June 30, 2018 and December 31, 2017, these borrowings and advances are secured by $34.1 billion and $31.7 billion of loans and securities, respectively.

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4. AVAILABLE-FOR-SALE SECURITIES

Contractual maturities of available-for-sale securities at June 30, 2018 and December 31, 2017 were:

	June 30, 2018		December 31, 2017	
(dollar amounts in millions)	Amortized Cost	Fair Value	Amortized Cost	Fair Value
U.S. Treasury, Federal agency, and other agency securities:				
U.S. Treasury:				
1 year or less	$6	$6	$5	$5
Total U.S. Treasury	6	6	5	5
Federal agencies:				
Residential CMO:				
After 1 year through 5 years	—	—	1	1
After 5 years through 10 years	44	42	90	89
After 10 years	7,510	7,208	6,570	6,394
Total Residential CMO	7,554	7,250	6,661	6,484
Residential MBS:				
After 1 year through 5 years	4	4	6	6
After 5 years through 10 years	31	30	7	8
After 10 years	643	625	1,358	1,353
Total Residential MBS	678	659	1,371	1,367
Commercial MBS:				
After 1 year through 5 years	69	66	23	22
After 5 years through 10 years	9	8	151	148
After 10 years	1,737	1,669	2,365	2,317
Total Commercial MBS	1,815	1,743	2,539	2,487
Other agencies:				
1 year or less	1	1	2	2
After 1 year through 5 years	8	8	9	9
After 5 years through 10 years	179	174	58	59
Total other agencies	188	183	69	70
Total U.S. Treasury, Federal agency, and other agency securities	10,241	9,841	10,645	10,413
Municipal securities:				
1 year or less	164	164	103	103
After 1 year through 5 years	1,115	1,105	1,140	1,134
After 5 years through 10 years	1,702	1,674	1,709	1,704
After 10 years	845	822	940	937
Total municipal securities	3,826	3,765	3,892	3,878
Asset-backed securities:				
After 1 year through 5 years	40	39	80	80
After 5 years through 10 years	46	46	53	54
After 10 years	295	288	349	333
Total asset-backed securities	381	373	482	467
Corporate debt:				
1 year or less	1	1	—	—
After 1 year through 5 years	75	74	73	74
After 5 years through 10 years	11	12	20	21
After 10 years	—	—	13	14
Total corporate debt	87	87	106	109

Other securities/Sovereign debt:				
1 year or less	—	—	1	1
After 1 year through 5 years	4	4	1	1
Total other securities/Sovereign debt	4	4	2	2
Total available-for-sale securities	$14,539	$14,070	$15,127	$14,869

The following tables provide amortized cost, fair value, and gross unrealized gains and losses recognized in OCI by investment category at June 30, 2018 and December 31, 2017:

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(dollar amounts in millions)	Amortized Cost	Unrealized Gross Gains	Unrealized Gross Losses	Fair Value
June 30, 2018				
U.S. Treasury	$ 6	$—	$—	$6
Federal agencies:				
Residential CMO	7,554	—	(304)	7,250
Residential MBS	678	—	(19)	659
Commercial MBS	1,815	—	(72)	1,743
Other agencies	188	—	(5)	183
Total U.S. Treasury, Federal agency and other agency securities	10,241	—	(400)	9,841
Municipal securities	3,826	12	(73)	3,765
Asset-backed securities	381	—	(8)	373
Corporate debt	87	1	(1)	87
Other securities/Sovereign debt	4	—	—	4
Total available-for-sale securities	$ 14,539	$13	$(482)	$14,070

(dollar amounts in millions)	Amortized Cost	Unrealized Gross Gains	Unrealized Gross Losses	Fair Value
December 31, 2017				
U.S. Treasury	$ 5	$—	$—	$5
Federal agencies:				
Residential CMO	6,661	1	(178)	6,484
Residential MBS	1,371	1	(5)	1,367
Commercial MBS	2,539	—	(52)	2,487
Other agencies	69	1	—	70
Total U.S. Treasury, Federal agency and other agency securities	10,645	3	(235)	10,413
Municipal securities	3,892	21	(35)	3,878
Asset-backed securities	482	1	(16)	467
Corporate debt	106	3	—	109
Other securities/Sovereign debt	2	—	—	2
Total available-for-sale securities	$ 15,127	$28	$(286)	$14,869

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The following tables provide detail on investment securities with unrealized losses aggregated by investment category and the length of time the individual securities have been in a continuous loss position as of June 30, 2018 and December 31, 2017.

	Less than 12 Months		Over 12 Months		Total	
(dollar amounts in millions)	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
June 30, 2018						
Federal agencies:						
Residential CMO	$3,217	$ (86)	$3,988	$ (218)	$7,205	$ (304)
Residential MBS	638	(19)	12	—	650	(19)
Commercial MBS	285	(9)	1,458	(63)	1,743	(72)
Other agencies	88	(2)	85	(3)	173	(5)
Total Federal Agency and other agency securities	4,228	(116)	5,543	(284)	9,771	(400)
Municipal securities	2,306	(49)	723	(24)	3,029	(73)
Asset-backed securities	210	(4)	102	(4)	312	(8)
Corporate debt	61	(1)	—	—	61	(1)
Other securities/Sovereign debt	—	—	—	—	—	—
Total temporarily impaired securities	$6,805	$ (170)	$6,368	$ (312)	$13,173	$ (482)

	Less than 12 Months		Over 12 Months		Total	
(dollar amounts in millions)	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
December 31, 2017						
Federal agencies:						
Residential CMO	$1,660	$ (19)	$4,520	$ (159)	$6,180	$ (178)
Residential MBS	1,078	(5)	11	—	1,089	(5)
Commercial MBS	960	(15)	1,527	(37)	2,487	(52)
Other agencies	39	—	—	—	39	—
Total Federal Agency and other agency securities	3,737	(39)	6,058	(196)	9,795	(235)
Municipal securities	1,681	(21)	497	(14)	2,178	(35)
Asset-backed securities	127	(1)	173	(15)	300	(16)
Total temporarily impaired securities	$5,545	$ (61)	$6,728	$ (225)	$12,273	$ (286)

At June 30, 2018 and December 31, 2017, the carrying value of investment securities pledged to secure public and trust deposits, trading account liabilities, U.S. Treasury demand notes, and security repurchase agreements totaled $4.7 billion and $6.1 billion, respectively. There were no securities of a single issuer, which are not governmental or government-sponsored, that exceeded 10% of shareholders' equity at either June 30, 2018 or December 31, 2017.

The following table is a summary of realized securities gains and losses for the three-month and six-month periods ended June 30, 2018 and 2017, respectively.

	Three Months Ended June 30,		Six Months Ended June 30,	
(dollar amounts in millions)	2018	2017	2018	2017
Gross gains on sales of securities	$1	$ 4	$6	$ 5
Gross (losses) on sales of securities	(1)	—	(6)	(1)
Net gain on sales of securities	$—	$ 4	$—	$ 4

OTTI recognized in earnings	—	(4)	—	(4)
Net securities gains (losses)	$—	$ —	$—	$ —

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Security Impairment

Huntington evaluates the available-for-sale securities portfolio for impairment on a quarterly basis by conducting a comprehensive security-level assessment on all available-for-sale securities. Impairment would exist when the present value of the expected cash flows are not sufficient to recover the entire amortized cost basis at the balance sheet date. Under these circumstances, any credit impairment would be recognized in earnings. As of June 30, 2018, Huntington has evaluated available-for-sale securities with gross unrealized losses for impairment and concluded no OTTI is required.

5. HELD-TO-MATURITY SECURITIES

These are debt securities that Huntington has the intent and ability to hold until maturity. The debt securities are carried at amortized cost and adjusted for amortization of premiums and accretion of discounts using the interest method.

Listed below are the contractual maturities of held-to-maturity securities at June 30, 2018 and December 31, 2017.

	June 30, 2018		December 31, 2017	
(dollar amounts in millions)	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Federal agencies:				
Residential CMO:				
After 5 years through 10 years	37	37	—	—
After 10 years	2,262	2,185	3,714	3,657
Total Residential CMO	2,299	2,222	3,714	3,657
Residential MBS:				
After 5 years through 10 years	—	—	28	28
After 10 years	1,677	1,623	1,021	1,016
Total Residential MBS	1,677	1,623	1,049	1,044
Commercial MBS:				
After 1 year through 5 years	—	—	38	37
After 5 years through 10 years	130	127	1	1
After 10 years	4,196	4,047	3,752	3,698
Total Commercial MBS	4,326	4,174	3,791	3,736
Other agencies:				
After 1 year through 5 years	13	13	7	8
After 5 years through 10 years	211	206	362	360
After 10 years	151	148	163	161
Total other agencies	375	367	532	529
Total Federal agencies and other agencies	8,677	8,386	9,086	8,966
Municipal securities:				
After 10 years	5	5	5	5
Total municipal securities	5	5	5	5
Total held-to-maturity securities	$8,682	$8,391	$9,091	$8,971

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The following table provides amortized cost, gross unrealized gains and losses, and fair value by investment category at June 30, 2018 and December 31, 2017.

(dollar amounts in millions)	Amortized Cost	Unrealized Gross Gains	Unrealized Gross Losses	Fair Value
June 30, 2018				
Federal agencies:				
Residential CMO	$ 2,299	$ —	$ (77)	$ 2,222
Residential MBS	1,677	—	(54)	1,623
Commercial MBS	4,326	—	(152)	4,174
Other agencies	375	—	(8)	367
Total Federal agencies and other agencies	8,677	—	(291)	8,386
Municipal securities	5	—	—	5
Total held-to-maturity securities	$ 8,682	$ —	$ (291)	$ 8,391

(dollar amounts in millions)	Amortized Cost	Unrealized Gross Gains	Unrealized Gross Losses	Fair Value
December 31, 2017				
Federal agencies:				
Residential CMO	$ 3,714	$ 1	$ (58)	$ 3,657
Residential MBS	1,049	2	(7)	1,044
Commercial MBS	3,791	—	(55)	3,736
Other agencies	532	1	(4)	529
Total Federal agencies and other agencies	9,086	4	(124)	8,966
Municipal securities	5	—	—	5
Total held-to-maturity securities	$ 9,091	$ 4	$ (124)	$ 8,971

The following tables provide detail on HTM securities with unrealized losses aggregated by investment category and the length of time the individual securities have been in a continuous loss position, at June 30, 2018 and December 31, 2017.

	Less than 12 Months		Over 12 Months		Total	
(dollar amounts in millions)	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
June 30, 2018						
Federal agencies:						
Residential CMO	$ 958	$ (29)	$ 1,264	$ (48)	$ 2,222	$ (77)
Residential MBS	1,552	(54)	—	—	1,552	(54)
Commercial MBS	3,458	(134)	716	(18)	4,174	(152)
Other agencies	281	(6)	64	(2)	345	(8)
Total Federal agencies and other agencies	6,249	(223)	2,044	(68)	8,293	(291)
Municipal securities	—	—	5	—	5	—
Total temporarily impaired securities	$ 6,249	$ (223)	$ 2,049	$ (68)	$ 8,298	$ (291)

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(dollar amounts in millions)	Less than 12 Months		Over 12 Months		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
December 31, 2017						
Federal agencies:						
Residential CMO	$2,369	$ (26)	$1,019	$ (32)	$3,388	$ (58)
Residential MBS	974	(7)	—	—	974	(7)
Commercial MBS	3,456	(49)	253	(6)	3,709	(55)
Other agencies	249	(2)	139	(2)	388	(4)
Total Federal agencies and other agencies	7,048	(84)	1,411	(40)	8,459	(124)
Municipal securities	—	—	5	—	5	—
Total temporarily impaired securities	$7,048	$ (84)	$1,416	$ (40)	$8,464	$ (124)

Security Impairment

Huntington evaluates the held-to-maturity securities portfolio on a quarterly basis for impairment. Impairment would exist when the present value of the expected cash flows is not sufficient to recover the entire amortized cost basis at the balance sheet date. Under these circumstances, any impairment would be recognized in earnings. As of June 30, 2018, Huntington has evaluated held-to-maturity securities with gross unrealized losses for impairment and concluded no OTTI is required.

6. OTHER SECURITIES

(dollar amounts in millions)	June 30, 2018		December 31, 2017	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Other securities, at cost				
Non-marketable equity securities:				
Federal Home Loan Bank stock	282	282	287	287
Federal Reserve Bank stock	294	294	294	294
Other securities, at fair value				
Mutual funds	19	19	18	18
Marketable equity securities	1	2	1	1
Total other securities	$596	$ 597	$600	$ 600

Other securities are primarily composed of FHLB stock and FRB stock (which are carried at cost) and mutual funds and other marketable equity securities (which are carried at fair value, with changes in fair value recognized in other noninterest income). Other securities that are carried at cost are reviewed at least annually for impairment, with valuation adjustments recognized in other noninterest income.

7. LOAN SALES AND SECURITIZATIONS

Residential Mortgage Portfolio

The following table summarizes activity relating to residential mortgage loans sold with servicing retained for the three-month and six-month periods ended June 30, 2018 and 2017:

(dollar amounts in millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Residential mortgage loans sold with servicing retained	$897	$798	$1,740	$1,646
Pretax gains resulting from above loan sales (1)	19	17	40	39

(1) Recorded in mortgage banking income.

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The following table summarizes the changes in MSRs recorded using the amortization method for the three-month and six-month periods ended June 30, 2018 and 2017:

	Three Months Ended June 30,		Six Months Ended June 30,	
(dollar amounts in millions)	2018	2017	2018	2017
Carrying value, beginning of period	$200	$178	$191	$172
New servicing assets created	11	8	20	18
Impairment recovery (charge)	—	(3)	7	(1)
Amortization	(7)	(7)	(14)	(13)
Carrying value, end of period	$204	$176	$204	$176
Fair value, end of period	$212	$177	$212	$177
Weighted-average life (years)	7.0	7.1	7.0	7.1

MSRs do not trade in an active, open market with readily observable prices. While sales of MSRs occur, the precise terms and conditions are typically not readily available. Therefore, the fair value of MSRs is estimated using a discounted future cash flow model. The model considers portfolio characteristics, contractually specified servicing fees and assumptions related to prepayments, delinquency rates, late charges, other ancillary revenues, costs to service, and other economic factors. Changes in the assumptions used may have a significant impact on the valuation of MSRs.

MSR values are highly sensitive to movement in interest rates as expected future net servicing income depends on the projected outstanding principal balances of the underlying loans, which can be greatly impacted by the level of prepayments. Huntington economically hedges the value of certain MSRs against changes in value attributable to changes in interest rates using a combination of derivative instruments and trading securities.

For MSRs under the amortization method, a summary of key assumptions and the sensitivity of the MSR value to changes in these assumptions at June 30, 2018, and December 31, 2017 follows:

	June 30, 2018			December 31, 2017		
		Decline in fair value due to			Decline in fair value due to	
(dollar amounts in millions)	Actual	10% adverse change	20% adverse change	Actual	10% adverse change	20% adverse change
Constant prepayment rate (annualized)	8.50%	$ (5)	$ (10)	8.30 %	$ (5)	$ (10)
Spread over forward interest rate swap rates	952 bps	(8)	(15)	1,049 bps	(7)	(13)

Additionally, at June 30, 2018 and 2017, Huntington held MSRs recorded using the fair value method of $11 million and $13 million, respectively.

Total servicing, late and other ancillary fees included in mortgage banking income were $15 million and $14 million for the three-month periods ended June 30, 2018 and 2017, respectively. For the six-month periods ended June 30, 2018 and 2017, total servicing, late and other ancillary fees included in mortgage banking income were $29 million and $28 million. The unpaid principal balance of residential mortgage loans serviced for third parties was $20.2 billion and $19.8 billion at June 30, 2018 and December 31, 2017, respectively.

Automobile Loans

Huntington has retained servicing responsibilities on sold automobile loans and receives annual servicing fees and other ancillary fees on the outstanding loan balances. Automobile loan servicing rights are accounted for using the amortization method. A servicing asset is established at fair value at the time of the sale. The servicing asset is then amortized against servicing income. Impairment, if any, is recognized when carrying value exceeds the fair value as determined by calculating the present value of expected net future cash flows. The primary risk characteristic for measuring servicing assets is payoff rates of the underlying loan pools. Valuation calculations rely on the predicted payoff assumption and, if actual payoffs are faster than expected, then future value could be impaired.

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Changes in the carrying value of automobile loan servicing rights for the three-month and six-month periods ended June 30, 2018 and 2017, and the fair value at the end of each period were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
(dollar amounts in millions)	2018	2017	2018	2017
Carrying value, beginning of period	$6	$15	$8	$18
Amortization	(1)	(3)	(3)	(6)
Carrying value, end of period	$5	$12	$5	$12
Fair value, end of period	$5	$12	$5	$12
Weighted-average contractual life (years)	3.2	3.8	3.2	3.8

Servicing income amounted to $3 million and $5 million for the three-month periods ending June 30, 2018, and 2017. For the six-month periods ended June 30, 2018 and 2017, servicing income was $6 million and $10 million, respectively. The unpaid principal balance of automobile loans serviced for third parties was $0.8 billion and $1.0 billion at June 30, 2018 and December 31, 2017, respectively.

Small Business Association (SBA) Portfolio

The following table summarizes activity relating to SBA loans sold with servicing retained for the three-month and six-month periods ended June 30, 2018 and 2017:

	Three Months Ended June 30,		Six Months Ended June 30,	
(dollar amounts in millions)	2018	2017	2018	2017
SBA loans sold with servicing retained	$97	$ 88	$161	$165
Pretax gains resulting from above loan sales (1)	10	7	17	13

(1) Recorded in gain on sale of loans.

Huntington has retained servicing responsibilities on sold SBA loans and receives annual servicing fees on the outstanding loan balances. SBA loan servicing rights are accounted for using the amortization method. A servicing asset is established at fair value at the time of the sale using a discounted future cash flow model. The servicing asset is then amortized against servicing income. Impairment, if any, is recognized when carrying value exceeds the fair value as determined by calculating the present value of expected net future cash flows.

The following table summarizes the changes in the carrying value of the servicing asset for the three-month and six-month periods ended June 30, 2018 and 2017:

	Three Months Ended June 30,		Six Months Ended June 30,	
(dollar amounts in millions)	2018	2017	2018	2017
Carrying value, beginning of period	$28	$21	$27	$21
New servicing assets created	3	4	5	6
Amortization	(3)	(2)	(4)	(4)
Carrying value, end of period	$28	$23	$28	$23
Fair value, end of period	$33	$27	$33	$27
Weighted-average life (years)	3.4	3.3	3.4	3.3

Servicing income amounted to $3 million and $3 million for the three-month periods ending June 30, 2018, and 2017, respectively. For the six-month periods ended June 30, 2018 and 2017, servicing income was $6 million and $5 million, respectively. The unpaid principal balance of SBA loans serviced for third parties was $1.5 billion and $1.4 billion at June 30, 2018 and December 31, 2017, respectively.

8. LONG-TERM DEBT

In May 2018, Huntington issued $500 million of senior notes at 99.686% of face value. The senior notes mature on May 15, 2025 and have a fixed coupon rate of 4.00%. The senior notes may be redeemed one month prior to the maturity date at 100% of principal plus accrued and unpaid interest. At June 30, 2018, debt issuance costs of $1 million related to the note are reported on the balance sheet as a direct deduction from the face of the note.

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In May 2018, the Bank issued $750 million of senior notes at 99.774% of face value. The senior notes mature on May 14, 2021 and have a fixed coupon rate of 3.25%. The senior notes may be redeemed one month prior to the maturity date at 100% of principal plus accrued and unpaid interest. At June 30, 2018, debt issuance costs of $2 million related to the note are reported on the balance sheet as a direct deduction from the face of the note.

9. OTHER COMPREHENSIVE INCOME

The components of Huntington's OCI for the three-month and six-month periods ended June 30, 2018 and 2017, were as follows:

	Three Months Ended June 30, 2018		
(dollar amounts in millions)	Pretax	Tax (Expense) Benefit	After-tax
Noncredit-related impairment recoveries (losses) on debt securities not expected to be sold	$—	$ —	$ —
Unrealized holding gains (losses) on available-for-sale debt securities arising during the period	(71)	15	(56)
Less: Reclassification adjustment for net losses (gains) included in net income	3	—	3
Net change in unrealized holding gains (losses) on available-for-sale debt securities	(68)	15	(53)
Net change in pension and other post-retirement obligations	1	—	1
Total other comprehensive income (loss)	$(67)	$ 15	$ (52)

	Three Months Ended June 30, 2017		
(dollar amounts in millions)	Pretax	Tax (Expense) Benefit	After-tax
Noncredit-related impairment recoveries (losses) on debt securities not expected to be sold	$2	$ (1)	$ 1
Unrealized holding gains (losses) on available-for-sale debt securities arising during the period	53	(19)	34
Less: Reclassification adjustment for net losses (gains) included in net income	4	(1)	3
Net change in unrealized holding gains (losses) on available-for-sale debt securities	59	(21)	38
Unrealized gains (losses) on derivatives used in cash flow hedging relationships arising during the period	2	(1)	1
Less: Reclassification adjustment for net (gains) losses included in net income	—	—	—
Net change in unrealized gains (losses) on derivatives used in cash flow hedging relationships	2	(1)	1
Net change in pension and other post-retirement obligations	1	—	1
Total other comprehensive income (loss)	$62	$ (22)	$ 40

	Six Months Ended June 30, 2018	
(dollar amounts in millions)	Pretax	Tax (expense)